6.1 INTRODUCTION

This chapter will use the framework of institutional change outlined in the previous chapter and apply it to a case study of US labor institutions. Firstly, we will research the institutions in their formal, informal, and avoidable iterations. In short, the USA is a political-economic system which traditionally hinges on market-based institutional solutions to social and economic issues. As shown in Chapter 3, this is a trait it shares with other developed countries with a Common Law tradition (i.e. Canada, Ireland, UK, Australia, and New Zealand). In terms of labor institutions this suggests the absence of strong unions, low peak levels of collective bargaining, flexible labor laws, etc. In terms of formal institutions, this traditional orientation of the USA was softened in the 1930s through the labor components of the New Deal (Wagner Act and FLSA) which guaranteed some federal level labor rights including the right to collective bargaining and strike unfettered by federal courts. Many of these rights have been reduced in subsequent decades, and the USA is today the developed country with the least protected labor markets. In terms of informal institutions, the collective bargaining structure is decentralized and both bargaining coverage and union density, never high to begin with, are consistently dropping. In terms of avoidable institutions, it seems that many employers are able to habitually ignore even the modest regulation in place. Also, a potential result is a very high-income inequality, with no
strong union presence to cause similar wages. Secondly, this chapter will examine the possible drivers of change. Institutional change in the case of the US labor institutions 1980–2019 seems to point to a continued deregulation of an already relatively deregulated system. Most importantly, this chapter will argue for the role that the systemic cycle and the extensive developmental strategy played in causing this type of stable change.

6.2 Labor Institutions in USA

Douglass North offered a very useful definition of institutions, according to which institutions should be understood through three key aspects: formal, informal, and avoidable. In the context of the labor market, these correspond to: formal institutions (Labor Law and other laws governing labor organization and collective bargaining), informal institutions (uncodified practices in collective bargaining which may be under strong influence of power relations, and the degree of centralization of negotiations) and avoidable institutions (selectively applied regulation or practice that does not follow the law). We will survey these in turn.

6.2.1 Formal Labor Institutions

Formal institutions are codified and enforceable materials like laws and, in precedent-based legal systems, court decisions as well. Table 6.1 brings the formal landmark events which have contributed to the modern labor institutions. Some of them fall far beyond our timeframe, but they are either still in force, or contribute to the context of change of labor institutions in the USA.

As we can see from Table 6.1, the drama of formal institutional change has largely played out by the post-1980 timeframe that interests us. The crucial period of labor organization was the New Deal which brought American labor the Wagner Act which institutionalized collective bargaining and strikes. Already in 1947, many formal stipulations of the Wagner Act were repudiated by the Taft-Hartley Act, banning strikes for federal employees and closed shops (plants/factory floors which only employ union members) and closely regulating union shops (shops which accept non-members provided they become members
Table 6.1  Landmark reforms of federal level US labor regulation

| Year | Decision/Law                        | Explanation                                                                                                                                 |
|------|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| 1842 | Commonwealth v Hunt                  | A court decision legalizing trade unions—before they would have been seen as a conspiracy to raise wages                                      |
| 1890 | Sherman Antitrust Act                | Unions in consequence understood as trusts (monopolies)                                                                                   |
| 1926 | Railway Labor Act                    | First collective bargaining in federal legislation. It still covers railway workers (expanded to airlines in 1936). These were seen as important to the economy as a whole and substantial efforts were made to prevent strikes through a complex system of bargaining |
| 1932 | Norris La-Guardia                    | Banned yellow-dog contracts (which would prevent an employee to enter a union) and prevented the courts to intervene against nonviolent labor disputes |
| 1935 | National Labor Relations Act (Wagner Act) | Guaranteed the right of private sector employees to trade unions which could engage in collective bargaining and conduct strikes                  |
| 1938 | FLSA (Fair Labor Standards Act)      | Prevention of oppressive child labor and the establishment of the right to a federal minimum wage (with several decisions to increase to 75 cents in 1950, 1$ in 1955, 1.25$ in 1961, 1.60$ in 1966, 2.30$ in 1974, 3.35$ in 1977, 4.25$ in 1989, 7.25$ in 2007) and an overtime pay of 1.5x hourly wage |
| 1947 | Labor Management Relations Act (Taft-Hartley Act) | Closed shops (prevention of non-union employment) were banned, union shops (obligation to join unions after employment) were strictly regulated, and strikes were restricted (banned for federal employees)—an effective reversal of some stipulations of the Wagner Act |
Table 6.1 (continued)

| Year | Decision/Law                                      | Explanation                                                                 |
|------|--------------------------------------------------|------------------------------------------------------------------------------|
| 1959 | Labor Management Reporting and Disclosure Act    | Established a framework for internal affairs of unions including the right to |
|      | (Landrum-Griffin Act)                            | secret elections and the obligation to submit to financial oversight         |
| 1965 | Civil Rights Act                                 | All employees must be treated equally by employers and unions                |
| 1970 | OSHA (Occupational Safety and Health Act)        | First effective occupational safety regulation in the USA                    |
| 1974 | ERISA (Employee Retirement Income Security Act)  | Pension plan minimums for private industry                                  |
| 1978 | FLRA (Federal Labor Relations Act)               | Most public sector workers guaranteed the right to collective bargaining    |
|      |                                                  | which existed for private sector since 1935                                 |
| 1993 | FMLA (Family and Medical Leave Act)              | Guarantees the right to paid leave for family-related illnesses or health    |
|      |                                                  | issues to eligible employees                                                |
| 1996 | Small Business Job Protection Act                | A federal freeze on tipped employee minimum wage at 2.13$                    |
| 2010 | Patient Protection and Affordable Care Act       | While this is not a labor regulation law, it did potentially significantly   |
|      | (Obamacare)                                      | alter the disposable income of workers by creating a modern health system    |
| 2018 | Janus v. AFSCME                                  | A Supreme Court decision preventing agency shops (fees of non-union members |
|      |                                                  | for collective bargaining) in the public sector                             |

Sources: Doyle (2017), Compa (2014), Godard (2009), Thelen (2014), Tang (2019)

...after employment). This was clearly a set of anti-labor-oriented regulations in the sense of curbing associational power of labor (i.e. the power of unions). However, the following decades brought numerous improvements to labor standards and worker rights (Civil Rights Act in 1965 for anti-discrimination, OSHA in 1970 for workplace safety, ERISA in 1974 for the pensions system, FMLA in 1993 for family leave, and Affordable Care Act in 2010 for the health system). These improvements did not change the general framework for labor organizing, apart from the FLRA in 1978 which guaranteed collective bargaining rights to federal...
employees. In this sense, there were no substantial changes to report in the post-1980 period. In fact, what is conspicuous is the absence of a labor re-regulation. In 1978, the Carter administration narrowly failed to enact legislation intended to promote labor organization as the business community successfully outspent and out-lobbied organized labor in influencing the US Congress. The effort passed the House of Representatives but was successfully filibustered in the Senate (Hacker and Pierson 2010: 127–132). The Clinton administration failed to pass its Worker Fairness Acts in 1993. It would have protected the striking workers from being permanently replaced but was likewise defeated by a Republican filibuster (Early 2013: 82). Finally, another hypothetical pro-labor piece of legislation was the Employee Free Choice Act, which could have enabled easier organization of Unions by supplanting the restricting secret ballot in place since 1959 with a simpler card check. The possible effort to pass EFCA was essentially avoided during the Obama administration.

