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Liberal Market Economy or Composite Regime? Institutional Legacies and Labor Market Policy in the United States*

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In comparative political economy the United States is denominated a "liberal market economy" characterized by market-based labor policy, but American political development studies suggest that national-level comparisons, which assume government institutions are a coherent package, may be misguided. In the decentralized American polity, many combinations of state-market relationships have emerged as state governments invest in labor market performance and economic agents adjust their market strategies. Analyses that conceive regimes as sets of complementary institutions that constrain individuals and government officials have difficulty explaining changing patterns of policy and market organization. This article investigates these policy developments to make a constructionist argument that departures from historical paths are possible because institutional agents can reflect on performance and adjust strategies. Building on the political development insight about the complexity of governing authority as well as the comparativists' critique of economic convergence, the article argues that innovation in America's composite regime is best understood against the institutional legacies of labor and race relations regulation. The argument is illustrated by evidence of the diversity of labor market policies in the states during the 1990s.
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Introduction

American state governments in the last twenty-five years have made substantial investments in labor market performance—training and other services for the unemployed, higher education, income support, employment law changes, and administrative reform—to help their economies thrive in a globalizing marketplace, yet the significance of their efforts has gone unappreciated in comparative political economy. Much of the debate about the responses of nations to international economic competition has focused on how nations are constrained by the institutions that govern their economies. A widely deployed analysis seeks to categorize nations according to whether their governing institutions direct economic behavior toward market-based decision-making (the leading cases are the U.S. and the U.K.) or whether governance directs decisionmaking by coordination among stakeholders (the leading cases are Germany and Japan). Studies in this mode in the 1990s concluded that the coordinated regimes were not converging on the market-based Anglo-American model because their institutions' rules and incentives sustained a distinctive path of economic development.[1] Yet further research challenged the image of coherent national regimes of policy and market organization in Europe while, in the American case, studies in American political development have opened a rich vein of analysis of multiple and clashing institutional orders.[2] The new

1. Peter Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (London: Oxford University Press, 2001). Wolfgang Streeck and Kozo Yamamura, eds., *The Origins of Nonliberal Capitalism: Germany and Japan in Comparison* (Ithaca: Cornell University Press, 2001). Herbert Kitschelt, Peter Lange, Gary Marks, John D. Stephens, eds., *Continuity and Change in Contemporary Capitalism* (New York: Cambridge University Press, 1999). Suzanne Berger and Ronald Dore, eds., *National Diversity and Global Capitalism* (Ithaca: Cornell University Press, 1996). J. Rogers Hollingsworth and Robert Boyer, eds., *Contemporary Capitalism: The Embeddedness of Institutions* (New York: Cambridge University Press, 1997). David Coates, ed., *Models of Capitalism* (Cheltenham: Edward Elgar, 2002).

2. David Stark, "Recombinant Property in East European Capitalism," in *The Laws of the Markets*, ed. Michel Callon (London: Blackwell, 1998), 116–46. Richard Deeg, "Change from Within: German and Italian Finance in the 1990s," in *Beyond Continuity: Institutional Change in Advanced Capitalist Economies*, ed. Wolfgang Streeck and Kathleen Thelen (New York: Oxford University Press, 2005), 169–202. Michael Dorf and Charles F. Sabel. "A Constitution of Democratic Experimentalism," *Columbia Law Review* 98

conclusion that the sources of differences among nations in the 1990s may not be accounted for by their type of governance has led some political economy researchers back to arguments that global competition will compel all states to converge on market-based decisionmaking.[3]

The intention of this article is to deepen institutional analysis by arguing that historical legacies that are institutionalized sustain distinctive modes of economic governance, but institutional complexity and economic uncertainty are also conducive to reflection on appropriate action in institutionalized fields and, thus, to innovation. Where there is policy convergence across jurisdictions, it is the outcome of deliberate efforts by institutional agents to try new strategies to improve performance that depart from institutional practice rather than an outcome explained by maximizing economic behavior within the rules.

This article tests the claim that national institutions constrain policies for labor market organization. I present evidence about the labor market policies of the American states in the 1980s and 1990s that shows that few states exclusively fulfilled the characteristics of market-based governance. By the end of the 1990s there was not a convergence on a single model of economic governance, but perhaps four distinctive practices among the states. These observations are the basis for an explanation of American economic governance that focuses on historical patterns of state management of the labor market in a federal system. Studies of American political development have shown how the U.S. federal structure enables groups that are subordinate in national politics to engage in political defense in the states. During the New Deal era, employers and southern political leaders deployed state government authority to pursue economic strategies at odds with national labor market policy commitments. In contrast to the New Deal's industrial pluralism, southern leaders used state government power to promote economic development according to unilateral forms of industrial organization.[4] Subsequently, this bifurcated national pattern shaped

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(March 1998): 267; Karen Orren and Stephen Skowronek, *The Search for American Political Development* (New York: Cambridge University Press, 2004). Stephen Amberg, "Declension and Construction Themes in the Study of Labor Politics in the United States," *Studies in American Political Development* 17 (Spring 2003): 34–60. Robert C. Lieberman, *Shifting the Color Line: Race and the American Welfare State* (Cambridge: Harvard University Press, 1998).

3. Kozo Yamamura and Wolfgang Streeck, eds., *The End of Diversity? Prospects for German and Japanese Capitalism* (Ithaca: Cornell University Press, 2003). Wolfgang Streeck and Kathleen Thelen, "Institutional Change in Advanced Political Economies," in Streeck and Thelen, *Beyond Continuity,* 1–39. Robert Brenner, *The Boom and the Bubble* (London: Verso, 2004). The announcement of Tony Blair's retirement was an occasion for obituaries of New Labour and "third way" thinking.

4. Amy Bridges, *Morning Glories: Municipal Reform in the Southwest* (Princeton: Princeton University Press, 1998). Richard Bensel, *Sectionalism in American Political Development* (Madison: University of Wisconsin Press, 1984). Stephen Amberg, "Governing Labor in Modernizing Texas," *Social Science History* 28 (Spring 2004): 145–88. Margaret Weir, "States, Race, and the Decline of New Deal Liberalism," *Studies in American Political Development* 19 (Fall 2005): 157–72.

economic competition among the states, the paths of individual rights reforms in the 1960s and 1970s, and the responses to international economic competition. The change of partisan national regimes from the New Deal to the New Republicans associated with the ascension of the Reagan coalition in the 1980s was less a sharp break across the board toward market-based policymaking than a reconfiguration of the federal role in relationship to the states. Historical legacies in labor–management relations and racial segregation shaped the contexts in which state policymakers faced the new global challenges for labor market policy.

In the next section, I present the argument that leading comparative studies typically over-emphasize the coherence of governing institutions and downplay the contingency of governing practices. A focus on the institutional stability of national capitalisms underplays the degree of change in the contemporary era, an outcome of which is to ignore sub-national agents in the American states. To demonstrate the argument about policy diversity, I propose a test of whether labor market policies were constrained by national arrangements. A way to substantiate the claim of policy diversity is to deploy alternative models for firms and state policy. In the third and the fourth sections, I operationalize these alternatives in order to measure policy diversity among the states. The fifth section presents the statistical results from a systematic analysis of the labor market policies that states implemented in the 1990s. It shows a fairly wide range of substantive policies in several areas of policy that cluster into four groups.

The conclusion develops the broader argument about governing institutions and economic practice. The test results suggest an alternative argument to analyses that conceive their task to assign countries to one of a small set of regime types in which agents' actions are "locked in" by the incentive structures associated with each type. The evidence from the U.S. case reveals much greater diversity than this sort of analysis can bear, which suggests that policy reform may be more flexible—less institutionally constrained—and that institutional agents are capable of innovation. Yet rather than multiply categories to account for diverse cases or retreat to the contentless spaces of orthodox economics where economic actors rationally calculate the one best way and economic competition commands uniform government responses, I think it is more fruitful to conceive that historical institutional practices shape the contexts for economic action but that institutional agents have the capacity to learn from the performance of their own and others' institutions. They are able to find new ways to govern by manipulating their institution's rules and by taking advantage of the complexity of the institutional field and the uncertainty about the future. On the one hand, historical conflicts over labor and race relations shaped the extent to which state-level stakeholders were organized to coordinate their actions. On the other hand, when the terms of international economic competition changed for the U.S., state agents began to adjust from their distinctive historical points of departure. Even with a neo-liberal regime in Washington, states adopted labor market policies that recomposed rather than abandoned institutional commitments. A future task is to theorize the deliberate steps taken by state agents to learn from experience and escape their fates to create new futures.

The Convergence of Comparative Political Economy and American Political Development

Is the United States a unitary regime or can multiple orders—modes of governance—exist in the same regime? Much of the work in American political development and comparative political economy has drawn on similar theories of how institutions determine the relationships among individuals and groups. Institutionalists have focused on how national institutions that govern work, competition, finance, and welfare create operating rules, incentives, and penalties, which lock-in individuals and organizations to appropriate modes of behavior.[5] Institutional political economy sharply contrasts itself from neo-classical economics, which assumes individual maximizing behavior and predicts that nations will conform to global forces of market integration by adopting substantially similar policies. However, until recently, few studies have been concerned with the formation and restructuring of institutions and markets.[6] The newer studies have become more attuned to the influence of decision-making on institutional context, the contingency of political order, the possibility of experimentation with means, and ideological innovation, all of which are the basis for reconsidering the unitary conception of governance strategies.[7]

5. Institutionalists differ about what mechanisms explain lock-in. One excellent review is Paul Pierson, *Politics in Time* (Princeton: Princeton University Press, 2004).

