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Wolfgang Cornetz, Bremen*

The Dark Side of the "Employment Miracle" in the USA

Whereas in Europe the creation of jobs in the United States has been hailed as an "employment miracle", in the USA itself there is concern mainly about the negative implications of the considerable increase in employment. A trend towards deindustrialisation, poor productivity and growing wage inequality are issues that are being discussed in this connection.

In Western Europe and Japan the employment and unemployment indicators have shown little or no improvement, despite a prolonged recovery in economic activity since 1982. The situation is quite different in the United States; since the upswing began in late 1982 no fewer than 14 million new jobs have been created (more than 44 million have been created since 1960, around 90 % of them in the services sector) and the unemployment rate has fallen after overcoming the 1981-82 recession, so that since 1984 it has been lower than, for instance, in the Federal Republic of Germany¹ (see Table 1).

Last year alone the unemployment rate in the USA fell by more than 1 percentage point despite the rapid growth in the labour force, so that in October 1987 it stood at a seasonally adjusted rate of "only" 6.0 %, the lowest level since December 1979. Although this still represents a substantial level of underemployment, labour shortages have already developed in some regions, e.g. on the East Coast. "Help wanted" notices are now very common, published by employers ranging from small businesses and fast food chains to banks, insurance companies, computer centres and high-tech factories. "We are now the crack labour market",² assert US researchers, and they note with satisfaction that for some time an increasing number of Europeans have been busy studying the operation of the labour market in the USA.

Indeed, the impressive success in creating jobs in the US services sector has caused European countries, in particular, to seek the causes of the phenomenon and to investigate the possibility of emulating it. Numerous publications have tackled the subject of the

"employment miracle" in the USA. Summarised broadly, they have emphasised the following determinants of the rise in employment:

- ☐ demographic trends,
- ☐ wage behaviour (the theory being that wages in the USA are more "compatible" with employment, i.e. primarily lower, more flexible and differentiated more strongly according to region and sector than in Europe),
- ☐ the lower overall level of taxation,
- ☐ a climate favourable to the establishment of new firms,
- ☐ the greater overall flexibility and dynamism of the labour market,
- ☐ a more efficient use of economic measures.

This article examines not the causes of the quantitatively impressive performance of the US labour market but some of its darker sides. However, it is necessary first to mention a number of important features concerning the number and quality of the newly created jobs. First, the numerical increase is not the result of a dramatic change in average working time per worker. The growth in part-time working over more than three decades has been considerable in absolute terms, but in relative terms – that is to say as a proportion of total employment – it has been very modest. At present around 20 % of all jobs are part-time, compared with 15 % in 1954.³

¹ This is true of the standardised unemployment rates of both the OECD and the Bureau of Labor Statistics (BLS).

² Orley Ashenfelter quoted from the New York Times of 30th November 1986 ("Our Unemployment Quandary").

³ Voluntary part-time employment – the traditional measure of part-time work – is defined as a working week of less than 35 hours.

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REPORT

Secondly, not all the new jobs are "bad jobs", for it is by no means only the categories of "personal services", "retail trade", "hotels and lodging" or "restaurants" that are growth industries. The services sector is extremely diverse, encompassing activities such as the "business services" advertising and data processing services and the category of legal services. These sectors are also growth industries and they pay above-average wages. Stereotypes such as the "McDonaldisation of America" or "taking in each other's laundry" therefore do the phenomenon as little justice as the slick term "employment miracle".

The views of US critics of developments in the United States are a suitable point of departure for countering one-sided European perceptions and gaining greater objectivity. It has not been widely realised in Europe that the rapid growth of the tertiary sector in the direction of a

"service society" is not seen in the USA as an unalloyed benefit and certainly not as a "miracle". The main issues being discussed in the United States in connection with the enormous expansion in employment are the claimed trend towards deindustrialisation, growing wage inequality, the shrinking of the middle class, rising poverty and the dramatic reduction in productivity gains. The budget deficit, the international competitiveness of the USA and, more recently, the international stock exchange crisis are also central themes.

It is perfectly conceivable that there are links between the first set of issues and the expansion in service jobs. Being provocative one might ask whether the goods-producing sector is so productive that one can "afford" to "support" a large tertiary sector. Or is the lamented weakness of manufacturing industry in the USA a cause of the employment explosion in services? Do many

Table 1
Labour Market Data for Selected Industrialised Countries
(approximating to US concepts)

	Employment (Thousands)						Unemployment Rate (%)					
	USA	Japan	Germany	France	Italy	UK	USA	Japan	Germany	France	Italy	UK
1960	67639	43580	26000	19740	20430	24120	5.4	1.7	1.1	1.5	3.6	2.2
1965	73034	46440	26780	20060	19600	25120	4.4	1.2	.3	1.4	3.4	2.1
1970	80796	50380	26600	20850	19460	24700	4.8	1.2	.5	2.4	3.2	3.0
1975	87524	51770	25750	21460	19740	24900	8.3	1.9	3.3	4.1	3.4	4.5
1980	100907	54840	26280	21890	20610	24990	7.0	2.0	2.8	6.3	4.3	6.9
1981	102042	55300	26090	21780	20660	24130	7.5	2.2	4.0	7.4	4.8	10.4
1982	101194	55860	25660	21810	20630	*23870	9.5	2.4	5.8	8.1	5.3	*11.3
1983	102510	56790	25290	21750	20670	*23760	9.5	2.7	7.3	8.3	5.8	*11.8
1984	106702	57110	*25310	21550	*20790	*24120	7.4	2.7	*7.6	9.7	*5.8	*11.6
1985	108856	57500	*25500	21450	*20890	*24370	7.1	2.6	*7.7	10.1	*5.9	*11.3
1986	111303	*57990	*25770	*21610	*21010	*24320	6.9	*2.8	*7.4	*10.3	*6.1	*11.5

* Preliminary estimates.

