Interview with Professor Richard B. Freeman,
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Rahner: your view, what decisive trends, developments and interrelating factors will be most significant in determining the future of labor?

Freeman: First would be the globalization and what happens with China, India and the three quarters of the world which are not the one quarter of densely located western countries. Very important will be the developments in the rapidly developing, highly populous countries like China and India. A second decisive trend is going to be the advance of science and technology, and how we will apply that to our economies, and who will control and influence those applications. It will become crucial whether we are going to have a world in which a small number of billionaires are going to be in control, or whether we are going to have a wider stand of influence on those critical things.

Rahner: What effect are demographic developments in the U.S. having on working conditions and the labor market there?

Freeman: Part of these three demographic developments that are having some effects are firstly the huge increase and change in the position of women. It is not that 50 odd per cent of the working population are women. But women are now working, often working full-time, and they make up a majority of the university graduates. Nowadays about 40 % more women get bachelors degrees than men, so they are an increasing proportion of our bachelors graduates. I think in Germany there may be a little more than men but it is not 40 % like in the US. That development is important and obviously has huge effects on working conditions on the labor market.

The second is that the US is greatly affected by immigration, mostly by low-skilled people who came here from Mexico and Latin America. This has created a low-level labor market in the country that we would otherwise not have. But there is also a big flow of people in the PhD programs and professors that are foreign immigrants, many of which are currently coming in from China. This means that for a long time we will
not have a shortage of skilled workers, especially not skilled top-of-the-education. For a long time the US will be offering better jobs than India and China in that area.

The third is the changing ethnic ratios of the US workforce. Whites of European descent used to be the vast majority. We know among the younger people the Whites are becoming fewer. The growth of our workforce of young people becomes Latin Americans, black Americans, Asians, and different other ethnic groups. So we are seeing a change in the composition of the workforce and that affects both, working conditions and labor market and obviously it has become a very contentious political issue.

Rahner: Do you consider liberal market economies such as the American socio-economic model sufficiently equipped to cope with the impending challenges for economic, social and employment policy? If not, what institutional reforms do you believe are necessary?

Freeman: That is a big question. The US was pretty good at one aspect: We were able to absorb and change the society so that women could be included into the workforce quite easily. We have created a lot of fast-food places. We have the low-skilled workers who come in. They do the cleaning in the houses, they do a lot of the baby-care either as nannies or they are working in pre-school places taking care of the kids there. I think our labor markets have done well by opening doors to the Chinese, Indian, and other immigrant scientist engineers, people at the top of the ladder. So I think in a couple of ways we have done okay.

Where the US neo-liberal labor market has not done well is in having unions that keep people at the top away from taking larger and larger shares of our income. We have nothing to counter-balance the forces of the wealthy. It is a lot easier for the very wealthy people to keep labor wages down and so on when they have a lot of immigrants coming in. That helps them in their activity. Unions have taken a long time to become advocates of the immigrants – now they are, but the unions are very weak. So there is an institutional weakness in the labor market of this country. Neo-liberal labor markets are very good at dealing with some things, but they are very bad, it seems, in balancing the power of business and workers in setting the rules of the labor market. That is where we have fallen short.

It is also very striking if you compare us to Germany in the great recession: the US firms laid people off more rapidly than they have ever done in the American history. We just threw people out of work, and then our profits recovered very quickly and the business leaders did okay. They lost because the share prices fell but they were covered, the stock market is back, as we know. You cannot address that to Germany or any other country in the advanced world. Every other country fundraised jobs so that they can preserve them. There were different job saving programs in different countries, but in 2009 the US had the fastest growth in productivity than we ever had
in manufacturing. The US firms just squeezed out workers like crazy. I think that is the major problem that we do not have the institutions to press the business community to have save jobs in times of recession. Still today they are not hiring people too much, it is very slow hiring. This may not be a problem for the individual firm. The individual firm gets productivity up and makes more profits, but there is no social aspect in this and that will come back in binding us as time goes on. In some companies – even Walmart complains – the workers are not being paid enough to buy the products in Walmart. That is pretty striking. Walmart has endorsed increases of the minimum wage. They are not a company that is particularly friendly to labor, except when they see them as purchasing their products.

Rahner: Let us take a look at Germany. Within Germany’s coordinated market economy, what prospects do you see for the cooperation between labor unions and business associations in tackling complex issues like the lack of skilled labor and the growing social inequality?

Freeman: I assure you do better in tackling the skilled labor issues because that is in the mutual interest of both sides. Regarding social inequalities we know that Germany has liberalized parts of their labor system through with the inequality has gone up quite substantially.

I think right now Germany did really well coming out of this recession and dealing with this recession. I have always been struck that in the 1970s oil shock the Scandinavian countries did extremely well, Germany did pretty good also. In the 1980s and 1990s the US seemed to do well. Now that Germany seems to be doing well I think countries do well every 20-30 years. I would not want to anticipate that Germany will continue doing as well as they currently are. I know now in Germany there is a lot of general feeling of, “Oh, we did great in this recession and with the recovery, we are also going to do great afterwards.” I would anticipate that ten years from now Germany will “look more down to earth”. That has been the story of the Scandinavians and Americans before, so that is what is going to happen in these cross-country situations.

