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THE US ECONOMIC MODEL AT Y2K: LODESTAR FOR ADVANCED CAPITALISM?

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ABSTRACT

The 1990s economic performance of the US suggests that the country may have the right mix of institutions and policies to be the peak capitalist economy in the new information economy. This paper develops criterion for judging peak status and examines whether the US fulfills these criterion. The US's employment and productivity performance make it a legitimate candidate for peak, but the record in distribution does not. As the late 1990s boom raised the wages of low skill workers, continued full employment will greatly strengthen the case for the US as peak economy. But with anything less than full employment the US economy will lose its luster. Even if this occurs, however, the US record in employing women and extending ownership to many workers deserves attention.

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At the turn of the 21st Century the US economy is the envy of the world. It is the envy of the world because throughout the 1990s it has generated higher employment and lower unemployment without inflation than most other advanced countries. In early 2000 the unemployment rate in the US fell below 4 percent -- lower than in Japan or Germany and other EU countries, which have traditionally had lower unemployment than the US. The employment population rate in the US was at an all-time peak. Full employment was accompanied by a federal budget surplus, successful movement of welfare mothers to work, a booming stock market, and reduction in crime. From 1996 to 2000, moreover, real GDP rose by over 4.0% per year while throughout the 1990s recover, productivity in manufacturing grew more rapidly than in most other advanced countries.

Economists and policy makers did not anticipate the success of the US in these areas. In the mid-1990s the Federal Reserve thought that an unemployment rate below 6 percent would set off rising inflation. The government ("Bill and Newt") believed that the only way to reduce the federal budget deficit was to adjust downard the consumer price index to limit social security payments. Most experts feared that the welfare reforms of 1996 would create disaster for unskilled single mothers and their children and no one expected crime to fall. Longterm forecasts of US economic growth posited modest increases in productivity, in line with post-oil shock patterns.

The US economy surpassed expectations by enough to suggest that the US might just have developed what afficionados of the new economy have claimed: the right mix of institutions and policies to assure full employment and sizeable productivity gains for the foreseeable future. If the US maintains these successes over the next 5 to 15 years

and if persistent full employment reduces poverty and narrows the economic inequalities that have marred US economic performance, even the sharpest critics of the US model will have a hard time finding fault.

But perhaps the US economic performance at the outset of the 21st century is more a matter of luck than of the right economic institutions. Associated with the US boom is an unprecedented rise in consumer debt and balance of payments deficit and an extroardinary stock market bubble, none of which can continue ad finitum. The US economy could just as readily come back to earth as the exemplar capitalist models of the 1970s and 1980s, Japan and Germany, and the 1960s-1970s third way ideal, Sweden, as continue along its new full employment prosperity.

The claim that the US (or any other economy) has found the best form of capitalism for the modern world rests on the notion that there is a single peak capitalist economic model. But does the economic world indeed have a single peak set of institutions or does it allow for diversity? Section I develops criterion for judging whether any economy is truly a peak and assesses which of these the US meets or does not meet. Section II argues that the key features of the US job market that contributes to economic success are not, as many believe, deregulation and high rising inequality but rather expansion of opportunities for women and the growth of new "shared capitalist" institutions. Section III shows that US full employment is improving US performance in the one area where the US economy has done poorest: distributing the gains of economic growth to all persons.

1. **Single Peaked vs Diverse Capitalism**

Behind the claim or belief that the US or any other country has developed **the** ideal form of capitalism for the 21st century is the notion that economic outcomes are related to institutions and policies according to a single-peaked social maximand. When institutions or policies produce a single peak in the space of social outcomes, one set of arrangements is indeed the global optimum. This is shown in the first landscape in exhibit 1. The horizontal axis measures institutions along some general dimension (such as centralization of wage-setting or the role of unions or the state in economic decision-making) while the vertical axis represents aggregate output (GDP per capita or some variant thereof). In the first landscape the set of institutions N (for nirvana) produces the highest output and every move in the direction of N raises well-being. It behooves all economies to adopt the nirvana institutions as quickly as they can.

But there is nothing in economic logic that rules out very different institution-outcome landscapes. One alternative is a landscape with multiple peaks separated by valleys. Some of the multiple peaks may have similar heights, so that different institutional arrangements produce the same well-being, but most peaks are local optima, separated from higher optima by valleys that make it costly to change. The peak economy might have better outcomes than others, but it may not be worthwhile for countries with slightly lower outcomes to invest in change by going down from their peak.

