

# **Workers and Employment Relations in RECESSION and Recovery**

1. UK in Global Perspective
2. Economics of Big Recession/weak recovery
3. Costs to People (not business write-offs)
4. Ways forward?

Richard B. Freeman Harvard, NBER,  
LSE Centre for Economic Performance

Nov 25 , 2013

# 1. Employment Relations: Unions and CB in decline in Advanced Countries

UK – density down, cb down, issues discussed limited; private sector minimal effect on outcomes government weakens unions further; political role in question

Density down in most advanced countries; sectoral bargaining diminishes; influence down everywhere;

US unions seek to widen membership beyond collective bargaining. Working America and other organizations. But nonunion workers interest and public approval in unions falls in recession.

- **Non-EU advanced OECD** countries – Canada, Japan density fall 4 to 8 pts; Australia, NZ fall 21 to 27 pts
  - John Howard's anti-union “Work Choices” loses election despite full employment but no union recovery afterwards
- **EU advanced** countries – Mandatory extension keeps CB high but density falls, 1990-2010 (K. Schnable 2012):
  - Scandinavia, -3-13 pts; Germany, -13 pts; Greece, -10 pts  
UK, -12 pt; Italy – 4pt; France, -3 pt; Austria, -19 pts,...
- **Some developing** countries, particularly China, see expansion/growth of union role

Other labor institutions stable: works councils, profit-sharing, employee ownership (but shares fall in UK WERS), teamwork, EI

# Attack on Unions Spreads

US attack on public sector → right to work laws; restriction of public sector CB; Supreme Court considering neutrality agreements; determination of employer of care workers.

EU troika demand cuts in government spending and public sector and limit sectoral bargaining in Portugal, Romania, Greece, for loans; similar intent of IMF in Spain.

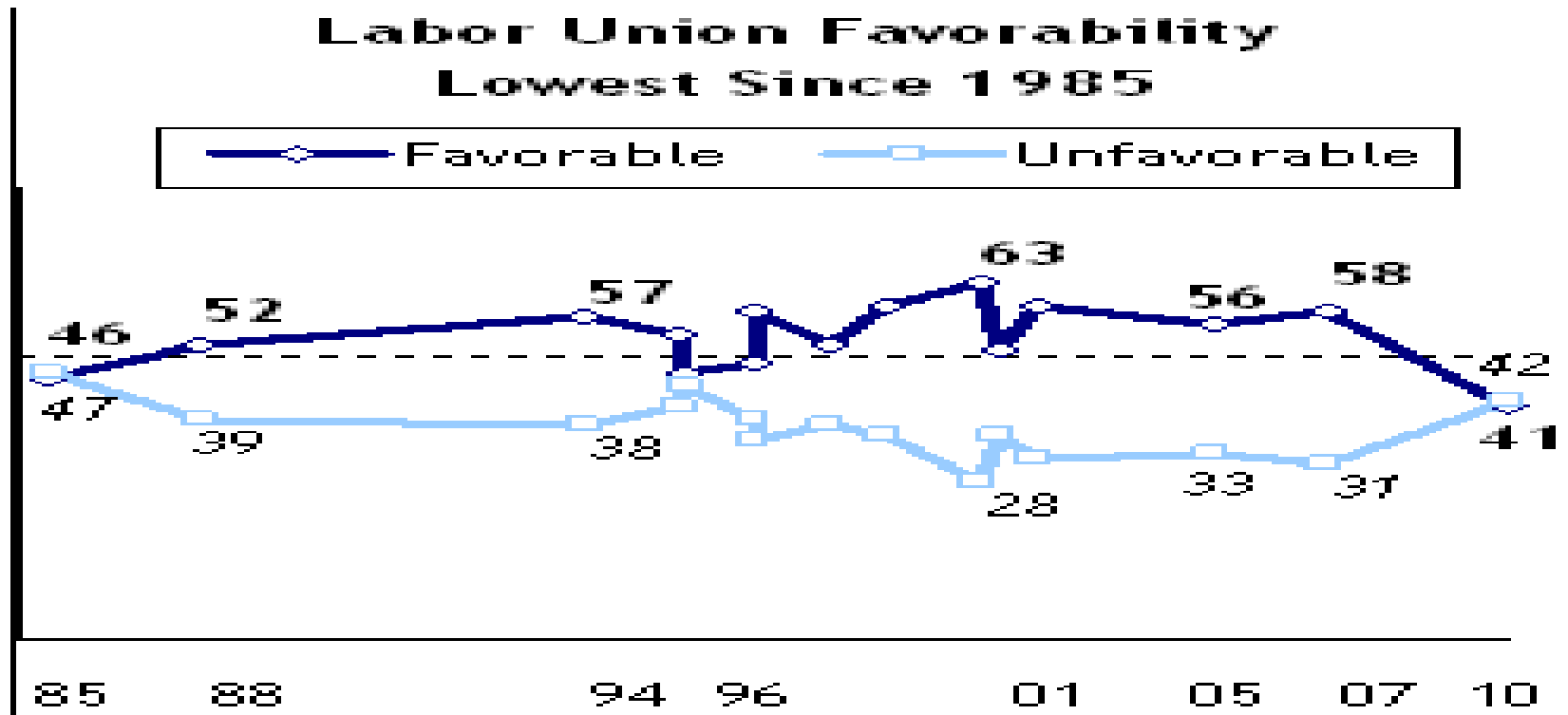
The result: Declines in coverage in Portugal, Romania, Greece. Works councils allowed to undercut sectoral agreements.

