DG Employment, Social Affairs and Inclusion:

"Comparative overview analysis of the ways in which the restructuring phenomenon is dealt with worldwide"

Anticipation and Management of Restructuring in the United States of America

by

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October 2011

Preface

This paper discusses how restructuring at the industry and organizational levels is managed in the United States of America (US), both from an economic and social point of view. Restructuring, in the context of this paper, can take many forms, including divestments and closure of plants, financial reorganization, and adjustments to the workforce. This paper focuses mostly on the latter, as it promises best to reveal the interplay of economic and social aspects. Several forms of workforce adjustments can be distinguished: First, firms may change the composition of its workforce, without altering total employment. Second, restructuring may occur on the industry level, when some firms lay workers off, but others hire them, leaving total employment in the industry unchanged. Third, layoffs at the firm or industry level may be permanent and uncompensated by other firms in the industry. At the firm level, this case is referred to as downsizing, at the industry level as industrial change.

The structure of the paper follows the guideline documents provided by Wilke, Maack & Partner. The first section is concerned with the political, economic, and labor market framework of the US. In the second section, the country's industrial relations system and the role of various stakeholders in the restructuring process are addressed. This section also includes two case studies of restructuring at the firm level. Finally, the third section offers a summary and draws conclusions.

The paper is based on library research conducted by the author and mainly draws on academic books and journals as well as working papers from major experts. One problem discovered during the research is the lack of literature on "socially responsible restructuring" in the US, possibly pointing to a different understanding of the issues in the restructuring process.

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1. Political, Economic, and Labor Market Context and Frameworks

1.1. Basic Economic and Labor Market Data

1.1.1. Political Organization

Federalism is a key principle of the US political system. Compared to most European countries, which feature unitary systems, the US central government is considerably weaker vis-a-vis the state governments. While the late 1990s saw the rise of a devolution movement, i.e. the transfer of power from the federal government to the states, the overall trajectory has been towards strengthening the federal level (R. S. Katz, 2007; Wilson & DiIulio, 1998). The division of responsibilities is described by Wilson and DiIulio (1998, p. 53): "highways and some welfare programs are largely state functions (though they make use of federal money), while education, policing, and land-use controls are primarily local (city, council, or special district) functions." The constitution sets some parameters on the division of power between the federal government and the states, reserving macro-economic and foreign policy, as well as military for the federal government. In cases where the constitution does not clearly define whether a subject falls in the purview of the federal or the state government, the Tenth Amendment reserves power to the states or the people (Wilson & DiIulio, 1998).

An important concept of the American political system are "checks and balances." This refers to the separation of powers between the three branches of government (Congress, President, Courts) and the mechanisms designed to allow each branch to check the powers of the others. For example, Congress can impeach the President; the President can veto a bill passed by Congress; and the Courts can declare laws or government actions unconstitutional (Wilson & DiIulio, 1998).

The legislative branch is the bicameral Congress, which is comprised of the House of Representatives and the Senate. Due to the different election cycles, House and Senate may be controlled by different parties, lessening the likelihood of one party being able to pass laws by itself. Wilson and DiIulio (1998) argue that one of the key differences between Congress and a parliament, such as in the UK, is the extent of party control over members of Congress or parliament. With primary elections and less party control in the congressional system, elections tend to focus more on the candidates than their party affiliation. Similarly, when voting on bills, members of Congress tend to be more independent from their party-line, as they are accountable to their constituencies. While party unity in the Congress has increased since the 1990s, "only about half of the roll-call votes in Congress qualify as 'party unity votes,' meaning that majorities of the two parties were on opposite sides of the issue" (R. S. Katz, 2007, p. 144).

The President is head of the government's executive branch as well as ceremonial head of state. Katz (2007) makes the case that the President may very well be the most powerful person in the world, but that this is not due to his constitutional powers, but his personal political skill. An important difference between the President and a prime minister as in the UK is that the former enjoys a fixed term of four years, limited to a maximum of two terms, while the latter's may be ended at any time through a vote of no confidence or dissolution of a coalition. The President's term can only end through death, resignation, or impeachment, giving him a more stable and powerful position than a prime minister (R. S. Katz, 2007).

The political power of the judiciary branch is significant, as it can declare a law unconstitutional. This process, called judicial review, was established through the US Supreme Court case Marbury v. Madison in 1803, and marked the first time that any court in the world invalidated a law. In total, “the American judiciary consists of 51 separate court systems, one federal and 50 independent state systems, administering 51 separate bodies of law” (R. S. Katz, 2007, p. 195).

Several regulatory bodies have important roles in the American economy, either on the macro-economic or business practice-level. Independent commissions make policy decisions that cannot be blocked by the President or other members of the executive branch. They are, however, subject to congressional oversight. Thus, the Federal Reserve system (“The Fed”) regulates its member banks and, most importantly, is responsible for the country’s monetary policy. The Fed can influence money supply by (1) setting reserve requirements and clearing balances, (2) setting discount rates and thus influencing interest rates, and (3) buying and selling US Treasury securities. An important difference between the Fed and, say, the European Central Bank is that “the Fed is not obliged by its statute to give primacy to controlling inflation, but rather it is expected to balance price stability, high levels of employment, and reasonable, long-term interest rates” (R. S. Katz, 2007, p. 185). Similarly, the Federal Trade Commission (FTC) is tasked with limiting anti-competitive practices, such as monopolistic firms and false advertising. The Securities and Exchange Commission (SEC) regulates stock exchanges and companies selling securities. Other regulatory bodies are part of cabinet departments. The Food and Drug Administration (FDA) has to approve pharmaceutical products before they are allowed to be sold in the US; the Occupational Safety and Health Administration (OSHA) makes workplace rules employers have to follow; the Environmental Protection Agency (EPA) regulates environmental pollution standards for factories.

1.1.2. Economic Background

The US economy is slightly smaller than all countries of the EU-27 combined, but slightly bigger than the EU-15. In 2009, measured in current prices and current PPPs, US GDP was $m 14,043,900, while EU-27 GDP was $m 15,642,733 and EU-15 GDP was $m 13,682,634 (OECD, 2011). However, on a per capita basis, the difference between the US and EU is significant. GDP per capita in the US was $39,578 in 2000 (59% higher than in the EU), $42,534 in 2005 (58% higher), and $41,761 in 2009 (53% higher) (World Bank, 2011a). With the exception of 2001, annual GDP growth rates during the first half of the 2000s were more robust in the US than the EU. In the economic recession of the late 2000s, the US economy started to decline earlier than the European economies, but the latest data for 2009 indicates that the recession was deeper in the EU (-4.2%) than in the US (-2.6%). Economic recovery appears to be on largely similar tracks in the US and EU. This contrasts to earlier, more cyclical recessions in the 1980s and 1990s, where the US economy’s downturns were earlier, deeper and of shorter duration than the EU’s (World Bank, 2011a).

Table 1: Ten Largest American Companies by Revenues, 2011

Rank	Company Name	Revenues ($m)
1	Wal-Mart Stores	421,849
2	Exxon Mobil	354,674
3	Chevron	196,337
4	ConocoPhillips	184,966
5	Fannie Mae	153,825
6	General Electric	151,628
7	Berkshire Hathaway	136,185
8	General Motors	135,592
9	Bank of America Corp.	134,194
10	Ford Motor	128,954

Source: CNNMoney, 2011: *Fortune 500*, http://money.cnn.com/magazines/fortune/fortune500/2011/ (accessed 8 July 2011).

Compared to the EU, the economic structure of the US is more heavily tilted towards services, with less emphasis on agriculture and manufacturing. Over the last decade, the US economy has shifted even more towards services, while manufacturing has declined and agriculture has remained stable. Agricultural value added has remained at 1.2% of GDP in 2000, 2005, and 2008. Services value added increased from 75.4% of GDP in 2000 to 76.6% in 2005 and 77.5% in 2008. Manufacturing value added declined from 16.7% of GDP in 2000, to 13.9% in 2005 and 13.4% in 2008 (World Bank, 2011a).

The ten largest American companies by revenues are split equally between manufacturing and services firms. Both groups also account for equal shares of the top ten firms' combined revenue. The largest firm by a wide margin is Wal-Mart, with revenues of $422 billion in 2010. The top ten firms by the number of employees are mainly services firms, particularly from the retail trade industry. Service firms account for 80% of the combined total employment of the top ten, while manufacturers account for the remaining 20% (CNNMoney, 2011). The US economy traditionally features a higher concentration of industries in centers of production compared to Europe. Examples for these industrial clusters are auto manufacturing in Detroit and the high-tech industry in "Silicon Valley" and along Route 128 around Boston. These industrial districts developed unhindered in the single market of the US, while trade barriers have come down only more recently in Europe (Krugman & Venables, 1993).

Table 2: Largest American Companies by Number of Employees, 2010

Rank	Company Name	Employees
1	Wal-Mart Stores	2,100,000
2	IBM	426,751
3	United Parcel Service	400,600
4	McDonald's	400,000
5	Target	355,000
6	Kroger	338,000
7	Hewlett-Packard	324,600
8	Sears Holding	312,000
9	PepsiCo	294,000
10	Bank of America Corp.	288,122

Source: CNNMoney, 2011: *Fortune 500 2011: Top Performers – Biggest Companies: Employees*, http://money.cnn.com/magazines/fortune/fortune500/2011/performers/companies/biggest/employees.html (accessed 8 July 2011).

Both the US and the EU experienced strong trade growth in the late 1990s and from the mid-2000s to 2008. In absolute numbers, the US and the EU account for equal shares of world trade. However, the US depends much less on trade than the EU. Between 2003 and 2008, the value of imports and exports of goods and services increased from 67.0% to 80.5% of GDP in the EU, and from 23.3% to 30.6% of GDP in the US (World Bank, 2011a). As Katz (2007, p. 26) writes, this means that "the US does not face the same imperative to be sensitive to the opinions of its trading partner." The increase in US trade in the last decade stems mostly from a rise in imports. Eighty percent of the growth is attributable to imports, which in turn consisted mainly of manufactured goods, with oil and services making a smaller element. Imports of manufactured goods have increased by over 100% between 1997 and 2007. While both finished and intermediate inputs have grown, the latter presents a more pronounced shift from domestic to foreign suppliers. About half of the new intermediate input imports are from developing countries (mainly China), intermediate economies make up a third, while the remainder is from developed countries (Houseman, Kurz, Lengermann, & Mandel, 2010). The import-heavy nature of US trade has led to a massive trade deficit that peaked at $759 billion in 2006. In 2009, the deficit had returned to early-2000s levels of $375 billion (World Bank, 2011a). Foreign Direct Investment net outflows, as a percentage of GDP, are much lower for the US than for the EU. While they tend to fluctuate significantly from year to year, net outflows in the last decade have not exceeded

3% of GDP for the US, while they have ranged between 3.4% and 9.1% of GDP for the EU. On average, net outflows amounted to 1.8% of GDP for the US and 5.4% for the EU over the last decade. Net inflows tell a very similar story, albeit at slightly lower levels. The ten-year average of net inflows is 1.5% of GDP for the US and 4.9% for the EU (World Bank, 2011a).