It is also possible that different institutions produce similar levels of output, with little cost to changing them. This produces the flat peak in exhibit 1 This is a Coasian world where institutions reflect different property arrangements and where side payments

guarantee that whatever the arrangements, the economy reaches an efficient outcome. This diagram predicts similar GDP per capita (other social maximands) within a wide range of arrangements. Each country can do it "its own way" without suffering any economic penalty.

Belief in a single peaked outcome function (whatever the outcome and its arguments) is deeply ingrained in economics. Models of optimizing behavior assume convex functions so that first derivatives yield the maximizing conditions and second derivatives or matrices thereof have the appropriate sign. Even if individuals choose blindly, a single peaked function will generate budget constraints so that those who pick institutions around the peak do better and eventually increase their share of markets. Marxian analysis also takes a single-peaked view of capitalism, predicting the growth of monopolies and proletariat in all countries.

In recent years globalization and the spread of information age technology have led observers on both the right and left toward a single-peaked view of the world. When the right argues for labor market flexibility or deregulation or privatization or contraction of the welfare state, it often claims that these are the only ways to attain efficiency in the modern world. When the left worries about social dumping, a race to the bottom, and trade-induced impoverishment of low skilled workers, it does so from the same perspective: that there is only one efficient way to operate a capitalist economy.

But there is a case for diversified capitalism as well. Since the end of World War II living standards in advanced capitalist economies with differing institutions have converged. The coefficient of variation of GDP per capita, measured in purchasing power

parity terms, among 18 major OECD countries has declined over time as Japan and EU countries have closed much of the Post-World War II gap with the US. Comparative advantage argues for diversity. If Germany can operate a tripartite social partners model of capitalism better than the US while the US is more adept at a high mobility/decentralized wage-setting model, Germany will do better with its system than to mimic the US system and conversely. Game theory teaches us that interactive decision-making creates many potential outcomes, with institutional rules or norms determining equilibrium (Kreps). This is more consistent with multiple or flat peaks -- diversity -- rather than single peak optima.

What factors might help us determine which landscape best describes the economics world, and whether the US or some other economy represent the economic peak? Exhibit 2 lists seven factors that differentiate peak landscapes from other landscapes and that thus can guide any assessment of whether any economy has achieved peak status.

The first criterion for a single peak landscape is that the peak economy does better than other economies in various dimensions of aggregate economic performance. Over the long run, the natural measure of aggregate performance is GDP per capita or GDP per hour worked. But in any given period, the link between observed outcomes and long term GDP per capita or per hour is unclear. If there was general agreement how to weigh the impact on long term production of outcomes like inflation, balance of payments, unemployment, fiscal deficits, etc we could form a single weighted average, as some analysts do with so-called misery indices of various forms. But there is no such general

agreement. Some believe that inflation is the vampire's kiss and thus place great weight on inflation, while others weigh unemployment more heavily. Rather than argue over particular weights on aggregate performanc, let us just stipulate that the peak economy must do better on various dimensions of aggregate performance.

The second criterion is distributional. The peak economy should produce higher incomes throughout much of the income distribution than competing economies. If one economy produces higher outcomes at **all** points in the income distribution, we would judge it as having a higher peak. Beyond that, there is no universally accepted weighting of distributions. Rawls values how the poorest fare; your local billionaire may value how the richest fare; while political economy considerations suggests that the middle of the distribution is important. My criterion for higher incomes throughout much of the distribution is a way of saying that distributional factors must enter any assessment.

The third criterion relates to the stability of the single peak over time. The economy with peak institutions must dominate other economies for at least a decade or so. Given that candidates for the peak, such as the US, are likely to have high income per capita, and that other economies can take advantage of catch-up, I do not require that the peak economy grow more rapidly than other economies, only that it maintain an edge on outcomes over an extended period.

The fourth and fifth criterion relates to the convexity of the landscape space. As exhibit 1 shows, N* lies at the top of a mountain, so that movements toward N* raise well-being. Neighbors with characteristics close to those of N* should also have good social outcomes; and copying this or that feature of the single peak economy ought to

raise social outcomes.

The sixth criterion relates to large changes in institutions. Since there is only one peak, large-scale changes in policies or institutions toward peak institutions ought to be relatively costless. An economy that chooses radical reform ought to see economic improvements, not retrogression relative to others.

