

Negotiating the New Social Contract

The terms of today's employee-employer contract have become far less favorable for workers, creating income inequities, critical gaps in health and retirement provisions, and, some argue, structural unemployment. While the current drift of employer practices would appear to portend a bleak future for worker-employer relations, research suggests a far different approach is needed. Further, organized political responses to current trends appear to be well underway.

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The uncertainties that attend much of postmodern life are perhaps most pronounced in the workplace where the relationship between employers and employees is undergoing considerable change. Workers, enterprises, industries and whole economies are being rocked by the destabilizing effects of global competition, technological advancement, and the structural changes they have compelled. While a transformed marketplace has helped liberate millions of workers from autocratic management systems, the drive to remain competitive has also led to relentless cost-cutting. Labor, which comprises an estimated 70 percent of all production costs,¹ has been an easy, first-strike target. Millions of jobs have been outsourced, marginalized to part-time or contract status, or eliminated altogether; the buying power of wages has remained stagnant for two decades; and the benefits that once enabled health and retirement security have eroded. As a consequence, some observers have pronounced the social contract irretrievably broken. Clearly, a far more tenuous agreement, one that shifts many responsibilities previously assumed by employers to workers, is influencing employment practices nationally.

The weakening social contract, however, is only part of the dichotomous world of work. Economic anxiety now coexists with dramatic organizational change that is fostering more democratic, participatory work environments and collaborative partnerships between managers and workers. While exhilarating to many, the assumption of new responsibilities and roles that comes with such change is troubling to others, producing yet another reservoir of work-related anxiety. Research, however, shows that the shift to “high-performance” organizations enables higher returns by enriching and routinely tapping the knowledge of front-line workers. A 1995 literature review for the U.S. Department of Labor concluded, “The evidence for employee development practices as a significant driver of productivity and profitability appears firm.”²

The process of adaptation to these often contradictory changes is expected to continue unabated for years to come. While the current drift of corporate employment practices would seem to portend a disappearing social contract between employers and employees, the ethical and economic validity of these strategies is being broadly challenged. At the same time, widespread public disapproval is giving rise to organized responses. Some optimistically predict that economic growth will neutralize simmering resentments, a scenario which the present health of the economy makes more plausible. Regardless of what unfolds, the ground rules for this uncertain playing field will likely be a subject of debate for years to come.

The dilemma at the center of the dialogue, suggests Carnevale, is how to preserve needed flexibility in our economy and labor market and, at the same time, provide people with a “tool

¹ Blinder, A. (Ed.). (1991). *Paying for productivity*. Washington, DC: Brookings Institution, p. 1.

² Mavrinac, S.C., Jones, N.R., Meyer, M.W. (1995). *The financial and non-financial returns to innovative workplace practices: A critical review*. Washington, DC: US Department of Labor, p. iii.

kit”—skills, health care, pensions—to survive.³ Throughout modern history, the U.S. government has helped fill gaps in support when individuals were unable to work, to find work or, more typically in recent years, to achieve self-sufficiency through work. But the demands on governments continue to rise. In response, suggests Kapstein, governments around the world are trying to “break their postwar deal with workers while maintaining their commitment to an open economy.” Instead, he suggests, the focus should be on “negotiating a package that helps workers adjust to ongoing economic change.”⁴ The pressure for such a package, for structural responses to the growing gap between work and well-being, will almost certainly continue to mount.

In the absence of sustained and rising economic growth, the terms of today’s weakened social contract may result in massive unmet public need over the long term. Ultimately, we must determine when and how to engineer responses to unmet needs and how to pay for them. For the foreseeable future, this difficult reckoning will be the subject of a continuing dialogue that will not easily nor quickly yield solutions. Nevertheless, the issues at stake in the new social contract present the nation’s most formidable challenge, one policymakers can ill afford to ignore.

An Expanding Pie, Smaller Pieces

Since 1970, the United States has been mired in what economist Thomas I. Palley calls a “Leaden Age” during which economic growth has been accompanied by the persistence of seemingly incompatible forces—falling wages and rising employment.⁵ Even during the 1992-93 recovery, Mishel, Bernstein and Schmitt report, the median U.S. family income declined while unemployment fell and gross domestic product expanded.⁶ Ordinarily, today’s low unemployment rates would exert upward pressure on wages, but, until recently, that pressure has been isolated regionally and occupationally and has remained negligible overall. Only in the past 18 months has inflation-adjusted personal and business income begun to show sustained and significant rates of growth,⁷ what some see as a sign that “public tolerance of wage stagnation is reaching its limits.”⁸