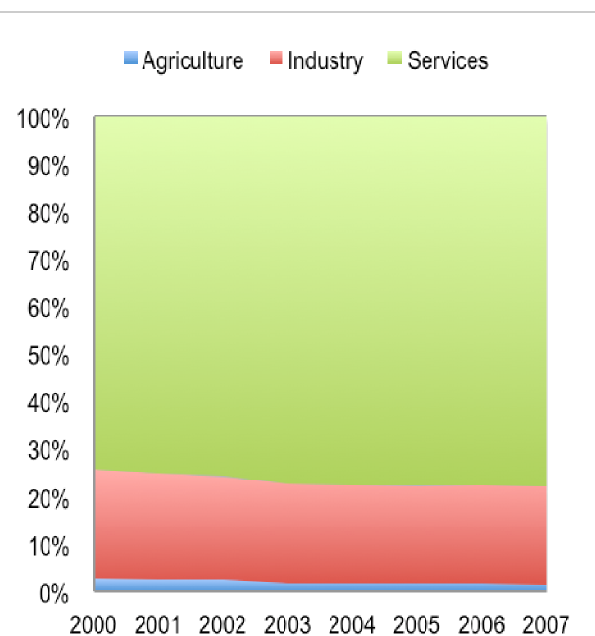
The role of the state in the economy is rather limited, with the US economy generally seen as one of the least regulated developed economies (R. S. Katz, 2007). The World Bank's 'Ease of Doing Business' Indicator ranks the US as the fifth most business-friendly country in the world, after Singapore, Hong Kong, New Zealand, and the UK (World Bank, 2011b). As we will see, the US economy is not only less regulated, the state is also less interventionist in terms of public spending.

In the US, government spending is around 30% of GDP compared to around 45% in continental Europe and 50% in Scandinavia (Alesina & Glaeser, 2004). American public sector spending is heavy on military, but light on welfare, compared to the EU. Indeed, lower welfare spending accounts for two-thirds of the US-European difference (Alesina & Glaeser, 2004; R. S. Katz, 2007). As we will also see below, economic development policy, particularly regarding manufacturing, is traditionally in the purview of state and local governments, with the federal government taking a supportive role of local and state efforts. For the entire US, state and local government spending on economic development amounts to $20 to $30 billion annually. The most popular economic development measure taken by local governments is tax incentives to attract businesses to the area (Bartik, 2003b). See chapter II.2.3 for a more detailed discussion of local economic development policy.

1.1.3. Labor Market Data

The overall orientation of the US labor market is different from continental European labor markets. Both the Fraser Index and the Harvard Labor and Work Life Program's Global Labor Survey (GLS) place the US at the market-oriented end of the spectrum, while countries such as Germany and Sweden are on the opposite, institutionally-oriented end (Freeman, Kruse, & Blasi, 2007). However, Freeman (2000) argues that the US labor market is not, as often described, unregulated, but that the key difference between the US and Europe is that US labor market regulation protects the individual rather than a collective or group. Over the last decade the US has generated employment rates on average ten percentage points greater than the EU. However, the gap has somewhat tightened, as the employment to population ratio (age 15+, male and female) in the US fell from 62.0% in 2000 to 59.2% in 2008, but increased from 49.5% to 50.4% in the EU over the same period (World Bank, 2011a). Indeed, the high levels of employment in the US are not a new phenomenon; throughout the 1980s and 1990s, the US had higher job creation than many other developed countries (Freeman & Schettkat, 2000).

Figure 1: Employment by Sector, 2000 - 2007



America's employment structure was one of the first to shift from agriculture and manufacturing to services. Employment in agriculture represented a

comparatively low 2.6% of total employment in 2000, yet it declined even further to 1.6% in 2005 and 1.4% in 2007. Employment decline in industry has recently been even more pronounced. In 2000 it was 23.2% of total employment, in 2005 it was down to 20.6% where it has stabilized. Employment in services as a share of total employment has increased from 74.3% in 2000 to 77.8% in 2005 and 78.0% in 2007 (World Bank, 2011a). The retail sector is mainly responsible for employment gains in the service sector (Freeman, 2000). The employment shift to the service sector has led some to believe that the US "bought" full employment with low-paid unskilled jobs. While it is true that jobs in the retail industry generally pay less than traditional manufacturing jobs, job growth during the 1990s was in managerial and professional occupations. The percentage of the American work force employed in managerial or professional positions rose from 23% in 1983 to 30.3% in 1999 (Freeman, 2000). This trend was nevertheless unable to stop growing wage inequality in America.

The US has one of the highest levels of wage inequality among developed democracies, as indicated by GINI coefficient data. In the mid-2000s, the US had a GINI coefficient of 0.38 after taxes and transfers, while Germany's was 0.30 and the UK's was 0.34. As the comparison to GINI coefficients before taxes and transfers shows, social policy in the US is less redistributive than in Europe (0.46 US, 0.51 Germany, 0.46 UK) (OECD, 2011). After decades of wage growth, median earnings for male workers began to stagnate and even decline from the early 1970s through the 1990s. Wage inequality increased significantly during the same period. Real hourly wages of male workers in the lowest decile declined by 11.4% between 1973 and 1999. Earnings in the top decile were stable until the mid-1990s and then grew by 9.2%. Female workers did not experience an overall wage decline - their median earnings grew throughout the period, somewhat closing the gender pay gap. However, wage inequality also rose for female workers from the early 1980s (Bernhardt, Morris, Handcock, & Scott, 2001). The trend reversal in the late 1990s saw real hourly wages of production workers rise by over 5%; wages of men with low education rose by 7%; earnings in the bottom decile of the income distribution rose by 8.7%; retail workers' wages rose by 7% (Freeman, 2000). In sum, the US experienced strong income polarization in the last three decades of the past century; a trend that only started to abate somewhat in the late 1990s.

The high levels of wage inequality can be attributed to a combination of several factors. First, the country's majoritarian or 'first-past-the-post' electoral system makes it harder for new parties promoting equality to gain ground, thus introducing bias towards the right-leaning incumbent parties associated with higher inequality (Alesina & Glaeser, 2004; Rueda & Pontusson, 2000). Second, the fragmented structure of the US political system makes redistributive policies harder to implement. Third, low levels of collective wage bargaining lead to higher pre-tax inequality (Rueda & Pontusson, 2000). Fourth, public perception of poverty in the US differs from the European view. Europeans often see poverty as misfortune, while Americans tend to see the poor as "lazy" and thus responsible for their situation (Alesina & Glaeser, 2004, p. 4). These cultural values lower the public acceptance of redistribution. It is a popular argument that, while inequality may be high in the US, social mobility compensates for it, as the poor can become rich if they work hard enough. Indeed, 71% of American believe that people can escape poverty through hard work, while only 40% of Europeans believe the same (Alesina & Glaeser, 2004). However, there is evidence that the 'American Dream' might be less alive than is often thought. While people in the middle of the income distribution have slightly higher chances of reaching higher income levels in the US, the poor have lower social mobility than in Europe (Alesina & Glaeser, 2004).

Skill levels of the American workforce have increased over the last decades, despite the growth of employment both at the low and high end of the skills spectrum (Freeman, 2000). Since the 1980s, skills levels in the US have changed in a U-shape, i.e. the lower and upper end of the skills spectrum have

grown in employment, while the middle of the distribution has declined. The rise of employment and wages in service occupations is mainly responsible for growth at the low end of the skills distribution. The share of US labor hours in service occupations grew by 35% between 1980 and 2005, while employment in other low-skill occupations including production, operator, and farming declined. Autor & Dorn (2010) argue that while automation and computerization has led to the decline of low-skill employment and wages in manufacturing, service occupations have grown due to consumer preferences and the non-automatability of service tasks.

The American education system is complementary to the highly fluid labor market. It emphasizes general skills that are easily transferable across employers, rather than specific skills that expose firms to the risk of employee poaching (Hall & Soskice, 2001). Worker training is mainly employer-based, privately financed, and skewed towards higher-skilled workers. Publicly subsidized education and training for adults is highly fragmented and with little employer involvement. It tends to focus on lower-skilled workers, economically disadvantaged or dislocated workers, or the unemployed (Holzer & Smith Nightingale, 2007). Public spending on education tends to be higher in the US than in Europe. In 2007, the US spent 5.7% of its GDP on education, while the EU spent 4.9% (World Bank, 2011a). The US has a higher share of students in third-level education. In 2000, 5.5% of the US population was in third-level education, while the equivalent figure for the EU-15 was only 3.4% (R. S. Katz, 2007, p. 25). The US ranks fourth on the UNDP's Human Development Index, a composite measure of health, education and economic factors, behind Norway, Australia and New Zealand (UNDP, 2011).

1.2. Major Macro-Economic Trends, Structural Changes and Restructuring

1.1.2. US Economic Performance in the 1990s and 2000s

Throughout the 1990s, "the US economy was the envy of the world [as it] has generated higher employment and lower unemployment without inflation than most other advanced countries" (Freeman, 2000, p. 1). There are two common characterizations of the employment expansion in this era. The first attributes the American 'jobs miracle' of the 1990s to the unregulated labor market and high wage inequality, which allows firms dynamically to react to changes by downsizing or outsourcing. However, the expansion of low-wage, part-time service sector jobs is not seen to outweigh the negative consequences of stagnating wages for the large majority (Wright & Dwyer, 2003). In this sense, "the American jobs miracle bypassed the low paid" (Freeman, 2000, p. 16). The second characterization emphasizes the disproportionately strong job creation in the top tier of the employment structure as a sign of a "dynamic 'new economy'" (Wright & Dwyer, 2003, p. 290). Wright and Dwyer (2003) aim to reconcile these positions by arguing that while job growth was indeed very strong in the top tiers, the effects of the overall employment structure were much less favorable, with very limited growth in the middle and a polarization of racial employment patterns. A positive development of the time, however, was the declining gender gap in employment. According to Freeman (2000, p. 17), women moving into work explains two thirds of the difference between US and European employment in the 1990s: "More American women with pre-school children participated in the labor force in 1996 than did all European women, many of whom don't have children." Another, albeit contested, strand of research argues that America's staggeringly high incarceration rates create a falsely positive picture of US unemployment in the 1990s (R. S. Katz, 2007; Western & Beckett, 1999).

In the early to mid-2000s, the US still enjoyed low levels of unemployment compared to Europe. The financial crisis of the late 2000s, however, brought the superior unemployment record of the US to a halt. Between the US economy officially entering recession in December 2007 and October 2009,

monthly unemployment more than doubled from 4.9% to 10.2%. Full-time workers and young workers were particularly affected. Between September 2008 and September 2009, unemployment among full-time workers rose from 6.3% to 10.7%, while it only rose from 5.9% to 6.4% for part-time workers. However, this includes workers who had to switch from full-time to part-time employment to avoid losing their job altogether. The rise in unemployment for young workers aged 16-19 was in line with the rise for full-time workers overall, but as this group started out at higher levels (29.6% in 2008), it wound up with staggeringly high rates (43.4% in 2009) (O'Leary & Eberts, 2010). The characteristics of this recession's bout of unemployment set it apart from unemployment seen during previous, more cyclical recessions. First, while in previous recessions lost jobs were concentrated in manufacturing, this time they are more evenly distributed across industries. Second, more job losses are permanent rather than temporary (in 1983, 1992, and 2003 the share of permanent layoffs was just above 40%, this time it is over 55%). Third, job losses were concentrated in very small firms employing fewer than 50 people - in the 2001 recession, 9% of layoffs were in such firms, during the current recession 45% of lost jobs were in very small firms (O'Leary & Eberts, 2010). As Reinhart and Rogoff (2009) show, this recession is indeed different from the smaller, systemic crises throughout the 1980s, 90s, and early 2000s, and its characteristics are comparable to previous severe, global financial crises. The US vastly over-borrowed from abroad in the lead-up to this recession, resulting in what they call the "Second Great Contraction."