We can also benefit by observing comparative instruments which can help us compare the US system to those found elsewhere. Consistently with our analysis, such data shows that the USA has had a consistently deregulated labor market, without any substantial change in the observed period. OECD publishes the EPL index for regular and temporary employment. The index for regular employment weighs items like the difficulty of dismissal, length of mandatory notice period, and size of severance pay to gauge the levels of legal protection of the labor market. In the USA, these index for individual dismissal of individual workers is the lowest measured by the OECD at the index value of 0.09 (possible values are 0–6). This is due to the fact that workers (excepting public sector or union members) are employed according to the at-will principle, which does not foresee the possibility of an unfair dismissal, barring discrimination according to creed, sex, race, impairments, etc. There are

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1 A smaller shift occurred in June 2018, as an important income source of public sector unions was cut off. Somewhat unusually from a European standpoint, US labor laws recognize the right of unions to gather dues from non-members as compensation from benefits derived from collective bargaining (agency shop). States may circumvent agency shops by passing right-to-work laws prohibiting this practice (at the time of writing, 27 states have opted to enact them). The recent Supreme Court ruling in Janus v. AFSCME essentially elevated the right-to-work principle to the federal public sector level by prohibiting the application of agency-shop principle to public workers. This will diminish the income of public sector unions, which is relevant as the public sector is currently a rare bastion of union activity in the USA.
no federally mandated notification procedures\(^2\) (with some state jurisdictions requiring service letters be issued explaining the reasons for the dismissal) and no legal regulations covering the right to a notice period at dismissal (OECD 2020).

The temporary employment EPL index weighs items like the restrictions of fixed-term and temporary work to types of work, restrictions on maximum duration of fixed-term work and the maximum number of such contracts it is legal to sign. In this index, the USA is also at the bottom of comparative rankings of protection. Among stable results, it is tied for the least protected market with Canada, UK, and Ireland at the index value of 0.25 (with possible values also at 0–6) as there are no limits to duration or successive numbers of contracts. Both of these indices remain unchanged during the entire duration of the OECD time series in the 1985–2019 period (OECD 2020). Another index is published by the Heritage Foundation yearly as the labor freedom index. Heritage is a free-market-oriented policy-advocacy group, and its conception of free labor is essentially oriented toward labor flexibility, i.e. the absence of labor protection. The items weighed to construct the labor freedom index are “Ratio of minimum wage to the average value-added per worker, Hindrance to hiring additional workers, Rigidity of hours, Difficulty of firing redundant employees, Legally mandated notice period, and Mandatory severance pay” (Heritage 2020a). According to this index, the USA has one of the most free labor markets in 2020 (87.9/100 with the global average at 59.6), trailing only Singapore, Brunei, and Hong Kong (Heritage 2020b). This is in itself a slight drop since 2015—the index was first calculated in 2005, with values in most years of its first decade fluctuating around 95% (Heritage 2020c). Such fluctuations are possible as the index includes legal categories (slow to change, and as seen by the EPL index unchanged since 1985) as well as economic ones (average value-added per worker, which may change rapidly).

To summarize, formal labor institutions in the USA did not significantly change in the selected period. They were not and are not well

\(^2\)This chapter focuses on the national level of labor US institutions. The institutional diversity among states is however worthwhile noticing. Bjorklund (2019) analyzes fiscal constraint, tax progressivity, family and social welfare and employment policy to derive five clusters of federal states in USA (progressive, contested progressive, boilerplate, frontier conservative, and southern conservative).
suited for labor organization, and labor legal protection remains extremely flexible\(^3\) when compared to the rest of the world.

### 6.2.2 Informal Labor Institutions

Informal labor institutions are unwritten, but relatively stable ways of doing things. Uncodified norms, values, and expected practices are all examples of informal institutions. As shown in Table 6.1, the conduct of collective bargaining has been legal and encouraged in the private sector since 1935 and in the public sector since 1978—although such encouragement was less enthusiastic than in Europe. In theory, the 1930s changes in formal institutions created a framework of “soft corporatism” for informal institutions, but it turned to be “largely a mirage” (Godard 2009: 92), as union density increased only from 13% in 1936 to 36% in 1945 which was to prove to be the historical peak (ibid.: 91).

The level at which collective bargaining takes place is also indicative of the coordination in the institutional system. As we will see in the next chapter, CME countries tend to have more centralized levels of collective bargaining, which is conducted at the cross-industry level or more commonly in recent years on the level of the entire sector or industry. The cause may be a high union density (or share of the workforce represented by unions) which lends necessary legitimacy to unions, and the effect is a high bargaining coverage for both members and non-members of unions. In the USA, the appropriate level of collective bargaining is determined by the National Labor Relations Board (NLRB), which seems to favor a very decentralized structure with bargaining most often taking place at the level of the enterprise. In fact, the ICTWSS database invariably classifies the predominant level of collective bargaining in the USA as the enterprise level through the entire duration of the series 1960–2018 (Visser 2019).

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\(^3\) The scope of active labor market policies which contributes to the overall institutional effects in labor has also become increasingly diminutive. These policies have undergone an evolution from being centered on job-creation (as late as 1960s and 1970s) through allowing for some support for training programs (1980s and early 1990s) to their present minimalist state. ALMPs are now comparatively small and limited to a short-term perspective aimed at securing any form of jobs (Thelen 2014: 120–130). Indeed, at 0.1% GDP in 2018 the public expenditure on active labor market policies is one of the lowest among OECD members with only Mexico at a lower level (OECD 2020).
Another type of developing practice was the openly anti-union strategies that many employers began to adopt in the 1970s, with delaying union certifications, calling for union decertification elections, moving production to the less unionized American South, and hiring of professional anti-union management consultants (Thelen 2014: 40–42). The result is that a typical NLRB union election (determining the union which is to conduct bargaining) will take place in the context of employer intimidation and various delays caused by expensive litigation (Brudney 2005: 108). This could essentially be described as class warfare directed at diminishing the associational power of labor. If the unions are present, they may well be seen merely as drags on profitability by the employers, and obstacles to overall market efficiency of the firm. This view is in stark contrast to those found in CMEs as we will see in the next chapter.

The failing strength of unions is visible in the lack of open struggle in terms of successful strikes. However, it is also visible in the inability of unions to postpone or prevent adverse change in institutionalized practices like the shift from temporary to permanent layoff as prevalent policy in the 1980s (Jung 2017). This system of low-strength unions combined with the militant anti-union stance of the employers to produce a large low-wage sector. OECD defines low wages as a proportion of workers earning less than two-thirds of median earnings. In the observed post-1980 period, the lowest proportion of low-wage work was in 1983 when it stood at an already high 20.4% and it gradually grew to 25.2% in 2012 after which it fell to 24.1% in 2018 and 23.4% in 2019 (OECD 2020). This is a very high percentage compared to the latest available OECD average of 15.3% for 2018.