In spite of today’s good economic news, underlying anxiety about the future is not likely to dissipate soon. Today, whole classes of workers are benefiting only marginally or not at all from an economy that has created millions of jobs and propelled the stock market to record heights. And, in spite of formal reports of low unemployment, evidence of structural unemployment is mounting nationally and internationally. In spite of the buoyancy of the moment, Freeman suggests, the American economy bears a disturbing resemblance to that of a Third World nation “where the wealthy and powerful prosper while the less well-off struggle.”⁹

Nevertheless, Americans are cautiously optimistic about the general trend of today’s economy, a rather remarkable mood swing that occurred in just a few months. A February 1996 *Business Week*/Louis Harris and Associates poll found that only 50 percent of Americans saw better times ahead, compared to 59 percent of survey respondents in 1989.¹⁰ By September, Americans were buoyed by sustained economic growth and wage gains. A *New York Times*/CBS News poll found that 72 percent of people believed the condition of the economy was good, but 40 percent expressed the belief that future generations would not be better off.¹¹

³ Carnevale, A. (1996, July 15). The future of business, labor, and government relationships. *Future Vision*, Eighth General Assembly of the World Future Society, Washington, DC.

⁴ Kapstein, E.B. (1996, May/June). Workers and the world economy *Foreign Affairs*, 21.

⁵ Palley, T.I. (1996, July). Recipe for a depression *The Atlantic Monthly*, 45.

⁶ Mishel, Bernstein & Schmitt. [On-line] Available: epinet.org/epsua-ex.html.

⁷ McNamee, M. (1996, September 2). Something doesn’t add up here *Business Week*, 58.

⁸ Reno, R. (1996, October 6). Wage dissatisfaction fuels new ‘revolution’ *Lexington Herald-Leader*, p. D6.

⁹ Freeman, R.B. (1996, September/October). Toward an apartheid economy *Harvard Business Review*, 115.

¹⁰ *Business Week*/Louis Harris & Associates. (1996, March 11). America, land of the shaken *Business Week*, 64-65.

¹¹ Mandel, M. (1996, September 23). Whatever happened to economic anxiety *Business Week*, 36.

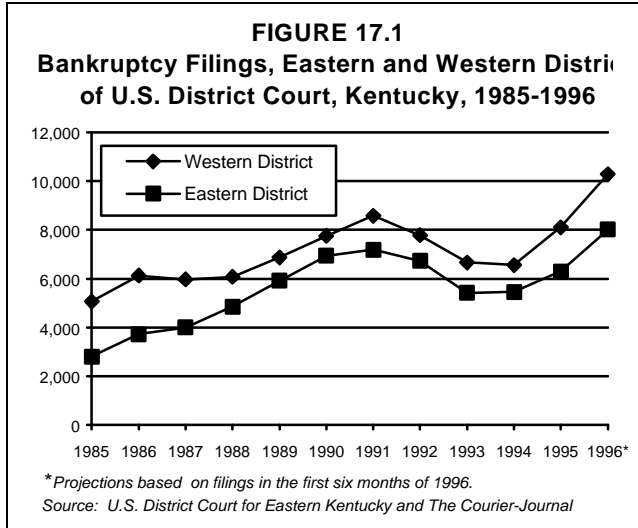
In spite of today's relative optimism, layoffs have continued unchecked, rising 24 percent in 1996 over a comparable period in 1995.¹² The manufacturing sector alone lost 140,000 jobs over the past year,¹³ many of which will not be easily replaced. During the 1990s, the Economic Policy Institute reports, U.S. workers have experienced the worst rate of job losses since World War II, and, on average, workers lose 15 percent of their income on the next job, while a quarter of laid-off workers have no health insurance.¹⁴ To no one's surprise, nearly half (46 percent) of employees of large corporations are "frequently concerned" about being laid off, up from 44 percent in 1994, and 31 percent in 1992.¹⁵

In spite of economic uncertainty, consumer confidence as measured by spending has lifted out of the doldrums to reach a six-year high.¹⁶ But, for many, this release of pent-up consumerism may have less to do with purchasing power than it has to do with eroding benefits and frustration with inaccessibility to a consumer society. In response, more and more Americans live beyond their means by piling on credit card debt. In turn, personal bankruptcies have reached their highest quarterly point in history.¹⁷ Bank-

ruptcy court officials predict that as many as 1 million Americans may go broke this year.¹⁸ In Kentucky, where a record pace of filing is underway, court officials and attorneys for the newly bankrupt attribute a growing portion of claims to medical bills the uninsured or underinsured cannot pay.¹⁹

Indeed, the benefits that stand between millions of Americans and bankruptcy are as uncertain as the jobs to which they were once routinely tied. The Employee Benefit Research Institute reports that an estimated 61 million non-elderly Americans had no health insurance during a given week in 1995.²⁰ Among those most likely to be without health insurance were the self-employed and employees from a range of industries that have historically sponsored benefits.