Source: Bureau of Labor Statistics: Statistical Supplement to International Comparisons of Unemployment, April 1987.

Table 2
Labour Productivity
(Annual rate of change¹ in output per man-hour in manufacturing industry)

Years	USA	Germany	Canada	Japan	France	Italy	UK	Belgium	Denmark	Netherlands	Norway	Sweden	W.A. ²
1960-85	2.7	4.8	3.4	8.0	5.5	5.4	3.5	6.5	4.8	6.2	3.2	4.7	5.4
1960-73	3.2	5.8	4.7	10.3	6.5	7.3	4.3	6.9	6.4	7.4	4.3	6.4	6.8
1973-85	2.2	3.7	1.9	5.6	4.4	3.5	2.7	6.0	3.0	5.0	2.1	3.0	3.9
1973-79	1.4	4.3	2.2	5.5	5.0	3.3	1.2	6.2	4.2	5.5	2.1	2.6	3.9
1979-85	3.1	3.2	1.7	5.7	3.8	3.7	4.2	5.7	1.9	4.4	2.0	3.3	3.9
1984	4.1	3.7	3.7	7.0	3.9	5.4	4.5	3.5	1.0	10.7	2.6	4.4	5.0
1985	4.4	5.6	3.2	5.0	3.3	3.1	3.4	4.6	0.7	3.1	0.9	2.7	4.1
1986	3.5	1.9	—	2.8	1.9	—	2.9	—	—	—	—	—	—

¹ Compound rate method.

² Weighted average for the 11 competitors of the USA.

Source: A. Neef: International Trends in Productivity and Unit Labor Costs in Manufacturing, in: Monthly Labor Review, December 1986, p. 13.

workers accept badly paid jobs in services only because no better opportunities are available in industry?

Trend towards Deindustrialisation in the USA?

The work entitled "The Deindustrialization of America" by Barry Bluestone and Bennett Harrison, which appeared in 1982, marked the beginning of the deindustrialisation debate.⁴ There is no consensus on the definition of the term "deindustrialisation", but they point to factory closures and dismissals, a lack of investment in manufacturing and the dismantling of basic industries. Even developments in parts of high-tech industry fit in with the theory, for here too jobs have fallen victim to intense foreign competition. The large US trade deficit and the continual shift towards the services sector – manufacturing industry has made no net contribution to overall employment growth since 1979 – are used as key arguments to support the claim that the United States is losing its industrial base.

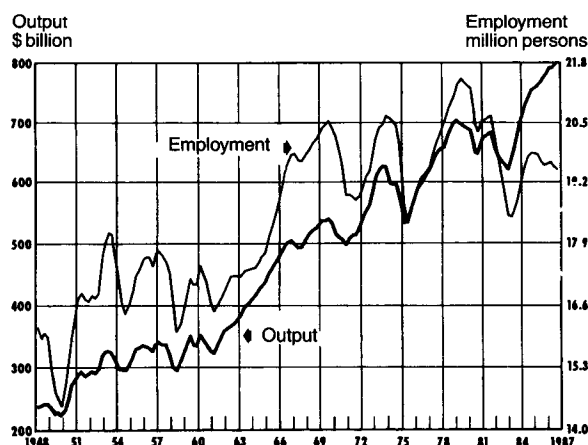
This pessimistic portrayal is refuted by the Bureau of Labor Statistics in Washington, which points out that the shift towards the services sector is mainly relative. In absolute terms, employment in manufacturing industry has not declined noticeably and the sector is now in substantially better shape in terms of output at constant prices, which has risen to a new record since the recession.⁵ Nevertheless, the Bureau admits that both employment and output have declined in around 20 branches of manufacturing industry over the last 15 years. These include the iron and steel industry, some

mining industries and the leather, tobacco and rubber industries. Undeniable problems at microeconomic level then, but with manufacturing output rising in absolute terms the BLS sees no cause to speak of the elimination of the country's industrial base.

How should the situation be judged? Figure 1 illustrates the changes in employment and in output at constant prices in manufacturing industry. Between 1948 and 1979 output grew at a rate of 3.6%, whereas employment managed an average annual growth rate of only 0.9%. After 1981 the two factors diverged increasingly and it can be seen that employment has not returned to its 1979 peak. In terms of output, however, the performance of manufacturing industry was by no means negative even after 1979. There have been phases of falling production and periods of moderate and strong growth, but overall the positive forces have prevailed. The goods-producing sector is of course not a homogeneous whole, but a collection of industries with wide differences in performance. The divergence between the behaviour of employment and output is due essentially to the fact that employment has stagnated even in industries where production has increased (such as electrical engineering and non-electrical engineering), while jobs have been lost to a greater or lesser extent in industries with a falling output, such as leather goods and primary metal industries.