6.2.3 Avoidable Labor Institutions

The third Northian aspect of institutions are the avoidable ones. This is a particularly important element to bear in mind in the context of the US system. Elsewhere, strong unions, present work councils, and rigid laws offer various types of protection of workers who have been treated unfairly. In the USA, the mistreated worker (i.e. a worker whose employer has avoided a labor regulation) often has the expensive court system as the only recourse. This means that a low-wage earner will not be able to react if labor rights or contractual obligations are not honored by the employer. It should therefore not be surprising that many low-wage workers report violations of their labor rights. A fairly large 2008
study surveyed 4387 workers in Chicago, Los Angeles, and New York on conditions in the week prior to questioning and found that 26% report minimum wage violations, 76% of overtime workers report overtime violations, and 70% report meal break violations. A substantial 68% of all workers have reported at least one pay-related violation in the past week. This study suggests that even the low level of labor regulation in the USA is easily avoided among the low-wage earners. In fact, workers often did not even attempt to fight for their rights: 50% of those who informed their employers of a workplace injury suffered an illegal reaction (the employer fired the worker for filing the claim or instructed the worker not to file it). As a result, only 8% of the injured workers filed a compensation claim. When the workers attempted to form a union or made complaints to their employer or a governmental body, 43% of them experienced an illegal reaction with employer firing, suspending, reducing worker hours or pay (Bernhardt et al. 2009; see also Thelen 2014: 45). The worker groups most likely to experience the pay-related violations were women and foreign-born workers, and the authors estimate the average loss at 15% of earnings (Bernhardt et al. 2009: 5).

Another important area is the absence of discrimination, and the discrimination against women is a very visible and easily verifiable area. While there are many legal protections of pay equality, these are obviously avoidable to some extent. The World Economic Forum attempts to measure the gender wage gaps comparatively with its “The Global Gender Gap Index.” This index examines the gender gap in several areas: “Economic Participation and Opportunity, Educational Attainment, Health and Survival and Political Empowerment” (WEF 2016a). This index ranked the USA 45th in its 2016 index (compared to German 13th and Chinese 99th rank), fairing particularly poorly in political empowerment. In the survey rate of wage equality for similar work in which the USA ranked 66th globally with index score of 0.653 (WEF 2016b).

To summarize, the ability of employers in the USA to avoid institutions when facing vulnerable groups seems to be quite high. This is a side-effect of low union strength, lack of firm-level employee organizations intended to protect them and the prohibitively expensive nature of the court system—in other words a side-effect of the formal and informal institutional framework of the USA as a whole.
6.3 Changes in Labor Institutions in USA

The previous section has described the general state of labor institutions in the USA and the tendencies of change since 1980. This section will apply the framework developed in the previous chapter on these changes. We will focus on the operation of the three identified channels of path dependence, cyclical power relations, and institutional design. Figure 6.1 lays out the framework for US labor institutions, and the rest of the section describes the channels, drivers, and their interactions.

Fig. 6.1 A framework of labor institutional change in USA since 1980
6.3.1 **Channel 1: Path Dependence—Institutional Starting Positions of USA**

The first channel of institutional change identified in Chapter 3 is path dependence as determined by institutional starting positions. Most of the definitions of institutions covered by Chapter 3 stress the stability of institutions. In other words, the best indicator of the future state of institutions would be the previous state of institutions. One of the channels of institutional stability is the power-based path dependence stressed by Pierson (2015). According to this perspective, power tends to accumulate as those with power have the resources to influence policy outcomes which allow them to accrue more power. In this sense, the USA always had relatively low union power and lacked strong coordinating capacities in industrial relations. The trajectory of liberalization in recent decades saw a collapse of existing unions and collective bargaining and erosion of real values of statutory minimum wages and benefits (Thelen 2014: 37–47). This is precisely why it was repeatedly classified as a liberal market in various typologies (LME, Atlantic capitalism, liberal welfare state). This institutional starting position was the prerequisite of a pronounced and continued deregulation. Had the unions been stronger, they could strive to prevent this departure from an organized labor market. As they were already weak, the various drivers of economic change which pointed to a decrease in coordination could not be prevented. This interpretation suggests that a strong path-dependent element is at play with LME structures pronouncedly vulnerable to direct deregulatory and/or decoordinational tendencies. This is the reason why Thelen considers displacement as a typical process conveying pure deregulation or a direct attack on the existing institutional arrangements, largely descriptive of US liberalization (Thelen 2014: 13). Considering this finding in the light of relative power of interested parties, it becomes clear that institutions are displaced if the defenders of status quo are considerably weaker than its attackers. Labor organization in the USA was already weak and this enabled the swift disassembly of labor institutions once it was triggered (see drivers below).

It is this dual determination that creates a conceptual confusion: starting institutions have their winners in those actors that accrue power through the institutional solutions. In order to enact pressure toward change or preservation of these institutions, policy advocates must have power. This point would drive us toward the conclusion that institutions
are inherently stable—as those who are benefited by the present institutions are abler to drive change that those who are not. This point has been well taken by both old and new institutionalism, and the essential result is the dependence on exogenous change (i.e. critical junctures creating punctuated equilibria as shown in Chapter 3). We must move beyond this view and recognize path dependence in its proper context. The next segment broadens the lens in order to notice and endogenize further, Arrighian drivers of change.

**Interactions with other drivers and the result**

(a) **Power relations**: initial structures have a strong effect on power relations, as the initial institutional framework enables or restricts the functioning and the accrual of resources of actors. The USA is a paradigmatic LME structure, which has very low labor resources and a history of decentralized bargaining. Such a system accrues political power of the employers rather than trade unions and the ability to influence institutional change is therefore concentrated beyond the reach of organized labor to begin with.

(b) **Phase of the systemic cycle**: the lack of focus on labor protection and the importance of industry have enabled a shift into finance expansion to take place without much resilience from the productive/manufacturing sector of the economy, which was neglected in terms of power which organized labor could muster, embedded as it was within it.

(c) **Developmental strategy**: the USA did not have a notable shift in its developmental strategy since 1980. The growth model was always consumption driven and labor has always been relatively deregulated, and the systemic cycle has already shifted to a finance expansion. The result is a severe drag on GDP growth, as production was in the aggregate kept neither for domestic nor for foreign markets and trade deficits soared.

(d) **The result of institutional change**: path dependence tends to produce institutional end-results similar to starting positions. This was the case in the USA as the deregulating path was undertaken in an already relatively deregulated context, essentially continuing and exacerbating the free market LME tendencies in labor markets.
6.3.2 \textbf{Channel 2: Cyclical Power Relations in USA}

Figure 6.2 outlines the second channel of institutional change. The five drivers it incorporates are technological change (an exogenous factor providing a long-term context), three drivers constituting the systemic cycle—the phase of the systemic cycle, developmental strategies and trade relations—and the power relations as the balance of power resources.

These interactions are explored in greater detail through the rest of this segment, organized by specific discussions of the five drivers in this channel.

6.3.2.1 \textit{Technology and Sectoral Labor Market Structure in USA}

The second channel of institutional change is a nexus of drivers influencing labor power and linking it to developmental strategies and the result of institutional change. The first such driver is technological change. Chapter 5 explained the distinction between the cumulative and development aspects of technology. The cumulative aspects are a matter of

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{fig62.png}
\caption{Cyclical power relations in the USA}
\end{figure}
technological innovations which enable a more efficient production and in effect, less labor used per same output. The developmental aspect is a matter of choosing the appropriate technology and implementing it. From the western perspective, the developmental aspect was a matter of continuous capital deepening which enabled shifts in sectoral composition of employment as shown in Fig. 6.3. The US strategy of Taylorization (which Silver would treat as a technological fix) could be interpreted as one of the building blocks of the LME alternative (Thelen 2014: 38). With a greater shop-floor division of labor, skill sets could be non-specific. This rationalization of space and movement created productivity gains which were not dependent on high union density, corporatist structures, or protective labor market regulation in order to function.