1.1.3. Restructuring in the Last Decades

The well-known mass production system of post-WWII America was based on Taylorist principles for manual labor, whereby higher skilled jobs enjoyed on-the-job training and relatively high wages in exchange for loyalty to the firm. Both employers and employees made commitments to each other through firm-specific skills and internal labor markets. However, this trade-off started to collapse in the mid-1970s, when mass production could no longer achieve productivity gains in increasingly competitive and saturated markets. What followed was a search for lower costs and increased flexibility. While overly stylized, the result of this was a bifurcation in the basic strategy firms adopt towards these ends - the 'high road' or the 'low road.' The former emphasize Japanese production methods, employee involvement, job enrichment and rotation, and, as they see workers as sources of innovation, offer higher wages and job security. The latter, however, are characterized by adjusting employment and production capacity according to the ups and downs of the market, through outsourcing, union avoidance, and the continued use of scientific management methods (Bernhardt, et al., 2001). Kandel and Parrado (2005, p. 466) argue that competitive pressures forced US manufacturers to either offshore production or take the low road: "As educational attainment for the general population rises, and other employment options reduce the relative attraction of manufacturing sector employment, US firms that do not or cannot locate production overseas may adopt strategies to create similar economic conditions in the United States through cost-cutting measures. A central strategy is the use of low-cost labor." Bernhardt et al (2001), however, make the case that in reality, many firms combine both approaches and that differences are stronger between occupations than between firms. The overall trend, though, was clear. In their struggle to survive and regain strength, manufacturers closed plants and laid workers off. Real wages stagnated or even declined for some groups, leading to a 30% increase in wage inequality (Bernhardt, et al., 2001).

Economic restructuring continued through the end of the 1990s and brought with it shifts in employment between industries and employers. For many workers this meant that they had to change occupation and be retrained (O'Leary & Eberts, 2010). However, despite these layoffs, unemployment in the US remained low between 4% and 5%. O'Leary and Eberts (2010) attribute this to monetarist economic policy, including personal income tax cuts and lower interbank lending rate targets by the

Federal Reserve. While employment shifts between industries have waned in the early to mid-2000s, corporate restructuring was still common throughout the 2000s. However, Cascio (2002) argues that the character of restructuring in the 2000s differs from those in the 1990s. While layoffs in the 1990s were reactive measures of firms in trouble, later layoffs were preemptive, trying to avoid trouble altogether. However, this trend does not apply to small firms, particularly in manufacturing, which tend to avoid layoffs due to their investment in staff training (Cascio, 2002). The significant restructuring of the American economy over the last decades has prompted calls for government action. Some go in the direction of increased protection for those most affected by restructuring - employees - through limiting foreign competition, tougher regulation concerning layoffs, wages and the replacement of workers on strike, or increased welfare spending for dislocated workers. However, there are also calls for removing regulation and making restructuring even easier, as "an unfettered marketplace with a highly flexible, mobile labor force is seen as key to competing successfully in this dynamic, competitive world" (Schneider, 1997, p. 523).

American manufacturing is often described as being in decline. On the surface, this is supported by several indicators. US manufacturing employment declined by 20% between 1997 and 2007, representing 3.5 million lost jobs. Between 1998 and 2007, the net number of manufacturing plants declined by 10%. The share of manufacturing value added in US GDP fell from 15.4% in 1997 to 11.7% in 2007 (Houseman, et al., 2010).

However, there are several factors that tell a less gloomy, albeit more complex story. First, domestic outsourcing to contractors and employment service firms makes the manufacturing employment decline appear worse than it actually is. For example, if a manufacturing firm decides to dissolve its internal IT department and hire an external IT service provider instead, employment figures will show a decline in manufacturing employment and an increase in IT services employment. The actual occupational structure, however, has not changed. Similarly, the rise of employment service firms has led to significant shifts in employment by sector without affecting the occupational profile: In 1989 less than 1% of production workers were employed by staffing firms, in 2000 it was 6%. The rise was even more pronounced for low-skill manual workers (6% in 1989, 16% in 2000, 18% in 2004). Taking these shifts into account, manufacturing employment between 1989 and 2000 did not decline by 4.1%, but increase by 1.4%. However, for the period after 2000, even including staffing workers cannot erase the decline in manufacturing (Dey, Houseman, & Polivka, 2007). Second, manufacturing has seen real value-added growth almost on par with other non-farming business, enabled by productivity growth. "From 1997 to 2007, the average annual growth rate of real manufacturing production was 3 percent, almost the same as the 3.1 percent growth for all private industry. Moreover, cross-country comparisons show larger production gains in U.S. manufacturing relative to other advanced industrial countries" (Houseman, et al., 2010, p. 5). Third, the seemingly contradictory employment decline and output growth can be reconciled by productivity growth. Between 1997 and 2007, labor productivity in manufacturing grew on average by 4.1% annually, while it grew by 2.7% in other non-farming business. However, this trend is not uniform across the entire sector. Computer and electronic products manufacturing accounts for only 10% of total manufacturing value added, yet output and productivity growth in the industry is roughly ten times higher than in manufacturing overall (Houseman, et al., 2010). Fourth, declines in input prices from offshoring are not captured in statistical data, implying that real value added growth in manufacturing is overstated (Houseman, et al., 2010). In sum, American manufacturing underwent fundamental restructuring rather than simply decline. Employment shifted to staffing firms to give manufacturers more flexibility, while leaving occupational structures largely intact. While some of the productivity growth in the sector is due to the statistical effects of outsourcing and offshoring, high-tech

industries have seen very strong productivity growth, possibly showing a path forward for American manufacturing.

1.3. The Political Framework of Economic and Labor Market Policy and Pro-Active Anticipation and Managing of Industrial Change

1.3.1. Industrial Policy and Change

American industrial policy is usually described as rather minimal and somewhat incoherent, with "shortsighted responses to the demands and pressures of particular firms, industries, and regions," often as a result of lobbying (Vogel, 1996, p. 113). However, US industrial policy is more extensive and influential than generally assumed, by encouraging flows of capital and labor to 'winners,' away from 'losers' (Lehne, 2006; Vogel, 1996). This means that US industrial policy generally does not aim to stop economic decline of industries or regions, but instead directs research and development (R&D) and investment to upcoming industries. Industrial policy in the US differs from that in other advanced capitalist economies in several respects. First, the US uses different policy instruments. For example, government ownership has been extremely limited and the state has no control of finance institutions to directly influence the allocation of capital to sectors. Second, industrial policy is generally in the domain of local and state governments rather than the federal government. Third, private-public partnerships are more prevalent in the US. For example, the defense industry, while privately owned, is a vehicle of government policy. Fourth, the US makes much more extensive use of tax code to shape industrial policy, for example by offering tax credits or favorable tax rates for certain industries. Finally, industrial policy is more implicit than explicit, and often a side-effect of other policies (Vogel, 1996, p. 115).

Government R&D funding transformed the country's system of innovation after World War II. While private industry was the almost exclusive driver and sponsor of R&D activity before, World War II led to the government taking control of directing R&D efforts towards military technologies. In the post-war period, the government continued to play a key role in turning emerging technologies into industries of national importance: "Military resources helped launch the country's electronics, computer, communications, and aircraft industries, and military spending sustained these industries until their products developed commercial markets" (Lehne, 2006, p. 270f). With the end of the Cold War, however, government R&D spending also declined. While 65% of R&D funds came from the government in 1960, the share had declined to 30% in 2003. Today, private industry is again the dominant source of R&D funds, but new funding options (particularly venture capital) for start-ups have created more plurality and dynamism in the American innovation system (Lehne, 2006).

The American government has shown greater restraint in assisting ailing industries than most European governments. Up until the recent financial crisis, direct government subsidies to noncompetitive companies have been rare, but include the steel industry in the 1970s and 80s, and Chrysler during the Carter administration (Lehne, 2006). Noncompetitive industries under pressure from international competition have sometimes received aid through import restrictions, but the government did not interfere with employment and investment decline. Assistance to affected workers is also very limited: "Thanks to the weakness of its trade union movement, America has made relatively few efforts to protect its workers from job losses due to international competition" (Vogel, 1996, p. 127). In the last two decades of the last millennium, the US has experienced increased politicization of the industrial policy-making process. Business expense in lobbying efforts is traditionally high in the US due to the country's fragmented political system, but has increased further (Vogel, 1996). The extensive

politicization of industrial policy leads to "political power rather than national interests [determining] America's industrial winners and losers" (Nester, 1997, p. 4). This means that declining, but politically powerful, industries can still attract unusually high shares of government subsidies and protections.

Aside from active industrial policy measures, institutional factors also contribute to the American tendency to support 'winners' rather than 'losers'. The overall institutional set-up of the US is characterized in Hall and Soskice's (2001) Varieties of Capitalism (VoC) framework as a prototypical Liberal Market Economy (LME), as opposed to the continental European Coordinated Market Economies (CME). In LMEs, firms establish arms-length relationships and rely strongly on market mechanisms to coordinate with other economic actors such as workers, clients, suppliers, shareholders, and the state. This mode of coordination is supported by national institutions, particularly those conditioning strategic interaction between actors (Hall & Soskice, 2001). This has several implications for restructuring and industrial change. First, the market for corporate control facilitates mergers and acquisitions and thus the consolidation of industries. Second, the liquidity of the capital market provides easily available capital for restructuring and start-ups (Jacoby, 2004). Third, the flexible labor market allows quick reallocation of labor between firms and industries. Fourth, the education and training system's emphasis on general, transferable skills reduces the need for retraining when workers switch employers.

Government policies intended to manage industrial change are focused on the state or local level and tend to support rather than inhibit or delay change. Two important avenues to manage industrial change are local economic development policies and retraining for dislocated workers. For a discussion of these policies, see II.2.3 below. Even in federal government, local interests often prevail over national interests. Due to the fragmented American political system and weak party control, congressmen may often only agree to vote for bills if they obtain concessions for their own district. This practice, called 'pork barreling,' leads to general taxpayer money being appropriated to local or special interests, for example public works projects or agricultural subsidies. As industrial policy is mainly in the domain of state and local governments, the government bodies dealing with the anticipation of industrial change can also be found there. Regional associations of governors, such as the Western Governors Association, are concerned with economic and social development of the region and champion the interests of the region at the federal level. Departments of Labor and/or economic development serve the same function at the state level. For example, the Michigan Department of Licensing and Regulatory Affairs' Bureau of Workforce Transformation states its mission as "to provide resources to empower a skilled, diverse workforce in Michigan to stimulate economic growth by serving businesses and job seekers through education and an innovative, customer-focused service system" (Michigan Department of Energy, 2010, p. 1). Among the Bureau's several programs is the Regional & Sectoral Strategies Division, which "builds and supports skills alliances and networks, both at the regional and industry sector level, to improve the skills and educational attainment of existing and future workers" (Michigan Department of Energy, 2010, p. 2). Michigan's focus appears to be on ensuring a smoothly operating economy, through an adequately trained labor force and low friction with the state. This suggests that Michigan's policy is not necessarily to anticipate change, but to enable businesses to easily make changes as they see fit.

1.3.2. Local Labor Market Effects of NAFTA

The North American Free Trade Agreement (NAFTA) gradually removed trade tariffs between the US, Mexico, and Canada between 1994 and 2004, at varying pace across industries. Opponents of NAFTA argued that the agreement would be devastating to vulnerable towns, such as border cities along the US-Mexico border, as they would see employment shift to low-wage Mexico. However, there is evidence that questions this argument. The effect of NAFTA on local labor markets in the US appears to

be larger on industries than on locations. As McLaren and Hakobyan (2010, p. 4) put it, “it is better to be a software worker in a textile-and-apparel town than a textile-and-apparel worker in a software town.” In locations that lost their tariffs quickly, wage growth was essentially the same as in locations without any NAFTA vulnerability. The authors found anticipatory effects, i.e. in locations expected to lose protection, wages grew as workers left the area and thus reduced supply. There are, however, considerable industry effects: Workers in vulnerable industries saw significant decline in real wages as a result of NAFTA (McLaren & Hakobyan, 2010).