6. A similar argument is inspired by the welfare economics of Mancur Olsen, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982), who argued that economic growth will slow as the population of interest groups increases and succeeds with burdensome claims on the state. One thorough study of this claim found that "if we are to look for the real influence of special interests, we need to examine specific interests at specific times in specific places" in order to make conclusions about the outcomes for state policy: Virginia Gray and David Lowery, *The Population Ecology of Interest Representation* (Ann Arbor: University of Michigan Press, 1996), 241. Neo-classical models assume that market forces favor one most efficient policy set. Every government must broaden the scope for ungoverned individual action and decentralize bureaucracy, privatize public functions, reduce income support programs, and lower the cost of employment by deregulating employment conditions. The model does not depend on analysis of specific institutions or policies, but on the assumption that everyone responds similarly to similar forces. As institutionalists argue, the behavior of workers and employers is not fixed; it is ordered by institutions. See Hall and Soskice, *Varieties of Capitalism*.

7. Stephen Skowronek and Matthew Glassman, eds., *Formative Acts: American Politics in the Making* (Philadelphia: University of Pennsylvania Press, 2007). Charles F. Sabel, "Learning by Monitoring: The Institutions of Economic Development," in *The Handbook of Economic Sociology*, ed. Neil Smelser and

Consider how the varieties of capitalism (VOC) school of political economy advances our understanding of how institutional configurations matter for economic behavior and then how it stops short of conceiving institutions as anything but robust. According to VOC, the United States is a Liberal Market Economy (LME). An LME is characterized by market-based decisionmaking about labor markets (and other economic domains) and it seeks to help workers adjust to the changing demands for labor expressed in the labor market. Rather than a style of policymaking that seeks to direct change by, for example, protecting high-skill high-wage jobs—the so-called "high road" path—LMEs accommodate employers' demands to lower the cost of labor. The U.S. is called an LME because its national governing framework does not have institutions that aggregate preferences for public goods, such as high-skill development.[8] Indeed, empirical studies published by the OECD conclude the U.S. has virtually no measurable policies for high-road competition.[9] In contrast, the capitalist economies in Japan and Europe are known as Coordinated Market Economies (CME), in which individual decisions are constrained by the institutional rules that encourage multi-party negotiations, bank commitments to industry, cooperative bargaining between unions and employers, and close coordination between workplace and education institutions. These inter-organizational forms of decisionmaking limit the social costs of individual rational choices—such as underinvestment in education and training—and help secure consensus for the production of public goods, the provision of which far surpasses that in the U.S.

On the one hand, institutional theories like VOC *are* better able to explain diversity among nations than neo-classical ones because the former pin their explanations on ways that international economic forces are processed by the specific institutions and politics of each country. Institutions establish rules for how groups interact, whether in the form of constraints, incentives or tools for

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Richard Swedborg (Princeton, NJ: Princeton University Press and New York: Russell Sage Foundation, 1994): 137–65. Colin Crouch and Henry Farrell, "Breaking the Path of Institutional Development: Alternatives to the New Determinism in Political Economy," *Rationality and Society* 16/1 (2004): 5–43. Gerald Berk and Marc Schneiberg, "Varieties in Capitalism, Varieties of Association: Collaborative Learning in American Industry, 1900 to 1925," *Politics & Society* 33 (March 2005): 46–87. Sociologists and anthropologists have long focused on these issues. Pierre Bourdieu, *Outline of a Theory of Practice* (New York: Cambridge University Press, 1978). Mary Douglas, *How Institutions Think* (Syracuse, NY: Syracuse University Press 1986). Walter Powell and Paul DiMaggio, *The New Institutionalism in Organizational Analysis* (Chicago: University of Chicago Press, 1991). Neil Fligstein, *The Architecture of Markets* (Princeton: Princeton University Press, 2001).

8. Hall and Soskice, *Varieties of Capitalism*.

9. See the annual reviews by the OECD. For example, *OECD Employment Outlook* (Geneva: OECD, 1999). Cf. Margarita Estevez-Abe, Torben Iversen, and David Soskice, "Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State," in Hall and Soskice, *Varieties of Capitalism*, 145–83.

solving problems. Institutions distribute authority and financial resources. These qualities largely account for the varieties of capitalism across countries: nation-states have different profiles of government authority, electoral systems, interest group organization and so on and therefore inevitably differ by how they manage industry organization and labor markets. From this perspective, the United States is a political economy with its own array of institutions that constrain or otherwise channel individuals into behavior that reproduces the production system. Global economic forces have led the U.S., which was already the most liberal in the sense of promoting market-based calculation, to become even more liberal while the countries of Western Europe and Japan, which already had developed institutions of coordination, deploy new forms of collective action.[10]

On the other hand, this conception of types of political economy is too strong. Its institutional analysis is about continuity rather than change, about historical path dependence rather than innovation.[11] VOC's weak theory of change is rooted in a functional conception of complementary institutions: the institutional "matrix" is a coherent package, each element of which completes the needs of the others, thereby raising the costs of changing any element to prohibitive levels. Political economy conceived as a coherent package misdirects us away from the possibility that as environmental conditions change and institutional performance suffers, employers, workers, and other economic actors rethink their choices and state officials try to develop newly successful policies.[12] Kathleen Thelen observed that even in the CMEs, coordination is not an accomplished fact; rather, it takes a lot of effort and must be constantly renewed.[13] That observation is a significant concession to constructionist social theories of innovation because it opens wide the questions of how continuity can be explained if not by deliberate action and from what sources the authority arises that enables actors to make adjustments. Thelen's principle of on-going institutional management also applies to LMEs: it takes work to follow any path. We need to look at the interaction between forms of governance—the organization of power, the mix of market and government policy tools, strategies of economic actors—and performance, because agents who are dissatisfied with the performance can seek to change policies and institutions.

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10. Hall and Soskice, *Varieties of Capitalism*. Cf. Streeck and Yamamura, *Origins of Nonliberal Capitalism*.

11. Pierson, *Politics in Time*. Karen Orren and Stephen Skowronek, "Institutions and Intercurrence: Theory Building in the Fullness of Time," *NOMOS* 38: *Political Order* (1996): 111–46. John L. Campbell, "Institutional Analysis and the Role of Ideas in Political Economy," *Theory and Society* 27 (1998): 377–409.

12. Sabel, "Learning by Monitoring," and Crouch and Farrell, "Breaking the Path." Compare Pepper Culpepper, *Creating Cooperation: How States Develop Human Capital in Europe* (Ithaca, NY: Cornell University Press, 2003), chapter one.

13. Thelen, "Varieties of Labor Politics," in Hall and Soskice, *Varieties of Capitalism*, 73.

There are two steps to take to test a theory that national institutions explain economic behavior because of their powerful constraints. One is to measure whether sub-national agents are following similar policies and strategies. The second is to include in the test alternative models of policy choices. I discuss the first step here and the second step in the next section. A strong institutionalist argument would be that the national institutions that govern the political economy should lead to similar practice across the national territory, whether market-based or coordinated decisionmaking. The strong claim can be tested by disaggregating labor market policy by state. American political development studies suggest that the strong claim will not be borne out.[14] Despite the U.S. government's control over policies that set national boundary conditions, such as trade and monetary policies, the states retain concurrent constitutional authority in many policy arenas. However, it is also true that historical party organizations have repeatedly influenced the actual relationships between the national government and the states.[15]

Thus, during the New Deal, the Democratic Party was an agent for nationalizing social welfare policies. A major theme in political conflict in the New Deal era was extending national labor policy to all parts of the country.[16] In the New Republican era the national policy debate has focused on economic "competitiveness," which has taken the form of movements to enhance market-based decisionmaking through devolution and privatization. The Republican Party has been the agent for gains of authority for employers in state labor market policy while it manages the national industrial relations rules to favor employer initiatives.[17] Most dramatically, the Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996, which devolved responsibility for poor families to state governments.

Although the devolution and privatization of labor market policy was supposed to be responsive to demands from business firms for market-oriented policy, the causality goes both ways—what employers "demand" may depend on what is available. If markets can be organized in more than one way, the emergence of market globalism is part of employers' perceptions of the marketplace. The "global economy" is constituted by the competitive strategies of firms that, in turn, are based on an assessment of apparent (i.e., structured)

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14. Cf. Orren and Skowronek, *The Search for American Political Development*.

15. Daniel M. Cook and Andrew J. Polsky, "Political Time Reconsidered: Unbuilding and Rebuilding the State Under the Reagan Administration," *American Politics Research* 33 (July 2005): 577–605. David Mayhew, *Placing Parties in America* (Princeton: Princeton University Press, 1986).

16. Amberg, "Governing Labor." Lieberman, *Shifting the Color Line*. Weir, "States, Race and the Decline." Sean Farhang and Ira Katznelson, "The Southern Imposition: Congress and Labor in the New Deal and Fair Deal," *Studies in American Political Development* 19 (Spring 2005): 1–30.