Australia: Anti-union government will be smarter in seeking to weaken unions than Howard's Work Choices.

UK looks to face milder anti-union opposition (bcs negligible in private strength and reduced strength in public sector?)

# Attitudes toward firm improve in UK WERS; Worker Protest Over Recession only in Crisis Countries

• US Gallup Poll



- Big difference between Great Depression, which produced spurts in unions in advanced countries and Great Recession: size of job loss? Absence of socialist/communist alternative? Greater wealth?

## 2. Economics of Recession and weak recovery

Down cycle exaggerates trend? Long period of stagnation → accept “new economic order”

- Globalization and technology seen as exogenous factors in advanced country performance?
- High joblessness seen as “Natural rate of unemployment”?
- Poor wage growth as “new economic order” ?
- Different from response to Great Depression

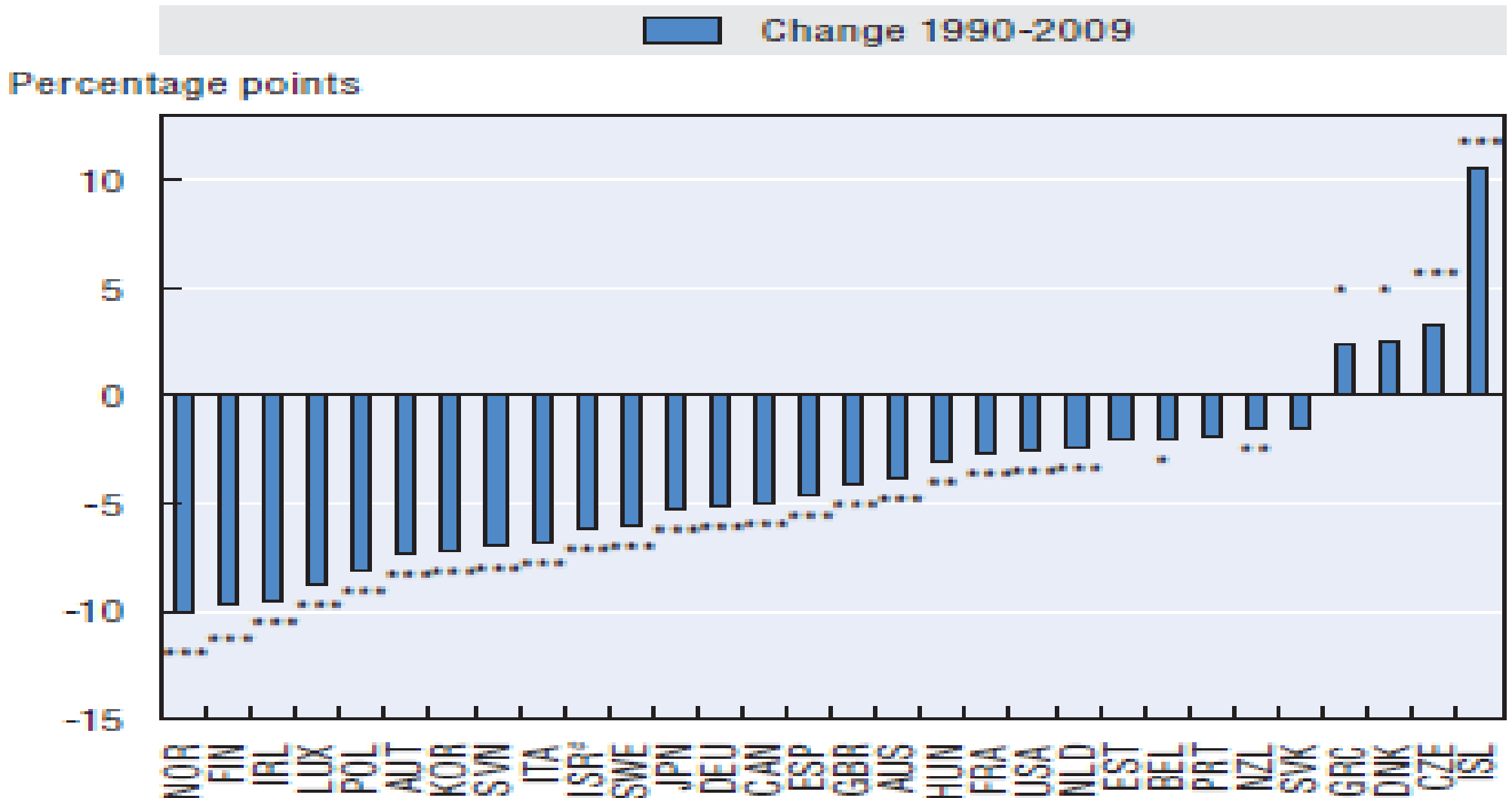
Explanation? Alternativos.

What People Compare to

US One if by land two if by sea,  
The British Robots are coming”  
Rising concern over computerisation of jobs.



# Labor's share down –Capital share is up



2009 US: 400 highest AGI taxpayers obtain 3.2% of taxable interest; 16% of capital gains (earlier 10%)

<http://www.irs.gov/pub/irs-soi/09intop400.pdf>



# Real wages stagnant or down, 2007-2012

- Magnitude depends on deflator; bigger with CPI than with GDP Deflator in US)