2. Industrial Relations and Practice of Managing Change and Restructuring

2.1. Key Data of the National Industrial Relations System and Labor Rights

2.1.1. Unions

After achieving legal recognition in 1842, American labor unions fought in the political arena to define and solidify their position as legitimate players. However, after some victories culminating in the 1935 Wagner Act, unions focused their attention on improving work conditions for their members. Political ambitions, such as the creation of a labor party, took the backseat (Lehne, 2006).

In 1886, the American Federation of Labor (AFL) was founded, a federation of unions mainly representing skilled craft workers. Internal conflict between craft unions and rising industrial worker unions led to the creation of a rival union federation, the Congress of Industrial Organizations (CIO) in the mid-1930s. The two later joined after World War II to form the AFL-CIO. Today, the AFL-CIO is a rather loose confederation of 55 unions representing around 12 million members (AFL-CIO, 2011), with little command over its constituent unions. Political ambitions of the AFL-CIO are therefore not homogenous and its political power limited (Lehne, 2006). In 2005, some of AFL-CIO's member unions split away to form an alternative, the Change to Win Federation. Currently, four unions are affiliated with Change to Win, representing around 5.5 million members (Change to Win Federation, 2011).

Union density in the US is one of the lowest among developed countries. In 2003, union density in the US stood at 12%, other Anglo-American countries had around 25% and Nordic countries around 70%. Union density in continental Europe varies, but is generally higher than in the US, but lower than in the Nordic countries (Freeman, et al., 2007). Union density in the US declined steadily from around 20% in the early 1980s to about 12% in the early 2000s, where it appears to have stabilized (OECD, 2011). In the private sector, union density is even lower at 7.9% in 2005 (Bryson & Freeman, 2006). The public sector has higher union density (36% in 2004), but about a third of public sector employees does not have collective bargaining rights (Block, Friedman, Kaminski, & Levin, 2006). Recently, the state of Wisconsin passed a bill that severely weakens unions representing public sector workers. The new law limits collective bargaining to wages, introduces restrictions on raises, increases the employee contribution to healthcare insurance and pension plans, and allows unions members not to pay dues. It also introduced measures making de-unionization easier (Sulzberger, 2011). The development in Wisconsin highlights the spread of employers' anti-union stance from the private to the public sector.

Despite the historic low in union density in the US, worker interest in unions appears to be rising. In the mid-90s, 32% of non-union private sector workers in firms with more than 25 employees indicated that they would vote for union representation. In the mid-2000s, this figure had risen to over 50% (Bryson & Freeman, 2006). Bryson and Freeman (2006) report that US workers' needs and preferences for workplace representation are not very different from those of UK workers. Workers in both the US and UK prefer collective representation on issues affecting the workforce as a whole, while they prefer to deal with career development issues on an individual basis. The only area where preferences differ is protection from workplace discrimination, where US workers prefer to deal with issues by themselves, while UK workers prefer collective solutions - a difference that could stem from stronger legal protection from workplace discrimination in the US. While this indicates that US workers are in general

not less inclined to prefer union representation than, say, their UK counterparts, management opposition to unions is much stronger in the US. Over half of managers in non-unionized firms in the US reported that they would oppose unionization efforts by their workers. In practice, however, oppositions seems to be even higher, as Block et al. (2006) report that 97% of employers opposed organization campaigns in 1998/99. In the UK, almost two-thirds of managers reported to be neutral towards it (Bryson & Freeman, 2006).

Despite Bryson and Freeman's (2006) findings, which seem to suggest potential for a revived American union movement, chances of restoring it to anything close to historic levels are very slim. Thelen (2001, p. 94), who also sees "new signs of life" in the American labor movement around the turn of the century, argues that the current state of US labor law does not allow the revival of American unionism. A main reason for this is what Bellace (2002) calls the "employee voice strait jacket" offered by the National Labor Relations Act (NLRA). The National Labor Relations Act (NLRA), or Wagner Act after its sponsor, was signed into law by President Roosevelt in 1935. It established the National Labor Relations Board (NLRB), an independent government agency responsible for conducting unionization elections at firm-level and for investigating unfair labor practices. While it "gave employees the right to form, join, and assist unions" (Bellace, 2002, p. 9) for the first time, the NLRA only offers narrow choices for worker representation in the private sector: "In principle US law protects minority unionism, but the de facto choice has been between a collective bargaining majority union and no worker organization" (Bryson & Freeman, 2006, p. 13). This black-and-white choice is a result of the labor relations system at the time of the NLRA's conception. The industrial economy of the time was based on Taylorist-type work organization, with clear separation of workers, represented by unions, and management. The two groups were seen to have opposing interests and thus an adversarial relationship. "The entire statute rests upon the notion that to get anything employees will have to wrest it from the employer, and to force concessions employees might have to strike. As a result, a great deal of attention was focused on the strike weapon and no attention whatsoever was paid to supporting labor-management cooperation" (Bellace, 2002, p. 15). The NLRA's only objective was to get employers to recognize and bargain with unions, which would ultimately improve workers' terms and conditions.

In 1947, the NLRA was amended by the Labor-Management Relations Act (Taft-Hartley Act). The amendment introduced a list of 'unfair labor practices', outlawing several types of strikes, union donations to political campaigns and giving the government power to break up strikes if they endanger the nation's health or safety. Crucially, Taft-Hartley also outlawed closed shops and heavily restricted union shops, paving the way for states to pass 'right-to-work' laws. In the 22 right-to-work states concentrated in the south of the US, union shop agreements between employers and unions are illegal, thus requiring all employers to be open shops. The most important result of this requirement is that the strike threat is severely weakened, as employers may simple hire non-union replacement workers.

Legal interpretation of the NLRA and judicial precedent have introduced further hurdles to unionization. For example, in 1956, in NLRB v. Babcock & Wilcox, the Supreme Court denied union organizers of the only reasonable, safe, straightforward access to employees, that is access at the workplace, even outside working hours and without interference to the conduct of business (Bellace, 2002, p. 9). The Court's decision valued the employer's property rights over worker rights to engage in unionization discussions, making successful organizing much more difficult. Court rulings have also allowed employers to delay the unionization process, reducing the chances of organization drives to succeed even further (Block, et al., 2006). These hurdles have made union recruitment drives not only very difficult, but also prohibitively expensive, as unions and management spend vast amounts of money on pro and anti-union campaigns. Only when unions seek to represent workers outside the collective

bargaining framework, large-scale, low-cost organization drives become possible (Bryson & Freeman, 2006) .

Employers have several ways to counter unionization. First, they can legally force workers to attend anti-unionization workshops. Second, they can effectively threaten to close plants that become unionized. The incidence of such moves increased from under 30% of organization campaigns in the 80s to over 50% in the late 90s. The number is even higher for manufacturing (70%). Finally, employers can resort to firing employees for unionization activities. While this is illegal, it appears to be commonplace, as annual back-pay orders by the National Labor Relations Board (NLRB) for such illegal layoffs have increased 15 to 25-fold between the early 1950s and the early 2000s (Block, et al., 2006). Taken together, this means that employers have enough power to effectively block unionization attempts.

Data from the mid-2000s shows that only 20% of unionization drives are successful in reaching a labor agreement. The chances decrease even further to about 10% when employers engage in illegal anti-union practices, such as firing union-supporters (Kochan, 2007). The anti-union, if not anti-collectivist, stance of many American firms needs to be understood in context of the historically adversarial union-management relationship in the country's industrial relations system, as discussed above. Employers, who also do not rely on employer's organizations to represent their interests, thus tend to see unionization as disloyalty towards the firm and as a sign of bad management. For example, even Starbucks, a firm often seen as employee-friendly by providing generous welfare benefits to its mostly part-time workforce, is unsupportive of unionization and prefers to settle any issues through internal processes. The company's CEO, Howard Schultz, sees unionization as a sign of mistrust against himself: "If they had faith in me and my motives, they wouldn't need a union" (Schultz & Jones Yang, 1997, p. 108).

2.1.2. Collective Bargaining

Collective bargaining coverage in the US (14% in 2000) is comparable to Japanese levels (15%), lower than in other Anglo-American countries (Canada 32%, UK 30%) and significantly lower than in European countries (Germany 68%, Austria 95%) (Freeman, 2007). While the decline of collective bargaining coverage in the US was directly related to the decline in union density, the same relationship does not exist for many European countries. Countries such as Austria still have almost complete collective bargaining coverage, despite experiencing the same decline in union density seen in other countries. This is due to legislation that extends collective bargaining benefits to workers in entire sectors, rather than union members only.

There are significant benefits to workers to become unionized and bargain collectively. Compared to other countries, the union wage premium in the US is very high at at 27.6% in 2004. The wage premium is even higher for women and ethnic minorities. Union members are also five times more likely to have comprehensive pension plans, receive health insurance through their employer, receive more paid vacation and enjoy increased job security (Block, et al., 2006). However, only about a third of employers or unions report that their relationship improved at all after reaching a collective bargaining agreement, and only 10% indicated that their relationship was improving quickly (Cutcher-Gershenfeld & Kochan, 2004).

There are two main reasons for low levels of collective bargaining in the US: the first is ideological; the second is rooted in the law. The individualism deeply rooted in American culture is incompatible to collective activity. Individual rights are generally seen as superior to other rights, and the individual should be free to pursue economic interests (property rights). In this context, the freedom of contract is central. Corporations are awarded the status of legal individuals. It is not surprising then that there is a

propensity to negotiate the terms and conditions of employment on the individual level between employer and employee (Block & Berg, 2003). However, this preference is stronger among employers than employees, as the latter prefer to deal with some workplace issues on a collective basis (see above). The law is also rather unsupportive of collective bargaining. To establish collective bargaining at the firm level, a majority of the workforce has to first vote for representation through a new or established labor union, which, as discussed in the previous section, is notoriously difficult to achieve. But even when this hurdle is cleared, unions still have to enter negotiations with management for a collective bargaining agreement. Any agreement the two parties might reach has to be put before vote among workers and can be reversed rather easily (Block & Berg, 2003).

It is widely accepted that America's New Deal-era system of collective bargaining has collapsed. As Piore and Safford (2006, p. 300) argue, it has been replaced by "a regime of substantive employment rights specified in law, judicial opinions, and administrative rulings, supplemented by mechanisms at the enterprise level that are responsive to these rules and regulations but also susceptible to employee pressures." The country's extensive body of anti-discrimination legislation forms the heart of this new regime. While the terms and conditions of employment are not necessarily within its purview, the new regime has some advantages over traditional collective bargaining by having much higher coverage and being less prone to collapse (Piore & Safford, 2006).

2.2. Legal Framework and Practice of Managing Restructuring in a Socially Responsible Way

2.2.1. The Legal Framework

Social Protection

Historically, large American corporations carry more responsibility for employee welfare than their European counterparts. As Lehne (2006) points out, the US first experienced democratization, then industrialization and the growth of corporations, and finally the development of large government bureaucracies in the beginning of the 20th century. In Europe, on the other hand, government bureaucracies developed at an earlier stage, with industrialization and democracy following later. As a consequence, American "corporations began to provide health and pension benefits before the national government had the organizational capacity to administer such programs" (Lehne, 2006, p. 301).