The seventh criterion refers to changes over time If the single peak hypothesis is correct, and if countries seek to improve the economic well-being of their citizens with sensible policies, the peak should be an attractor in institution-outcome space. They should imitate the features of the peak economy. By contrast, economies that, for whatever reason, move away from peak institutions should suffer losses of economic well-being

US performance

How well does the this decade's candidate for peak economy, the US, fare by these criterion?

The US fulfills some of the criterion for peak economy but fails others. It has produced sufficiently high employment-population rates and hours worked per employed adult and low unemployment rates for enough years to be the peak economy on this front (See columns 1-3 of Exhibit 3). The US has had lower unemployment than the EU for roughly a decade or so, though it had higher unemployment than Japan until 1998. Using employment to population rates, US success dates back to the 1980s or mid-1970s. In 1973 the US and OECD-Europe had the same employment-population rate. Since then the US rate has risen while the European rate has fallen to produce a 16 point differential

in 1998!.

But not until the late 1990s did the US outperform other economies in growth of GDP per capita or productivity and it trailed the others in growth of real compensation over the same period. Output per hour worked in the US was roughly on a par with output per hour worked in Germany, France, and some smaller EU countries in the 1990s (Freeman, 1996; Conference Board; Mckinsey Institute) and has grown more slowly than in most other advanced countries since the 1970s. The Economist has argued that "if Germany and Japan can grow as fast (faster in the actual data) as America even when their incentives are blunted by an inflexible model, imagine what they might do were their economies to be set free."(April 10, p. 20). But it is the rapid growth of productivity in the US in the late 1990s, not a tortured interpretation of the US's slower productivity, that strengthens the case for the US as peak economy.

Whether this growth performance is sustainable is, to be sure, highly debatable. The US has a low savings rate, but manages a reasonable investment to GDP ratio because it attracts considerable foreign capital and runs a large trade deficit. The US has an extremely productive research and development sector, and more venture capital than other countries, which should increase longterm economic performance But it also has a huge consumer debt. The US has a highly educated work force, but its lead has fallen relative to other advanced countries; and US workers have lower scores on adult literacy tests than workers in most advanced countries.

Even if rapid productivity growth can be maintained, the US has one major problem in meeting the criterion for peak economy status. This relates to the

distributional criterion for judging a candidate peak economy. As Exhibit 4 shows, while the US is # 1 in per capita income, it is # 13 in per capita income for those in the lower decile of earnings. It is not until the 30th to 40th decile that the US surpasses most other advanced countries in per capita income. In addition, the fact that Americans work so much more than citizens of other countries implies that the US advantage in living standards is less than indicated by GDP per capita. Greater hours worked per adult means less leisure, so that any social value function that weighted leisure would bring EU countries closer to the US in overall economic well-being. With hours per worker and per adult rising in the US relative to other countries, moreover, the US advantage in living standards actually eroded over the past twenty or so years.

In short, US performance has been clearly superior for an extended period on one outcome: full employment; and has been superior for a short period on one other outcome, productivity; but falls short of peak status on distributional grounds.

Other economies' performance

According to the peak economy view of the economic landscape, the peak economy's closest economic neighbors should also do well while economies that adopt peak economy institutions should improve their relative economic position. The view of the US as peak economy fails both of these criteria.

Close neighbors refers to neighbors in institution space, not in geography, but in fact the US's closest geographic neighbor, Canada, is also its closest institutional neighbor. The 1990s was a period of economic disaster for Canada. In 1990 Canada stood third in the GDP per capita league tables, below Switzerland and the US, but

sufficiently above most EU countries to support the notion that North American institutions generated higher average living standards than those in other advanced countries In 1997, following a decade of economic decline/stagnation Canada had fallen in the league tables to 7th position. One interpretation of the disparate performances of the US and Canada is that the small differences between the two countries matters a lot, and that Canada has just not gone far enough toward the US model. Alternatively, some argue that Canada suffered from eggregious macro-economic policy. But the broader interpretation is that institutions-outcome landscape does not fit the single peak paradigm. Countries with similar institutions can do quite differently in any given time period.

In the European Union, the UK is generally viewed as the economy most similar to the US, and the reforms enacted by the Thatcher, Major, and Blair governments have brought the UK even closer to the American model. Has this improved the position of the UK in the league per capita income tables? No. In 1980 the UK was 16th out of in the league tables; in 1997 it was 18th (US Bureau of the Census, table 1363). Perhaps the UK was not radical enough. Mrs. Thatcher's reforms never touched the National Health Service, did not reduce the ratio of tax revenues to GDP to US levels, and left macro-economic monetary policy in the hands of the government rather than the Bank of England. Perhaps without the reforms the UK would have fallen further in the league tables. But again, perhaps the correct interpretation is that the institutions-outcome space does not fit the single peak model.