17. Cynthia L. Estlund, "The Ossification of American Labor Law," *Columbia Law Review* 102 (2002): 1527.

alternatives for market success. This leads *some* employers to seek labor wherever it is found in the world whereas *others* consider this decision risky for their firms in comparison with a new assessment of local alternatives. The assessment is not a rational calculation with full information; there is uncertainty about what are the best or most efficient labor market policies; choices are pragmatic adjustments rather than compulsive maximizing responses. Firm strategies therefore are embedded in the historical institutions that dominant political coalitions, such as the New Deal and the Reagan Republican coalitions, have used to govern employment and income, including state employment law, families, schools, workers' organizations, trade associations, and more. In short, the pressure of global market competition puts a premium on understanding the competitive alternatives, but a firm's strategic or competitive choices may be influenced by institutional context of governance and thus become a by-product of how that institutional context can be reconstructed.[18]

The Reaganite process of policy decentralization necessarily involved new sites and agents that then were responsible for policy implementation. There are potentially fifty state configurations of welfare policy and labor markets.[19] State and local public officials have choices to make from alternative modes for exercising the authority embedded in the institutions that express historical policy commitments, but also from the menu of contemporary alternatives.

Beyond Path Dependency for the American Variety of Capitalism: Alternatives for Firms and States

Two broad strategic alternatives were widely posed in the 1980s and 1990s for how business firms could compete and what state governments should do to help them. I introduce them as ideal types for the analysis of state labor market policies. This section sketches coherent strategies and policies, although it should be recalled that the purpose of models is to clarify relationships rather than to categorize actual performance. At best, states were groping to develop policies that supported these strategies in some degree. The alternatives for labor deployment are not only about responding to markets, viz. reallocating labor from declining sectors to rising sectors or compensating workers who lose their

18. J. Rogers Hollingsworth and Robert Boyer, "Coordination of Economic Actors and Social Systems of Production," in Hollingsworth and Boyer, *Contemporary Capitalism*, 1–47. Cathie Jo Martin, *Stuck in Neutral: Business and the Politics of Human Capital Investment* (Princeton: Princeton University Press, 2000). Gary Herrigel, "Emerging Strategies and Forms of Governance in High-Wage Component Manufacturing Regions," *Industry and Innovation* 11/1–2 (March–June 2004): 45–79.

19. Joel Handler, *Down From Bureaucracy The Ambiguity of Privatization and Empowerment* (Princeton: Princeton University Press, 1996).

jobs, but about constructing labor markets, viz. making choices from alternative ways for firms to create employment. One is a strategy of external flexibility and the other is internal flexibility.[20]

The external flexibility strategy orients a firm to react to changes in its market environment by doing more or less of what it does. The firm gains flexibility through centralized control of design and production; it can adapt more quickly when adaptation is quantitative, cancelling contracts and laying-off employees when product demand shifts. The external strategy finds confirmation in the practices of many American firms, which have vertically disintegrated in the last generation and sought to establish new supply linkages that are increasingly global while shifting risk to workers, suppliers, and communities.[21] But the external strategy is not the only or necessarily the best solution to a firm's problems. It also poses a challenge to state officials who are committed to improving employment and income for their citizens. The internal flexibility strategy is based on developing competencies that enable the firm to respond to changing conditions through deliberate and continual product improvement, organization design, production engineering and cost accounting, marketing, and inter-firm coordination. In the second strategy, there is greater emphasis on firm-based skills and long-term relationships, including relationships among firms in the production chain or industrial district, and on sustaining an organization focused on innovation. Rather than divide design and production tasks, firms sustain a variety of production capabilities and develop links with suppliers who themselves have a variety of capabilities that can add flexibility to the production chain. By comparison with the external strategy, the internal one gains in long-term capacity for problem solving through more collaborative decisionmaking that supports learning and shared competences, yet sacrifices financial flexibility and speed of adjustment. Either strategy in principle can lead to success for the

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20. There are many similar characterizations of the alternatives. The path-breaking statement is Michael Piore and Charles Sabel, *The Second Industrial Divide* (New York: Basic Books, 1984). The Commission on the Skills of the American Workforce, *America's Choice: High Skills or Low Wages!* (Rochester, NY: National Center on Education and the Economy, June 1990). Thomas Kochan, Harry Katz, and Robert McKersie, *The Transformation of American Industrial Relations* (New York: Basic Books, 1986). Eileen Appelbaum and Rosemary Batt, *The New American Workplace* (Ithaca, NY: ILR Press, 1994). Isabella Mares, "Firms and the Welfare State: When, Why, and How Does Social Policy Matter to Employers," in Hall and Soskice, *Varieties of Capitalism*, 184–212. Annalee Saxenian, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128* (Cambridge: Harvard University Press, 1994). Stephen A. Herzenberg, John A. Alic, and Howard Wial, *New Rules for a New Economy* (Ithaca, NY: Cornell University Press, 1998).

21. Mark Lehrer, "Macro-Varieties of Capitalism and Micro-Varieties of Strategic Management in European Airlines," in Hall and Soskice, *Varieties of Capitalism*, 368. Laying off employees is widespread in the U.S. even when the economy as a whole expands. In 2002 there were 15,000 lay-offs involving fifty or more employees. Wayne F. Castro, "Corporate Restructuring and the No-Layoff Payoff," *Perspectives on Work* 7 (2003): 4.

firm. Each has different consequences for labor deployment and workers' economic security.

The feasibility of each strategy is conditioned by governing institutions.[22] On the one hand, the externally oriented firm wants to reduce its commitments to its employees for job and income security and, therefore, will be encouraged by public policies that allow it to do so. For example, state laws that treat temporary help companies as employers rather than recruiters shield employers from significant labor relations obligations. The external firm opposes costly legal mandates for plant closing procedures, training, family leave, social welfare taxes, collective bargaining contracts, and common law employment security obligations. On the other hand, the externally oriented firm needs state and society to provide it with labor that is sufficiently educated or trained to perform in the firm.[23] The actual supply of broadly, but shallowly, trained workers reinforces the firm's choice of strategy. More generally, society must be able to provide the security that firms do not guarantee.

In contrast, a firm that is committed to the strategy of internal flexibility depends on the capacity of employees to take on new, non-standard tasks and assignments. Unlike the externally oriented firm, which simply sheds labor or hires it as needed, the internally oriented firm would provide greater employment security contingent on an individual's willingness to invest in greater training and to accept reassignments at work.[24] This firm wants employees who are deeply trained, who can make the decentralization of authority feasible because of a high level of competence, and who become committed to a career with the organization. The internally oriented firm also needs appropriate institutions in society. For example, firms may be influenced by the availability of community colleges that provide customized training for current employees.[25] Employees themselves are more likely to seek such training when the prospect of employment security promises a payoff for their investment. The payoff will be more evident when a trusted labor market intermediary brokers the job placement; intermediaries may include trade unions and public training institutes that work closely with employers as well as urban religious and community

22. J. Rogers Hollingsworth, "Continuities and Changes in Social Systems of Production: The Cases of Japan, Germany, and the United States," in Hollingsworth and Boyer, *Contemporary Capitalism*, 265–310. Robert P. Giloth, ed. *Workforce Development Politics: Civic Capacity and Performance* (Philadelphia: Temple University Press, 2004), 15–19.

23. Lehrer, "Macro-Varieties of Capitalism," 367.

24. Osterman's research shows American firms that are internally oriented do not *always* provide greater job security, although they do other things according to prediction. Paul Osterman, *Securing Prosperity* (Princeton: Century Foundation and Princeton University Press, 1999).

25. Kevin J. Dougherty and Marianne F. Bakia, "Community Colleges and Contract Training: Content, Origins, and Impact," *Teachers College Record* 102 (February 2000): 197–243.

organizations. The internally oriented strategy also is conditioned by the disincentives to choose the externally oriented strategy.[26] That is, the strategy of internal flexibility may be more likely if lay-offs are not easy because of residual income and health insurance obligations to laid-off employees, high social costs (including unemployment compensation taxes), widespread union membership and government-protected collective bargaining, and well-established industry-wide labor–management cooperation.

Most governors want economic growth of the "right kind," viz. high value industry.[27] Yet the relationship between firm strategy and public policy is interactive and depends on organizational qualities of employers and on the specific institutional conditions of coordination in states and locales. States whose policy profiles are closer to the conditions that make the external flexibility strategy feasible should be more likely to have firms that pursue the external strategy, while states whose policy profiles are closer to that required for the internal flexibility strategy should be more likely to have firms that pursue that strategy. Therefore, there are two types of labor market policy strategy that match the ideal types of alternatives for firms that I outlined. One is a strategy composed of policies that help workers adjust to a given state of the labor market. The second is a strategy composed of policies that shape the demand for labor, namely the quality of work as well as the amount and location of work. These strategies are homologous with LME and CME.[28]

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26. Wolfgang Streeck, "Beneficial Restraints: On the Economic Limits of Rational Volunteerism," in Hollingsworth and Boyer, *Contemporary Capitalism*, 203. Soskice and Thelen *et al.* point out that employers have positive reasons to coordinate.

27. An overview of how outcome assessments were changing state strategies is Peter K. Eisinger, *The Rise of the Entrepreneurial State: State and Local Economic Development Policy in the United States* (Madison: University of Wisconsin Press, 1988), 73–82. Eisinger had direct involvement as a participant in the Wisconsin Strategic Development Commission. R. Scott Fosler, *The New Economic Role of the American States* (New York: Committee for Economic Development/Oxford University Press, 1988). Also see the many reports from the National Governors Association (www.nga.org). Cf. The Progressive Policy Institute state policy benchmarks (www.neweconomyindex.org).