- UK - 1.0% 2<sup>nd</sup> biggest drop (Greece had biggest)
- US 0.1%
- OECD average 0.3%
- Inequality increases among workers as well as in capital and labor
- Labor earnings at the top takes form of compensation by stock options, stock grants

# Curious Performance of Anglo-American Flexibility

- US flexibility fails to create much jobs recovery but real wages do not fall much while GDP grows. Sizable increase in productivity, most marked in mfg. US employment-population seems to have taken relatively permanent 5 point hit.
- UK flexibility sees wages plummet and GDP remains below 2007, but employment does reasonably well so productivity declines. No employment-population drop.

# Changes in Employment-Population Rates

Men, 15-64				
	2000	2007	2012	Change
OECD	76.1	75.9	73.2	-2.9
US	80.6	77.8	72.3	-8.3
UK	78.9	78.6	76.1	-2.7
Women, 15-64				
OECD	55	57.2	57.2	2.2
US	67.8	65	62.2	-5.6
UK	65.6	66.3	65.7	0.1

## Prime Age, 25-54 male

OECD	88.2	85	85.1	-3.1
US	89	81.4	82.5	-6.5
UK	87.4	85.8	86.4	-1

## Prime Age, 25-54 female

OECD	63.7	66.3	66.3	2.6
US	74.2	72.5	69.2	-5
UK	73.1	74.6	74.3	1.2

## Employment-Population, 25-64 in 2011

	OECD	UK	US	UK-US
< upper secondary	55.5	55.9	51.1	4.8
Upper secondary	73.8	78.2	67.1	11.2
Tertiary	83	83.2	80	3.2

# It ain't over till it's over when the fat lady sings

- Fragile state – one negative shock and we are back in great recession.