Outside Europe, the economy which has undertaken the most radical reforms is New Zealand. New Zealand deregulated much of its labor market, freed its central bank from political control, and introduced a variety of free trade measures. It out-Thatchered Mrs T. With what result? In 1997 New Zealand ranked last in per capita income among advanced OECD countries with an income per capita 14% below that of its natural pair, Australia. In 1980 New Zealand was also last among the countries, with an income per capita 19 percent below that of Australia. Extenuating circumstances may explain the failure of radical reform to produce the expected outcomes. New Zealand had such serious problems prior to its reforms that absent the reforms it might have fallen even further. New Zealand may have screwed its monetary policy so badly that its labor and product market reforms had no chance to bring about recovery. Perhaps, but once more a simpler explanation is that the single peak landscape vision of capitalism is wrong.

What about the seventh criterion -- the predicted movement of economies toward the peak institutional form? As there are many factors that differentiate the US model from others, it is difficult to determine whether economies are in fact becoming Americanized. In one readily measurable dimension, the extent of unionization and collective bargaining coverage, they are not becoming more like the US. Exhibit 5 shows that union density and collective bargaining coverage rates diverged across OECD countries between 1980 and 1997. If the countries which moved further from the US on this dimension did especially poorly in GDP per capita, we might reconcile this pattern with a single peaked world (they screwed up), but the data do not show such a pattern. Sweden fell in per capita income but so too did New Zealand.

Finally, it is important to recognize that few analysts regarded the US as the peak economy until the mid or late 1990s. For much of the 1970s and 1980s, the 900 pound gorilla on the economic scene was Japan. American business was frightened by Japanese economic performance -- recall Ezra Vogel's Japan as Number One, or the best-selling business book The Book of the Rings by the 14th century Samurai warrior Musashi Musashi. The early Clinton Administration looked jealously at some German institutions and sought to expand the US welfare state through mandated health insurance. Major business school thinkers bemoaned Anglo-Saxon short termism in capital markets and saw virtue in Japanese or German banking and ownership patterns (Porter). Going back further, analysts in the 1970s thought that corporatist arrangements were a better way to fight inflation than US style decentralized wage and price setting (Bruno and Sachs).

In short, the safest reading of the empirical evidence is that the institution-outcome space does not fit a single peak landscape but rather that the set of institutions that performs best varies with economic circumstance. The US may have found the right institutional mix for long term economic success, but the case is far from proven, and the history of capitalist economies post World War II should make even afficianados of capitalism, US style, cautious in their reading of the late 1990s. In any case, whether the US has found nirvana institutions on a single peak landscape or not, , it is important to understand, as best we can at this time, what economic institutions have in fact contributed to the 1990s success of the American Model.

II US Institutions and Employment Creation

Many observeres believe that the US employment success results from a non-regulated labor market and high and rising wage inequality. The absence of regulations allows firms to make more efficient use of its work force, be it through down-sizing or out-sourcing or otherwise changing work or pay arrangements. From this perspective, America has paid for its employment creation through falling real wages and conditions of work.

This view is erroneous. The US labor market is not an unregulated laissez-faire paradise (or hell, depending on your view). The US has not paid for its job creation with wage inequality. Rather, the US job market has contributed to the country's economic success by opening employment opportunities for female workers at an unprecedented rate and by developing new "shared capitalist" institutions that increase employee decision-making and financial stake in firms.

The US job market is not unregulated

The view that the U.S. job market is largely unregulated is fallacious. The US has a considerable corpus of labor law covering everything from hours worked to occupational health and safety to protection of minorities and women. It has enough administrative and judicial rulings interpreting these laws to fill volumes and create employment for thousands of lawyers. For the most part, however, US laws protect workers as individuals rather than as members of a collective or group Consider the following brief chronology of US job market regulations:

1960s/1970s legislation regulating treatment of discriminated groups: The Equal Pay Act of 1963, Civil Rights Act of 1964, amended in 1972; Age Discrimination Act of

1967; Executive Order 11246 requiring affirmative action including numeric goals and timetables in increasing utilization of women and minorities;

1970s legislation regulating workplace health and safety and firm pension of pensions. The Occupational Health and Safety Act of 1970 and Federal Mine Safety and Health Act of 1977 regulating workplace conditions; the Employee Retirement Income Security Act of 1974 governing private pension plans; tax advantages granted to Employee Stock Ownership Plans .