Taking a look at ILO estimates (reported in the World Bank database) for USA in Fig. 6.3, we observe trends that can be expected bearing in mind the development-sectoral employment connection. The 1991–2020 interval shows an incremental and consistent increase in the share of service and decrease in industry. In the USA, the most recent data shows 79% of employed work in services (compared to 72% in 1991),

![Fig. 6.3](image-url)  
**Fig. 6.3** Employment structure in USA (*Source of data World Bank 2020*)
19.7% in industry (compared to 26% in 1991), and a very small share of 1.3% is employed in agriculture (compared to 1.9% in 1991).

Here we can see that the interaction of the short-run Luddite anxiety of losing jobs due to technology and the long-run re-shuffling of the occupational structure. Acemoglu and Restrepo (2017) model the effect of robots on employment and claim there are “large and robust negative effects of robots on employment and wages” (ibid.: 36). We could claim the same for the effects of introduction of tractors on agricultural employment or the effects of the introduction of the Spinning Jenny machine on outdated weaving jobs.

Frey and Osborne (2013) estimate that 47% of all occupations are at a high risk of replacement through computerization. These losses are dominated by administrative support, sale, and service jobs (ibid.: 37). If these jobs were not replaced by others, we may have a significant issue with what Keynes called “technological unemployment” (Keynes 1930/2009: 196), which we know today under the more familiar term of structural unemployment. But, in spite of his usual far-sightedness, he did not foresee large shifts in sectoral employment as his classical essay Economic Possibilities of our Grandchildren (ibid.) was notoriously wrong on this point. The current short-term anxiety may also be at fault. More relevant for our purpose, these sectoral shifts have a power-related issue of attached union density which is related to skill specificity, and in this sense, we must turn to plotting the relationships of technology and labor power.

**Interactions with other drivers and the result**

(a) Power relations: the ability to organize labor (associational power) and bargain (structural power) is far higher in industry than in the service sector. As technology enabled a smaller proportion of labor to work in the secondary sector, labor power diminished overall in the USA.

(b) Developmental strategy: technological process innovations may create incentives for new development models, but this did not happen in the USA. The new labor-saving production methods including robotics and IT can be seen as a continuation of skilled-labor avoiding Taylorism which was omnipresent as a production strategy. The growth model was consumption-led at least since the end of World War II, but the shifts in productivity eventually made it uncompetitive in foreign markets causing a greater role
for imports in satisfying this demand. This does not yet amount to a change in the developmental strategy (as that was necessitated by the systemic cycle), but merely a change in its successfulness in terms of growth.

6.3.2.2 Phase of the Systemic Cycle

From the viewpoint of the USA, the systemic cycle describes its establishment as a mature economy in late nineteenth century and early twentieth century, the significant material expansion in middle twentieth century and its financial expansion between the signal crisis in 1973 and the terminal crisis in 2008 and even beyond. It would also describe the increasingly intricate behavior of global supply chains with the center of the world-economy moving elsewhere through globalization in the long-term aftermath of the signal crisis. This gives us an appreciation of the assumptions of the systemic cycle theory in that the manufacturing labor was not as necessary for the core reproduction processes of the US economy after 1973 (although the reduction of manufacture logically went hand in hand with the rising trade deficits and the rise of new global production centers). In being increasingly superfluous, the power of manufacturing labor to theoretically strike or organize became less of a threat, adding therefore to the decreasing power of labor visible in the declining union density rates.

To establish the extent of financial expansion (or financialization) in the USA, we can observe several types of measurement, depending on the aspect we would wish to focus on (Table 6.2). It will perhaps suffice to show one type of measurement for every unit of analysis.

| Unit of analysis        | Financialization conceptualization                                                                 |
|------------------------|--------------------------------------------------------------------------------------------------|
| Individual/household   | Increase of indebtedness, credit cards, and mortgages                                              |
| State/Country          | Second pillar pension systems, increased dependence on financial markets or organizations (ratings agencies, IMF, ECB…), increase of overall importance of stock markets (market capitalization as % of GDP) |
| Company                | Generates profit in various situations (shift from real to financial activities), shifts in corporate governance regimes (shareholder value) |
Firstly, the household indebtedness has grown substantially in the financial expansion period as the liabilities of households and non-profit organizations were at 1.3 trillion dollars in 1980 or 41% GDP and reached a peak in 2008 at 14.3 trillion or 97% GDP to nominally deflate and recover at a lower ratio to GDP at 14.7 trillion by 2016 or 79% GDP (FRED 2017). In other words, we can use this type of data to observe the effect on households and, according to the FRED data, confirm the Arrighian systemic cycle theory.

Secondly, within VofC, a great deal of importance is awarded to the way in which corporate finance is arranged. The firms in some economies (CME) rely on long run financing by the mother-banks with a stake in the firms themselves. The firms in other economies (LME) are more reliant on financial market financing and more vulnerable to fluctuation of the stock market. Attempts have been made from the beginning to show the difference by comparing market capitalization\(^4\) to GDP ratios (Hall and Soskice 2001: 19). Figure 6.4 shows the developments of bank credit to private sector and market capitalization.

In the USA, the bank credit to private sector is a relatively steady indicator with the minimum at 44.2% of GDP in 1993 (an all-time low in the time series was in the starting 40.7% in 1961) the maximum at 59.8% in 2008, and a decrease as a consequence of the intervening credit crunch/recession. The latest data is for 2019 when this indicator was at 52.1% GDP. The market capitalization ratio is much higher and much more volatile with the last 20 years mostly staying in the 80–160% GDP range (with a pronounced growth since 1994, a marked yearly peak in 1999 at 153.4% and strong recoveries with yearly peaks in 2006 at 141.7%, 2014 at 150.3%, and 2017 at 164.8%). These volatilities also correspond to the intensity of trading, the value of shares traded as a percentage of GDP tends to be highest during market capitalization peaks or their immediate aftermath (as crises by definition may also be periods of large-volume trading). Trading reached a high point of 290.5% GDP in 2000, dropped to 140% in 2003, rose again to an incredible 321.1% in 2008, and discontinuously dropped to 108.5 by 2019 (World Bank 2020). These measures are in accordance with VofC theory, with the

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\(^4\)Market capitalization is the sum of all stock market listed shares prices. Ratio to GDP, even though very volatile, should show the comparative roles this type of financing has relative to the entire economy, particularly if specific market movements are averaged out and compared to other economies.
USA being the paradigmatic LME case, and is theoretically expected to trade stocks in a relatively volatile fashion and also to have stock-market financing as the most relevant source of financing (i.e. pronouncedly higher ratio to GDP than the banking sector).

Thirdly, as already mentioned, the analysis of Greta Krippner (2005, 2011) was a direct attempt to follow Arrighi and complement his theory with an empirical measurement of corporate profits from National Income and Product Accounts. Her findings show that in the 1950–2001 period the share of manufacturing profits dropped from around 50% to around 10%, and that the share of Finance, Insurance and Real Estate (FIRE) profits climbed from about 10% in 1950 to about 45% in 2001 (Krippner 2005: 179). This shows empirically what Arrighi meant theoretically with the flight of capital into finance. The outcome is supposedly a deindustrialization (as financial resources are increasingly tied into non-productive investments). While deindustrialization is a result of numerous factors, the days of US material expansion are certainly long gone. Figures of manufacturing value-added as a percentage show a slow and steady drop

**Fig. 6.4** Financing sources in USA (Source of data World Bank 2020 [trend-lines are 5-year moving averages])
from 16.1% in 1997 (time-series beginning) to 11.1% in 2017 (World Bank 2020). With market capitalization recovering since the drops of 2000–2002 and 2008 (and a far better performance of the stock markets compared to the real economy in 2020) and the deindustrialization continuing its slow pace, it seems that the US finance expansion is essentially continuing.