28. Jobs for the Future, *Everybody WINs: Effectively Involving Business in Workforce Development* (2001), cited by Stone and Worgs, "Poverty and the Workforce Challenge," in Giloth, *Workforce Development*, 259. Fung and Zdrazil, "Ecologies of Workforce Development," in Giloth, *Politics*, 78f. But see Ronald Dore, "New Forms and Meanings of Work in an Increasingly Globalized World" (Geneva: International Institute for Labor Studies, International Labor Organization, 2004) and Peter Cappelli and David Neumark, "External Job Churning and Internal Job Flexibility," *National Bureau of Economic Research Working Paper* 8111(February 2001). Cf. Eric Parker and Joel Rogers, "Building the High Road in Metro Areas," in *Rekindling the Movement: Labor's Quest for Relevance in the 21st Century*, ed. Lowell Turner, Harry C. Katz, and Richard W. Hurd (Ithaca, NY: ILR Press, 2001), 256–72. Mark Elliott, Anne Roder, Elisabeth King and Joseph Stillman, "Gearing Up: An Interim Report on the Sectoral Employment Initiative" (www.ppv.org: Public/Private Ventures, September 2001).

Operationalization of State Labor Market Policy

In this section, I operationalize the policy alternatives to test the hypothesis of national models. First, I disaggregate the U.S. into fifty states because the states have initiative for many labor market policies. Second, I disaggregate "labor market policy" into three policy domains—workers' rights, income security, workforce development—and select policies that characterize the state's practice in each one. I turned the set of policies into an index for which each state received a score, much as is done in widely referenced OECD studies referred to above. The state scores for each policy category were the basis for carrying out a cluster analysis to find states in each area with similar practices. In the next section, I will disaggregate the scores and discuss linkages among policies. Here I want to discuss the policy indices.

The ability of workers to obtain good jobs depends in part on the authority they are assigned by labor law to represent themselves in labor exchange. Labor law includes statute law that covers the obligations of employees and employers toward each other and the public interest as well as the common law of each state. Union-management relations in the U.S. still operate according to national labor laws passed in mid-twentieth century, but the national framework law (the Wagner Act of 1935) has allowed state variations since the 1947 amendments (the Taft-Hartley Act). Union coverage rates vary widely among the American states. Almost half of the state legislatures have passed "right to work" industrial relations laws that undermine collective labor action because they protect "free riders" in unionized workplaces who do not want to join the union and pay dues. My assumption is that where employees' collective action is effectively protected, the union context will be an incentive for employers to work with their employees over the long run: they are required by law to bargain and they rationally seek to enlist employees in the competitive strategy of the firm. Whether or not employers react in this way in fact is not directly measured here. There is a lot of fragmentary evidence that unionized workplaces are more likely to employ internal strategies of competition, but this picture has clouded with longer experience.[29] All that is hypothesized here is that one condition favorable to the internal strategy is state protection for employee organization.

A second dimension of workers' rights is the right of an individual worker to some measure of job security when s/he takes initiative as opposed to taking orders. In the U.S., the default status of employees without a collectively bargained employment contract is determined by state common and statute law, and these laws vary considerably. Employees who work without a written contract

29. Kochan, Katz and McKersie, *The Transformation*. Lawrence Mishel and Paula B. Voos, eds. *Unions and Economic Competitiveness* (Armonk, NY: M. E. Sharpe, 1992). Osterman, *Securing Prosperity.*

in the United States are employees-at-will, but there has been significant strengthening of the status of individual workers in some states in the last thirty years.[30] Does an employee have a protected right to express or make judgments about product quality, the safety of the workplace, and management decisions? The hypothesis is that states with greater protection for work-related action should be states in which firms have an incentive to be partners with their employees.

The policy index is composed of several measures of workers' rights (Figure 1): The first is, does the state protect the union shop or does it have a "right-to-work" law that protects free riders? The index also includes measures of the actual existence of collective rights, namely the unionization rate in the private sector and specifically in manufacturing. The index also includes a score for individual worker rights. The score was produced by an individual rights index. The underlying variable is the degree to which employees can participate in decisionmaking about work absent the presence of union representation (Figure 2).

Each component of the index was scaled and a score assigned to each state for each variable; these scores were summed to determine each state's overall workers' rights score.

States also influence firms' strategies through policies about income security and workforce development. The unemployment insurance (UI) programs of all the states are part of a federal framework law (the Social Security Act of 1935), but states have considerable discretion when setting tax rates on employers and establishing employee eligibility and benefit levels. The specific policies in my UI index are a selection from the important analyses by Maurice Ensellem and his collaborators (Figure 3).[31]

Higher replacement income should give confidence to workers while the cost of unemployment should lead a firm to find ways to re-deploy its employees rather than use lay-offs. Two qualities are critical. One is the rate of replacement income and the other is the cost to the employer of lay-offs. The first variable in the index is whether the state includes the most recent quarter of wages when determining eligibility and benefit levels. Not including it limits eligibility and benefits for workers who are employed in short-term jobs where wage increases above the minimum occur only at the end of their tenure. Many states have changed their laws to fully support such workers while others still have

30. The OECD, *Employment Outlook 1999*, misses this variation because it treats the entire U.S. as a unit. See table 2.A.4., p. 100. Richard Edwards, *Rights At Work* (Washington, D.C.: 20th Century Fund, 1993).

31. Maurice Emsellem, Jessica Goldberg, Rick McHugh, Wendell Primus, Rebecca Smith and Jeffrey Wenger, "Failing the Unemployed: A State by State Examination of Unemployment Insurance Systems" (Washington, D.C.: Economic Policy Institute/CBPP/National Employment Law Project, 2002).

Figure 1
Worker rights index.

Variables/Scale:	1	2	3	4	5	6
V Unshop	No = 1					Yes = 6
P Unpriv98	1-5%	6-10	11-15	16-20	21-25	26+
R Unmfg98	1-5%	6-10	11-15	16-20	21-25	26+
W Indrt	(See Individual Rights Index: Figure 2.)					

Definition of variables:

Unshop is Does state law protect the union shop by *not* having a "right to work" law?

Unpriv98 is What was the private sector unionization rate in 1998?

Unmfg98 is What was the unionization rate in manufacturing in 1998?

Indrt is What was the state's score on my Individual Rights index?

Sources:

Unionization rates from Barry Hirsch. These figures may understate the unionization rate. See Goldfield (1986) for a discussion of BNA union membership statistics.

Individual rights score: see the discussion attached to the figure for the Individual Rights Index.

not.[32] Replacement income is measured by whether the state guarantees a percentage replacement rate or whether the state legislature must act to adjust the rate, which means that the rate will lag inflation; whether the median income worker recovers 50 percent or more of her income; whether the maximum benefit (i.e. for white collar employees) is indexed to state wages; whether workers who desire part-time work are eligible; and what is the percentage of unemployed workers who actually receive unemployment compensation.

The second quality is the direct penalty for unemployment for employers, which is the UI tax rate (the rate and the wage base), discounted by the "experience" rating that state governments apply to employers based on each employer's record of lay-offs. Job stability earns the employer a lower rate. During the 1980s and 1990s, many states were convinced they could manage their funds more efficiently and, thereby, lower UI taxes. The Employment Law Project (ELP)

32. Jeffrey B. Wenger, "Divided We Fall: Deserving Workers Slip through America's Patchwork Unemployment Insurance System" (EPI Briefing Paper, no date).

Figure 2
Individual rights index.

1: Minimal rights. 1 to 3 rights from this list: rights to leave work for military service, jury duty, voting, medical treatment, while receiving workers' compensation; process for discharge when employee handbook specifically provides for it; insurance contracts; drug testing; and cooperation with police.

2: 4 or more items from the list in 1.

3: Modest rights related to conditions of employment. Protection against coercion, political pressure, kickbacks and extortion, refusal to disobey the law, and sexual favors, and for civil rights, workplace safety, and testimony in court.

4: Workplace rights based on explicit statutory provision of a duty to protect the public (but not a general citizen obligation to act to obey laws or to seek employee and public good). Examples include specific protection for employee process rights for union activity, to protect public health and safety (e.g. aircraft maintenance and food safety), whistle-blowing of corporate fraud, and to encourage truthful compliance with government reporting requirements (e.g. occupational health).

5: General citizenship rights that extend into the workplace, based not only on explicit legislative mandates for employee rights but on judicial interpretations of important policy goals, that protect an employee who acts to protect the public interest.

6: Broad on-the-job rights, which impose a duty on employers to always deal fairly with employees and to respect principles of social behavior in a democracy that may be established in statutes, constitutions (whether state or federal), administrative rules, professional codes of conduct, and judicial doctrine. E.g. several states protect civil liberties (e.g. speech, including criticism and disclosure of management decisions) and employee action (or refusal to act) based on established standards of professional ethics.

Notes:

The BNA tracks "implied contracts" based on employee handbook language, but after many state courts ruled in favor of employees in the 1980s and early 1990s, employers have taken evasive action virtually everywhere by re-writing their handbooks. Therefore, I scored implied contract rights as 1.

Partial scores were awarded for mixed or partial cases.

Recall that scores refer to individual rights that are enforceable in court. Many states have established administrative procedures to enforce certain classes of rights. Civil rights widely gain state protection, but so do some other conditions, such as workplace safety and health. The issue here is whether, even if there is an administrative process that establishes regulatory authority (which may or may not be effective), individual workers can seek redress in a sympathetic court.

Source:
BNA Individual Employee Rights Handbook, volume 9A, 1997-2003.

Figure 3
Unemployment insurance index.