1980s/1990s legislation enhancing individual employee rights. The Americans with Disabilities Act of 1990; Civil Rights Act of 1991; Family and Medical Leave Act of 1993; and Employee Polygraph Protection Act of 1988. In addition, the Worker Adjustment and Retraining Notification Act of 1988 and Immigration Reform and Control Act of 1986 add further controls on employer behavior in times of planned plant closures and employment of illegal immigrants. Most states adopted rules on wrongful dismissals that allow employees to sue for wrongful dismissal in court.

In the 1990s, moreover, Congress twice increased the minimum wage. It rejected business efforts to modify the Fair Labor Standards Act that requires time and a half overtime and failed to enact various Teamwork Bills to make it easier for employers to empower employee involvement committees. Regulations of hours worked and on the ability of business to establish works council type arrangements are more stringent in the US than in the EU.

Because the federal government has few regulators to monitor these laws because the US has not developed a workplace-based system of monitoring and enforcement, the

main mode of enforcement of labor laws has been through court suits or worker complaints to agencies. Virtually every large firm in the US faces some court suit about its employment practices every year. Firms have found the burden of employment law sufficiently large to lead many to seek private dispute resolution alternatives in place of expensive court suits. Hardly the sign of a laissez-faire labor market.

The US did not buy full employment with McJobs and wage cuts

Observers critical of the US experience stress that much of US job growth consists of low paid unskilled fast food type jobs, of which McDonald's is the archetype. Looking at US jobs growth through an industry lens, American job creation has been concentrated in the service sector, particularly retail trade, which pays less than, say, manufacturing. But looked at through an occupation lens, US job growth has been in professional and managerial work. In 1999 30.3 percent of the US work force was in managerial and professional specialties compared to 23 percent in 1983. While the growth of employment was bifurcated with fast growth at both the top and bottom of the skill and wage distributions, on net US employment was more skilled in 1999 than it was in 1990 or 1980.

What about the claim that falling/stagnant real wages or poor productivity growth underlies the US jobs boom?

From the 1970s through the mid 1990s, there is some support for this proposition. Productivity growth was slower in the US than in EU countries or Japan. The real wages of American production workers fell while the real wages of workers in most OECD countries rose. But in the late 1990s, productivity growth is up, and real wages have

increased commensurately. Even during the earlier period, moreover, the trade-off claim fails to explain the locus of employment growth. Given that the wages of low skilled men fell sharply in the US, the trade-off argument suggests that their employment and hours worked should have grown. In fact, until the late 1990s, the American jobs miracle bypassed the low paid. From 1970 through 1990, annual hours worked for men in the bottom deciles of the earnings distribution fell while hours worked by those in the upper deciles were stable or rising (Juhn, Murphy, and Topel; Freeman, 1995). Inequality in hours worked increased along with inequality in hourly pay, producing an even greater increase in annual earnings inequality. Employment of women, whose wages rose relative to that of men, increased most rapidly.

US experience with minimum wages also gainsays any wage cut story of US jobs creation (Card and Krueger). During the 1980s the Reagan Administration tried to create jobs for low skilled Americans by maintaining the nominal value of the minimum wage while prices and other wages rose, without success. The modest increases in the minimum by the Bush and Clinton Administration's and by various states in ensuing years had little discernible effect on employment. Comparisons of patterns of employment growth in Canada, France, and the US (Card, Lemieux, and Kramarz) or between Germany and the US tell a similar story (Freeman and Schettkat). There is no clear relation across countries in the growth of employment among groups and in the pattern of wage changes.

US Jobs Growth is Growth of Jobs for Women

Perhaps the most important fact about US employment growth is that growth has

been most pronounced among women. This is shown in Exhibit 6, which records employment-population rates for the total population 16-64 and for women and men, separately. Had the employment to population ratio of US women increased from 1973 to 1998 by the same percentage points as did the employment-population ratio of EU women, the aggregate US employment to population rate would have changed only marginally. All else the same, the movement of women into (largely full-time) work added over 9 percentage points to the total employment rate in 1998 and explained 2/3rds of the 14 percentage point difference between US and European employment rates.[1]

The biggest increase in female employment was among married women with young children. Between 1960 and 1998 the proportion of married women with children less than 6 who were in the work force increased from 18.6 percent to 63.7 percent. The proportion of married women with children less than 6 in the work force in 1997 exceeded the proportion of married women with children of school age (6 to 17) working in 1960 (39.0 percent), and was just 13 percentage below the proportion with children of school age working in 1998 (76.8 percent).[2] The contrast with Western European women is striking. More American women with pre-school children participated in the labor force in 1996 than did all European women, many of whom do not have children. This occurred without national day-care facilities or with the state hiring a majority of women, as in some Nordic countries, or with labor laws that give parents paid leave or other benefits to ease the burden of child care.