The future appears to offer even less certainty. In 1992, according to the Census Bureau, only an estimated 40 percent of the U.S. civilian labor force was covered by a pension plan,²¹ signaling a looming deficit in retirement incomes. Employers have divested enterprises of many responsibilities for health care and pension provisions, trimming benefit packages, shifting more responsibility to workers, sometimes abandoning commitments to retirees altogether, and hiring more contract and part-time personnel who must fend for themselves. So far, government has declined to fill the void or to make pensions more portable. Indeed, the



¹² Mandel. Whatever happened to economic anxiety?, 34.

¹³ Mandel. Whatever happened to economic anxiety?, 35.

¹⁴ Mishel, L., Bernstein, J. and Schmitt, J. (1996). *The state of working America, 1996-1997*. Washington, DC: Economic Policy Institute. [On-line] Available: epinet.org/epswa-in.html#squeeze, 4.

¹⁵ Mandel, M. (1996, September 16). Workers have a case of nerves *Business Week*, 30.

¹⁶ Cooper, J.C. and Madigan, K. (1996, August 12). This shopping spree isn't over yet *Business Week*, 23.

¹⁷ Greenwald, J. (1996, July 8). Deadbeat and upbeat *Time*, 44.

¹⁸ Yetter, D. (1996, September 9). Bankruptcy surge blamed on medical bills *The Courier Journal*, p. A1-6.

¹⁹ Yetter.

²⁰ Employee Benefit Research Institute. (1996, May 15). Health reform measures would benefit some, but not all, groups of workers, according to new EBRI report (news release). [On-line] Available: www.ebri.org/rp0515.htm.

²¹ US Bureau of the Census. (1994). [On-line] Available: www.medaccess.com/census/9420588.htm.

recent national political debate is one of which services to jettison in order to balance the budget, rather than how it can close widening gaps.

For many, the gap between today's wages and the quality of life work once afforded is widening. Nearly 20 percent of the year-round U.S. labor force earns too little money to escape poverty,²² and, the Census Bureau reports, the rich continue to get richer while economic circumstances remain much the same for the poor and the middle class.²³ Between 1984 and 1994, average household income rose just 1 percent, but for those at the bottom of the earnings ladder, the poorest one-fifth of households, income rose at a glacial pace of *one-tenth of a percent a year*. Meanwhile, the top one-fifth of households realized a 20 percent gain in income.²⁴ Recent studies commissioned by the bipartisan federal Competitiveness Policy Council found that average hourly wages adjusted for inflation are now \$120 lower than their peak in 1973.²⁵

To add insult to injury for workers, the compensation packages of U.S. CEOs, many of whom ordered layoffs, jumped 92 percent between 1990 and 1995, while worker pay inched upward 16 percent.²⁶ In 1995, the pay of the average U.S. CEO was 141 times that of the ordinary factory worker,²⁷ a circumstance Reich refers to as "the tinder for mass resentment of business elites."²⁸ With the announcement of every major layoff, Reich observes, "a chill is sent through the living rooms and kitchens of millions of American homes . . . To the extent that we're concerned about social tranquillity, that sense of insecurity is a real cost."²⁹

Beneath today's official U.S. jobless statistics, Thurow argues, lies a sea of unemployed and underemployed workers. National unemployment rates are based on the Current Population Survey, which examines a pool of survey subjects during rotating time periods. In April 1996, Thurow estimated the real U.S. unemployment rate at around 14 percent and concluded that as much as one-third of the workforce "is potentially looking for more work than they now have."³⁰ Among those in search of more work are discouraged workers, underemployed contingent and part-time workers, legal immigrants, and an estimated 5.8 million working-age men who are no longer reflected on formal employment or unemployment rolls.³¹