Variable/Score:	1	2	3	4	5	6
B Altbase	No = 1					Yes = 6
C Parttime	No = 1					Yes = 6
D Wagebase	$7K	$7-9	$9-12	$12-15	$16-20	$20+
F Benindex	No = 1					Yes = 6
G Benrate	NA	50-55%	56-60	61-65	66-69	70+
I Recipiency	20-25	26-33	34-40	41-49	50-60	61+
L Solvency	<1Q	<2Q	<3Q	>3Q<6Q	6Q-8Q	>8Q

Definition of variables:

Altbase is Does the state use the alternate base period for determining eligibility and benefit levels, which is more generous to the worker?

Parttime is Are workers who want part-time work eligible for UI?

Wagebase is What is the taxable wage base? The federal minimum was $7,000 in 2001.

Benindex is Is the maximum benefit indexed to the state's average earnings?

Benrate is What percentage of income is guaranteed? If the state does not use a formula, it was rated 1.

Recipiency is What percentage of unemployed workers received UI benefits in 2001?

Solvency is How many quarters of a year of benefits in an average recession could the trust fund last without raising new revenue in 2001?

Sources: See text notes.

concludes that this was reasonable and, like the ELP, I focused on the solvency of the unemployment compensation fund.[33] A scale was created for each variable and each state earned a score for each policy; the sum of the individual scores became the UI score for each state.

33. Wenger, "Divided We Fall", notes that inter-regional population shifts, gender and race also are correlated with recipiency rates.

Many state governments have devoted enormous efforts to workforce development policy. I focused on education and training policies, whose institutional homes are decentralized. The key question is whether states have demand-side (internal) or supply-side (external) workforce development strategies. State governors were stimulated to action by widely touted analyses in the 1980s that argued that the American economy was "at risk" because public schools were failing to prepare students for advanced occupations. The coordination of schools and training agencies with employers was emphasized. Then in 1996, the Congress adopted the PRWORA and, in 1998, the Work Investment Act (WIA), which provided incentives for coordination among state and local institutions to prepare the hard-to-employ to fill employer demands.[34]

What is critical to measure is whether there is close coordination between employers and labor market intermediaries and agencies to enable up-skilling workers or whether the labor market agencies' policies mimic the bifurcated market demand for workers.[35] Policies can pursue one or both of two tasks. One is to coordinate the fragmented institutions that provide services to low-skill workers in order to link these individuals to the labor market. Another is to create career paths for these workers that will enable them to move up the job ladder.[36]

The index measures the degree to which a state has achieved coordination. Did it implement the WIA mandate to create "one-stop" centers where agencies that provide employment and training assistance for adults, youth, and dislocated workers as well as welfare participants are grouped together to coordinate the delivery of appropriate services? I focused on whether a state was an "early implementer" of the 1998 Act as a proxy for the state's capacity to coordinate (Figure 4).[37]

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34. Evelyn Ganzglass, M. Jensen, N. Ridley, Martin Simon, and C. Thompson, *Transforming State Workforce Development Systems: Case Studies of Five Leading States* (Washington, DC: National Governors' Association, 2001). W. Norton Grubb, Norena Badway, Denise Bell, Bernadette Chi, Chris King, Julie Herr, Heath Prince, Richard Kazis, Lisa Hicks, and Judith Combes Taylor, *Toward Order from Chaos: State Efforts to Reform Workforce Development Systems* (Berkeley, CA: National Center for Research in Vocational Education, 1999).

35. Labor market demand has become bifurcated: the fastest growing segment of the labor market is for low-skill, low-wage workers and the second fastest is for individuals with advanced degrees.

36. Brandon Roberts + Associates, "Working Poor Families: A State-Level Assessment of Conditions and Policies Encouraging Economic Self-Sufficiency" (unpublished). Giloth, *Workforce Development Politics*, 9–10. Herzenberg, Alic, and Wial, *New Rules*.

37. "Early implementation" was more telling because across all states "the one-stop ideal remains rare." David Hage, "Purgatory of the Working Poor," *The American Prospect* (September 2004): A5. Maria Buck, "Charting New Territory: Early Implementation of the Workforce Investment Act" (Public/Private Ventures, January 2002), 29. National Governors' Association, "A Governor's Guide to Creating a 21st Century Workforce" (Washington, D.C.: National Governors' Association, 2002), 31. See the U.S. Department of Labor's state reports on WIA performance at doleta.gov/performance/ and at CLASP (Center for Law and Policy www.clasp.org.), "State-by-State WIA Program Participation Data".

Figure 4
Workforce development index.

Var./Score	1	2	3	4	5	6
AM WIAearly	No					Yes
AO WIBtrain	0-33%	34-49	50-59	60-69	60-79	80-100
AR CCfunds	80-100%	60-79	34-59	26-33	20-25	0-19
AS CCcredit	No					Yes
AU Cluster	No					Yes
AB SFEFMG	$0-10	11-20	21-39	40-59	60-79	80+
Y CCdeg	<10	10-19	20-24	25-29	30-34	35+

Definitions of variables:

WIAearly is Was the state among those that were ready with a plan for the Department of Labor to implement the 1998 Workforce Investment Act before the official start date?

WIBtrain is What percentage of eligible WIA participants received training in 2000?

CCfunds is What percentage of the funds for community colleges comes from student tuition and fees in 1998-99? (Low percentage scores higher.)

CCcredit is Does the state provide any institutional funding for non-credit certificate programs or customized training at community colleges?

Cluster is Does the state have a cluster or district economic development policy?

SFEFMG is What is the state-funded employer-focused job training appropriation x 70% (the national average manufacturing allocation) per manufacturing employee in the state in 1997?

Ccdeg is What is the percentage of community college degrees per capita in 1998 (in .0000s)?

Sources:

See text notes.

The second item in the index is the training record: how much of local WIA funds was spent on training; what percentage of individuals in the WIA systems received training; and how many received a portable credential for the training? The portability of credentials—and hence the status of credentials—is a public good: a certificate of training advertises to employers a known skill set.

Also important is the further training available to those already in the internal labor market. In the last twenty years, community colleges have become deeply involved in training or re-training people for work. About 11 percent of students in a national survey reported that they were enrolled in courses linked to their jobs and 50 percent of these students were supported financially by their employers. The idea is to upgrade the skills of the workforce, indicative of the internal strategy. State legislatures have designated community colleges as economic development agencies tasked with the responsibility to help retain employers and attract new industry. Community colleges in a number of sub-state regions are participating in economic strategies to sustain "clusters" (industry districts focused on closely related industries) by providing the types of training that are tailored to a particular cluster.[38] However, because students in contract or custom training programs do not receive college degrees, they are omitted from national education statistical compilations of "completions" of programs. Also, although the subject matter of students' degrees *are* tracked, they are compiled nation-wide, not by state. Nonetheless, some data are available and were used to make a first pass at what is happening at the state level.[39]

I assumed that a lower financial burden on students will encourage them to get more education and training. The variables that were used are what percentage of the funds for community colleges come from student tuition and fees? Does the state provide institutional funding and/or student financial aid for non-credit and/or part-time career and technical classes at community colleges? Historically states did not do this—as reflected by the federal disinterest in tracking enrollments in such courses. One indicator of such state support is does the state have an industrial district (or cluster) policy? How much money is the

38. Osterman, *Securing Prosperity*, 138, reports that 37.8 percent of all post-secondary enrolments were in community colleges in 1992, double the proportion of 1972. Kim VanDerLinden, "Credit Study Analysis: 1999–2000" (Washington, DC: American Association of Community Colleges, 2002). Kevin J. Dougherty and Marianne F. Bakia, "The New Economic Development Role of the Community College" (Columbia University: Community College Resource Center, Brief #6, January 2000). Thomas R. Bailey, "Community Colleges in the 21st Century: Challenges and Opportunities" (Columbia University: Community College Resource Center, Brief #15, January 2003). Stuart A. Rosenfeld, "Business Clusters in America: Strategies and Synergies" (Paris: OECD, 1995). The Center for Regional Innovation partners with the U.S. Commerce Department Economic Development Administration to urge states to focus on industry clusters. www.compete.org/publications/clusters_reports.asp National Governors' Association, "A Governor's Guide to Cluster-Based Economic Development" (Washington, DC: National Governors' Association, 2002). Mark Elliott *et al.*, "Gearing Up: An Interim Report on the Sectoral Employment Initiative" (Public/Private Ventures, September 2001).

39. U.S. Department of Education, National Center for Education Statistics, Frank B. Morgan, "Degrees and Other Awards Conferred by Title IV Participating, Degree-granting Institutions, 1997–98", NCES 2001–177 (Washington, DC: U.S. Department of Education, 2000). The renewed focus on industry cluster or district policy strategy reinforces the preference for case analysis rather than system-level statistical analysis. See the National Governors' Association and reports by Regional Technology Strategies at rtsinc.org. Education Commission of the States, "State Funding for Community Colleges: A 50-State Survey" (Denver: November 2000), 10, 29, 43–52.

state investing in employer-focused training in the manufacturing sector? Finally, the index includes the rate of community college degrees awarded per capita.

State Clusters and Policy Relationships

The first step of the statistical analysis was to discover whether state governments have policy profiles that uniformly support either the external or internal strategy. Perusal of the scores that each state received for the variables that make up each index clearly shows that the states do not pursue coherent strategies. Few states score consistently on the variables in each index. The second step is to find whether there are patterns among the states and what policies characterize the patterns. The method used to analyze the data was hierarchical cluster analysis.[40] The technique uses the distance between values of the variables for each state to make a preliminary classification of states. The cluster results are not definitive, of course, but the procedure enables us to move beyond the assumption in the comparative political economy literature that the United States is a national unit as well as the common assumption in the American politics literature that there are but two categories of states, viz. north versus south or red versus blue. The next section discusses explanations for the patterns.