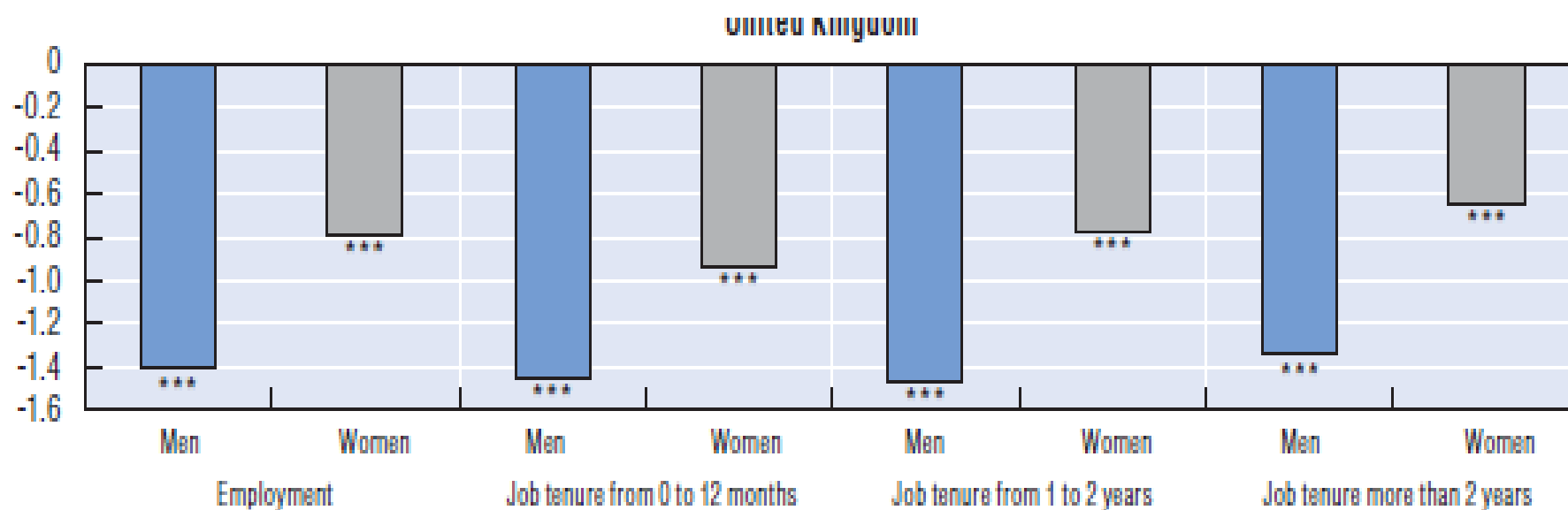
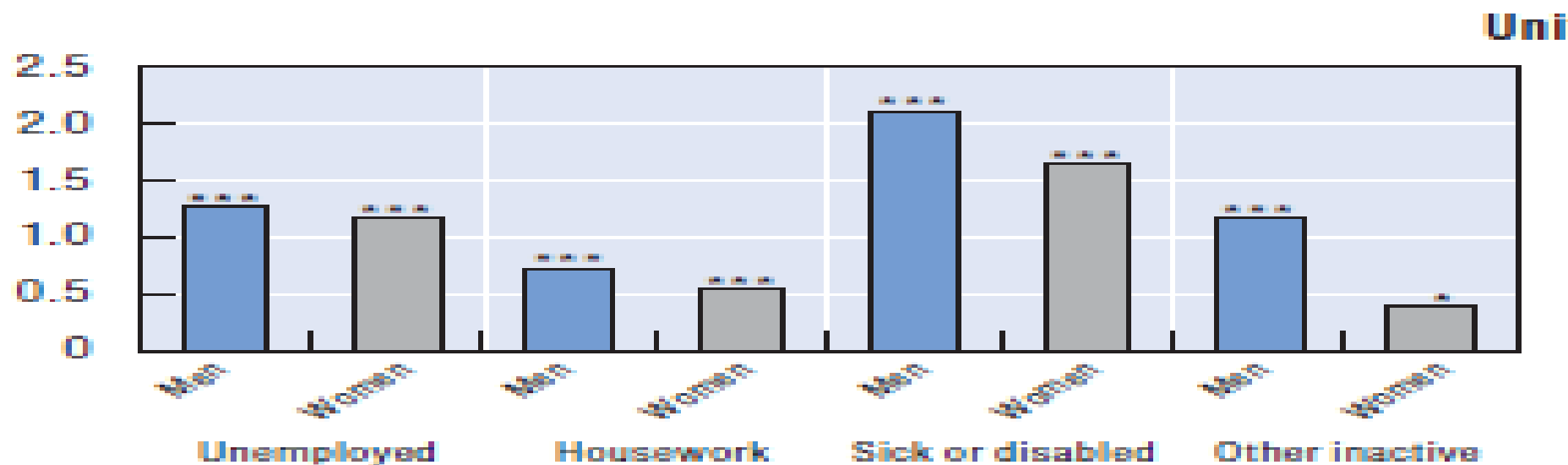