Interactions with other drivers and the result

(a) Trade relations: a financial expansion in the context of the systemic cycle suggests a decrease of material production translating into a widening trade deficit in the absence of a new growth model, which was the case in the USA.

(b) Developmental strategy: the financial expansion necessitated a new approach to investment compatible with a predominance of shareholder value—and therefore an extensive strategy. This nexus is essentially what the LME ideal-type is already attempting to describe. In the context of developmental strategies, the USA entered into an era of weak labor with weak wage growth, but high aggregate household consumption, plugging the difference with high-income inequality (enabling high aggregate demand alongside a low-wage sector) and increases in personal debt.

(c) Power relations: the USA underwent a shift from material to financial expansion which suggests lower structural labor power as the importance to the economy is reduced.

6.3.2.3 Trade Relations of USA

In the systemic cycle theory, the financial expansion is synonymous with a loss of global predominance in production, visible in a growing trade deficit. Chapter 5 has shown the empirical side of the US loss of a favorable trade position. Figure 6.5 shows current account balance as a rough measure of the trade balance in comparison with GDP growth rates.

We can observe that the current account balance in the USA was generally negative in the period of interest to us (the only exceptions are 1980, 1981, and 1991 with miniscule current account surpluses). Large deficits were mostly visible in the context of substantial real growth (mid-1980s and mid-2000s), the tendency to diminishing the deficit was visible in the context of real GDP contractions (1991 and 2009). Overall, the current
account deficit expanded in the 1980s, briefly stabilized in 1991, and then substantially and consistently grew until 2006 (when it stood at $-6\%$ GDP) since when it readjusted to a lower level (mostly in the $-2\%$ to $-3\%$ range since 2009). To better grasp these trends, Fig. 6.6 disaggregates this data on absolute figures of imports and exports in goods and services in current USD.

This level of data shows the deficits of the mid-1980s and mid-2000s in absolute terms—and can also observe that the diminishing current account deficit was largely a matter of a growing GDP, as both imports and exports recovered very quickly after 2009.\footnote{\textnormal{The effects of the 2018/2019 trade confrontations and the COVID-19 pandemic on trade patterns are not yet fully discernible.}} The incentive structure for labor coordination and regulation under these conditions is the exacerbation of trends already described. In short, the fact that labor is not globally competitive leads to a trade deficit and a shift of domestic capital into finance. This means that a hypothetical strike of American manufacturing workers can no longer paralyze the economy. It can merely...
incentivize the employers to shift the production into a different location. This was the logic of the now somewhat anachronistic *race-to-the-bottom* hypothesis. Nevertheless, the power of the unions to act must in general be lower in countries with large trade deficits as these countries already have domestic labor which is replaceable by imports. So, this shift into deficits joined the other five drivers, all of which pointed in the direction of further commodification of US labor.

Interactions with other drivers and the result

(a) **Power relations:** an increase in the trade deficit suggests a decrease of relative importance of domestic production for the economy as a whole and therefore reduces the structural power of labor.

(b) **Systemic cycle phase:** a shift from trade surplus to a trade deficit is a symptom of the financial expansion phase of the systemic cycle.

(c) **Developmental strategies:** the USA has kept the consumption-led model in the face of financial expansions. This would suggest a combination of an extensive strategy in the context of high household demand. Income derived from wages is gradually supplanted
by household debt and overall profits increasingly accrued in financial activities. Such an extensive strategy (one conducted through trade deficits) does not have the same effects as an extensive strategy in the context of material expansions as the financial expansion phase does not center on production and trade.

6.3.2.4 Developmental Strategies of USA
As explained in Chapter 4, we have taken the Arrighian category of extensive and intensive regimes and construed them as supply- and demand-side developmental strategies. A supply-side strategy hinges on low costs of labor and the export market, while a demand-side strategy hinges on the development of domestic markets and can therefore put a lower importance of low production costs. This shift from regimes to strategies allows us to move beyond simple determinism and see that the form in which the economic system reproduces itself, constricted by many drivers of change, but ultimately determined by none of them alone. The intensive strategy is synonymous with the Fordist regime of accumulation/Keynesian welfare state which typified the US economy until the 1970s, while the extensive strategy is the normative free market orientation since the 1970s, here explained as a consequence of the systemic cycle. Specifically, the development strategy takes place in the context of the phase of the systemic cycle: while the material expansion creates the dilemma between labor-compensation-as-cost and labor-compensation-as-demand (as we will see in the next two chapters), the financial expansion faced by the USA is oriented toward profitability. This creates a situation in which labor is in a similar position to an extensive strategy in a material expansion, but the consumption is in a similar position to an intensive strategy in a material expansion. This is essentially the face of an extensive strategy during financial expansions. Figure 6.7 shows the growing discrepancy between wage-related income and domestic consumption.

The graph shows two curves: the household consumption (i.e. the domestic market we could conflate with the position of the worker) and wages and salary accruals, both as a percentage of GDP. The difference in the two curves is logically made up of any domestic spending that is derived from non-wage-related earnings (rents, interest, debt). We can see that the trend of the two lines is essentially divergence since 1970. In 1970 their difference was 9.1%, and in 2018 it was at 25%. In our interpretation, this is due to the intensive (Fordist/Keynesian) strategy
favored the development of internal markets, while the extensive (Washington consensus) strategy favors the development of export capabilities at the detriment of labor costs and therefore of the domestic market. The discrepancy is made possible partially due to the explosion of household debt both in absolute terms and relative to GDP (as a GDP percentage, it more than doubled in the 1984–2008 period landing on 99% GDP in Q1 2008; Trading Economics 2018; FRED 2018).\(^6\)

This comparison also hides the increasing divergence between the low wages of workers whom we could imagine seeking the protection of laws and unions and the increasingly high wages of top managers—with the aggregate consumption not necessarily reflecting the low-wage sector. We can confront issues of inequality in Sect. 6.4, but for now we are interested merely in the aggregates—i.e. in the relative motors of growth. Figure 6.8 tracks the demand composition in the USA as a manifestation of the developmental strategy.

\(^6\)This is essentially a confirmation of the Privatised Keynesianism thesis of Colin Crouch (2009).
Fig. 6.8 Demand composition in USA (Source of data World Bank 2020 [Household final consumption, Gross capital formation], own calculation according to data for current US GDP and net trade in goods and services in World Bank 2020 [Net trade % GDP])

We can observe that household expenditure is by far the largest in terms of demand. Changes in the composition worked to accentuate this trend with household demand increased by 7.9% in the 1981–2018 period, investment demand decreased by 4.1% from the peak level of 1984 to 2018 and the effect of net trade was consistently negative, at a modest $-0.6\%$ in 1992, gradually reached a low-point of $-5.5\%$ in 2006 and somewhat corrected since to $-2.9\%$ GDP by 2019. The growth model has therefore been led by domestic consumption in the entirety of the timeframe and more so over time. However, this was largely funded by growing levels of debt and has resulted in a large trade deficit.