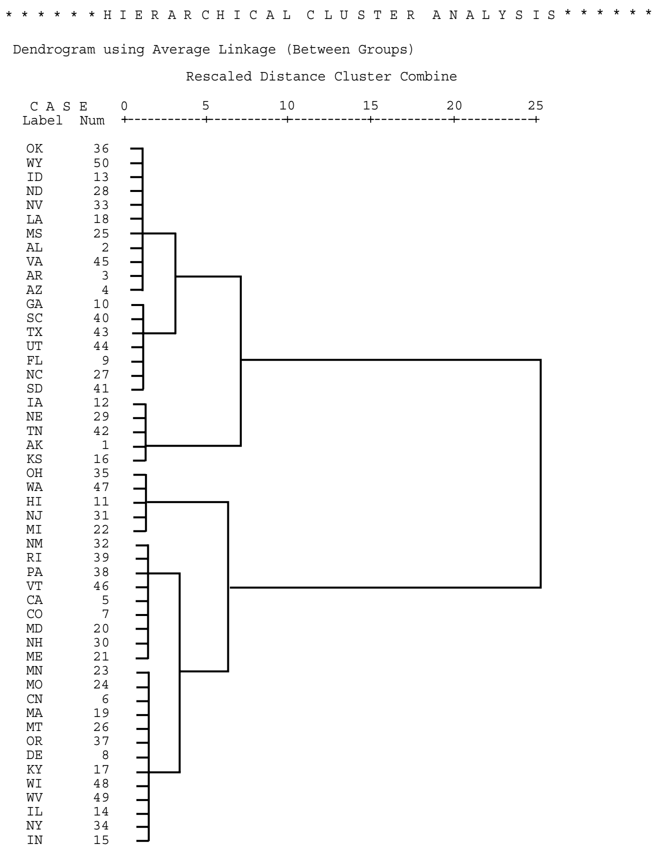
Consider the results of cluster analysis for each index (Figures 5–7).

What the cluster analyses suggest is that states can be best grouped into four categories when it comes to labor market policies. However, the analyses of each policy do not create similar groupings of states. In particular, the clustering of states based on the UI index is not significantly correlated with the clustering based on the indices of workers' rights (0.3145) and workforce development (0.0145).

What may account for the differing arrays is that the UI index has components that are subject to differing interpretations, as noted in the discussion of the index. For example, a state's trust fund may earn a high score for solvency by reducing the rate of recipiency. This seems to be the case with Utah. Conversely, a state that has a high rate of recipiency and high benefits may have a low score for solvency, such as Michigan and Minnesota. Or a state may exclude part-time workers and discount recent earnings, but still cover a lot of unemployed workers, as Connecticut does. The index may have over-weighed solvency and the value of a formula for the benefit rate (states scored low if they did not have an automatic formula for computing benefits, which resulted in California and

40. Marija J. Norusis, *SPSS for Windows: Professional Statistics* (Chicago: SPSS, 1993), chapter 3. Mark S. Aldenderfer and Roger K. Blashfield, *Cluster Analysis* (Beverly Hills: Sage Publications, Quantitative Applications in the Social Sciences 07-001, 1984), 35–44.

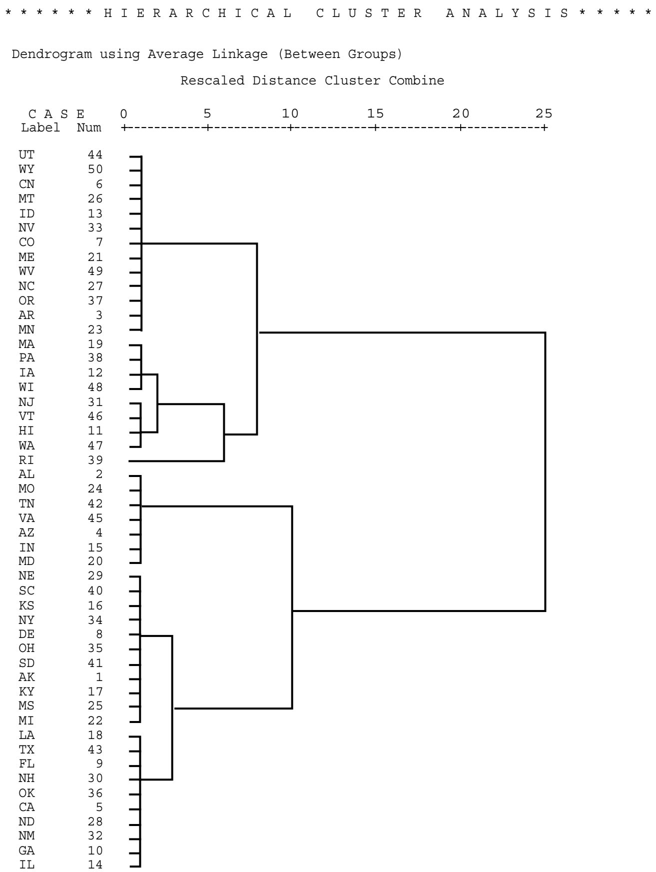
Figure 5
Workers' rights index.



Texas being placed together even though Texas covers far fewer unemployed workers than California). But if the index does measure important features of state UI policies, then the more important finding is that such policies are not systematically linked to the state's other labor market policies.

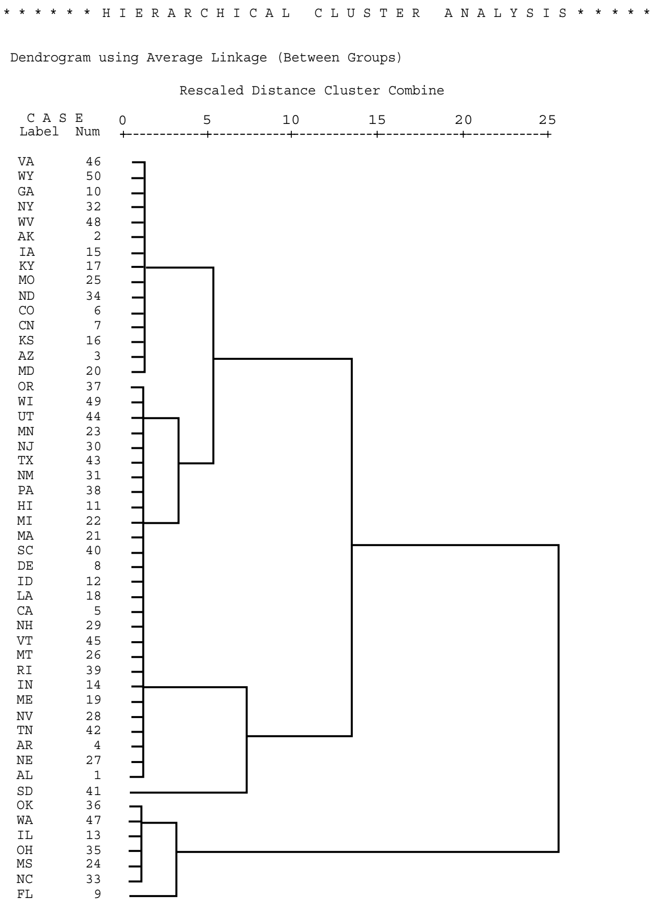
The cluster analysis of the workers' rights index roughly confirms the image of American politics historically divided between the north, where the New Deal policies dominated, and the south, which resisted. The cases that are anomalous for a geographically defined north versus south pattern, such as Colorado, New Mexico, Alaska, and Hawaii, mostly are states that by definition were peripheral

Figure 6
Unemployment insurance index.



to the historical divide. The union shop and the rate of union coverage in manufacturing figure prominently in the index because they did so in historical political conflicts over regional development. Therefore, it is not surprising that pro-union states cluster together and low-union states also cluster. But there is more than this. At the four-cluster stage, the "regional" blocs split. In the south bloc, the clusters have eighteen and five member states and in the north bloc the clusters have twenty-two and five members. The factors in the index that nominally explain the finer groupings are the possibility that a state could protect

Figure 7
Workforce development index.



individual rights but not collective rights and that it might protect the union shop but the rate of union membership was low.

The cluster analysis of the WD index scores also suggested three or four clusters of states (see Figure 7). The three-cluster outcome groups twelve states with very low WD scores, seven states with very high scores, and thirty-one states with middling scores. The four-cluster outcome breaks down the middle cluster of thirty-one states into a higher group of sixteen and a lower group of fifteen.

One interpretation of these patterns is that states vary according to their approach to the bifurcation of the labor market described in the previous section: do they leave the split alone or work to restructure the market? A suggestive case is Wisconsin, which just missed inclusion in the very high cluster because it had high values on all variables in the index except for state-funded employer-focused job training appropriations. But Wisconsin is unique among states because it has a technical college system with authority to assess local property taxes, obviating much of the need for state-funded spending, to accomplish much the same goal. Wisconsin had one of the highest rates of manufacturing employment throughout the period, which made it similar to North Carolina, also a state with a high rate of manufacturing and a state that scored very high on the WD index. Yet Wisconsin is a high-union state and North Carolina is one of the lowest-union states. In contrast, Arkansas had a high rate of manufacturing, but a very low score on the WD index. The comparison of Arkansas and North Carolina is also suggestive. Both scored very low on the workers rights index, but while North Carolina was a leader in training workers at the very low end of the labor market to shift them from welfare to the external labor market, Arkansas was not.