Divergences between employment and output trends indicate changes in productivity, assuming working hours remain the same. Indeed, the increase in output in recent years is the result of a substantial rise in productivity. After 1982 productivity in US manufacturing industry rose by 4.7% a year, a higher rate than in all previous upturns and one that compares well with developments elsewhere (see Table 2). Annual average productivity gains after 1973 were appreciably lower

Figure 1
Employment and Output in Manufacturing Industry in the USA



Quarterly data; latest data, 3rd quarter of 1986.

Source: J.A. Tatom: Why Has Manufacturing Employment Declined? in: Federal Reserve Bank of St. Louis: Review, Vol. 68, No. 10, December 1986, p. 16.

⁴ See for example B. Bluestone, B. Harrison: *The Deindustrialization of America*, New York 1982; R. E. Kutscher, V.A. Personick: *Deindustrialization and the Shift to Services*, in: *Monthly Labor Review*, June 1986, pp. 3-13; R. E. Kutscher: *Changes in Population, Labor Force, Employment and Unemployment in the United States*, BLS paper, September 1986, pp. 1-84; M. McUsic: *U.S. Manufacturing: Any Cause for Alarm?* in: *New England Economic Review*, January/February 1986, pp. 3-17; P. R. Krugmann, G. N. Hatsopoulos: *The Problem of U.S. Competitiveness in Manufacturing*, in: *ibid.*, pp. 18-29; N. S. Perna: *The Shift from Manufacturing to Services: A Concerned View*, in: *ibid.*, pp. 30-38; Anon.: *The Hollow Corporation*, in: *Business Week*, 3rd March 1986, pp. 57-59; A. M. Rivlin (ed.): *Economic Choices 1984*, The Brookings Institution, Washington, D.C.

⁵ See for example R. E. Kutscher, V.A. Personick, *op. cit.*; R. E. Kutscher, *op. cit.*, pp. 40 ff.

⁶ Despite the fact that employment in manufacturing is now increasing thanks to rising exports. From September 1986 to July 1987 165,000 new jobs were created in manufacturing industry.

than between 1960 and 1973, but this slowdown occurred in all the industrial countries shown in the table.

The performance of output and productivity therefore does not support the thesis of a deindustrialisation of America, and to that extent one can go along with the opinions expressed by the Bureau of Labor Statistics. Even if one can assume that the jobs lost between 1979 and 1985 cannot be recreated,⁶ deindustrialisation is an inappropriate term. The fall in employment in manufacturing as a proportion of total employment is a long-term trend, but manufacturing output as a percentage of real gross national product has remained remarkably stable for 40 years and high productivity gains are anything but an indicator of deindustrialisation. Productivity has risen much faster in manufacturing industry since 1960 than in the business sector as a whole. The conclusion to be drawn is that deindustrialisation is a misleading label for the structural change occurring in the USA. If one insists on using the prefix "de-", the most one can do is to speak of a "deindustrialisation of employment".

Different Viewpoint

The considerations described above are reinforced if one departs from the traditional classification scheme by combining services related to industrial production with manufacturing industry. The literature contains a host of attempts to revise the arbitrary definition of the service sector or the demarcation between this and the industrial sector. One method that is both theoretically logical and practical is to look at demand, that is to say to divide services into those performed for consumers and those oriented towards enterprises, especially in view of the close link between the industrial and service sectors and the increasing tendency for industry to contract functions out to the tertiary sector.

In Table 3 an attempt has been made to show the longer-term changes in employment in the United

States in the sub-sectors of "intermediate" and "final output" (or production and consumer-oriented activities). Non-agricultural activities are divided into the public and private sectors and the latter is broken down into production-oriented and consumption-oriented activities. This breakdown differs from other approaches in that here the intermediate group comprises not only transport, business services, etc., but also the wholesale trade. The sector oriented towards final consumers therefore logically takes in the retail trade as well as personal and social services. Of course, classification according to this breakdown cannot be clearcut. As detailed input-output material from the US Department of Commerce shows, individual branches do not generally produce solely consumption-oriented or production-oriented services but always both kinds. Even business services produce only 81% of their output to meet intermediate demand, the remaining 19% going to final consumption.⁷ Just over 50% of the output of the wholesale trade satisfies intermediate demand. Hence the terms *production-oriented* and *consumption-oriented* sectors should be used or, if the term "related" is to be used it should be qualified by the adverb "primarily".