In addition, the position of women in the occupational hierarchy improved. In 1983 women were less likely to be in the high wage executive and professional occupations than men (22% of women versus 25% of men). In 1998 they were more likely to be in those occupations (28% for women versus 25% for men) (US Statistical Abstract 1999, table 675).

In sum, cherchez la femme if you want the real lesson of US employment growth.

Shared Capitalist Institutions

A major component of the US economic model is the growth of shared capitalism, by which I mean a diverse set of mechanisms for worker participation in production decisions and in the financial stake of their firm and of capitalism more broadly.

On the decision-making side, America's best firms have delegated more decisions to workers through employee involvement programs and team decision-making than ever before. In the mid 1990s over half of Americans reported that they worked in firms with employee involvement committees; and one-third of workers said that they were members of employee involvement committees of some form (Freeman and Rogers).

On the financial sharing side, I have estimated that approximately 50 percent of the US work force receives compensation related to company performance of (Dube and Freeman, 2000). Exhibit 7 shows that approximately 25 percent of the work force had a stake in their firm through some form of ownership. This includes working in a firm with an employee stock ownership plan (ESOP) (around 8%), or receiving a stock option through an employee stock option plan that covers the bulk of the work force, or through purchase of stocks in a firm that offers discounts on purchases. A quarter of the work

force was covered by profit or gain-sharing. And approximately 10% of the work force had a substantial proportion of their retirement funds invested in company stocks. Millions more had a stake in the performance of the economy through defined contribution pension fund ownership of other firms. In addition in 1998 55 million workers were covered by a defined contribution private pension plan (Profit-sharing/401(k) Council of America, www.psca.dcstats.hgtml,), which invested sizable sums in equities, giving them a stake in the performance of the economy outside their own firm. Unions had nearly twice as many private sector members in collectively bargained pension plans than they had members covered by collective bargaining contracts.

These forms of shared capitalist arrangements have grown rapidly. All employee stock option plans barely existed in 1990 but become the leading edge of US compensation policy by 2000. Electronics firms in particular could not attract the highly skilled workers they needed without offering options. Firms like Starbucks give options not only to executives but also to normal workers.

The view that the US economic model is one of the growth of labor with weak ties to the firm -- the virtual employee working for the virtual company as a contingent worker or consultant -- misses the increased financial participation of employees in their firm and their increased role in workplace decision-making.

III. Can Full Employment Resolve Distributional Problems?

Until unemployment rates fell to 4-5 percent in the late 1990s, employment growth US style, seemed incapable of raising the earnings of the bulk of the work force,

or of making much dent into poverty (Freeman, 1999). Real earnings of production workers dropped by 14% in the private sector from 1973 to 1995. The pay of low skilled workers in all sectors, particularly high school drop out men, fell by over 20%. Median weekly earnings of all men fell while the median weekly earnings of women stagnated. The historic relation between poverty and economic growth seemingly broke down in the 1980s (Blank and Card; Cutler and Katz), with more and more poor persons residing in female-headed homes on welfare and with the decline of real wages for the bulk of the male work force.

But the experience of the late 1990s presents a different picture. The real hourly earnings of production workers in the private sector rose from 1995 to 1999 by over 5 percent. The earnings of men with less than 9th grade education 7% from 1995 to 1998 The earnings of workers in the bottom decile of the earnings distribution increased by 8.7% from 1996 to 1998. And the wages of workers in the much maligned retail trade sector rsoes by 7.0% (Freeman, 2000).

Over the same period, spurred in part by the booming economy and in part by changes in the welfare laws, the number of persons on welfare rolls plummeted (Ellwood). Many persons who had been on welfare, which invariably gave them poverty level incomes, moved into employment, where they received Earned Income Tax Credit moneys that raised their incomes. The rate of poverty began dropping after years of stagnation. While full employment did not reduce the level of inequality or make a huge dent into poverty, the gains of economic growth finally "trickled down" the income distribution. **Conditional on full employment** the US economy began to reduce the

principal flaw in economic performance and thus look more like a legitimate candidate for peak economy.