- Labor will be blamed and war on unions/ institutions will intensify

# 3. Costs to People

## Joblessness affects Mental health

(OECD, Employment Outlook, 2008, chapter 4, panel study)



# Real Costs of joblessness: High seniority men have 50%-100% greater mortality after displacement compared to comparable non-displaced (Sullivan and Von Wachter, QJE:2009)

Table 5: Impact of Job Displacement on Life Expectancy by Age at Separation and Job Tenure

Sample	Displacement Interactions Included	Age at Separation	Life Expectancy given not Displaced	Life Expectancy given Displaced	Lost Years of Life due to Displacement
(1) Stable job 1974-79 No restrictions on earnings 1980-86; 1920-59 birth years Tenure in 1979 At Least 6 Years	Years since displacement	30	76.45	74.85	-1.59
	categories;	35	76.56	74.99	-1.56
	Current age categories;	40	76.73	75.22	-1.51
	Displaced age GE 60;	45	76.99	75.58	-1.41
	Nonmanufacturing	50	77.37	76.01	-1.36
		55	77.92	76.64	-1.29
(2) Stable job 1974-79 No restrictions on earnings 1980-86; 1920-59 birth years; Tenure in 1979 At Least 3 Years	Years since displacement	30	76.56	74.97	-1.59
	categories;	35	76.67	75.10	-1.57
	Current age categories;	40	76.85	75.29	-1.56
	Displaced age GE 60;	45	77.11	75.58	-1.53
	Nonmanufacturing	50	77.49	76.00	-1.50
		55	78.05	76.62	-1.43



# Lifetime Income and Behavior

- Estimates for US show young persons graduating in recession, particularly college graduates, suffer lifetime income losses.
- Great Depression generation never recovered
- What is the UK story for wage reductions during recession and with job insecurity?
- What are effects on future economic behavior?  
More risk averse? More conservative or radical?