Thurow and others have advocated a new approach to managing the U.S. economy, one that rejects what they argue are baseless fears of inflation and permits higher rates of growth and a level of jobs creation that will eliminate the slack—and some of the underlying tensions—in today's labor market. That slack, they argue, is holding wages in check. Many economists adhere to a counter theory of a natural unemployment rate, estimated at around 6 percent. Below the natural rate, it is argued, inflation is triggered. But the stalled growth of wages in an era of low formal unemployment brings the theory into question. Galbraith argues, "The model is junk,"³² and only "a macroeconomic commitment to full employment"³³ will achieve higher living standards. As Thurow observes, "In a world where there are always millions of unemployed and underemployed workers, firms do not have to pay efficiency wages. The same degree of cooperation, commitment, and effort can be achieved by using the motivation factor called 'fear'—the fear of being thrown into this enormous sea of unemployment and underemployment."³⁴

²² Snyder, D.P. (1996, March-April). The revolution in the workplace: what's happening to our jobs? *The Futurist*, 8.

²³ Fernandez, S.L. (1996, June 20). Census report: rich get richer, poor stay that way. *Lexington Herald-Leader*, p. B-1.

²⁴ Kacapyr, E. (1996, October). Are you middle class? *American Demographics*, 31.

²⁵ Mishel, L. and Bernstein, J. (1996). Trouble in paradise: eroding wages and growing income inequality, *iRunning in place: Recent trends in US living standards*. Washington, DC: Government Printing Office.

²⁶ Byrne, J.A. (1996, April 22). How high can CEO pay go? *Business Week*, 100-101.

²⁷ Byrne, 103.

²⁸ Byrne, 100.

²⁹ Byrne, 38.

³⁰ Thurow, L. (1996, March-April). The crusade that's killing prosperity. *The American Prospect*, 56.

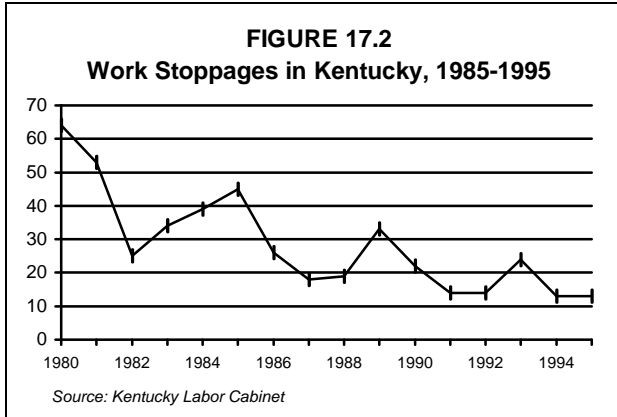
³¹ Thurow, 56.

³² Galbraith, J.K. (1996, March-April). The surrender of economic policy. *The American Prospect*, 63.

³³ Galbraith, 64.

³⁴ Thurow, 57.

One manifestation of the fear to which Thurow refers is discernible in the sharp decline in worker protests. While good news for the smooth flow of commerce, a once traditional path of worker protest has been effectively silenced. According to the Federal Mediation and Conciliation Service (FMCS), the number of U.S. strikes in 1995 fell by 20 percent from the previous year, marking the lowest number of walkouts since World War II.³⁵ FMCS attributes the low rate of national strike activity to the decline of unions, the stability created by long-term union-management pacts, and the threat and use of striker replacements. As illustrated, the



number of work stoppages in Kentucky has also trended downward since 1980. While the trend may signal a new harmony in unionized workplaces, it also reflects a diminished voice of protest in the face of what many union members view as economic coercion.

As a consequence of the trends in unemployment, income and critical benefits, work no longer lends a sense of certainty to the lives of millions of Americans and their families. Instead, it has become yet another source of anxiety. While workplace change promises liberation from the autocratic management systems of the past, many simply worry about having and keeping a job and the benefits that shield them from financial ruin. While prospects for the best-educated workers remain bright, a burgeoning class of workers is being relegated to monotonous, potentially injurious, low-wage jobs³⁶ that offer little opportunity for betterment, much less the promised nirvana of empowerment.