But can the US maintain full employment for long enough to lock in the gains in real wages, poverty reduction, and productivity growth to allow the country to pass criterion for peak economy in exhibit 2?

Only a charlatan would claim to know the answer. Macro-economists are divided over the potential for consistent rapid growth -- believers in the new economy (Congressional Budget Office) versus doubters (Godley). Micro-economists do not understand why the economy managed to carry off the low unemployment with no inflation of the late 1990s (Katz and Krueger). My dismal science intuition is that some of the 1990s changes in the US economy have made it easier to maintain full employment, but that eventually a negative shock coupled with the huge trade deficit, reliance on foreign capital, and substantial private debt and wealth dependent on the vagaries of the stock market will eventually produce a significant recession, whose costs will fall heavily on the lower half of the income distribution. In such a situation the US Model will lose its lustre as candidate for single peak. But I could be as wrong as my macro colleagues were in forseeing the late 1990s US economic boom. Maybe technological progress has raised productivity at new rates and the Internet will improve market efficiencies enough for the US to keep the late 1990s boom going and going and going like the Energizer Rabbit.

But if the US model falters in the next several years, who will replace itt? Cool Brittania? A revived French economy? If Canada does well, some wierdoes may even

start touting the Maple Leaf Model /Modele Feuille d'Érable. Sounds unlikely, but a decade ago no one would have predicted that Ireland or the Netherlands would the great successes of the EU, or that the US would look like a winner and Japan a loser in the War of the Models. There are a lot of alternative capitalist institutions out there, and every decade some economy leads the pack. In any case, I expect that whichever model emerges as the next candidate for peak will find a way to do what the US did so well in the 1990s – increase opportunities for women in the job market and expand shared capitalist institutions.

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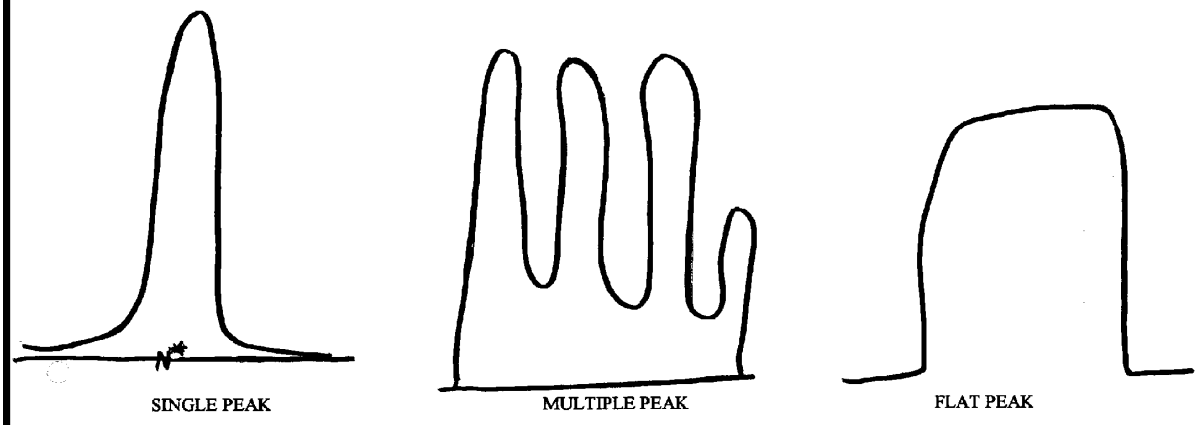
Exhibit 1:
Economic Institutions - Outcome Landscapes



SINGLE PEAK

MULTIPLE PEAK

FLAT PEAK

Exhibit 2:
Evidence for Judging the Shape of the Institution-Outcome Landscape

	SINGLE PEAK	MULTIPLE PEAK	FLAT PEAK
Characteristics of N*			
1 N* dominates on several key aggregate outcomes	YES	NO	NO
2 N* has higher well-being in much of distribution	YES	NO	NO
3 N* dominates over extended period	YES	NO	NO
Landscape Near N*			
4 Near neighbors are also high	YES	NO	YES
5 Movements toward N raise well-being	YES	NO	NO
Landscape Away from N*			
6 Big Jumps Cost Little	YES	NO	YES
7 Institutions Converge (or Outcomes Diverge)	YES	NO	NO