Seen from this new viewpoint, the data in Table 3 provide an interesting insight. The production-oriented sector (sum of category B), which according to this approach employs much more labour than the consumption-oriented sector (sum of category C), grew steadily, even after 1979. Using this broader definition, it therefore represents not merely a stable but actually an expanding category from the point of view of employment. The ratio of B to C has naturally decreased over time owing to the faster growth of the consumption-oriented sector. Nevertheless, deindustrialisation theories appear wholly inappropriate from this perspective. This is particularly clear if one follows the changes in the percentage distribution in the bottom section of the table. The percentage for the intermediate sector has decreased only slightly in 26 years. On the other hand, it can be seen that the divergence between

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INVESTITIONSBEDINGUNGEN IN DER ASEAN-REGION (CONDITIONS FOR INVESTMENT IN THE ASEAN REGION)

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Table 3
Employment in the USA, 1959-85
 -- Production-oriented and consumption-oriented sectors --

Sectors	Employment in thousands ¹				
	1959	1969	1979	1984	1985
I. Agriculture	5,604	3,641	3,401	3,378	3,253
II. Non-agricultural sector					
of which:					
A. PUBLIC SECTOR ²	8,083	12,195	15,947	16,023	16,415
B. PRODUCTION-ORIENTED SECTOR					
– Mining	758	635	980	991	950
– Construction	3,858	4,330	5,670	5,655	6,029
– Manufacturing	17,015	20,457	21,399	19,760	19,692
– Transport, communications, electricity, gas, water	4,243	4,642	5,424	5,486	5,560
– Wholesale trade	3,378	4,158	5,500	5,901	6,064
– Banking, insurance, real estate	2,900	3,798	5,444	6,254	6,528
– Business services ³	1,459	2,503	5,292	7,291	7,830
Sum of B	33,611	40,523	49,709	51,338	52,653
C. CONSUMPTION-ORIENTED SECTOR					
– Retail trade	7,996	9,593	11,908	12,557	12,923
– Food and drink outlets	1,962	2,772	4,857	5,717	6,023
– Personal services ⁴	2,146	2,642	4,011	4,499	4,714
– Private household services	2,279	1,858	1,326	1,242	1,255
– Social services ⁵	6,045	8,216	10,192	11,972	12,391
Sum of C	20,428	25,081	32,294	35,987	37,306
TOTAL	67,726	81,440	101,351	106,726	109,627
Ratio of B : C	1.65	1.62	1.54	1.43	1.41

Sectors	Percentage distribution				
	1959	1969	1979	1984	1985
I	8.3	4.5	3.4	3.2	3.0
II A	11.9	15.0	15.7	15.0	15.0
B	49.6	49.7	49.0	48.1	48.0
C	30.2	30.8	31.9	33.7	34.0
	100.0	100.0	100.0	100.0	100.0

¹ Wage earners, self-employed and unpaid family workers.

² Excluding the armed forces.

³ Business services, advertising, professional services.

⁴ E.g. hotels, restaurants, repair services, entertainment and leisure services.

⁵ E.g. educational facilities, health and medical services, social agencies.

Sources: Data from the Output and Employment Data Base of the Bureau of Labor Statistics, Washington, April 1987; own calculations.

the production-oriented and consumption-oriented sectors accelerated after 1979.

Rejection of a sweeping term is not to be equated with denying the existence of problems in manufacturing industry, however. The BLS diagnosis of satisfactory growth at the macroeconomic level and a decline only in certain industries can also be expressed the other way around, namely that it is only the good performance of one group of industries (e.g. chemicals, paper and pharmaceuticals) that has made up for the severe losses of others, such as steel, automobiles, machine tools and memory chips. Moreover, "it is misleading to conclude that, since there is no rapid 'deindustrialisation', the path along which American manufacturing is evolving is healthy or secure".⁸ If one looks beyond just employment and output, there are many signs that the Americans are uncompetitive. Cohen and Zysman see evidence of the precarious situation of the USA in a wide range of indicators: unprecedented trade deficits in manufactured goods, a shrinking share of world export markets, lower productivity gains, dwindling profit margins, falling real wages, growing import price elasticity and high-tech industries that are falling behind. Besides, not all problem areas can be made visible with the help of statistical indicators. "Once American firms dominated world markets; now they must adjust to them."⁹

One aspect that is very unfavourable from the point of view of the United States is the strong propensity to import, or the success of foreign firms. The soaring dollar exchange rate in the recent past undoubtedly lent impetus to this development and foreign suppliers used the opportunity to consolidate and strengthen their position in the US market. Established products and efficient marketing systems are strongholds that even a lower dollar exchange rate cannot break that easily. Many Americans have come to appreciate foreign products on grounds of price, product range and above all quality. It cannot be very encouraging for American industry to know that the average American thinks of his own country last when it comes to ranking high quality products. Recent efforts to remedy the situation are having some success as regards quality (in automobiles, for example), and competitiveness has improved after drastic cost cutting and consolidation (in

⁷ See U.S. Department of Commerce, Bureau of Economic Analysis: The Detailed Input-Output Structure of the U.S. Economy, 1977, Vol. 1, 1984, and the article with the same title in: Survey of Current Business, May 1984. More recent data are not yet available.

⁸ S. S. Cohen, J. Zysman: Can America Compete?, in: Challenge, May/June 1986, p. 59.

⁹ Ibid., p. 59.

the household appliances and chemical industries, for example), but after years of neglect and underinvestment the rejuvenation of US manufacturing industry will be a long and arduous process.

Polarisation of Incomes?