The purpose of the cluster analysis simply has been to establish the diversity of labor market policy strategies in the United States in contrast to the unitary image, but there are some further suggestive ideas about the viability of diverse strategies. The logic of the alternative models is that states that score high (or low) on all policy sets are more likely to provide effective incentives for firms to pursue the internal (or external) strategy. Absent data on firm-level behavior, consider one gross economic performance outcome, namely state employment in manufacturing, which was the focus of much of the policy debate in the 1980s and 1990s, viz. whether and how U.S. manufacturing could survive in global competition.[41] The United States lost about 16 percent of its manufacturing jobs nationwide between 1979 and 1998, but these job losses were concentrated in the eleven states of Connecticut, Illinois, Indiana, Massachusetts, Michigan, Missouri, New Jersey, New York, Pennsylvania, Rhode Island, and West Virginia (Table 1).

Yet, other states did well relative to the entire country and compared to their own historical record, either increasing manufacturing jobs absolutely (sixteen states) or as a percentage of all employment in the state (eleven states). Leaving aside the states that began the era with a marginal manufacturing base (e.g. Utah) where fairly small gains in jobs create large percentage increases, the high manufacturing states with the best employment performance are Alabama,

41. The greatest concern reported by states in one study in 1986 was declining industries, which led to a variety of strategies to strengthen manufacturing, among other policies. Marianne K. Clarke, *Revitalizing State Economies* (Washington, D. C.: National Governor's Association, 1986).

Arkansas, Georgia, Mississippi, North Carolina, Tennessee, and Wisconsin. Although all but one of these states is anti-union, there is a union state among them; although some of these states scored low on WD, two are among the states that scored the highest. One could argue that there are three or four policy patterns that pivot on the WD index. First, in the very low WD cluster there are two types of state economy, one with very high manufacturing employment and an external strategy (e.g. Arkansas) and one with low manufacturing employment (e.g. Nevada, Montana), which is a kind of residual category. Second, a very high or high WD cluster is made up of manufacturing states that have an internal strategy policy (e.g. Wisconsin) or external strategy (e.g. North Carolina, Ohio, Mississippi) as well as a few states with modest manufacturing (e.g. Oklahoma, Florida), again a residual category. This supports the claim that there were diverse viable paths to competitiveness rather than strongly constrained choices, even if our focus is only on the sector the most pressured by changing trade conditions.

Explaining Innovation in America's Composite LME

Now I want to pull together the two arguments that the article has made to suggest what I think will be a more useful analysis of labor market policy developments. One argument was that we should recognize the composite quality of regimes and specifically the significance of sub-national government policymaking in the United States. The second argument was about the shortcomings of the functionalism of much institutional analysis of contemporary political economies. Comparative political economy studies have widely designated the United States an LME. This article does not dispute the designation. I argue instead for a deeper institutional analysis of the American liberal economy that draws attention to the specific historical institutional features of the U.S. state and to the significance of creative action in a complex and uncertain institutional space. Within an overarching national liberal commitment, state governments, firms, unions, workers, educators and researchers, and others adjust to on-going changes in the political–economic environment on the basis of a diverse array of sub-national historical political and social commitments, both ideological and institutional, as well as on-going relationships in policy networks and immediate opportunities. Faced with performance problems associated with increasing international economic competition, these institutional agents have debated the costs of liberalism (rather than assumed that market-based decisionmaking is the only option), but each state has composed solutions based on its specific historical point of departure.

Therefore, to address the broader question of institutional change, I emphasized the significance of the composite institutional quality of the regime and of plausible logical alternatives about the best competitive strategy for firms.

Table 1
Manufacturing employment change, 1979–1998

State	MfgEmp %1979	MfgEmp 000s1979	1979 20% + Mfg	MfgEmp %1998	MfgEmp 000s1998	1998 HighSave
AL	23	375	X	23.5	365	X
AK	7.2	13		6.4	13	
AZ	13.4	142		12.1	211	
AR	22.7	217	X	25.7	242	X
CA	18.2	2,001		16.2	1,855	
CO	12.9	180		11.2	194	
CN	27.5	435	X	17.5	248	
DE	25.4	70	X	12.7	44	
FL	11.4	438		8.0	459	
GA	22.5	527	X	17.2	545	X
HI	6.0	24		3.7	16	
ID	13.9	59		16.5	69	
IL	23.8	1,270	X	17.8	906	
IN	28.3	741	X	26.0	657	
IA	18	258		20.7	251	
KS	16.5	198		19.1	206	
KY	18.8	295		21.0	306	
LA	12.6	213		12.1	185	
ME	23.3	114	X	17.0	81	
MD	11.7	246		9.2	175	
MA	23.1	670	X	15.1	418	
MI	26.6	1,151	X	23.0	890	
MN	18.5	3,83		18.2	397	
MS	23.8	235	X	25.6	234	X
MO	20.0	460	X	16.5	376	
MT	7.3	27		7.5	22	
NE	12.8	99		15.7	114	
NV	5.5	20		4.9	41	
NH	26.0	116	X	20.3	104	
NJ	22.6	800	X	13.2	429	
NM	6.5	35		7.8	43	
NY	18.7	1,499		11.6	792	
NC	30.6	824	X	25.0	796	X
ND	5.6	17		9.0	23	
OH	27.4	1,380	X	21.8	1,031	
OK	14.3	183		15.1	176	
OR	18.6	227		17.6	229	
PA	26.2	1,390	X	18.2	873	
RI	29.3	132	X	18.9	75	
SC	30.5	399	X	23.1	341	
SD	8.0	27		15.0	44	
TN	26.7	529	X	22.1	499	X
TX	16.3	1,023		14.4	1,077	
UT	14.8	87		14.9	129	
VT	21.2	51	X	18.6	45	
VA	16.6	413		13.8	376	
WA	16.1	306		16.9	361	
WV	16.8	126		13.4	78	
WI	24.9	593	X	25.5	593	X
WY	4.4	10		6.0	10	

Sources: Statistical abstract of the United States; data.gls.gov/servlet.

Institutional contingency and economic uncertainty are conducive to reflection, new choices, and policy innovation. The focus on how the various institutions interlock—complement each other—has led to fruitful research about adaptive mechanisms of increasing returns and non-rational behavioral adjustments according to which institutions evolve to work together, but that image elides the questions of how the institutions were created and how institutional agents manage their domains when conditions change. Institutions may contain more possibilities inscribed in their missions than revealed in the practical application of decision rules in any conjuncture, which enables institutional agents to engage in innovative manipulation of decision rules to enhance performance.

These arguments about complementarity and institutional complexity are illustrated by the exclusion of southern workers from New Deal labor policies that aimed to increase the bargaining power and incomes of employees. The different regulation of southern labor markets was complementary to the need of northern unionized manufacturing firms for a supply of low-wage entry-level labor.[42] As the south mechanized agriculture, it supplied excess labor to northern labor markets.[43] The complementariness is not prescribed but adaptive: each region's state policies were made more efficient than either alone. However, the causes and purposes of the different ways to govern labor are found in the visions and power of the rule-making coalitions that dominated government in the respective jurisdictions and controlled state representation in the Congress. The policies were not adopted for the functional outcome observed by social scientists. Rather, positive outcomes may in turn lead institutional agents to continue on their paths, but functional relationships also may run out and create a performance crisis for institutional agents, who now receive feedback about their decisions that calls the path into question. For example, where southern industrialization was advanced—North Carolina had more manufacturing employment than New York in 1990—southern employers may perceive a need to hold onto the labor force and upgrade workforce performance. Institutional agents then might adjust policies to alter the flow of workers and redirect them to local community colleges. And that reform possibility reveals that institutions that govern labor can be turned to more than one specific solution to a general problem (like economic growth or competitiveness).

This illustration also underlines the two factors that seemed to account for most of the enduring variation in labor market policies among the states. One was

42. Piore and Sabel, *Second Industrial Divide*, 85.

43. Gavin Wright, *Old South, New South: Revolutions in the Southern Economy since the Civil War* (New York: Basic Books, 1986).

whether or not states had established the rights of employees to "voice" at work, most strongly through unions and less strongly through protection for individual rights. Where unionized workers were stakeholders in the political economy, the state was more likely to approximate the "coordinated" model and to attempt to renegotiate the governance rules when faced with international competition. If employees were not stakeholders, the state's governing strategy was more likely to approximate the "liberal" model. The second factor that emerged was the workforce development approach taken by a state toward the bifurcation of the labor market between low-skill, low-wage jobs and high-skill, higher-wage jobs: did the state accept the labor market as given or did it try to influence the quality of jobs that firms created? States could try to improve the training of workers at the low end and/or invest in efforts to upgrade the quality of employment on the demand side. Because minority group members were disproportionately in the low end of the labor market, a state's accommodation to the civil rights revolution makes a difference.

