indices are just the kind of measures to test the principal claim of this chapter.

Figure 1.1 shows the score of the United States and other advanced countries in two of the Fraser Institute’s sub-indices of economic freedom: regulation of the labor market (along the vertical axis) and the role of the government in the economy (along the horizontal axis). A high score on an index means that the country is more market-oriented. The United States lies on the upper right-hand side of the figure. It has the highest score on the labor market
right disagreement about the exceptional reliance of the United States on markets rather than institutions to determine outcomes.

Finally, moving away from composite indicators and views of experts, figure 1.2 displays measures of actual wage-setting procedures and government expenditures for the social well-being of citizens from a third source, the Organization of Economic Cooperation and Development (OECD), the international think tank for advanced market countries. The vertical axis of the figure gives the percentage of workers whose wages are set by collective bargaining.
Figure 2.1 Unemployment Rates, Employment per Adult, and Hours Worked per Adult, the United States and Advanced Europe, 1970 and 2005

non-agricultural work force in 2005. The Bureau of Labor Statistics (BLS) obtains their nominal earnings by surveying firms and transforms nominal earnings into real earnings by dividing by the consumer price index (CPI). This measure of pay, which had always tracked productivity closely, declined from the 1970s through the early 1990s, and despite some modest increase in the ensuing
10 percent of a typical EU country earn about 44 percent more than Americans at the lowest 10 percent of the U.S. distribution.\textsuperscript{5} In addition, the European worker has national health insurance and other protections that the American worker buys out of his or her paycheck or does without. Workers at the bottom 10 percent of the German income distribution make about twice as much as workers in the bottom 10 percent of the American income distribution.\textsuperscript{6} But there is a flip side to low incomes at the bottom. U.S. billionaires are worth lots more than the wealthiest citizens of other advanced countries! And as Bill Gates and Warren Buffett have proven, at least some U.S. billionaires are generous and responsible with their money.

Finally, standard measures of inequality show that the United States more closely resembles a developing country than an advanced country on this measure of economic performance. The Cen-
across countries is also true within the United States: earnings among unionized workers, whose wages are set by collective bargaining, and the earnings of public-sector workers, whose wages are set by governments or through collective bargaining, are less dispersed than the earnings of otherwise comparable workers in the non-union private sector.

**Rising Inequality**

When I critiqued the U.S. labor market in Moscow in 1984, I was more troubled by America’s increasing income inequality than by the high level of income inequality. In a growing economy, increas-
the mazes as solved, including those after the skipped maze. Some jumped their pencil over a line and claimed to have solved that maze. The behavior of the subjects who cheated provided a serendipitous test of responsiveness to incentives: lo and behold, the pattern of cheating also followed an inverse U. In the high-inequality experiment, people with high first-round scores and a chance of winning the top prize tended to cheat, but in the medium-inequality treatment people throughout the distribution cheated. Financial incentives motivate dishonest effort as well as honest effort. Boards of directors and compensation experts who give huge incentives to executives, take notice.

Dishonesty aside, the big rewards the United States offers to high flyers and the low safety net it holds out to those who do badly in

Figure 4.1  Number of Mazes Solved Increased Most with Medium Inequality of Rewards in Laboratory Experiment

Why Workers Want Unions

The workers who want unions want them to deal with workplace problems that they believe management does not resolve adequately or fairly. Figure 5.2 displays a measure of the number of

**America Works**

Figure 5.1 Likelihood of Non-union Workers Voting in Union Representation Election, Peter Hart Surveys, 1984 to 2005

If an election were held tomorrow to decide whether your workplace would have a union or not, do you think you would definitely vote for forming a union, probably vote for forming a union, probably vote against forming a union, or definitely vote against forming a union?

![Graph showing percentage of workers voting for or against union formation from 1984 to 2005.]

Source: Richard B. Freeman and Joel Rogers, exhibit I.6 What Workers Want, 2nd ed. (Ithaca; N.Y.: Cornell University Press, 2006.) Data from Hart Research Associates, various polls, except 1984; data for 1984 are from Harris, on a slightly differently worded question: “If an election were held tomorrow to decide whether your workplace would be unionized or not, do you think you would definitely vote for a union, probably vote for a union, probably vote against a union, or definitely vote against a union?”

**Why Workers Want Unions**

The workers who want unions want them to deal with workplace problems that they believe management does not resolve adequately or fairly. Figure 5.2 displays a measure of the number of

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needs or problems that non-union workers perceive at their workplace and the proportion of workers who would vote for a union in a union representation election. The measure of needs or problems is the sum across multiple items of the number of times workers said there was a problem at their workplace or expressed a strong desire for an improvement that management was not dealing with. The desire for unionism is strongly related to the number of needs. Among workers with no needs, 26 percent say that they would favor a union; among those with four needs, 45 percent say that they would favor a union; among those with seven or more needs, 81 percent favor unions.

The close tie between workers’ desire for unionism and their perception that management is not taking care of workers can be seen starkly in two questions that asked workers to grade management on a standard A to F school mark. On a question about managerial concern for workers, 71 percent of non-union workers who gave
Figure 6.1  Gini Coefficient Measures of Inequality in the United States and Other Advanced Countries, Pre–Tax and Transfer and Post–Tax and Transfer, 1970s to 1990s


Note: The Nordic countries are Sweden, Norway, Denmark, and Finland. The other OECD countries in Europe are Belgium, the Netherlands, Germany, France, Italy, and Switzerland. The non-U.S. English-speaking countries are Canada, Australia, and the United Kingdom. Reprinted with permission from The Johns Hopkins University Press.
Economists use the “North-South” product cycle model to analyze trading patterns between advanced and developing countries when technology is a critical element in trade. This model assumes that the advanced countries (the “North”) have highly skilled workers who enable it to monopolize cutting-edge innovative sectors while the developing countries (the “South”) produce...