Remuneration as a reflection of job quality has been a controversial issue in the United States for several years,¹⁰ particularly as regards the link between the expansion in employment and the behaviour of real and family incomes. After Bob Kuttner's article "The Declining Middle"¹¹ appeared in 1983, the debate came to a head over the question whether the so-called middle class was suffering as a result of the development of the service society, in other words whether the proportion of middle-income earners was slowly but steadily declining. Those who believe the middle class is declining point out that structural change

is destroying many of the middle-income jobs in the industrial sector,¹² especially in the traditional smokestack industries, and in their place is generating many lowly paid jobs in the tertiary sector. If one also bears in mind that the rapid growth in high-tech industry created many highly paid jobs and that demographic factors ("baby boomers" reaching working age and rising female participation rates) are simultaneously exerting pressure at the other end of the wage scale, one has several arguments that support the thesis of a shrinking middle class.

Empirical research supports the thesis of income polarisation. For example, a study produced in December 1986 for the Joint Economic Committee of the United States Congress notes a dramatic percentage increase in poorly paid jobs,¹³ with 58% of all jobs created between 1979 and 1984 being "low wage jobs" (low wages being defined as 50% of the 1973 median, or about \$7,000 at 1984 values) compared with only 20% in the period from 1973 to 1979.

¹⁰ Strictly speaking, the question of good or bad jobs cannot be answered by focusing on remuneration. Less contentious indicators of job quality would also have to take account of factors such as job security and permanence, length and flexibility of working time and physical and psychological working conditions. However, it is not easy to arrive at an empirically well-founded portrayal of the quality attribute "remuneration" at macroeconomic level, so that a tolerably objective measurement of all relevant influences appears to be quite impossible.

¹¹ Cf. B. Kuttner: The Declining Middle, in: The Atlantic Monthly, July 1983, pp. 60-72.

¹² One theory only recently proposed by Thurow is that many middle-class jobs were eliminated in industries exposed to international competition. See L. Thurow: A Surge in Inequality, in: Scientific American, Vol. 256, No. 5, May 1987.

¹³ Cf. B. Bluestone, B. Harrison: The Great American Job Machine: The Proliferation of Low Wage Employment in the U.S. Economy, December 1986, pp. 1-50.

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Edward Böhm

WECHSELKURSPOLITIK IN DER PLANWIRTSCHAFT

– Möglichkeiten und Grenzen aus der Sicht ungarischer und polnischer Erfahrungen –

(EXCHANGE RATE POLICY IN PLANNED ECONOMIES

– Potentials and Limitations in the Light of the Hungarian and Polish Experiences –)

This study is concerned on the one hand with the conditions required of the economic system for exchange rates to be able to produce the effects desired of them, and on the other with the limits of exchange rate policy as long as the reforms in the direction of a socialist market economy remain half-hearted. The author attempts to explain the basic problem of exchange rates in reformed socialist systems in a way which is understandable to a broader public using the examples of the Polish and, in particular, Hungarian experiences with the introduction of exchange rates. (In German)

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The methods and results of this and other studies have not gone uncriticised, however.¹⁴ Janet Norwood, Commissioner of the Bureau of Labour Statistics, summarises the results of the Bureau's research by stating that income developments are less a long-term trend than a strongly cyclical pattern.¹⁵ According to N. H. Rosenthal, a researcher at the BLS, there is no evidence of a relative increase in poorly paid jobs and no question of a bipolarisation trend.¹⁶ Income distribution is affected not only by the processes described above but also by factors working in the opposite direction. For example, some industries with very low wage levels have lost jobs and most vacancies in the low-wage bracket are merely to fill existing posts.

All Rosenthal ultimately shows in his analysis is that between 1973 and 1982 there was little change in the ratios among three occupational earnings categories (top third, middle third and bottom third).¹⁷ However, whether the number of jobs in particular defined occupational groups has changed and whether and to what extent their shares of total wages and salaries vary over time – irrespective whether one divides the latter into thirds, fifths, or whatever – is not the only point of interest. Equally important is what has happened in individual occupations, or *within* the occupational earnings groups. According to the results of another BLS analysis, a “downward trend” can be discerned here, in other words at the end of the period under examination each group contained more lowly paid jobs than at the outset.¹⁸

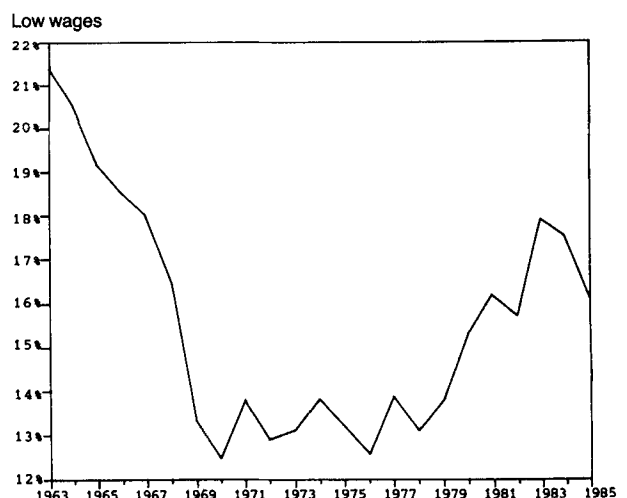
One shortcoming of some studies on income trends undoubtedly stemmed from the fact that they included

both full-time and part-time workers and also changes in unemployment. If voluntary and involuntary part-time working spreads or if unemployment increases during the period under examination, this method will result in more workers with a low annual income being counted, since temporary unemployment in a particular year depresses the annual income. Such studies therefore distort the results by overstating the increase in “bad” jobs or the decrease in “good” ones. Nevertheless, recent calculations confirm that an adverse trend can also be proven if the above shortcomings are avoided by using only figures on year-round full-time workers. As Figure 2 shows, the percentage of workers with low wage-incomes¹⁹ more or less stagnated between 1970 and 1978 but rose sharply thereafter. Although the upswing had been under way for two years by 1985, almost one in six full-time workers was still below the low-wage threshold in that year.