Interaction with other drivers and the result

(a) Power relations: consumption-led growth in financial expansion reduces the structural power of labor as the material needs of employees are large but the economy itself does not revolve around material labor. In other words, workers need to work more than their employers need them to work.
(b) **Trade relations:** a consumption-led growth in financial expansions certainly provides the major contours of a large trade deficit, as domestic demand is high, and competitiveness is low.

(c) **The result of institutional change:** the effects of developmental strategy on the institutional result in the USA is fairly low, as the continuing neglect of labor is more clearly a result of path dependence. This also suggests that critical junctures are difficult to find in the case of USA in the chosen period. However, low power of labor which is also an effect of developmental strategy helped steer the path-dependent outcome.

### 6.3.2.5 Power Relations in USA

In terms of informal institutions, we deal with stable and rule-like, but unwritten outcomes. These are under the influence of power relations as a relatively strong labor organization might produce labor-friendly institutional results and vice versa. We have followed Erik Ohlin Wright and Beverly Silver in focusing on the two types of labor power as structural (the role in the economy and the consequential bargaining power) and associational power (ability to organize). All of the previous drivers in this channel have had a negative effect on the structural labor power in the USA since 1980 and this is mirrored in the diminishing associational power as well. As shown in Fig. 6.9, the union density in the USA is at an all-time low—therefore showing very low associational power of US labor.

This suggests that the unions as the very organizations which should embody labor power and fight for its interests are severely diminishing in significance—and the bargaining coverage is very closely following this decline. Both were in the 30–35% range in the early 1960s but are in the 10–15% range today. According to the ICTWSS database, union density has dropped significantly in the traditionally relatively highly unionized transport workers (36.1% in early 1980s, 12.8 in 2018), and manufacturing workers (27.9% in early 1980s, 9% in 2018) and remained high in public sector (34.8–36.7% in early 1980s and 33.9–37% in 2010s up to 2018), with the overall union density dropping from 22.3% in 1980 to 10.1% in 2018 (Visser 2019). When we add to this the unchangeably decentralized structure of collective bargaining, we can see that the unions, although never overly powerful in the USA have come to a very low point in terms of power resources available to effect an institutional change.
**Fig. 6.9** Bargaining coverage and union density in USA (Source of data Jelle Visser ICTWSS database 6.0 [Visser 2019]—union density is composed of two metrics: 1960–1979 ud series, 1980–2018 ud_s series)

**Interactions with other drivers and the result**

(a) **Phase of the systemic cycle:** diminished power of labor—relative to the employers—would have been able to influence investment decisions in the USA. These are done according to the criteria of shareholder value and therefore have easily shifted toward financial expansion in the 1970s and 1980s.

(b) **Developmental strategy:** the development strategy did not change even in the face of a large trade deficit. The continued legitimacy of the American dream, such as it is, is premedicated on the seeming pro-labor quasi-intensive strategy. However, as we have seen, this is a matter of a continued consumption-led growth—supported increasingly by debt, rather than a successful development strategy.

(c) **Result of institutional change:** American power relations were not stacked in favor of labor influencing institutional change and the result seems to have been largely a result of path dependence, helped along by the decreasing power of labor to resist.
This channel has combined the drivers of technology (shifting the structure of the labor marker toward occupations with lower capacity to unionize), systemic cycle phase (shifting toward the superfluity of easily unionized manufacturing labor), trade relations (underlined by the export of easily unionized labor), developmental strategy (combining a high household demand growth model with an anti-labor extensive strategy) and power relations in which a diminishing labor power is interpreted as a consequence of the previous four elements (with primacy given to the systemic cycle encompassing the drivers of systemic cycle phase, trade relations, and developmental strategy). In terms of modes of change, this explanation of diminishing labor power as a mechanism of change in labor institutions is compatible with Thelen’s idea of institutional change as displacement we accentuated in the context of the path-dependent channel of change. In the cyclical power relations channel we can achieve a slight zoom-in into the mechanics of the changing power relations beyond what interested Kathleen Thelen. However, the central point remains untouched—the institutions have a specific and unambiguous path of change provided there is a significant asymmetry of power. Her term of displacement may suggest an abrupt change, while our analysis shows a slow process, but the image is still precise enough.

6.3.3 Channel 3: Institutional Design—Domestic Politics and Transnational Conditionality in USA

The third channel of institutional reform identified by Chapter 5 is the deliberate institutional design, and the two obvious mechanisms in such formal politics are the domestic politics and transnational conditionality. The politics of USA are somewhat impervious to both transnational and unilateral domestic pressures, and this channel of institutional change is characterized by incremental reform. In terms of formal electoral and party politics, the USA are a democratic system with a first-past-the-post electoral system which favors a two-party system, as the smaller candidates (third parties) are mostly ruled out. The two modern parties are the Democratic Party which traditionally favored relatively more comprehensive regulation and social/labor rights and the Republican Party, which is relatively more free market oriented. On the federal level the
formal US politics are conducted through the institutions of the President, the Senate, and the House of Representatives (which are the two Houses of the US Congress), with relatively high levels of political powers awarded to the President, making it a *presidential system*. In the Reagan Administration (1981–1989), the Republican president faced a democratic majority in the House of Representatives but had a Republican majority in Senate for the first six years. In the George H. W. Bush Republican administration (1989–1993) the Democratic Party had majorities in both Houses. In the Bill Clinton Democratic administration (1993–2001), there were Democratic majorities in both Houses for the first two years, but the tables were turned in 1995 with the Republican Party winning both majorities for the rest of Clinton’s time in the White House. In the George W. Bush Republican administration, the Republican control of the Houses continued until 2007 (apart from a complex and shifting situation in the 2001–2003 Senate, i.e. the 107th Congress). The Democratic Party again dominated both houses for the 110th and 111th Congress (2007–2011), which was a problem for the last two years of the Bush presidency and a boon for the first two years of the Democratic Obama administration (2009–2017). In the 2011–2015 period Obama lost the control of Congress but kept Senate with a thin Democratic majority. In his last two years (2015–2017), Obama had to deal with a Republican Senate as well. The Republican Trump administration (2017–2021) presided over the 115th Congress with a double Republican majority. In the first approximation, one might expect to see real legislative-institutional change when these three institutions line up, neither restricting the others. Such windows of opportunity existed in the first two Clinton years (1993–1995—103rd Congress), the middle four Bush years (2003–2007—108th and 109th Congress), the first two Obama years (2009–2011—112th Congress), and during Trump’s first two years (2017–2019—115th Congress). If we compare this expectation with landmark decisions and legislative action in Table 6.1, we can see that the Clinton and Obama double majority years brought two crucial reforms: the FMLA family leave of 1993 and a substantial reform of the health system in 2010—even as reforms of labor law were defeated (Worker Fairness Act in 1993) or not fully attempted (EFCA in 2009). These setbacks were made possible by the practice of filibustering, which is an obstruction mechanism, particularly effective in the US Senate where a minority can prevent legislation to be voted upon by exercising the unlimited right to hold the floor. To prevent the filibuster on legislation,
the majority must have a supermajority of 60 out of 100 seats in the US Senate for a procedure known as cloture. This is not a typical situation and has not occurred in the Senate in the timeframe of interest to us here. This creates a situation in which even a party which dominates the legislative procedure often has to compromise and build a consensus over its proposals with at least some members of the opposite party. Large and controversial reforms are not a likely outcome in such a system, as they require substantial political resources even after a very successful election.