Over time, the American government started regulating welfare benefits and introduced some bare-bones government programs. The Social Security Act of 1935 introduced federal old-age pensions, unemployment benefits and some family welfare services. Health insurance programs for the elderly (Medicare) and the poor (Medicaid), among some other measures, were introduced in the 1965 amendment to the Social Security Act. These programs were not intended to replace employer-provided benefits, but to provide coverage for otherwise uninsured people. The Employee Retirement Income Security Act of 1974 regulated employer-provided retirement plans and prompted a shift from defined-benefit to defined-contribution plans (Lehne, 2006). In the 1980s, so-called 401(k) retirement savings accounts, which shifted the main burden for making pension contributions to workers, became widespread.

Despite the large role corporations play in providing welfare benefits, the employment relationship itself is regarded as an economic transaction to provide value to both parties. It does not carry concerns for social responsibility. The principle of employment-at-will means that either side may end the employment relationship at any time (Block & Berg, 2003).

The share of workers covered by governmental unemployment insurance (UI) has gone up over the last decades (57.7% in 1960) and reached 86.8% in 2008. This can largely be attributed to 1972 reforms to the unemployment insurance system, which brought governmental agencies and nonprofits into the system. Today, nearly all employers are required to pay into the system. The group of uninsured mainly consists of the self-employed and workers on family farms or in churches. Yet, despite the growth of UI coverage, the share of insured unemployment has fallen - from 86% in 1960 to 43% in 2008. UI benefit payments as a percentage of GDP has fallen over the last decades after a peak of 1.16% in 1975 and reached an all-time low in the mid-2000s of under 0.2%. In the current recession, however, UI spending has surged to 0.77% at the end of 2009, after several federal UI extensions bringing the UI entitlement up from 26 weeks to a maximum of 99 weeks as of 7 November 2009 (O'Leary & Eberts, 2010).

The US still primarily relies on employer provision of welfare benefits, however, this traditional system has eroded somewhat in the last decades. Employer spending on non-salary benefits has leveled off and some employers, often small businesses, choose to forego healthcare provision altogether (Lehne, 2006). In 2009, the percentage of people with employer-provided health insurance had decreased to an all-time low of 55.8%, while the percentage of uninsured people had reached a new record high of 16.7% since recording began in 1988 (DeNavas-Walt, Proctor, & Smith, 2010). These developments have prompted government action. The Patient Protection and Affordable Care Act of 2010, signed into law by President Obama, mandates among other provisions that uninsured individuals have to buy private health insurance.

Employment Protection

The OECD Employment Protection Legislation Index indicates that the US has the weakest worker protection laws out of all developed countries (0.85 in 2008). Other Anglo-American countries also score lowly on the index (Canada 1.02, UK 1.09), while European countries score significantly higher (Germany 2.63, France 3.0) (OECD, 2011).

Aside from the provisions of the Fair Labor Standards Act of 1938, which introduced a federal minimum wage and overtime pay, set a maximum 40-hour workweek for multi-state corporations, and outlawed child labor, US law is not concerned with the level of the terms and conditions of employment. Instead, US labor law places heavy focus on banning discrimination and differential treatment of groups (Block & Berg, 2003). The 1960s and 70s saw a wave of anti-discrimination laws. The most significant is the Civil Rights Act, which “forbids employers, labor unions, and government agencies from discriminating among employees on the basis of race, color, sex, religion, or national origin in regard to hiring, firing, wages, promotions, fringe benefits, and the like” (Lehne, 2006, p. 310). While the Civil Rights Act explicitly forbade affirmative action in favor of minorities, Supreme Court decisions as well as Executive Order 11246, given by Johnson, authorized and in some regards mandated affirmative action to remedy past discrimination. Other legislation in this era include the Equal Pay Act of 1963, which outlawed wage discrimination based on sex, and the Age Discrimination in Employment Act of 1967, which did the same on the basis of age. In the 1980s and 90s, individual employee rights were strengthened by several pieces of legislation: The Americans with Disabilities Act of 1990, Civil Rights Act of 1991, Family and Medical Leave Act of 1993, Employee Polygraph Protection Act of 1988. In most states, legislation allowing employees to sue for wrongful dismissal was passed. Employment of illegal immigrants was regulated through the Immigration Reform and Control Act of 1986 (Freeman, 2000).

The Occupational Health and Safety Act (OHSA) of 1970 and the Federal Mine Safety and Health Act of 1977 were forays of the government to regulate workplace conditions. OHSA establishes standards for dangerous substances, noise levels, cold and heat exposure, sanitary conditions and mechanical dangers. It is also tasked with enforcing standards through inspections and first-instance appeals

through OSHA's judicial arm. According to Lehne (2006), OSHA has received criticism from business associations for not evaluating standards on a cost-benefit basis.

Labor laws are mainly enforced through law suits or worker complaints to agencies (Freeman, 2000). However, Lee (1995) finds that employees who sue their former employer for unfair dismissal on grounds of age discrimination, tend to lose the legal battle as long as their employer has evidence of a neutral reason for the layoff, even if indicators of age discrimination at the work place are found. This makes it apparent that "the courts have sharply limited the ability of plaintiffs to prevail in all but the most blatant cases of age discrimination" (Lee, 1995, p. 19). Recently, the Supreme Court struck down a class-action lawsuit against Wal-Mart, in which 1.5 million female workers sought compensation for discriminatory behavior, as the court was not satisfied that "there are questions of law or fact common to the class" (Liptak, 2011). This ruling makes it more difficult for workers to sue for employment discrimination on a collective basis, further strengthening the dominant individual-level of American employment relations. It also supports Piore and Safford's (2006) argument, outlined earlier, that individual-level employment laws have replaced the traditional New-Deal era collective bargaining system.

Laws Concerning Corporate Restructuring

According to Vogel (1996, p. 127), "the United States is the only capitalist democracy that does not have legislation limiting plant closures." While firms are free to close plants as they see fit, they may be required to give notice in certain circumstances, as plant closures and mass layoffs are subject to the provisions of the Worker Adjustment and Retraining Notification Act of 1988 (WARN). WARN requires employers to give notice to affected workers, their representatives (unions), the local head of government (mayor), and the state's department for dislocated workers, if certain conditions are met: (1) the firm has more than 100 employees and the layoff affects more than 50 employees for more than 6 months; (2) if the employer is closing a plant or unit, the layoffs are not due to strikes or the completion of a particular project; (3) if the layoffs are not due to a plant closure, the layoffs affect at least the lesser of a third of the workforce or 500 workers (U.S. General Accounting Office, 2003). Due to this narrow definition, only a minority of layoffs require notice under WARN. In 2001, only 13% of mass layoffs (7,097 events in 2001) were subject to WARN. However, the majority of plant closures requires WARN notice (82% of 1,253 events in 2001) (U.S. General Accounting Office, 2003).

Bankruptcy in the US is primarily regulated through Title 11 of the United States Code. In voluntary bankruptcies, the vast majority of cases, debtors petition the bankruptcy court for protection under one of several chapters of the bankruptcy code. The two most important chapters are chapter 7 (liquidation) and chapter 11 (reorganization). In the former case, representing 70.4% of all business bankruptcy filings in 2011 (compared to 64.8% in 2005), a trustee sells the firm's assets and distributes the proceeds to the creditors (U.S. Courts, 2011). The firm will cease operation unless the trustee decides otherwise. In the latter case, used in 20.5% of filings in 2011 (compared to 19.6% in 2005) the firm stays in control of its assets and is given the chance to restructure its business under judicial oversight. While restructuring, litigation against the firm is put on hold. Chapter 11 is designed to benefit general, unsecured creditors and to protect them from losing out against large, institutional creditors. However, while chapter 11 works reasonably well towards these ends in large bankruptcy cases, in the majority of cases, which are small bankruptcies, general creditors tend to recover nothing (Baird, Bris, & Zhu, 2007).

Where employers wish to make changes to the terms and conditions of employment, as is common during mergers and acquisitions, they are only bound to union contracts, in case they exist, or individual work contracts (Edwards, Coller, Ortiz, Rees, & Wortmann, 2006). While the EU's Business Transfers

Directive 2001/23/EC protects the employment contracts of workers in a business unit changing ownership, American workers have no such protection. To transfer workers with acquired assets in the US, old employment contracts have to be terminated first, before the buyer can rehire the workers under a new contract, effectively enabling the buyer to dictate the new terms and conditions of employment (Martinez-Herrera, Kosinski, & Deng, 2010). Overall, restructuring is usually done without consulting employees about process or outcome (Cascio, 2002).

Adoption of ILO Conventions

The United States joined the International Labour Organization (ILO) in 1934 following efforts by President Roosevelt. In the 1970s, the US withdrew from it, due to a perceived undue influence by the Soviet Union, but rejoined the ILO in 1980 (Adams, 2006). Of the eight fundamental human rights ILO conventions, the US has only ratified two: convention 105 (C105 Abolition of Forced Labour Convention, 1957) and convention 182 (C182 Worst Forms of Child Labour Convention, 1999). Crucially, the US has not ratified the conventions concerning the freedom of association and collective bargaining (C87 Freedom of Association and Protection of the Right to Organise Convention, 1948; C98 Right to Organise and Collective Bargaining Convention, 1949) (ILO, 2011).

The ILO promotes an industrial relations system based on social partnership in the form of tripartism - the dialog between government, employer and employee representation bodies. In this system, unions are a necessary vehicle for worker participation as they represent worker interests. A wide-spread school of thought in the US, the “union-free” movement, is at odds with this view. It sees unions as a symptom of bad management, as disruptive and detrimental to corporate performance and as outside organizations seeking undue influence in the firm (Adams, 2006). The US organization sent to represent the country at the ILO, the United States Council for International Business (USCIB) is a business advocacy group that endorses union-free policy. Some might argue that the US representative at the ILO is thus against the very principles of the ILO.

The position of the USCIB, which has also been adopted by the US government and employer representatives, is that US law provides equal or better protection of workers than international labor law and that the adoption of ILO conventions is thus unnecessary in the US. Opponents also argue that adopting ILO conventions is incompatible with the American federal system (McIntyre & Bodah, 2006). As Adams (2006) writes, “the notion that the US has the right to institute laws it considers to be adequate even if they are inconsistent with ILO requirements, makes a mockery of the principle that all of the world’s workers should enjoy certain common standards. It is also offensive to the basic democratic notion that all (nations in this case) are equal under the law.” More disconcerting is that US law falls short of meeting international labor law requirements in many regards, particularly in the areas of freedom of association, collective bargaining and collective action (Bellace, 2002; Human Rights Watch, 2000; McIntyre & Bodah, 2006). For example, some states exclude certain employee groups from collective bargaining rights; the state of Virginia has declared collective bargaining unconstitutional altogether (Adams, 2006).

2.2.2. The Role of Social Partners at Company Level and Beyond

Employers and Employer’s Organizations

As discussed in previous chapters, employers enjoy almost unlimited discretion over how to handle corporate restructuring, with no laws limiting plant closures, a weak warning system for mass layoffs and no equivalent to the EU’s Business Transfers Directive. As a result, US multinationals typically perform centralized restructuring. This means that corporate headquarters decide unilaterally on how

to conduct their restructuring efforts, leaving little time or opportunity for stakeholders, such as workers or local governments, to provide input or intervene before changes are implemented (Moreau & Negrelli, 2009). Companies can be grouped in two distinct groups in terms of how they see their employees (Cascio, 2002). The first and far larger group regards employees as “costs to be cut” and thus constantly looks for ways to reduce those costs. The second and smaller group, on the other hand, sees employees as “assets to be developed”. These companies seek to enhance the effectiveness of their employees and are wary of layoffs. Cascio describes the second group as responsible restructurers. These two types are broadly aligned with Kochan, Katz and McKersie’s (1986) distinction between ‘high road’ and ‘low road’ firms. Unlike the latter, the former experiment with and engage in participatory work schemes, giving employees and their representatives a voice in business and strategic decisions. Firms choosing the ‘high road’ are few and far between, as “there are fewer incentives to pursue participation in the United States, and the ‘low road’ is much more available here than in some countries” (Kochan, et al., 1986, p. xiii).