The “declining middle class” hypothesis is also reinforced if one looks only at the net full-time jobs created. Developments after 1978 in particular are clear evidence of the existence of a trend towards bipolarisation (see Figure 3). In comparison with the preceding period, the proportion of lowly paid jobs increased almost threefold to about one-third of all net new jobs. The percentage of newly created jobs paying high wages (high being understood here to mean twice the 1973 median, in other words \$45,000 or more at

Figure 2
Low-wage Employment

Percentage of workers with low annual wages (\$11,184 or less in 1986)
– year-round full-time workers –



Source: B. Bluestone, B. Harrison: *The Great American Jobs Machine Takes a U-turn*, manuscript of article for the Washington Post, 25th April 1987.

¹⁴ Two very emphatic examples are W. T. Brookes: *Low-Pay Jobs: The Big Lie*, in: *The Wall Street Journal*, 25th March 1987; and “Welcome to Economics Propaganda 101” (cf. R. J. Samuelson: *The American Job Machine*, in: *Newsweek*, 23rd February 1987).

¹⁵ Cf. J. Norwood: *The Job Machine Has Not Broken Down*, in: *The New York Times*, 22nd February 1987.

¹⁶ Cf. N. H. Rosenthal: *The shrinking middle class: myth or reality?* in: *Monthly Labor Review*, No. 3, 1985, pp. 3-10.

¹⁷ *Ibid.*, pp. 4-5.

¹⁸ Cf. P. J. McMahon, J. H. Tschetter: *The declining middle class: a further analysis*, in: *Monthly Labor Review*, No. 9, 1986, pp. 22-27. The authors have tried to reconcile the contradictory results of Rosenthal's work and a study by the Brookings Institution. R. Z. Lawrence (Sectoral Shifts and the Size of the Middle Class, in: *The Brookings Review*, Autumn 1984, Vol. 3, No. 1, pp. 3-11) had divided full-time workers, not occupations, into earnings classes and found a clear bipolarisation trend for the period from 1969 to 1983, which he attributed to demographic factors, a change in the age distribution as a result of the baby boom. At the beginning of the same year, on the other hand, L. Thurow wrote in the *New York Times* (5th February 1984, Section 3, p. 3) “It's Not Just Demographics. The Disappearance of the Middle Class.”

¹⁹ Low wages are defined here as the annual wage of full-time workers earning less than 50% of the median in 1973, the year with the highest post-war average real wages; after adjustment for inflation, this corresponds to an annual wage of \$11,184 in 1986.

1986 prices) also soared, whereas the proportion of middle-income jobs shrank by almost 27 percentage points to only 57.3%.

Greater Inequality

If one collates the findings of the relevant literature, it cannot be denied that income distribution in the United States has become less even, that the middle class has been squeezed and that the proportion of low-wage jobs has increased. The latter development is probably due more to sectoral shifts and changes in the age structure of the labour force than to increased female participation, an expansion in part-time working or a change in the occupational structure.

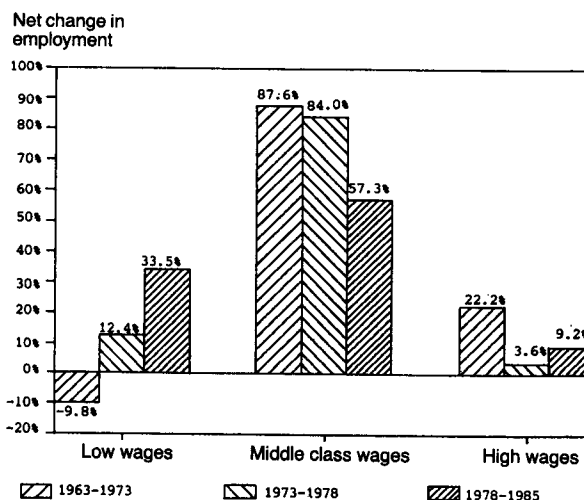
Obviously, all the results of income analyses depend strongly on the choice of data and definitions. For example, how does one define "middle class" and what are low and high incomes? Which deflator is used to convert to a constant dollar basis?²⁰ Are hourly, monthly or annual earnings used? Are only net new jobs included or all jobs? What is to be the period under examination? The more recent the data, the less serious the decline in the middle class appears, since in latter years (from 1983 onwards) the effects of the rapid inflation in 1979-80 and the recession in 1981-82 have been at least partly offset. To that extent the increase in the proportion of lowly-paid jobs or the contraction in the relative size of the middle class are undoubtedly strongly affected by cyclical factors. To attribute the change entirely or primarily to long-term structural demand determinants (the Bluestone/Harrison proposition) or even to supply determinants (demographic changes, as R. Z. Lawrence contends) is not convincing.