# 4. What is way forward?

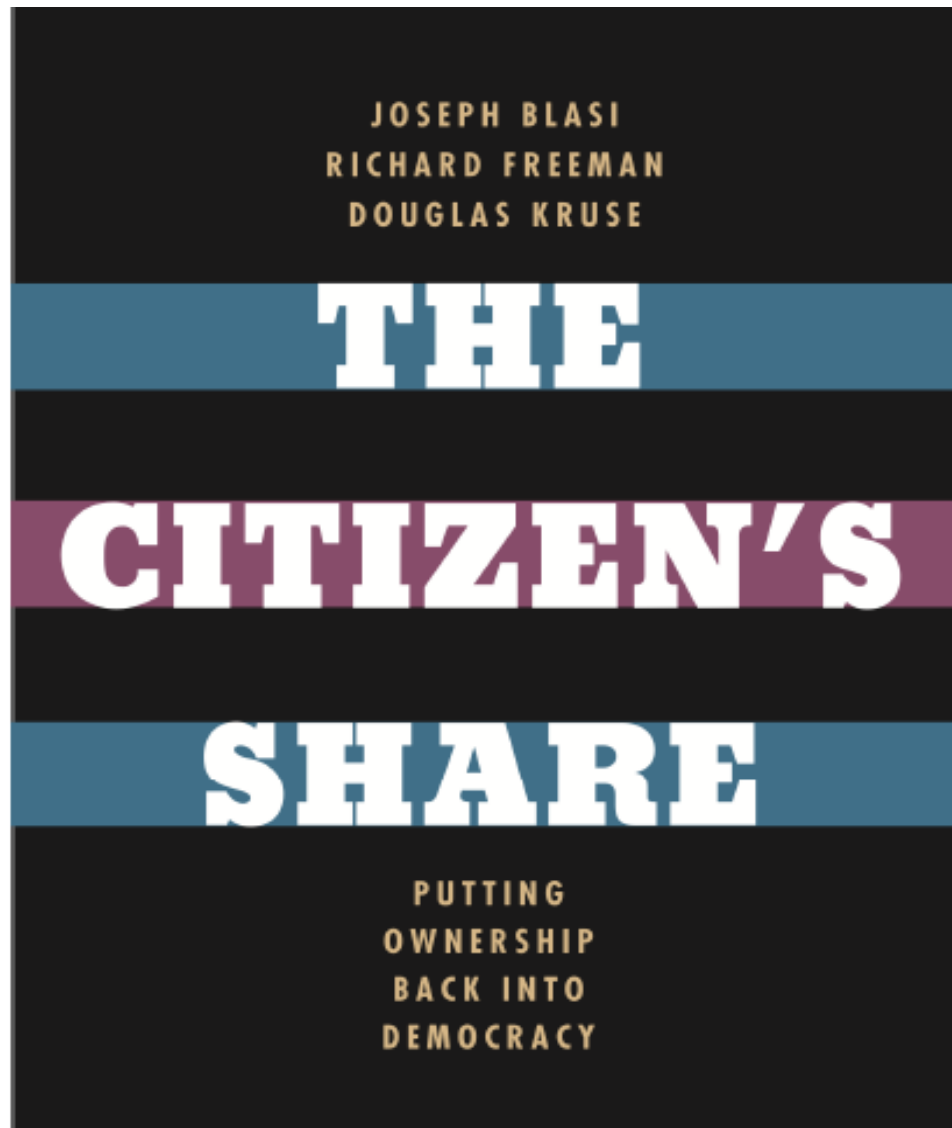
- Best prognostications if we muddle along on current path toward a decade or two of stagnation
- Acceptance of new economic order – economic feudalism.
- But Income inequality--> political inequality → crony capitalism → income inequality → financial instability → ?????

# A Radical View from New World

The American founders view (Madison)

- “one of two things cannot fail to happen: either they (those without property) ... will become dupes and instruments of ambition, or their poverty and dependence will render them mercenary instruments of wealth. In either case liberty will be subverted: in the first by a despotism growing out of anarchy; in the second by an oligarchy founded on corruption” (1788).

# The solution citizen's have greater share of business capital



Equity has two meanings:

Fairness – equitable solutions to problems; equitable division of the rewards of production

Ownership – equity in one's company and ownership of the fruits of one's own labor.

# US wage cuts for future profit shares

Govt bailout of US auto industry, Chapter 11 bankruptcy and union cost concessions saves sector, so that recovers pre-2007 sales. Workers get huge bonuses:

**Detroit Worker Bonuses Approach Records on Rising Profits** (Bloomberg, Feb 2013). Ford's \$8,300 Chrysler \$2,250. GM expected to exceed \$7,325. For new Ford hires, paid about half what senior workers make, \$8,300 adds 23 percent to annual of \$36,000 compensation.

What has happened to UK workers with pay cuts/freezes? Share pay fell but profit-sharing did not. What was contribution of profit-sharing to loss of worker income during recession? Any sign of recovery in recovery.

# Future Possibilities for Our Countries Play the Bookie Game

UK US

Left governments will reverse course

Spurt in unionism will restore CB

Social media/occupiers will force change

Dr. Who leaves BBC after 50 yrs to save us

Economic Feudalism with Billionaire Overlords

Second Great Recession

Societies to expand capital ownership