Grim Visions of Future Work

In the world of work, some envision an evolutionary process that will eventually dissolve the employer-employee bond as we know it. The doomsaying theorists who predict the end of formal, lasting links to employers suggest that workers, particularly highly educated “knowledge” workers, will become far more autonomous, attached to projects rather than employers, and responsible for negotiating their own long-term fates. Employers will reduce labor forces to only a core of highly educated and highly skilled professionals who will orchestrate a continuous flow of work performed by outside contractors. As Wysocki reports for the *Wall Street Journal*, “high-tech nomads” are already proliferating in our economy, partly because corporate downsizing has decimated the ranks of data-processing professionals.³⁷ While their services are much in demand, some are paying a high price in terms of lost free time, financial uncertainty and stress.³⁸

If the emerging class of nomads represents the wave of the future, employees will assume full responsibility for skill development and for cultivating work opportunities and the income they produce, as well as the benefits they enable, including health care and retirement. And employers will become dependent upon the unpredictable availability of qualified workers in order to maintain stability and continuity in their businesses. What’s more, the American fam-

³⁵ Greenhouse, S. (1996, January 1). Number of strikes at 50-year low in 1995 *The Courier Journal*, p. A1.

³⁶ Horwitz, T. (1994, December 1). 9 to nowhere: these six growth jobs are dull, dead-end, sometimes dangerous *The Wall Street Journal*, p. A1.

³⁷ Wysocki, B. (1996, August 19). High-tech nomads write new program for future of work *The Wall Street Journal*, p. A1.

³⁸ Wysocki.

ily will undergo yet another shock, as nomadic workers are separated from family for long periods of time and experience recurring fluctuations of income, the sustained consequences of which, some researchers conclude, are contributing to income inequality.³⁹ Many more will also join the growing ranks of childless Americans due to the rising incompatibility of work with family formation and sustainability.

A number of trends suggest we are moving inexorably toward such dramatic changes and a fundamental shift of responsibilities to employees. Lessons from our immediate past, how-

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ever, suggest that, carried to the extreme, the dissolution of employer support and commitment to employees is unworkable, unsustainable and potentially destructive. Ultimately, the vision of free-floating workers who experience only temporary attachments to isolated projects is one

of a society accepting and adapting to the wholesale abandonment of the patriarchal employer model. While many of the characteristics of this model are now widely and appropriately viewed as patronizing and demeaning, the role of responsible partnership is not. Indeed, research suggests that employer commitment to progressive human resource policies is not only good for employee relations but good for business. Employment security is central to that commitment.

The Illusive Promise of Workplace Democracy

The diminishing certainty of work is also undermining confidence in workplace change that holds enormous potential for broad benefits. In spite of the presence of many sincere and mutually beneficial initiatives, employees remain wary. Trust, which is key to the success of workplace change initiatives and, Fukuyama argues, a nation's economic well-being,⁴⁰ has been severely undermined by the instability and insecurity of today's job market. As labor historian Nelson Lichtenstein observes, "You cannot have an island of cooperation in a sea of antagonism."⁴¹

While the various iterations of organizational change have become ubiquitous in U.S. workplaces, Kochan and Osterman estimate that only about one-third of the nation's employers have formally adopted one or more human resource practices that enable mutual gain, which they argue is key to the advancement of high-performance work organization.⁴² Instead, many employers are adopting the language of organizational change without making a real commitment to employees. Success, instead, hinges on human resource practices that cultivate, enrich and reward the irreplaceable contribution of employees.

Employer responses to competitive pressures are undermining the factors researchers cite as key to high-performance organization. Only in recent months have the substantial gains realized from rising productivity and the profits it has enabled begun to make their way into the wages of workers. But the trust on which high-performance organization hinges is being systematically undermined by growing employer indifference to job security. The effects could be far reaching. High-performance organizations are more likely to be engaged in the international marketplace, to use high-skill technology and to emphasize quality and service.⁴³

³⁹ Koretz, G. (1995, March 20). Why incomes grew less equal *Business Week*, 24.

⁴⁰ Fukuyama, F. (1995). *Trust: The Social Virtues and the Creation of Prosperity*. New York, NY: Free Press, 7.

⁴¹ Lichtenstein, N. (1996, July 15). The future of business, labor, and government relationships *Future Vision: Ideas, Insights and Strategies*, Eighth General Assembly of the World Future Society, Washington, DC.

⁴² Kochan, T.A., and Osterman, P. (1994). *The Mutual Gains Enterprise*. Boston: Harvard Business School Press, p. 107.

⁴³ Kochan and Osterman, 94.

They are, therefore, far more likely to succeed in the global economy and survive over the long term.

The coexistence of a cruel economy and conciliatory workplace processes has provided abundant fodder for chroniclers of contemporary life. Cartoonist Scott Adams, for example, lampoons the hollow absurdities of faddish, essentially dishonest workplace initiatives. For “Dilbert” and colleagues, empowerment is, at best, a path to increased workloads, and, at worst, the freedom to look for another job, precisely the opposite of what principal architect W. Edwards Deming had in mind when he exhorted companies to drive fear out of the workplace. Workers may be laughing at the antics of Dilbert’s hapless corporation, but the fear and cynicism that informs its humor are indicative of the damage done to the social contract and to a movement which promised to reinvent employer-employee relations.