If wage and salary developments are compared directly with the increase in employment, the impressive number of new jobs in the tertiary sector and the

accompanying shift from goods-producing to service-producing industries undoubtedly have a depressing effect on incomes. In the highly diverse service sector the wage spread is wide but the average annual earnings of full-time employees are lower than in manufacturing industry or in the non-agricultural sector as a whole.²¹ Furthermore, the proportion of employees in the middle-income group is lower in services than in the non-farm and manufacturing sectors (and more so for men than for women) and the lowest income group is much more strongly represented in services than in other sectors.²² On the other hand, this shift is obviously not the only determinant affecting income distribution; there are also factors that counteract the development of a two-tier society, such as the elimination of poorly paid jobs.

Another interesting question is whether changes in family incomes support the "vanishing middle class" thesis. After 1973, not only did the real median family income fall but income distribution also became less even. The decline in the standard of living of traditional families (man and wife) would have been far more pronounced had not so many wives become second income-earners and thus prevented the family sliding out of the middle class.²³ The decline in real incomes applies to families of all sizes, so that it cannot be argued that the fall was due to a reduction in the average family size (large families usually have higher incomes than small ones). Demographic phenomena, such as changes in family size or structure or in the age of family members (in other words, developments such as the

Figure 3
Net Employment Changes
— year-round full-time workers —



Source: See Figure 2.

²⁰ The consumer price index (CPI) is usually used to eliminate inflationary effects. However, it is sometimes argued that the CPI exaggerates past inflation rates and makes real incomes appear too low, thereby overestimating the number of low-income earners. Indeed, using the personal consumption expenditure index (CPE) tends to reduce the size of the low income categories and increase that of higher income brackets. The CPE is not without its critics, however, and its use in Figure 2, for example, would merely flatten the curve slightly towards the end, so that in this case it would not have any significant effect on the outcome.

²¹ This continues to be true if one includes the self-employed, a high-wage group in the service-producing sector. Cf. L. E. Browne: Taking in Each Other's Laundry — The Service Economy, in: *New England Economic Review*, Nos. 7-8, 1986, pp. 20-31 (here Table 1, data for 1984).

²² *Ibid.*, Table 4, p. 25.

²³ Cf. K. L. Bradbury: The Shrinking Middle Class, in: *New England Economic Review*, Nos. 9-10, 1986, pp. 41-55.

entry of "baby boomers" to the labour market or the increase in the number of one-parent families), are not the decisive factors: "This study eliminates demographic change from the list of major causes of the decline of the middle class."²⁴

Falling Standard of Living

The changes affecting the middle class are not the only meaningful measure of the degree of social equality or inequality. Equally telling indicators are the "official" poverty rate and poverty threshold defined by the US Department of Commerce, even though the statistics cannot reflect the full extent of the poverty problem in the USA. The steady rise in employment in the United States has not prevented poverty rising steeply again since 1973 after receding in the sixties and early seventies.

A household is considered poor if its net income (from all sources and from all members of the household) is lower than three times the minimum annual amount it must spend on food. In 1985 the poverty line for a 4-member family was \$10,609. Since 1973 the overall poverty rate has risen from 11 to 14% of the population. One in seven US citizens (33.1 million in 1985) lives below the poverty line. According to the Economic Report of the President, the number of families classified as poor rose by 36% between 1970 and 1985. More than one-third of all net additional full-time jobs created between 1978 and 1985 offer an annual wage below the poverty threshold for a 4-person family (see Figure 3).

Overall, the standard of living of many Americans has fallen. The real wages of non-supervisory workers, who make up around four-fifths of the labour force, have declined from the 1972 peak. In parallel with the decline or stagnation in real wages and salaries, the number of persons living in poverty rose. At present 3.5 million workers receive the national minimum hourly wage of \$3.35 and 1.6 million earn even less than this.²⁵ If one also includes persons who are paid not on an hourly but on a daily or monthly basis, the total comes to an estimated 11 million persons working for the minimum

wage. The Federal minimum wage was last raised in January 1981, since when prices have risen by more than 20%. The purchasing power of the minimum wage is now back at the level recorded in the mid-fifties.

Ethnic minorities have suffered most from the adverse repercussions of economic events (economic crises, rationalisation, the decline of heavy industry and the transfer of factories). Changes in family incomes show unequivocally that income disparity has increased. The gulf between high-income and low-income families with children has steadily widened.²⁶ Poor families and the increasing number of one-parent "female-headed" households (already accounting for 16% of all households) have suffered the most lasting effects of the change in circumstances. To put it bluntly, the haves are growing richer and the have-nots are growing poorer. According to data from the Census Bureau, the poorest 20% of households received 4.1% of total incomes in 1980, compared with 44.2% for the top 20%; in 1986 the figure was down to 3.8%, against 46.1% for high-income households. In many families two persons now have to work to maintain the standard of living that was previously possible with one worker per household.