I do not mean to say that this has to do with policies but sometimes one set of policies in institutions works really well when you face one economic problem. But when a new problem comes along and you are not so suited for that one. That is by the way a story the US-Americans had: We were nicely suited for a certain kind of problems and now the problems changed and we turned out to be poorly suited for today’s problems.

Rahner: How can the value of labor be renewed within a flexible and dynamic working society?
Freeman: I have a pretty radical view of that. I think if we are going to have flexible labor and if the balance of power in the labor market goes towards the employers, the industry will ship their productions to China, India and Eastern Europe because there they will find highly skilled and low-wage labor. Then our traditional unions will have problems. So I think the only real solution to that for the labor is to be having greater ownership of capital. Otherwise you will have the government interventions. In the great recession we saw that the interventions were quite successful, but if we move into more normal times, the governments do not want to get incredible indebtedness, but will rather want to balance their books. So it will be much better if the workers can take care of themselves because they are partly capital owners. That means when the income distribution shifts towards capital, which it has in Germany and almost all other countries, the workers do not lose in the way they do now because if capital goes up a small number of people make a lot of money. In the Netherlands, in Sweden and a couple of other countries the workers have private pension funds. And if they have shares in the companies, then the workers are better off when the capital goes up. They will have more than their pure labor because that gives them a true protection and it does not require the state to intervene. People can make themselves more secure because they have this kind of asset through the capital market.

Rahner: How might education, family and employment policies be aligned more effectively in the future to enable a better life-work balance?

Freeman: I suppose the biggest answer one could give would be that they will all start becoming at least 80 years old. Let us assume that everybody is going to live up to 80 years on average. We will get our education early, we will work for a period and then we will retire and live on our savings, the social security system etc. I do not think that this is ideal, it is pretty harmful in some cases – especially for the women on the family issues because the care-taking is mostly done by women –, and they will have their children aged 30 to 35, we may assume that they leave the labor market and cannot go back into a good job, later on you lost her human capital etc. I think that we have not adjusted our whole system of education, family and employment to the fact that we will live longer, the fact that women are working much more, and that we actually have those many more years so someone can do the childcare and then maybe their age of retirement will start a year or two later. So my recommendation would be that one could say at 35, I want to take a year off to take care of my baby, then I will work a year longer. The Europeans have been very good – especially Germany and France – at trading time within a year. Now we should begin thinking of contracts that trade time over much longer periods. I think that is the more effective way of aligning things, so that they will become normal. Why not also offer to take three of four years off to do some extra training, get some new qualifications, take some time off for family time and this will be paid for by the tax
payers. The person accepting this deal will in return work those three or four years longer. The people are pretty healthy in their 60s and 70s, they can work longer. You cannot ask blue-collar workers like a truck driver to work into their late 70s because of the physicality of their jobs. But white-collar workers should be able to work longer. You will need to have special policies for the blue-collar workforce, there should be deeper thinking on this. In the US when you lose your blue-collar job in the recession, you will be 20-30 percent lower paid, you will actually suffer an enormous wage loss. We should think of some kind of an extra government support for these people. They are forced into a job beyond their blue-collar skills and they cannot go back into their blue-collars because their bodies cannot handle this. I think it is basically setting up the work-life-balance by thinking about people being able to work through their 70ies and then letting people have the right to education to do this and let them pay this off later on.

Rahner: Is there a vision for the future of labor that you regard as particularly desirable?

Freeman: It is clearly a vision where every worker has their skills that they sell on the labor market but they also have enough ownership on other assets – including business assets – so that everybody is protected and insured by having a share of the entire society. Obviously when the entire society goes down and we have a recession, everybody is going to suffer. But you do not want the super wealthy to be those who get a huge and increasing share as the society advances and everybody else stagnates and gets close to nothing and that is because the ownership of the capital.

With public sector investments we are creating wonderful science and engineering which makes for great improvements in our technology and of course then some companies who have very smart and creative entrepreneurs create great profits, they create great wealth, but we will have to be empathetic with all of us and the social capital we all create.

My view is that everybody has to have some ownership stake which then makes it clearer that we are all partners working together as well as of course competitors in different companies. I compete with you for a job, we want to have competitive forces, clearly. But there has to be this element that no one has just to be a worker. Everybody should have something more and I would like it to be something they own rather than something that the government chooses to give them through political decisions. I think that is safer and better.

Let me make a last comment about this: This was the vision that the founders of the American democracy had in mind in the 18th century. Everybody should own land and that was the way you could keep a democracy growing. They believed that if you had inequality at the level that we now see in the US, that this was unsafe for
democracy. When you read that the American people were revolting against the king of England, it was very clear that they had a definite vision on a democracy based upon lots of people who had egalitarian wealth and income through private property. I do not see land today as the key resource, it is more physical and knowledge capital. I do not mean the intellectual capital, but it is also the business knowledge that uses those technologies. Everybody needs to have shares of that. That is what society is all about: Creating knowledge to make technology that makes life better. We have to make sure that everybody has a share – that is my vision.