American employer’s organizations operate on a different basis than their continental European counterparts. Unlike the continental European model, where large firms are obliged to join public chambers of commerce, the US has a private model, where membership is voluntary. American business associations serve three basic purposes: (1) management services, e.g. advice for firms to improve different aspects of their operations; (2) product standards; (3) government relations (Lehne, 2006). The most important business associations are the National Association of Manufacturers (NAM), whose member firms represent about 75% of US manufacturing employment; the U.S. Chamber of Commerce, an influential association of over 200,000 firms; the National Federation of Independent Business (NFIB), representing around 600,000 small businesses; and The Business Roundtable, consisting of about 150 CEOs of major corporations (Lehne, 2006).

Workers and Labor Unions

Workers do not have a legal right to participation, either at the workplace or boardroom level (Appelbaum & Hunter, 2004). However, many states give corporate directors the right to take the interests of workers, as well as other stakeholders into account when making strategic decisions. In 1992, 29 states had adopted these so-called constituency statutes, with the important exception of Delaware - a state known for its lenient corporate law with about half the Fortune 500 companies incorporated there.

Jacoby (2004) argues that for two decades after WW2, employees had a role as stakeholders of the firm, albeit not on par with shareholders. In the 1970s, hostility towards unions increased as shareholders started to assert themselves more. The 1980s brought the ideological shift full circle, with managerialism seen as outdated and shareholder-oriented governance as the new best practice. During this time, middle management often became the victim of restructuring efforts aimed at creating leaner organizations, making them an unlikely ally of unions in their fight for risk-minimization, stable employment and higher wages. Opposition to the new model nonetheless waned, as stock options for management and later non-management employees spread. However, in the 1990s, many companies sought to imitate European and Japanese production models and thus gave employee involvement programs a resurgence: “In the mid 1990s over half of American reported that they worked in firms with employee involvement committees; and one-third of workers said that they were members of employee involvement committees of some form” (Freeman, 2000, p. 18). This new HR focus has been particularly pronounced in high-tech and software companies. The 1990s also saw the rise of ‘shared capitalist arrangements,’ such as stock option plans for employees, profit-sharing and retirement funds in company stocks. Around 2000, about half of the US work force received firm performance related

compensation, while about a quarter participated in ownership schemes of some sort (Freeman, 2000). Through these programs as well as the aforementioned HR focus, employee influence on corporate strategy has somewhat increased (Appelbaum & Hunter, 2004; Jacoby, 2004).

While some countries, such as Germany, have systems of board-level employee representation that will often fuse labor and management roles, the dominant practice in the US is to keep these roles separate, i.e. unionized workers will not take on management roles. Unions have become more involved as union membership has declined over the past decades, however, shareholders are still seen as the only group legitimately allowed to monitor management. There are considerable barriers to expanding employee voice in the US, such as labor law barring employers from playing a role in forming employee representation bodies (Bryson & Freeman, 2006; Jacoby, 2004).

Strategic Labor-Management Partnerships

During the 1980s and 90s, unions realized that new employee involvement programs established at the time did not provide unions with an effective means to influence restructuring. While new work practices were looked upon favorably by employees and increased performance, they did not enhance employment security and in some cases even led to more precarious work. This led to some unions seeking to establish strategic partnerships, to give them influence over strategic management decisions. Union members tended to support this cause. However, there was considerable debate over whether unions should engage in strategic decision-making at all. The American Federation of Labor-Congress of Industrial Organization (AFL-CIO) takes the route of wielding influence as shareholders rather than as unions, as union pension funds are major stockholders in some firms, thus adhering to the 'rules' of the shareholder-value orientation model. The AFL-CIO has not challenged the status quo of employee representation, as it has felt that involvement in management decision could endanger the organization's independence and make it the scape goat for bad business decisions (Appelbaum & Hunter, 2004; Jacoby, 2004).

Close to 47% of collective bargaining agreements in the US include some form of labor-management partnership. The spectrum of such arrangements ranges from weak (intention of cooperation, to modest (information sharing and some employee involvement) to strategic (union involvement in high-level decisions, influence over governance). Strategic partnerships are very rare - less than 3% of collective bargaining agreements include them (Appelbaum & Hunter, 2004). As Kochan, Katz and McKersie (1986) argue, it is not an ideological propensity against labor-management partnerships that makes them so rare, but a deficiency in the law that allows management to take the 'low road:' "now more than ever, the U.S. labor market is a place where anything and everything goes" (Kochan, et al., 1986, p. xiii).

Such arrangements are not only difficult for unions to establish, but are also difficult to maintain. Their survival strongly depends on union members' faith in the program as well as management's commitment. The Wagner Act does not require employers to share any information with employees, other than what pertains to collective bargaining (Bellace, 2002). Without legal protection, voluntary information-sharing arrangements can come to a halt if employers withdraw support. Some unions have therefore sought a place on the board of directors, as a more stable footing for their influence. Union-nominated directorships are not necessarily tied to other forms of joint decision-making or strategic partnerships, and are usually a byproduct of Employee Stock Ownership Plans (ESOPs). These directorships are therefore based on labor's status as shareholders, which also places constraints on them: First, "union nominees, like all directors on American corporate boards, are required to represent the interests of shareholders […] and are legally liable should they fail to do so effectively" (Appelbaum & Hunter, 2004, p. 280). Second, non-executive directors are expected not to involve themselves in day-

to-day business. They are, however, part of extraordinary decisions, such as restructuring. Third, it does not remove the threat of management becoming antagonistic and keeping everything they can out of the boardroom. Examples for American firms that have had at least one union-nominated board member include steel companies (Algoma Steel, Bethlehem Steel, National Steel, Weirton Steel) and airlines (Hawaiian Airlines, Northwest Airlines, TWA, United Airlines) (Appelbaum & Hunter, 2004).

Even in the rare cases where employees enjoy joint decision-making structures, their influence stops when it comes to strategic decisions beyond day-to-day business: "Managers have resisted calls for joint decision-making forums for decisions that might require downsizing, divesting of parts or whole divisions, or shifting operations to new locations" (Appelbaum & Hunter, 2004, p. 267). Organized labor has no legal right to influence strategic decisions, but unions have a legal right to negotiate over the effects on labor of the decisions made by management. Unions may also negotiate to establish grievance procedures for employees as well as job security agreements to reign in hiring and firing at will (Appelbaum & Hunter, 2004).

2.2.3. The Role of Public Authorities at Various Levels

Ripple effects of restructuring can have massive impacts on communities. As laid-off workers cut back on spending, the local services industry experiences a decline in business. These businesses, in turn, have to reduce their workforce to reduce costs, setting a downward spiral in motion (Cascio, 2009). Public authorities try to reduce these effects through two avenues. First, local economic development policies aim to attract new businesses to the area in order to stop and reverse economic decline. Second, support programs to retrain dislocated workers serve to adapt the workforce to changing circumstances.

Local Economic Development Policies

Local economic development programs can either be targeted at a specific firm deemed to benefit the area, or general through tax incentives, spending or regulatory policies aimed to foster overall local economic development. In the US, local economic development is seen as one of the most important responsibilities of local government. Groups involved in crafting local economic development strategies include, in descending order of importance) local Chambers of Commerce, private businesses, citizen advisory boards, public/private partnerships, state government, utilities and private economic development foundations. The most popular programs supported by local governments are, in descending order, tax incentives, job training programs, community development funds for business, community development corporations. These programs are mainly aimed at manufacturing industries, retail and service, technology and telecom, tourism, warehousing and distribution (Bartik, 2003a). For the entire US, local government spending on local economic development ranges between $2 and $4 billion per year. Lost revenue from tax incentives, however, is far higher at an estimated $10 billion annually. The high costs of incentives are often not justified by rather modest effectiveness: reducing state and local businesses tax rates by 10% only yields increased business activity and employment of about 2% to 3% (Bartik, 2003a).

Local governments often aim to attract large branch plants from national or regional manufacturers. Around 1,500 relocations of such plants occur every year, with ten times as many local governments pursuing them (Bartik, 2003a). Bartik (2003a) shows calculations that even the largest incentives offered by local governments are outweighed by small (under $1) differences in average hourly wages. This means that firms can derive higher benefits from locating in areas with slightly lower wages than from even the best incentives offered by local governments. Non-financial incentives may therefore weigh more heavily for businesses, particularly those designed to reduce administrative and regulatory

burdens. Local development incentives are more effective in influencing location decisions between neighboring communities than between states. With about 10% of total manufacturing employment in the US lost by plant closures and downsizing, and the same percentage gained by new openings and expansions, local economic development policies often focus on business retention. These programs may involve little government activism (business visitation and surveying programs), moderate activism (consulting advice for SMEs), or extensive government activism (cluster policies to change local labor market characteristics and skill levels) (Bartik, 2003a). Policies targeting new business development include entrepreneurship training, small business advice, business incubators, and capital market programs. Some funding for these programs comes from the federal government (Bartik, 2003a).

Support Programs for Dislocated Workers

Training programs for dislocated workers aim both at reducing unemployment and underemployment, i.e. workers who are employed, but not to their satisfaction in terms of qualification, pay or hours. In 2009, underemployment was at 15% of the working population (Cascio, 2009). A reaction to the mass-layoffs in manufacturing in the 1980s, the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) of 1986 provided federal funding to retrain dislocated workers. Other programs designed to provide training to dislocated workers include (O'Leary & Eberts, 2010):

- The Workforce Investment Act of 1998 includes the Dislocated Worker Program and the Adult Program for economically disadvantaged adults
- Trade Adjustment Assistance Act also provides training to dislocated workers. Unlike the WIA, the TAA is intended for workers who lost their jobs due to foreign competition putting their employer out of business. The benefits and services under TAA are more generous than under WIA
- National Emergency Grants (for plant closings and mass layoffs)
- Worker Training and Placement in High Growth and Emerging Industries trains workers to allow to work in sectors such as alternative energy research and health care.

The American Recovery and Reinvestment Act of 2009 (ARRA) (commonly referred to as the 'Stimulus Act') more than doubled financing for job training programs and introduced measures specifically targeted as dislocated workers from the auto industry, where employment declined by 41.3% between 2009 and 2010 (O'Leary & Eberts, 2010). While O'Leary and Eberts (2010) find some evidence that retraining is effective in increasing employment and earnings, they argue that it does so to a lesser extent for dislocated workers than for economically disadvantaged workers.

Incumbent worker training is a means of preparing workers for upcoming changes and to enhance their flexibility and adaptability. The vast majority of this type of training is financed by the employers themselves, only about 1% is publicly subsidized. About 36 states provide publicly-funded incumbent worker training, in an effort to retain businesses who might otherwise close factories and lay workers off. For states, publicly-funded incumbent worker training can therefore be a pro-active cost-saving measure (Hollenbeck, 2008).