Additionally, recent scholarship (Gilens 2012; Gilens and Page 2014; Page and Gilens 2020) suggests that the expectations of direct connection between parties and their constituencies (e.g. the connection between the Democratic Party and organized labor) may be somewhat naïve in the US case. The authors analyze an impressively large database on policy preferences at different income groups and the policy outcomes and come to the conclusion that the political system is so much more responsive to the most wealthy group as to merit a description of economic elite domination rather than a majoritarian democracy (Gilens and Page 2014). Likewise, labor unions are far more likely to encounter resistance in areas of their preferences than other interest groups (Gilens 2012: 158), which certainly curbs their capabilities in lobbying. All of this helps us understand the lack of labor-friendly reforms in the period of interest.

The membership in WTO and FTA arrangements historically constricted the ability of the USA to act in the protectionist sense which, as we have seen in Chapter 4 correlates with labor regulation. However, the Trump administration strained these constrictions and brought active protectionism back to the agenda with a series of trade confrontations. In a more direct sense, the transnational organization which is charged with promoting labor standards is the ILO (International Labor Organization) by the UN. While the USA is the largest financial contributor to the ILO at 22% of its budget (ILO 2017a), the ILO conditionality could not have been very strong. Out of 189 conventions of the ILO (8 fundamental, 4 governance, and 177 technical), the USA has ratified only 14 (2 fundamental, 1 governance, and 11 technical), which testifies to its ability to ignore ILO7 (ILO 2017b). The size and political power of the USA make it unlikely that a transnational organization could effect a substantial and

7 To compare: Sweden has ratified 93, Russia 75, Japan 49, Slovenia 83, and Croatia 60 (ILO 2017b).
unwanted change in its institutions, and the relative powerlessness of the ILO should not be surprising.

**Interactions with other drivers and the result**

(a) Developmental strategy: neither formal political channel seems to have influenced the developmental strategy which is still focused on consumption in the face of a trade surplus.

(b) Result of institutional change: the specific political-institutional framework and the usual strategies in negotiating it have shaped the result, but only through inaction, as large-scale reforms of labor are difficult to imagine.

This channel brings us to an interesting dilemma in terms of modes of change. While we have accepted Thelen’s view of labor institutional change in the USA as displacement in the first two channels, we must now take into account an alternative conceptualization. Hacker and Pierson (2010) forward the notion of institutional change in US labor as a form of drift. The key to their finding is the fact that the formal political process found itself in a gridlock after 1978 in matters concerning labor, which allowed for the economic processes to eat away at the power of the unions and no federal action to manifest itself to prevent it. The government has left the arena and the world changed around the old and increasingly ineffective institutions (ibid.: 56–61). The key level for Hacker and Pierson is therefore the formal political level, covered here as the third channel of institutional change. At that level, they are correct—the conspicuous inability of a redesign of formal institutions on the federal level covered in segment 6.3.1. is a logical prerequisite for the effectiveness of path dependence and power shifts. However, the absence of a redesign of institutions that seems crucial to Hacker and Pierson (named channel 3 here) did not happen in a vacuum—but was itself a result of power relations (channel 2) within the existing set of institutions (channel 1). Also, labor institutions on national levels of large countries are far too complex for their change to be governed by a single mode of change. Thelen is right to point to displacement in describing the long-term shifts, while Hacker and Pierson are right to point to drift while describing the effects of the political process taking a shorter term to develop. This chapter has taken both into account within the broader logic supplying also a cyclical notion of labor power shifts. Overall, the three channels in the US case of
labor institutions provided a ripe terrain for the path dependence dominance, inasmuch as it defined the power to influence institutional design and the starting position of power shifts. Figure 6.10 summarizes these liberalizing tendencies.

The period since 1980 saw no path deviations, as formal institutions saw no crucial reforms via formal political system (channel 3) and informal institutions developed in the context of diminishing labor power (channel 2). This enabled the continued development of path dependence (channel 1), rather than a critical juncture scenario. The tendencies already active since the late 1940s simply continued and intensified. It produced what we cannot recognize as a successful developmental strategy as the financial expansion in progress accompanied a vast trade deficit. The next section surveys the social results of this process.

![Diagram](image)

**Fig. 6.10** Lack of developmental strategy shifts in USA since 1980
6.4 Social Effects of Labor Institutions in USA

One of the most common arguments in favor of flexible labor markets is the ostensibly lower unemployment rate caused by the fact that employing is easy and filled with less uncertainty. If a labor market is more heavily regulated, then dismissals are more complicated. Therefore, less regulation should cause the employers to more readily employ, as little cost is connected with a dismissal should the situation change. However, it also causes them to more easily terminate employment when demand is low (e.g. in a crisis). Figure 6.11 shows these links in the case of the USA since 1980.

Unemployment seems to closely respond to GDP growth in the case of the USA. There are four pronounced slowdowns or downturns of growth on the chart: 1982; 1991; 2001; and 2008/2009. All four were accompanied by quick and sharp increases in unemployment, which is in accordance with the VofC theory as outlined in Chapter 3 and with state of labor institutions as identified in this chapter. The data for 2020 will not be available for several months at the time of writing, but the most recent IMF estimates place real growth at $-4.3\%$ and the unemployment

![Graph showing the interaction of real GDP growth and unemployment in USA](image)

**Fig. 6.11** The interaction of real GDP growth and unemployment in USA (Source of data IMF 2020)
rate at 8.9% (IMF 2020). Regardless of the distinct issues of the developing 2020 recession, it seems that the rapid increases of unemployment in response to downturns are to continue.

Labor institutions can also have a pronounced impact on income inequality, as strong unions can exert pressure toward a more egalitarian distribution of production income or even a more progressive tax system. An absence of strong unions can easily translate into an insufficiently progressive taxation or lower labor compensation. In terms of the developmental strategies, an intensive strategy would suggest a more egalitarian income structure as the Marginal Propensity to Consume tends to be higher in lower income earners and therefore a higher ratio of additional income will be spent in the lower income groups, contributing to GDP growth. A higher ratio of additional income will be saved rather than consumed in higher income groups contributing to capital accumulation but not directly to GDP growth. An extensive strategy can afford to accept this outcome as it is export oriented. This is one of the reasons why an extensive strategy would involve higher inequality levels. The current US strategy is, however, not oriented on the material expansion (and therefore exports) as it occurs late in the systemic cycle, during a financial expansion. As we have seen, that locks the USA in a growth model which is consumption-led in the face of trade deficits. The rising inequality is here a consequence of the increasing importance of impatient capital and shareholder value orientation (displacement), unmitigated as it remains as deliberate reform remains out of reach (drift).