Exhibit 3:
Employment, Unemployment and Hours Worked, 1998

	E-P	Une	Hours
U.S.	73.8	4.5	1957
UK	71.2	6.2	1737
Canada	69.0	8.4	1777*
Australia	67.2	7.9	1861
New Zealand	65.4	7.6	1821
Eire	59.8	7.9	--
Japan	69.5	4.2	1879
Germany	64.1	8.6	1580
France	59.4	11.9	1634*
Italy	50.8	12.2	--
Belgium	57.3	9.4	--
Netherlands	69.8	4.3	1365*
Austria	67.4	5.5	--
Sweden	71.5	8.4	1551
Finland	64.8	11.5	1693
Norway	78.2	3.2	1401
Denmark	75.3	5.1	--

Source: OECD, Employment Outlook, July 1999, table B and table F

Exhibit 4:
Per Capita Income by Position in the Income Distribution,
Relative to U.S. Per Capita Income, 1996

	Per Capita	Lower Decile	Upper Decile
U.S.	100	36	208
Switzerland	91	52	168
Norway	88	49	139
Japan	84	39	161
Denmark	81	44	126
Belgium	79	46	129
Canada	77	36	141
Austria	77	43	144
Germany	76	41	131
Netherlands	75	43	130
France	74	41	143
Australia	73	33	141
Italy	72	40	127
Sweden	69	39	110
Finland	68	39	107
UK	67	29	138
New Zealand	63	34	119

Source: Income per capita, US Statistical Abstract, 1998 table 1355. Income Distribution estimates based on percentile figures relative to median for household income, Gottschalk and Smeeding (1997), usually 1991-1992 figures.

Exhibit 5:
The Increasing Diversity of Labour Institutions, 1980-1994

	DENSITY		COVERAGE	
	1980	1997	1980	1994/97
Declining Density & Coverage				
UK	50	30	70	44
US	22	16	26	18
Japan	31	21	28	18
New Zealand	56	30	67	31
Australia	48	35	88	80
Declining Density & Stable/Rising Coverage				
Austria	52	39	98	98
France	22	10	85	95
Germany	36	29	91	92
Italy	50	37	85	82
Netherlands	35	24	76	81
Portugal	52	30	70	71
Stable Density/Coverage				
Belgium	53	53	90	90
Canada	36	38	37	36
Denmark	79	76	69	69
Norway	55	55	75	74
Switzerland	31	23	53	50
Rising Density & Stable/Rising Coverage				
Finland	69	88	95	95
Spain	8	17	76	78
Sweden	78	86	86	89
#5 Relative to #15	1.6	2.3	1.3	1.8

Source: OECD Employment Outlook, July 1997, Table 3.3, with updates from Blanchflower, 2000

Exhibit 6:
Employment-Population Ratios in the US 1973-1998

	1973	1998	Change
All	65.1	73.8	8.7
Females	48.0	67.4	19.4
Males	82.8	80.5	-2.3

Source: OECD Employment Outlook, July 1996, table A and June 1999, table B.

Changes in OECD-Europe over the same period were:
all, from 65.1 to 60.1
females from 43.2 to 49.0, a 5.8 percentage point increase
males, from 86.7 to 71.3, a 15.4 percentage point decrease.

Exhibit 7:
Estimates of the Percentage of Employees
With Pay Related to Company/Group Performance

Based on Worker Representation and Participation Survey		54%
Based on Diverse Surveys of Programs *		45%
Stock Ownership Programs	**.** 25%	
Profit/Gain-Sharing	**.** 25%	
Defined Contribution Pensions		
Invested heavily in Company Stock	**.** 11%	

Source: Dube and Freeman 2000

* If workers were covered by only one form of variable pay, our estimate would be the sum of the estimates for the bold categories in the table: 61%, of which 50 percentage points consists of ownership and incentive pay. But there is considerable overlap in coverage. On the basis of overlaps in the Worker Representation and Particiation Survey, Ie estimate that the proportion of workers with any form of performance pay and ownership exceeds the sum of the proportions covered by each form separately by 33% = (41.9+29.6)/53.8. Thus, I reduce the 50% to 38%. I do not have data on the overlap with the estimated 11% of workers with 401k or other plans with sizable amounts of company shares, but anticipate that this will be modest, giving the 45% in the text.

Endnotes

1. By contrast, the employment to population rate for men fell over the period, though much less sharply than in Europe. Part of the difference among men is due to large increases in enrollments in school in Europe, where students are less likely to work than in the U.S. Part is due to more rapid movement of older men to early retirement in Europe. Among prime age men, those between say 25 and 54, employment-population rates in the US and OECD-Europe are quite similar.

2. US Department of Commerce, US Statistical Abstract 1999, table 659