In states with union stakeholders, public investment in schools and other social benefits were higher than in states where they were not, but the cutting issue was the bifurcation of the labor market between insiders and outsiders and unions were preoccupied with saving the inside jobs of their members. Union members' security was threatened by back-to-back recessions in 1980 and 1982 as well as by international pressures on manufacturing, which meant that there was not a direct relationship between the rate of union membership and a state's workforce policy. Unions were focused on their core members and their bilateral relationships with employers. In states without union stakeholders and where state leaders had developed an accommodating relationship with the black community, workforce policy could be more "flexible" (trying all types of policies) rather than simply reproducing inequality through the labor market. In specific cases, institutional agents changed strategies—learned and adopted new techniques—that they learned from experience and from the policy networks in which they were embedded.[44]

To illustrate the logic of causality suggested by these observations, consider the following thicker description. A word of caution is advisable when focusing on cases, however, because the idiosyncratic may be projected into a rule, which

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44. The networks were more than partisan defenders of the *status quo*. In response to industrial restructuring, many groups appeared to formulate socially responsive change, such as the Federation for Industrial Retention and Renewal. In response to welfare policy devolution, supporters launched projects to organize groups to gain new state-level commitments to social policy. For example, the Ford Foundation's devolution project, the Annie E. Casey projects that are the subject of Giloth, *Workforce Development Politics*, the Urban Institute's new federalism research project, and the Economic Policy Institute's Economic Analysis and Research Network (EARN). Reaganite conservatives organized the State Policy Network and the Family Policy Councils, among others. Frederick Clarkson, "Takin' It to the States: The Rise of Conservative State-Level Think Tanks." *The Public Eye*, 13 (Summer/Fall 1999): 1–13.

is why the use of models and statistical testing is attractive. Nonetheless, at the risk of confusing detail, a look at cases is useful when the *N* is fairly small and the purpose of research is not to vindicate the models but to understand how practice can change.

As we have seen, during the New Deal era state governments implemented labor market policies to suit local needs, whether it was labor–management policy, social insurance, or workforce development. We are used to thinking now about New Deal era policy conflicts between the unionized, high wage, technologically advanced north and the right-to-work, low-wage, underdeveloped south. This image is correct as far as it goes, but if posed as a fixed set or sets of rules it miscasts the political dimension of how institutions shape the political economy. In both north and south, firms were embedded in their societies: the kind of employment that firms supplied and the competitive strategies they adopted were shaped by what societies provided, including government policy incentives. In the south, political and industrial leaders were able to establish a policy that gave employers overwhelming control of the terms and conditions of work, which was reflected in state laws against union organization and for race discrimination, and a meager commitment to public investments in workforce development, all of which was conducive to an external flexibility strategy.

The legacy of these past commitments shows through in Reagan era policy profiles, but not in a simple north versus south pattern. No state government now promotes the low road; all have adopted policies they believe will lead firms to create good jobs and help the state take the high road to economic success. The explanation of the new patterns has to look at both the historical relationship between state policies and the strategies that firms adopted and the construction of more recent policy choices.

Thus, the union variable may serve as a proxy for the state's historical capacity to manage the labor market: when employees are organized in unions at a high rate, it tends to mean that employers no longer have unilateral control over the conditions of work and employees will block a low-wage strategy; electoral competition and voter participation will be greater because these two prominent antagonistic classes are each in a position to gain political party support; and the state will intervene to stabilize union-management conflicts (rather than favor employers) and provide the public goods that an organized working class typically demands, including greater investment in education, a.k.a. workforce development. Yet, when international competition became a serious threat, political leaders in the union states faced opposition from those who only saw the state as capable of slowing the rate of change rather than influencing the type of change. In specific cases, rather than path dependency, there was debate and substantive conflict. Proponents of the liberalizing approach with its incentives for the external strategy of firm competition gained the upper-hand in some states as the costs of going slow were tallied in comparison with the gains from higher growth states. In the 1980s, the manufacturing sector of several of these states was devastated by the Reagan administration's monetary and trade policies, which effectively promoted the external strategy, provoked reassessments of the role of organized labor, and undermined political support for what was then called industry policy, a.k.a. the coordination approach to governance, in states like Pennsylvania, Michigan, and Ohio. One of the key factors in facilitating change was the ability of the New Deal Democratic Party leaders to expand their repertoire of policy techniques to sustain their power.

In Michigan, the American-based auto companies acted in autarkic fashion to restructure their operations by squeezing costs from their suppliers and employees. The state government, in contrast, implemented a "reindustrialization" strategy to raise the productivity and sophistication of suppliers in the production chain. The companies' and state's strategies were not entirely incompatible, but the policy debate between the two political parties polarized the issues with the Republican Party arguing against government intervention, high taxes, generous welfare benefits, and costly union wages. The Democratic Party coalition, including the United Auto Workers Union leadership, promoted labor market policies to link both ends of the bifurcated labor market, but its initiatives did not have much success at bridging the deep divide between city (mostly Detroit) and suburb. The Democratic Party's ability to mobilize black voters in Detroit deteriorated as a result (in part) of its labor market policy shortcomings and the Republican Party took control of the state government in the mid-1980s with a neo-liberal program.[45] Michigan's changing policy profile, then, is linked to its historical point of departure and to contemporary debates about how to adjust to new conditions. However, there is no rule that the same social actors must play the same role in different places. In Wisconsin, where the labor federation was determined to avoid the city–suburb split, the New Deal leadership successfully expanded its repertoire by re-negotiating labor–management links and by seeking new social partners among "labor market intermediaries" in the community, foundations, and university-based experts. Although a Republican governor was elected, he led a new coordination regime with the employers association and the AFL-CIO.[46]

States that had blocked employees from unionization and industrialized with a cheap labor policy also were threatened by international competition from

45. Stephen Amberg, "Enlisting American Politics for Workplace Flexibility," *Economy and Society* 21 (February 1991): 57–78. Fosler, *New Economic Role of American States*, 91–140.

46. Bruce Colburn, Milwaukee Labor Council, "New Coalition Plans for 50,000 Jobs," *FIRR News* 6 (Spring 1994): 10–11. Joel Rogers and Eric Parker, "The Wisconsin Regional Training Partnership" (Berkeley, CA: National Center for the Workplace, 1996). Fung and Zdrazil, "Ecologies of Workforce Development in Milwaukee," in Giloth, *Workforce Development Politics*, 75–101.

foreign competitors with even lower labor costs. Thus, southern political leaders had enticed northeastern textile and garment firms to move to the southeast in the middle decades of the twentieth century, exemplified by the one-time New England company, J.P. Stevens, which adopted a militantly anti-union stance that brought it national attention throughout the era. When the terms of international trade changed against American textile producers in the 1970s, the time was opportune for southern leaders to shift economic development strategy from low-technology to higher-technology machinery making, medical equipment and services, and telecommunications.[47] To do so did not require abandoning the old industries and old strategies (including anti-unionism) to accommodate market changes; on the contrary, southern textile states became protectionist and continued to recruit investment with the promise of an employment policy context in which managers would have a free hand to adopt new methods of work. Rather, it required adopting additional policies, such as investing in the education of all citizens and other public goods like medical research and hospitals and, thereby, adopting new fiscal policies. The policy debate often was a narrow one because one legacy of white supremacy and authoritarian labor relations was a dearth of social partners who might have supported a greater investment in public goods. Nonetheless, some states had opened up decisionmaking for a broader array of interests because of the civil rights movement. New social partners were created, such as new political party coalitions that included black voters, as well as public investment funds, university-based research centers, community college faculty, and private industry councils. State-level political dynamics shaped the policy outcomes of these debates in specific locales. North Carolina, but not Mississippi, developed a two-party system and invested in its community colleges.[48]

In sum, we expect that the historical institutional commitments and balance of power will structure the choices by posing historically conditioned performance problems to solve and authorizing some agents (and not others) to carry out their

47. Patricia M. Flynn, "Technology Life Cycles and State Economic Development Strategies," *New England Economic Review* (May/June 1994): 17–30.

48. See Matthew Lassiter, *The Silent Majority: Suburban Politics in the Sunbelt South* (Princeton: Princeton University Press, 2006), for a discussion of the ease of school integration in Charlotte, North Carolina. Cf. Michelle Brattain, "The Pursuits of Post-exceptionalism: Race, Gender, Class, and Politics in the New Southern History" in *Labor in the Modern South*, ed. Glenn T. Eskew (Athens: University of Georgia Press, 2001), 1–46. Much of the policy debate in southern (and northern) states was about coordinating the transition to high technology and services. Some states have gone further than others and there is still policy diversity within the states. Shaila Dewan, "Google Is Reviving Hopes for Ex-Furniture Makers," *The New York Times* (March 15, 2007), reports that the two leading North Carolina newspapers scorned the subsidies that a western county gave to Google to open a service center. An indicator of the policy debate concerns performance measures for state subsidies and the inclusion of "clawback" provisions to recover them when firms do not deliver the amount and quality of jobs promised.

vision of a solution. Regimes are better considered composites of institutions and organizations rather than totalizing power structures in which all the institutions line up for a common purpose. As American political development scholars have shown, governing coalitions reconfigure the institutional legacy, creating new links between policy and practice. The capacity of individuals to make changes in the operation of institutions and organizations means that there is a less clear line between following a path and shifting course, between following the rules and deploying new rules. In the 1980s and 1990s state officials and private actors were able to vary their policies because of the redundant capacity for policymaking in the American federal system. This capacity represents the potential to sustain alternatives rather than complements to national policy choices. When agents received feedback about poor economic performance, they reflected on their state's experiences and sought to reform governance. The clustering of state-level policies occurs because state decisionmakers were embedded in cross-boundary political and social networks through which they learned about policy choices and outcomes in adjacent jurisdictions. To clinch the argument about the significance of networks, detailed case studies could be made of the state agents' perceptions of the alternatives and the opportunities for reconstructive action.