The most commonly used measurement of income inequality is the GINI index which measures the inequality on an interval of 0 (perfect equality—every person earns exactly the same amount) to 1 (perfect inequality, only one person in a society has any income). Alternatively, GINI indices can be expressed on an interval of 0–100. According to World Bank (2020) data, the GINI index in the USA was at 34.5 in 1979, 37.4 in 1986, 38 in 1991, 40 in 1994, 40.5 in 1997, 40.1 in 2000, 40.3 in 2004, 40.8 in 2007, 40 in 2010, 40.7 in 2013, and 41.1 in 2016. In other words, an unmistakable trend of increasing inequality which increased the levels from moderate to pronounced income inequality. 8

The SWIID database (Solt 2020) assembles various GINI measures to

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8 Although the GINI indices suggest a slightly reduced income inequality as a result of the Great Recession, this aggregate measure may hide more complex effects. Visser (2018) finds evidence of greater wage polarization and downgrading job quality for male workers
produce a continuous time series ensuring greater comparative capabilities among countries. It is an unusual database in that it uses imputation methods, meaning it extrapolates the missing values from existing ones.\(^9\) While this enables unusually continuous coverage, it also may diminish the reliability of any given data point (particularly in countries with scarce coverage). It works well in those intervals and countries which are otherwise well covered and can be safely used for those in discerning general trends of inequality shifts. This makes it well suited for the purposes of these three illustrative chapters as they focus on comparative data and general patterns of change.

Figure 6.12 shows the SWIID central measures of market GINI (inequality of income before taxes and transfers) and disposable income GINI (after taxes and transfers). Both measures were on the rise since 1980, with the market index climbing from 43 in 1980 to 52.4 in 2018, while Nau and Soener (2019) find that income precarity has increased predominantly in working families.

\(^9\) For a comparison of available inequality databases see Ferreira et al. (2015).
and the disposable income index climbing from 31.6 in 1980 to 38.7 in 2018. While these figures seem to be lower than the World Bank estimates, the general trend of steadily rising inequality is even more recognizable. It is also interesting to note that the correction between the two indices (i.e. the effect of taxes and transfers) remains substantially the same since 1980 when the correction in index was $-11.4$, passing through $-12.3$ in 2000 and ending at $-13.7$ in 2017.

GINI indices are, however, not enough to meaningfully show the differences between specific groups, as they remain imprecise. For that, we will need to compare pre- and post-tax income inequality between the richest and the lower strata. Figure 6.13 shows the available data for national income shares of top 1% and the bottom 50% 1970–2019.

The benefit of observing the trends in pre-tax income is the ability to point out the distribution that occurs before the specific solutions in the tax system are activated. Direct comparisons should be careful as the methodology in the two sets of data is not identical. Pre-tax data is for income equally split among adults at the household level (presumably ameliorating the situation somewhat), while post-tax data is individual. However, we can clearly compare the trends. We can see that the pre-tax

![Fig. 6.13 Pre-tax income shares in USA (Source of data WID [2020])](image-url)
income share of the bottom 50% steadily declined since 1970 (not shown on the graph is the increasing trend until 1970). The pre-tax income share of the top 1% was steady until 1980 and then began a sharp climb. The latest available data shows that the pre-tax income of the top 1% is almost 40% larger than the income of the bottom 50%. However, the USA has a progressive taxation system which tends to somewhat ameliorate the income differences (as we have seen comparing the pre-tax and post-tax GINI indices). The tax system has become riddled with various loopholes (see Steinmo 2010) and its progressive capacities have been significantly reduced in importance when compared to the 1950s, but it is nevertheless a progressive system. To point at its effects, Fig. 6.14 shows the post-tax income shares of top 1% and the bottom 50% in the 1970–2019 period.

Here we can see a sharp increase of the share of the bottom 50% until 1980 to almost 19% of total income followed by a slow decrease to 16.5% in 2019. The top 1% has likewise remained stable until 1980 (again, not

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10 In 1958 the marginal tax rate for top earners was 91% (Baneman and Nunns 2012), whereas the top marginal rate today is at 37%.
apparent from the graph is the pronounced overall decreasing trend in the preceding decades) followed by a sharp increase of share to the high point of 16.2% in 2012 (and most recently at 15.3% in 2019). In other words, the net incomes of bottom 50% have grown through the 1960s and 1970s and the net income of top 1% has grown in the 1980s and 1990s and 2000s to almost meet at a higher level in the 2010s, effectively contributing to a diminishing middle class. In income shares we can also roughly observe the extent of redistribution as the pre-tax ratio for the top 1% increased by 8.4% since 1980 and the post-tax ratio increased by 6.3%, while the pre-tax ratio of the bottom 50% decreased by 6.6% and the post-tax ratio decreased by 2.3%. An additional way to frame these distributional issues is the comparison of wage and profits ratios, which have essentially followed the same patterns. The ratio of corporate profits to GDP has risen from 7.4% in Q2 1980 to 11.2% in Q3 2018, while the ratio of worker compensation has decreased from 57.1 to 52.8% in the same period (FRED 2019). This data points to the structural distribution effects of the shifts in power resources discussed above as the continuous decrease in structural and associational power is consistent with a decreased capability of labor to influence income inequality.

6.5 Conclusion

American labor institutions have entered the 1980s as fairly flexible with a limited scope for labor organization. They have only continued this trend in the four decades since—and we have traced their movements firstly through the three Northian aspects of institutions. There were no major legislative innovations (formal institutions) to overturn this trend since 1980 and the power of labor to organize and bargain continued to drop

11 These chapters do not focus on inequality causality beyond the illustration of the framework expounded in this book. However, it is worthwhile to note that Huber et al. (2019) analyze the data on 18 OECD members in the 1960–2012 period and find that the rising income share of the top 1% is related largely with union density, alongside union concentration, type of government, top marginal tax rates, and investment in public tertiary education. Kristal and Cohen (2017) analyze 43 US industries in the 1968–2012 period and find that roughly half of rising inequality can be explained by union disempowerment and a fall in the real value of the minimum wage, compared to roughly a quarter that can be attributed to computerization. Dosi et al. (2018) find that structural labor market reforms aimed at flexibilization are connected with higher unemployment and rising inequality.
This has created an unfortunate situation in which marginal workers are left exposed to rampant wage theft and other forms of unlawful conduct (avoidable institutions).

We have used these aspects to explain this pattern of change through the framework developed in the previous chapter. The three channels of institutional change intertwined in the case of the USA to produce a labor hostile institutional environment. The three channels are often at odds with one another as path dependence pushes in a different direction than politically induced reforms or changes in power resources. This was not the case in American labor institutions since 1980 as the primary role was played by a virtually unopposed path dependence—pushing institutions in the direction of flexible and market-oriented labor. This continuation of labor deregulation was made possible by the formal political institutions which do not favor large and rapid reforms (disabling a countercurrent via the formal political channel) and by the inability of labor to defend its interests. This was a consequence of a diminishing associational and structural power of labor caused by the shift into post-industrial society, the financial expansion, and trade deficits. In terms of modes of change, this chapter has offered a logic overcoming the discrepancies between the Thelen view (displacement) and Hacker/Pierson view (drift). The framework we utilize develops a process timeframe hierarchy in which it becomes apparent that both descriptions are plausible in their own timeframes, with displacement a long-term interpretation of the general pattern of change in US labor institutions and drift a short-term prerequisite for its development.

From the viewpoint of systemic cycle theory, this continued path dependence, even a decade after the terminal crisis, suggests a prolonged period of systemic chaos with uncertain end-results in terms of paradigmatic organizations and strategies. The post-2008 legitimacy crisis did not produce a new social pact, and the electoral quests for change and renewed greatness are yet to manifest in a fundamentally different developmental strategy that could mitigate the adverse social effects. Our approach to institutions helped us discern the reasons for the prevalence of such path dependence. However, decades of continued growth of other large economies and a restructuring of global economy may construct fundamentally different political realities for USA as well. We now turn to two possible rivals for the central position in the world-economy.
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