Because trust is central to an enterprise’s ability to perform over the long term and in a dramatically changed context, the present state of employee-employer relations does not appear to be sustainable. America’s preeminence in the world marketplace is no longer a foregone conclusion, but rather an ongoing challenge, one that will not easily be met by divided enterprises, nor by a demoralized, ill-prepared workforce. Consequently, diminishing employer support for workers and anemic employee loyalty appear to be systemic flaws that ultimately will compel a rethinking of the uniquely American social contract.

Assigning Blame

Not surprisingly, the current climate of economic insecurity has engendered considerable speculation about the causes of economic malaise, but few political solutions. That void, conclude Teixeira and Rogers, is fueling voter anger, particularly among noncollege-educated workers.⁴⁴ Further, Kapstein observes, “If the post-World War II social contract with workers of full employment and comprehensive social welfare is to be broken, political support for the burgeoning global economy could easily collapse.” As the political debate sours, he adds, “Populists and demagogues of various stripes will find ‘solutions’ to contemporary economic problems in protectionism and xenophobia.”⁴⁵

Already, frustrated, angry workers, particularly those in coastal and border states, are leveling blame for job losses and wage erosion at imports and immigrants, rather than the faceless economic forces of technology, demographics, and increased government transfers to the elderly, to which some researchers pin blame for rising inequities.⁴⁶ Carnevale suggests immigrants will be the first target of the backlash when it arrives, one that could effectively seal the U.S. borders.⁴⁷

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In response to this generalized anger, legislation aimed at severely restricting aid to *legal* immigrants recently passed in Congress. Global commerce and trade agreements have also inspired organized opposition from labor unions and fueled divisive campaign rhetoric, but the evidence suggests that sealing our borders would do little to change economic circumstances.⁴⁸

More recently, the media have also brought corporate practices, particularly downsizing and CEO compensation, into much sharper focus. The controversy has touched off a debate about corporate responsibilities and, more broadly, the purpose of the economy. Former Scott

⁴⁴ Teixeira, R. and Rogers, J. (1996). *Volatile voters: declining living standards and non-college educated whites*. Washington, DC: Economic Policy Institute. [On-line] Available: epn.org/epi/epruye.html.

⁴⁵ Kapstein, 16-17.

⁴⁶ Burtless, G. (1996, Spring). Worsening income inequality: is world trade to blame? *The Brookings Review*, 27-31.

⁴⁷ Carnevale.

⁴⁸ Burtless.

Paper™ CEO Al Dunlap has emerged as a chief defender of downsizing. “The people who are laid off are laid off because there aren’t jobs for them. To keep those people on the payroll, in fact, jeopardizes the jobs of the rest of the workers,”⁴⁹ Dunlap argues. Avishai concurs that companies cannot guarantee lifetime employment to employees. Instead, today’s heated discussion about corporate values and citizenship, he argues, is diverting attention and diluting critical “support for government action while unloading unsustainable expectations onto the private sector.”⁵⁰

An overwhelming majority of Americans (95 percent), however, express little sympathy with this view. Respondents to a February 1996 poll gave corporate America bad reviews on virtually every front, on wage fairness, employee training, job security, employee loyalty, creating good job opportunities, planning for the future, and caring about what’s good for the country. Only the quality of American products garnered a favorable assessment.⁵¹ What’s more, 88 percent of those polled said the federal government should reward companies that create and preserve jobs and train workers while 67 percent endorsed penalties in the form of higher taxes for companies that eliminate jobs, close plants or provide their executives with extremely high compensation.⁵²

Whether the much-publicized practices of prominent U.S. firms represent the product of logical and necessary streamlining that is, as Gilder suggests, “crucial to growth”⁵³ or the abandonment of larger responsibilities to society, the end product remains the same. An economic edginess pervades our lives. It is eroding trust between employers and employees, and causing many to seek someone or something to blame—a target for their anger. That, observes trade union economist Robert Blackwell, “makes for social divisions that are going to breed political movements that compromise the environment within which businesses exist.”⁵⁴

Backlash or New Beginning?