2.2.4. Other Actors Involved in Restructuring and Managing Change

Universities

The tight integration of university research, government research grants and private industry is credited as a main reason for America's leadership in information technology (IT) (Gordon, 2002). As Gordon (2002, p. 33) writes, "it was no coincidence that Silicon Valley happened to be located next to Stanford University or that another concentration of IT companies in the hardware, software, and biotech industries was located in the Boston area near M.I.T. and Harvard." Indeed, universities play two important roles in the formation of industrial clusters. In the generative role, universities capitalize knowledge, often through start-ups near the campus. In the developmental role, universities engage in regionally-focused research and teaching, responding to the needs of local industry (Gunasekara, 2006).

While the share of industry-sponsored research in the US was comparable to that in Germany at the end of the 1990s, American universities tend to be more successful at commercializing their research (Schmoch, 1999). American universities have a historic propensity to engage in practical, hands-on research aimed at solving industrial problems. Among other reasons, the state-level administration of public universities meant that they had to be more responsive to local needs for training and research, particularly of local businesses (Rosenberg & Nelson, 1994). While this practical orientation started to abate in the 1920s, it has seen a resurgence in the last decades, with new government programs respecting unfettered academic research while strengthening industry links to encourage technology transfer. Government, and particularly military funding is concentrated in engineering, materials sciences and computer sciences, which tends to benefit high-tech industries connected to electronics, chemicals and health (Rosenberg & Nelson, 1994). There are two main motives for the governments willingness to sponsor research that will benefit industry: First, some industries are deemed of national importance, such as defense or steelmaking. Second, some industries only have a weak R&D basis of their own, such as agriculture or forestry (Rosenberg & Nelson, 1994).

Practical research, either in form of government-sponsored research, joint industry-university research labs, or through 'business incubator' programs, benefits the American industry by substituting, complementing or accelerating industrial research. This has allowed the US to gain a competitive advantage in emerging industries, providing an impetus for industrial change and restructuring.

Think Tanks

Think tanks have considerable influence over public policy debates and policy making in the US. Several decades ago, think tanks were thought of as private organizations producing neutral and credible research. The Brookings Institutions, one of the oldest American think tanks, describes itself as an independent organization and was described by President Lyndon B. Johnson as an indispensable source of research and policy input (Rich, 2004). In recent times, the number of think tanks has not only exploded from around 70 in 1970 to over 300 in 2000, their character and role has also changed significantly. The Heritage Foundation, established in 1973, describes its mission as "to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense" (The Heritage Foundation, 2011). Republican Speaker of the House Newt Gingrich referred to the Heritage Foundation in 1994 as the "most far-reaching conservative organization in the country in the war of ideas" (Rich, 2004, p. 1). This is indicative of the new role of think tanks as public and outspoken advocates of pre-conceived ideas, rather than of neutral research (Rich, 2004). As Weaver (1989, p. 577) argues, the rising number of think tanks does not necessarily mean that they have gained influence. On the contrary, with "many voices clamoring to be heard," think tanks have become a vehicle for politicians to

justify about any policy position, rather than a respected authority. Gellner (1995), on the other hand, makes the case that think tanks have actually gained influence by becoming more ideological, replacing political parties as the dominant policy shaping organizations in the US.

2.3. Case Study 1: AT&T

The telecommunications industry is an ideal test bed to study the influence of national institutions on the restructuring process. Prior to deregulation, public telephone monopolies were very similar across countries, with large, regulated, bureaucratic organizations that “offered lifetime employment with high wages and benefits to employees who considered themselves public servants” (Batt & Darbishire, 1997, p. 3). As a traditionally strongly unionized industry, the threat to employees, unions and established employee representation systems is very high, making the deregulation and ensuing restructuring all the more interesting for the purposes of this paper.

After mounting pressure from a business-lobby led by IBM, financial services firms and airlines, the AT&T (originally known as American Telephone & Telegraph) monopoly was broken up in 1984. The US political system’s fragmented nature allowed lobbyism to take hold and win over supporters despite the Reagan administration’s as well as popular opposition to deregulation. The restructuring of AT&T was mainly driven by the significance of telecommunications as an input into other industries, with employee welfare or universal service taking the backseat. The Bell System (AT&T and its affiliated companies) employed over a million people before the breakup, yet labor representation was not given a role in the restructuring of the firm. AT&T relocated and consolidated many of its nation-wide operations to save costs. Cost saving measures featured high on the AT&T restructuring agenda, as new competitors had extensive cost advantages, including simpler organizations, no legacy systems to maintain and, crucially, a younger and non-unionized workforce at about half the cost of AT&T. However, the restructuring efforts were not HR-driven, but through engineering. The company digitalized its entire network, leading to significant changes of its workforce - from skilled electro-mechanical craft workers to a smaller number of computer engineers and computer monitoring clerks paid significantly less. The job profiles in sales and customer services also changed dramatically. Local offices were consolidated into large national centers and the introduction of IT systems led to rationalization and functional specialization. The company also aligned workers with one of its three customer segments (enterprise, small business, residential). “This segmentation strategy coupled with the downward pressure on wages from non-union competitors, particularly at the lower end, has led to increased labor market inequality within occupations, companies, and the industry as a whole” (Batt & Darbishire, 1997, p. 10). Domestic outsourcing was employed at the company’s call centers in an effort to reduce costs. By 2004, 45% of AT&T’s calls were outsourced. The labor union representing the company’s call center workers, the Communication Workers of America (CWA), cooperated with management, made concessions and drew up plans to reduce labor costs at AT&T’s internal call centers. While management was initially supportive of a pilot to in-source work again, the company eventually pulled the plug on the project when it exited the residential long distance market (Doellgast, 2008).

Several rounds of downsizing reduced AT&T’s non-management workforce by 60% between 1984 and 1995 (250,000 to 100,000); management was reduced by a third over the same time frame. The first rounds of downsizing were mostly voluntary through attrition, early retirement etc; however, later rounds consisted mainly of involuntary layoffs (H. C. Katz, 1997). It is unsurprising that this resulted in massive problems with employee morale. In addition, unions lost influence. While the majority of AT&T’s workforce (67%) was unionized in 1984, the rate had fallen to 42% in 1995. Unions sought to maintain high wages, severance packages and early retirement schemes, but have had little impact on

actual practices, despite some highly publicized joint labor-management work innovation programs in the 1990s, such as the Workplace for the Future program. Union expectations of joint strategic decision-making were not met; information-sharing was the height of cooperation. Union influence over restructuring was limited to making suggestions to management on alternatives to job cuts (which were not always followed) and mitigating the impact of layoffs on workers (Appelbaum & Hunter, 2004). Collective bargaining was also dismantled, mainly through AT&T classifying more employees as managerial and thus exempting them from collective bargaining laws. Unsurprisingly, labor-management relations soured and did not recover even after a highly publicized attempt to reinstate cooperative IR (Batt & Darbishire, 1997). Overall, the restructuring of AT&T was highly market driven, with little to no role given to labor.

While AT&T's restructuring process was criticized for a lack of social responsibility, it was positively received in terms of delivering maximized shareholder value, which is seen as paramount in American corporate restructuring (Bowman & Singh, 1993; Champlin, 1998). The case is also illustrative of the difficulties unions encounter in face of management opposition, even in a firm with traditionally strong unions and high job security. The case of AT&T shows that best practice labor relations before restructuring do not necessarily translate into best practice during and after restructuring.

2.4. Case Study 2: General Motors

General Motors Corporation (GM) was in a financially vulnerable position even before the current economic downtown. The company had focused too much on large vehicles and was caught off guard when increasing oil prices led to consumer demand shifting to smaller, more fuel-efficient cars. At the onset of the global economic recession at the end of 2008, GM, along with its fellow domestic auto manufacturers Chrysler and Ford, was severely impacted by the decline in consumer spending and unavailability of credit. In September 2008, the heads of GM, Chrysler and Ford asked Congress for financial support - $7.5 billion in direct aid and $25 billion in loan guarantees. As the money was being approved in October, the situation worsened as dire sales forecasts led to a 31% drop in GM's shares. The three carmakers returned to Washington a month later to ask for a total of $25 billion in direct aid; about half of that sum was to be for GM alone. This time, Senate blocked government assistance, but President Bush approved 'bridge loans' for GM and Chrysler using money from the financial industry bailout fund, the Troubled Asset Relief Program (TARP). GM received $13.4 billion, but would only receive further money if it delivered a sound restructuring plan including concessions from suppliers, creditors, dealers and unions (The New York Times, 2011).

President Obama, who took office in the beginning of 2009, took a more hands-on approach than his predecessor, setting up an Auto Task Force to examine GM's restructuring plan in detail. The government promised further financing, contingent on (1) CEO Rick Wagoner's resignation; (2) the United Automobile Workers (UAW) agreeing to a substitution of stock for half of pensioners' health care benefits; and (3) reaching an agreement with 90% of bondholders to convert two-thirds of debts into GM stock. The first condition was met quickly and followed by a complete reshuffle of the company's board. The UAW agreed to the deal as required and offered further concessions, such as eliminating guaranteed paychecks for laid-off workers. A group of GM's largest bondholders, representing about 20% of bond debt, "accused the government of seeking to use them as scapegoats for a potential bankruptcy filing" and rejected the deal (The New York Times, 2011).

GM filed for Chapter 11 bankruptcy on 1 June 2009, starting the restructuring process under government control. The President "described the federal officials as 'reluctant shareholders,' but called the bankruptcy and federal aid the only way to avoid an economic calamity" (The New York

Times, 2011). On 10 July 2009, GM emerged from chapter 11 proceedings as a new entity, General Motors Company LLC, which bought continuing operations along with desirable assets and trademarks from the old entity. The 'old' GM was renamed Motors Liquidation Company and its remaining assets were sold. The 'new' GM has reduced its brand portfolio from formerly 12 brands to 8 'core' brands, severed ties with close to 20% of its dealers, and closed 13 of its 47 US manufacturing plants. Total US employment was initially reduced from 91,000 to 68,500, but has rebounded to 77,000 in May 2011. As the company started to increase its employment numbers again, UAW workers on layoff had priority over non-union members (DePamphilis, 2009; Thompson, 2011).

On 18 November 2010, GM raised $23.1 billion is the country's largest initial public offer (IPO) to date. The government reduced its stake in the firm significantly, from 61% to 26% (de la Merced & Vlasic, 2010). For the fiscal year 2010, GM returned to profitability for the first time since 2004, posting earnings of $4.7 billion. Management, however, announced that cost-cutting would have to continue for years to come (Bunkley, 2011). The turnaround of GM was not only hailed from a financial point of view, but also for avoiding damage to the overall economy. While the bankruptcies of GM and Chrysler are estimated to have brought with them a total of 171,000 job losses by the end of 2010, government intervention has prevented worse ripple effects throughout the US economy, avoiding an estimated "1.1 million net job losses in 2009, and another 314,400 in 2010" (Center for Automotive Research, 2010).

Government intervention in the GM case was atypically strong for US standards. First, the policy to 'bail out' the firm is atypical of American industrial policy, which tends to support upcoming industries rather than those in decline. Second, government loans were contingent on concessions for substantial reform from GM's suppliers, lenders and labor unions, indicating government intervention at the management level of GM's restructuring process. Third, the government also intervened on the industry-level by stimulating demand through its Car Allowance Rebate Scheme, a program offering cash incentives for buyers of new, fuel-efficient cars. In sum, the government's strong-handed approach appears to have been justified, returning GM to profitability and a successful IPO, while demanding concessions from all stakeholders and limiting further damage to the economy. Restructuring at GM can be regarded as a best practice case from a European point of view, as it delivered socially responsible results through a tripartite process. However, this view is not shared by the American public, as in a poll conducted by The Wall Street Journal, 37% of respondents said the bailout of GM and Chrysler 'made things worse,' as opposed to only 33% who said it 'made things better' (Solomon & Bendavid, 2010).