A Productivity Disaster

Macroeconomic labour productivity is a good indicator of the growth and efficiency of the economy, which ultimately determine the standard of living. Productivity has become the most serious problem in the United States. The emphasis here is on macroeconomic, for it has already been stated above that productivity growth in manufacturing has been considerable, particularly in recent years.²⁷ Productivity in the non-manufacturing sector, on the other hand, "has gone absolutely nowhere", as a business magazine put it. Table 4 shows rates of growth in hourly productivity in four sectors for the periods between the quarters identified by the National Bureau of Economic Research as those in which the business cycle peaked. This comparison shows first of all the general slowdown in productivity growth, but it also demonstrates the particular problems of the sector remaining after deducting manufacturing industry and agriculture. In broad terms, productivity has stagnated in this field since 1973.

However, it should not be concluded from the poor productivity of the non-manufacturing sector that all service industries exhibit low productivity growth. The tertiary sector is very diverse and includes both high and low-productivity branches in exactly the same way as manufacturing. In the last ten years high-productivity

²⁴ Ibid., p. 53.

²⁵ Cf. E. F. Mellor: Workers at the minimum wage or less: who they are and the jobs they hold, in: *Monthly Labor Review*, No. 7, 1987, pp. 34-38.

²⁶ Cf. S. Danziger, P. Gottschalk: Families with Children Have Fared Worst, in: *Challenge*, Nos. 3-4, 1986, pp. 40-47.

²⁷ According to data from the Bureau of Labor Statistics, in 1986 the productivity gain in manufacturing industry was higher in the USA than in 9 other major industrial nations. This was the first time the USA had led the field in the 37 years in which such comparisons have been made.

branches have included railway transport, air transport, communications and various types of store. Low-productivity areas include electricity and gas supply (which are classified as tertiary industries in the USA), food retailers, food and drink outlets, hotels/motels and laundry and cleaning services. All of the industries in the latter group actually recorded negative rates of productivity change during the period in question.

The productivity picture can therefore be summarised as follows: no great difference in productivity growth between goods and "non-goods" sectors from the end of the forties to the end of the sixties; a drifting apart from the end of the sixties to the beginning of the eighties; divergence since 1981, with productivity gains in the goods-producing sector and stagnation in services. All in all, the services sector is therefore an obstacle to macroeconomic productivity gains.

The productivity slowdown has been discussed at length in the USA and blamed on a host of factors, such as the slow rise in real wages, the lack of qualifications among workers, the fall in expenditure on research and development, a web of red tape, strict environmental and energy-saving requirements, the lack of international competition, non-economic factors such as a decline in worker morale and the expansion in the service sector in general. Lester Thurow argues that the United States does not have a general productivity problem but a highly specific one, namely an "office productivity problem": the factories are efficient but the offices are not.²⁸

Table 4
Growth in Hourly Productivity between
Cyclical Peaks (quarters)
(Compound annual rates of change)

Period	Sectors			
	Private sector	Non-agricultural private sector	Manufacturing industry	Non-agricultural private sector excluding manufacturing
1948-53	4.1	3.1	3.4	3.2
1953-57	2.0	1.6	2.0	1.3
1957-60	2.9	2.3	1.1	2.7
1960-69	2.8	2.4	2.8	2.3
1969-73	2.1	1.9	3.6	1.1
1973-80	0.6	0.5	1.4	0.1
1980-81	1.2	0.8	2.1	0.2
1981-86 ^a	1.0	1.0	3.6	0.0

^a 1981/III to 1986/IV.

Source: Bureau of Labor Statistics.

The hypothesis of low-productivity white collar workers – in other words the tendency for overheads to be heavier in the case of office staff – and high-productivity blue collar workers is quite plausible in view of the developments in the secondary and tertiary sectors described above. In the final analysis, however, it can be asserted that the productivity slowdown is still a mystery and that at best only 60% can be explained.²⁹

Summary and Assessment

If one takes a critical look at the performance of the economy as a whole rather than confining oneself to employment figures, one is bound to qualify the "success" achieved in the United States. Admittedly, notable results have been obtained in creating jobs, unemployment has come down appreciably and the integration of workers has succeeded to a remarkable degree. The US economy coped with the bulge in the labour force as the generation born in the post-war baby boom reached working age and as women streamed into the labour market.

The other side of the coin is that the United States has lived beyond its means for years and has not managed significantly to raise the standard of living of the population as a whole despite the substantial increase in the input of labour. The "employment miracle" has been accompanied by greater inequality, a shrinking of the middle class, greater poverty and a productivity disaster. There is probably no economic problem more acute for the USA than that of slow productivity growth, for here lies one of the main reasons for the country's lack of competitiveness. International competitiveness is essential if the record current account deficit is to be reduced, and future income levels and the future standard of living depend directly on productivity trends.

The main tasks facing the USA are clear: to reduce the budget and trade deficits, build up a more competitive domestic industrial sector and raise productivity, particularly in the steadily growing service sector. To achieve these goals, greater attention will also undoubtedly have to be paid to the labour factor. Without a training campaign to raise the standard of qualification of the broad mass of the working population it will probably be difficult in the long run to implement the last two tasks.

²⁸ Cf. L. Thurow: Economic Paradigms and Slow American Productivity Growth, discussion paper, March 1987.

²⁹ "The sources of productivity growth are elusive; its decline in the 1970s remains a mystery to the leading students of the subject." Cf. J. Tobin: High Time to Restore the Employment Act of 1946, in: Challenge, Nos. 5-6, 1986, p. 7.