The economic inequities of today’s marketplace are giving rise to organized political responses, many of which are well underway. While recent economic indicators suggest that the economic tide may finally be turning for workers, it could be too late to counter a long simmering backlash. What Reich terms the “coping mechanisms” many American families have adopted to stay afloat—increased female labor force participation, longer hours and multiple jobs—may have run their course.⁵⁵ Many see a point of explosion nearing on the horizon.⁵⁶ Carnevale predicts, “The action-forcing event will be the next recession or the next or the next one after that.”⁵⁷

Clearly, the logical champion for economic justice would ordinarily be labor unions, but their ranks have thinned to an estimated 11 percent of the labor force nationally, effectively neutralizing a key counterbalance to business and industry. Because trade unions have been an historic feature of democracy, Litchenstein suggests that the decline of unions in the United States is no less than “a high-stakes gamble.”⁵⁸ Already, research attributes one-fifth of income inequality to the decline of labor unions.⁵⁹

While pundits have administered last rites to unions more than once, the AFL-CIO is undergoing dramatic change and redirection. John Sweeney’s election to the presidency of the

⁴⁹ Dunlap, A. (1996, May). Does America still work? (forum)*Harper’s Magazine*, 40.

⁵⁰ Avishai, B. (1996, July-August). Social compact, version 2.0*The American Prospect*, 29.

⁵¹ *Business Week*/Louis Harris & Associates, 64-65.

⁵² *Business Week*/Louis Harris & Associates, 64-65.

⁵³ Gilder, G. (1996, May). Does America still work? (forum)*Harper’s Magazine*, 41.

⁵⁴ Blackwell, R. (1996, May). Does America still work? (forum)*Harper’s Magazine*, 41.

⁵⁵ Reich, R. (1996, May). Does America still work? (forum)*Harper’s Magazine*, 41.

⁵⁶ Litchenstein, N. (1996, July 15). The future of business, labor, and government relations. Future Vision, Eighth General Assembly of the World Future Society, Washington, DC.

⁵⁷ Carnevale.

⁵⁸ Litchenstein.

⁵⁹ Freeman.

AFL-CIO in 1995 marked the first turnover of national labor leadership in approximately 70 years,⁶⁰ a dramatic expression of rank and file demand for action and change. Sweeney and his lieutenants have promised to revitalize membership and recapture political advantage by dedicating one-third of the federation's annual budget to an aggressive organizing effort and by establishing a national training center for political campaign workers.⁶¹ The hearts and minds of more working Americans are also being pursued by young activists, who worked on an AFL-CIO campaign in 20 cities in what could be the early roots of a new economic justice movement.⁶²

Like unions, grassroots activists have grown impatient with the slow response of policy-makers to economic conditions. Non-profit organizations are championing new approaches to development, as well as organized responses to economic inequities in communities throughout Kentucky and around the nation. Over the past two years, for example, organized community efforts have helped push the minimum wage issue onto legislative agendas in 33 states and marshaled ballot initiatives that could put the issue before voters in seven other states.⁶³

Readily available information about what works in other highly successful economies is also likely to inform future negotiations of the social contract. The Japanese social contract, for example, is a binding lifetime agreement, one that was consciously crafted as part of a post-World War II plan for economic revival.⁶⁴ Lifetime employment and, later, informal employment cartels that discourage competition for workers, shaped a radically different and highly successful employer-employee relationship.⁶⁵ As a consequence of the conscious effort to craft a mutually beneficial and

relatively harmonious system, employee loyalty is assured, even enforced, and absenteeism is virtually nonexistent. Free from competition for workers, companies invest far more in research and development

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and in their employees. Moreover, Japanese chief executives are compensated at only about 10 times the pay of the lowest level worker and, rather than eliminate jobs, the effects of economic distress are shared broadly.⁶⁶ While the carefully constructed Japanese system inhibits worker mobility, the relative disloyalty of American workers has served to constrain employer investments in critical training and education.⁶⁷

Though Japan's economy has been rocked by a protracted recession in recent years, the central tenet of lifetime employment appears to have survived this test of fire. Japan has emerged as the one nation to go against international trends toward structural unemployment.⁶⁸ Its modern post-World War II experiences offer an example of the conscious and successful construction of a more balanced and broadly beneficial social contract. In the coming years, U.S. policymakers are likely to be challenged to construct a system that is less adversarial, more cooperative, and mutually beneficial. Parks notes that the capital market effectively discourages employer investment in costly trust-building initiatives because investors are at a disadvantage in an economy that stresses short-term results.⁶⁹ If this misallocation of resources

⁶⁰ Litchenstein.

⁶¹ Bernstein, A. (1995, October 30). A new deal at the AFL-CIO *Business Week*, 119.