3. Summary and Conclusions

3.1. Major Trends of Restructuring and Public Policy Addressing Change

The American economy underwent fundamental restructuring from the 1970s onwards, when increasing international competition and market saturation eroded the profitability of US businesses. The manufacturing sector was particularly hard hit by these pressures. While some firms took the 'high road' in their search for lower costs and increased flexibility, many took the 'low road' and cut staff levels, emphasized flexible hiring and firing, union avoidance and outsourcing/offshoring. As firms sought to offshore manufacturing operations or emulate low-cost production conditions domestically, semi-skilled workers bore the brunt of the consequences, experiencing employment decline and smaller wage increases than other groups.

The rise of the service sector, both in terms of value added and employment, was able to compensate for the layoffs in manufacturing and allowed the US economy to outperform Europe throughout the 1990s and early 2000s. However, as the middle of the income and skill distributions suffered most from the decline of manufacturing, the country experienced rising income inequality and polarization of the skills spectrum.

American industrial policy tends to be more concerned with directing resources to emerging industries than with assisting declining industries. In this sense, it accelerates the 'natural' processes of industrial change, by helping the 'winners' and leaving the 'losers' to their own devices. The hallmarks of US industrial policy are highly limited government ownership (excluding the most recent recession), a prevalence of private-public partnerships, and extensive use of the tax code. The latter includes measures such as tax credits or lower corporate taxes to provide incentives and direct investment to desirable industries. Furthermore, industrial policy tends to be a side effect of other policies, making it more implicit than explicit. Government sponsorship of R&D, particularly in the defense industry, has transformed the American system of innovation. Military spending, for example, helped create the country's computer, software, and aircraft industries, which turned into cornerstones of the American economy. In the last decades, industrial policy has become increasingly politicized, as businesses have increased lobbying to take advantage of the fragmented American political system. This has entrenched pork barreling, which refers to Congressmen demanding concessions for their constituency in exchange for voting in favor of a particular bill. Increased lobbyism and pork barreling have distorted industrial policy somewhat, with declining, yet politically powerful, industries able to attract significant government assistance.

Public policy addressing industrial change is generally in the domain of state and local governments, rather than the federal government, and is executed through two main avenues. First, local economic development policies aim to retain existing business, as well as attract new business to the area. The most popular measure, tax incentives, are usually aimed at attracting new branch plants in the manufacturing industries. Municipalities often engage in a race to the bottom as they compete for new plants and jobs, by offering better tax incentives, i.e. lower corporate taxes, than their competitors. Ultimately, this harms the municipalities' revenue base and increases firm bargaining power. Second, support programs for dislocated workers are designed to adapt the workforce to the changing needs of the labor market. These are administered through a mix of federal and local programs, often targeting

dislocated workers in particular industries or in particular circumstances. Incumbent worker training is a pro-active policy, which aims to adapt workers to upcoming changes to avoid layoffs. However, only a marginal share of this type of training is publicly subsidized, suggesting that government policy is this area is more reactive than pro-active.

The American labor market shows anticipatory and flexible behavior, as the country's experience with NAFTA has demonstrated. Workers in locations affected by the removal of trade barriers move to unaffected locations. However, in cases where the loss of protections affects entire industries, workers cannot escape the effects by relocating, increasing the need for government-assisted retraining. Employers also appear to show anticipatory behavior. While layoffs used to be a measure of last resort for companies to return to profitability, anticipatory layoffs, as a way to avoid losses altogether, have become more common in the last decade.

3.2. Socially Responsible Restructuring and Major Challenges

The employment relationship in the US is seen to provide economic benefit to both parties. As soon as it ceases to do so, it is readily dissolved without major social concerns. As companies freely adjust their workforce and corporate structure to the changing demands of the market, workers may easily lose their job, but up until recently the fluid labor market allowed them to find new employment just as quickly. This understanding is supported by employment legislation, which is among the most employer-friendly in the world. US law has only minimal provisions concerning the terms and conditions of employment, but strongly bars discrimination against individual employees on the basis of sex, age, race, religion, and disability. American employment law thus emphasizes individual protection over collective protection. The enforcement of labor laws occurs mainly through worker complaints to government agencies or lawsuits. In some areas of workplace discrimination, however, workers have slim chances of succeeding in court. The power of America's anti-discrimination laws is further limited by the courts' disinclination to deal with workplace discrimination on a collective basis.

With this conception of the employment relationship and constant adjustment to economic circumstances, it is clear that the American understanding of socially responsible restructuring is not one of preserving old structures and employment, but of allowing and supporting the 'natural' change of business needs. Laws concerning corporate restructuring underline this, through their conspicuous absence compared to European labor laws: There are no laws limiting plant closures and only a rather weak notification system for mass layoffs. As the US does not have legislation akin to the EU's Business Transfers Directive, workers are presented with a major challenge in gaining bargaining power when business units change ownership.

Firms have considerable discretion over how to conduct their restructuring efforts. While the majority of firms engage in hiring and firing at will, to dynamically adjust their workforce to market demands, some firms take a more cautious approach. However, these responsible restructurers are also expected to adhere to the dominant shareholder-value orientation model. This includes cutting costs on all fronts, including executive pay cuts, benefit reductions and ultimately workforce reductions. Responsible layoffs are quick and limited in frequency to preserve employee morale, and include severance packages and displacement services aimed at helping workers retrain and adjust to quickly find new employment. While employers are bound to existing union contracts, which may contain provisions affecting restructuring, they do not represent a serious threat to employer power. The American industrial relations system allows very limited choice for unions and collective bargaining arrangements, leading in practice to a choice between no worker organization and collective bargaining majority unions. With weak legal support and several anti-union techniques at the disposal of

employers, chances of successful unionization and, crucially, signing of a collective bargaining agreement are slim. Unlike in many parts of Europe, where multi-employer bargaining is the norm, single-employer bargaining in the US limits union power further. For these reasons, unions face almost insurmountable challenges when seeking influence in the traditional collective bargaining framework.

Employees or unions generally have little to no influence over strategic decisions such as corporate restructuring. Workers do not have legal rights to workplace or boardroom participation, but were traditionally awarded a role as informal stakeholders in the firm. However, with the rise of shareholder orientation in the 1970s and 80s, hostility towards unions and joint decision-making gained ground. As US firms sought to imitate the successful Japanese and German production models in the 1990s, there was a resurgence in employee involvement programs along with employee stock option plans. Yet, strategic partnerships remain extremely rare. Lacking a legal basis, strategic labor-management partnerships were not only rare to begin with, but are also prone to collapse as soon as management withdraws support. Even where they do exist, they generally do not extend to critical strategic decisions that go beyond day-to-day business, such as divestments, relocations and layoffs. In some cases, unions have chosen to wield strategic influence as board members representing union retirement funds. However, with the significance of union retirement funds in decline, this does not represent a way forward for unions to regain strategic influence.

In contrast to their European counterparts, American corporations have historically taken more responsibility for employee welfare benefit provision than the state. The New Deal era saw the introduction of some early welfare programs, such as old-age pensions and unemployment insurance. Public healthcare for the poor (Medicaid) and the elderly (Medicare) was introduced in the 1960s to cover otherwise uninsured people. In the 1970s, the government started regulating employer-provided retirement plans, prompting a shift from defined benefit to defined contribution plans, and extended public unemployment insurance coverage. A casualty of the decline of manufacturing in this period was the traditional welfare company, such as General Motors, which offered high salaries, job security and generous welfare benefits in exchange for employee's loyalty and firm-specific skill acquisition. As a result, the role of employers as the primary providers of welfare benefits declined somewhat. More recently, some employers, particularly small businesses and those with a large share of part-time workers, have started to cut healthcare provision altogether, leading to a record high of uninsured people. The government addressed this in a bill, which was signed into law but has yet to take effect, by mandating that otherwise uninsured people have to buy private healthcare insurance.

The case studies of AT&T and GM highlight the two different understandings of best practice in socially responsible restructuring in the US and Europe. In the US, best practice is usually deemed as maximizing shareholder value, as it is often seen that 'what is good for the company is good for everyone.' The AT&T case illustrates this, as the restructuring featured top-down initiatives aimed at cost-cutting, downsizing and outsourcing to increase profit margins and shareholder return with little attention or concessions made to labor unions. The case of GM is closer to the European ideal of socially responsible restructuring, delivering tripartite solutions to restructuring issues, but was not condoned by the American public.

In sum, restructuring in the US is a highly employer-driven process, with little standing in the way of firms making changes as they see fit. Industrial policy and policy addressing change are tailored towards supporting rather than inhibiting this process, by directing resources to emerging industries and providing retraining assistance to dislocated workers. These policies, however, are largely re-active rather than pro-active. Put bluntly, social responsibility is seen to be what is good for the company and its shareholders, while helping workers adjust to industrial change.

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5. Appendix: Statistical Data and Figures

Table 3: Economic Indicators for the United States

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Annual GDP growth rate (%)	4.2	1.1	1.8	2.5	3.6	3.1	2.7	1.9	0.0	-2.6
GDP per capita, PPP (constant 2005 international $)	39,577.63	39,601.94	39,944.20	40,588.17	41,652.85	42,534.48	43,256.54	43,662.14	43,260.88	41,761.08
Agriculture, value added (% of GDP)	1.2	1.2	1.0	1.2	1.3	1.2	1.0	1.1	1.2	
Services, value added (% of GDP)	75.4	76.5	77.2	77.2	76.6	76.6	76.7	77.1	77.5	
Manufacturing, value added (% of GDP)	16.7	15.3	14.9	14.4	14.2	13.9	13.8	13.4	13.4	
FDI, net outflows (% of GDP)	1.6	1.4	1.5	1.3	2.7	0.3	1.8	2.9	2.4	1.9
FDI, net inflows (% of GDP)	3.2	1.6	0.8	0.6	1.2	0.9	1.8	1.9	2.3	1.0
FDI, net inflows ($m)	321,274	167,020	84,370	63,750	145,966	112,638	243,151	271,211	328,334	134,710
Net trade in goods	-378,784	-364,394	-420,525	-494,182	-609,347	-714,178	-759,245	-702,098	-698,804	-374,909

and services ($m)	
Source: The World Bank, 2011: *Data*, http://data.worldbank.org (accessed 8 July 2011)	

Table 4: Labor Market Indicators for the United States

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Employment rate (% of working-age population)[(1)]	62.0	61.1	60.1	59.6	59.7	60.0	60.4	60.1	59.2	
Employment in agriculture (% of total employment)[(1)]	2.6	2.4	2.5	1.7	1.6	1.6	1.5	1.4		
Employment in industry (% of total employment)[(1)]	23.2	22.6	21.8	20.9	20.8	20.6	20.8	20.6		
Employment in services (% of total employment)[(1)]	74.3	75.0	75.6	77.5	77.6	77.8	77.7	78.0		
Unemployment rate (% of total labor force)[(1)]	4.0	4.7	5.8	6.0	5.5	5.1	4.6	4.6	5.8	9.3
Human Development Index[(2)]	0.893					0.895	0.897	0.899	0.900	0.902
Public spending on education (% of GDP)[(1)]		5.7	5.7	5.9	5.6	5.3	5.6	5.5		

Sources:

(1) The World Bank, 2011: *Data*, http://data.worldbank.org (accessed 8 July 2011)

(2) UNDP, 2011: *International Human Development Indicators*, http://hdr.undp.org/en/data/profiles/ (accessed 8 July 2011)