⁶² Hornblower, M. (1996, June). Labor's youth brigade *Time*, 44-45.

⁶³ Swope, C. (1996, June). Fighting the wage war on local turf *Governing*, 35-37.

⁶⁴ Fingleton, E. (1995, March 20). Jobs for life: why Japan won't give them up *Fortune*, 119.

⁶⁵ Fingleton.

⁶⁶ Fingleton.

⁶⁷ Fingleton.

⁶⁸ Fingleton.

⁶⁹ Parks, S. (1995, May). Improving workplace performance: historical and theoretical contexts *Monthly Labor Review*, 18.

ultimately has a significant impact, Parks suggests, “a national policy to alter the institutional framework is often necessary.”⁷⁰

In the future, organized responses can be expected to exert significant leverage in the political sphere. Whether that leverage results in a more equitable social contract or mere scapegoating is yet to be seen. Policymakers, however, can expect the pressure for greater economic equity to continue rising so long as constructive responses are absent from the political landscape.

Conclusion

Ironically, at a time when our understanding of how central trust is to the economic and political life of our nation, it has been seriously undermined between critical partners. Macroeconomic circumstances and, some argue, corporate and government policies are driving a wedge between employers and employees, whose cooperation and mutual trust are central to our ability to compete and prosper. As a consequence, we may be destined to relive past mistakes, to experience yet another swing of the pendulum that will ignite conflict before a new order is established.

While the process of establishing a new order is likely to be a protracted one, the quality of the future before us continues to depend upon timely attention to circumstances that threaten adverse long-term outcomes. Instead, we are immersed in an era of public and private divestment of responsibility for economic well-being. As a result, an enormous gulf is emerging. Nevertheless, advanced societies, suggests Nobel Laureate Jerome Karle, must act. “The world . . . cannot possibly benefit from continued procrastination . . . or wait for the results of endless debate and deliberation. Too much debate and little testing is as bad for societies as it is for science.”⁷¹

A number of indicators suggest that a protracted unwillingness to act, to experiment, to test strategies for solving the economic problems that breed social problems, could have disastrous long-term effects. Already, the gulf between rich and poor poses a threat to social stability and to the future health and productivity of the children who will sustain tomorrow’s economy. Indeed, continued inattention to the economic well-being of workers at the bottom of the earnings ladder, whose economic circumstances have worsened over the past two decades, will likely perpetuate and even extend the reach of poverty. The children of the poor are far more likely to remain trapped in cycles of poverty that will cost each of us. In short, flaws in the social contract between employers and employees are not only undermining the economic and social circumstances of families and individuals today, they are jeopardizing future social and economic well-being.

Clearly, the changes underway in our society are profound, perhaps unimaginable in terms of their long-term consequences. Psychologist and management theorist William Berquist suggests that the organizations of our economy will not likely readjust and simply return to some previous form in a predictable pendulum fashion. Instead, he posits, “We are now entering into an era of fire, during which old organizational forms, structures, and processes will be consumed . . .”⁷² But Berquist cautions that the reordering must be informed by the wisdom of the past. “We must return to premodern perspectives regarding the sacred nature of human organizations, and once again listen to enlightening stories regarding our own human history and destiny. Only in this way can we successfully tend the complex and irreversible fires of the postmodern world.”⁷³

⁷⁰ Parks, 23.

⁷¹ Karle, J. (1996). The human and planetary condition. Preface to Didsbury, H.F. Jr. (Editor) *Future Vision: Ideas, Insights and Strategies*. Bethesda, MD: World Future Society, xiv-xv.

⁷² Berquist, W. (1993). *The postmodern organization: mastering the art of irreversible change*. San Francisco: Jossey-Bass, 3-14.

⁷³ Berquist, 14.

As both Drucker and Berquist suggest, the future, post-fire state of today's tenuous social contract between employer and employee cannot be predicted with certainty. Instead, it will gradually be shaped by losses and gains, by experience and experimentation. Workers face the immense challenge of reclaiming a voice which has been lost in the din of our rush to adapt to structural economic change. The challenge to employers, who have seized the balance of power in today's economy, is to learn from the enlightening stories of our past as well as the best practices of today and to rediscover the power of mutual trust and commitment. For policymakers, the "stories" told by research and experience can help fashion a new social contract, one that affords greater economic security and advances social well-being. Jointly, workers, employers and policymakers can and must forge a new social infrastructure to help ensure that the "new society" is also a much better one.