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*New Rules for a New Economy: Employment and Opportunity in Post-Industrial America* by Stephen A. HERZENBERG, John A. ALIC, and Howard WIAL, Ithaca, New York: ILR Press/Cornell University Press, 1998, 216 pp., ISBN 0-8014-3524-2.

Tarik Timur

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***New Rules for a New Economy: Employment and Opportunity in Post-Industrial America***

by Stephen A. HERZENBERG, John A. ALIC, and Howard WIAL, Ithaca, New York: ILR Press/Cornell University Press, 1998, 216 pp., ISBN 0-8014-3524-2.

This thought-provoking book is about the new economy with particular reference to the service sector. It argues that because the new economy means that most Americans will find themselves working in the service sector, labour market reform is a necessity. The authors' goal is "to understand the dynamics of today's service industries and to use that understanding to map out a set of public policies that will benefit workers as well as businesses and consumers."

The book consists of eight chapters, which can be grouped into three sections. Chapters 1-4 assess the current situation in the service sector and provide the background for the main argument of the book. In the first part of the book, the authors review the elements of the American economy undergoing change, focusing on how better performance and economic security can be achieved. Three-quarters of American workers now work in the service sector and labour market institutions must be adjusted to reflect this fact.

Herzenberg, Alic and Wial identify public policy institutions, unions, work systems, and business organizations as elements in the change process. Arguing that employment relationships in the service sector are important, they repeatedly emphasize the requirement for labour market changes that can provide workers with higher incomes, better job security, and more meaningful career paths. Low wages and rising inequality, declining job security, and low productivity growth are identified as the sources of anxiety in the modern economy. The need for a new labour market structure to replace the old one shaped by the old industrial economy, is underlined in several places in the book. In

the authors' view, new institutions and new public policies must be developed to respond to the needs of both employers and the workers and reduce anxieties created by forces in the new economy.

The authors divide the labour market into four work systems based on production organization, task performance regulation, and career paths provided: (1) the tightly constrained work system, which is exemplified by cheque processing or fast-food restaurants where jobs are narrowly defined, like on an assembly line; (2) the unrationalized labour intensive work system, which ties pay to output and can be characterized by low cost, low volume, and low or uneven quality (e.g., home health aides, clerical home workers); (3) the semi-autonomous work system, where workers perform tasks that cannot be technically monitored, and peer pressure, organizational culture, promotion opportunities play an important role in motivation (e.g., low-level managers, some sales workers); and (4) the high-skill autonomous system, which is characterized by self-motivated workers who have professional commitment, as well as financial and career incentives (e.g., physicians, engineers). According to the authors, the "unrationalized labour intensive" and "high-skill autonomous" work systems are expanding. They emphasize the negative consequences of the expansion of the former system, which is characterized by jobs of low skill, low wages, and close supervision. Such systems are considered as the main factor that deepens the anxieties of the labour market. Despite this conclusion, the authors are not clear how we can prevent extensive use of such systems. Is changing the laws sufficient? Or do we need more radical changes?

The authors introduce their proposed labour market changes in chapters 5–7. One of their more provocative points is the suggestion that education and training will have a limited impact on attempts to solve today's "important" economic problems, such as inequality in income distribution and job insecurity. Increasing levels of education do not result in changes in income distribution—such changes simply increase entry requirements, thus exercising little impact on wage differentials. Based on case analyses, it is concluded that higher average levels of education and training will not, by themselves, lead to changes in the structure of the work systems, but are instead a recipe for further frustration of workers' ambitions.

The absence of training in an era of reduced long-term employment expectations is understandable, as is the reluctance of employers to expend resources training workers who may move to competitors, taking their acquired skills and knowledge with them. But, as Herzenberg, Alic and Wial point out, such a negative approach to training can only result in under-investment in worker skills, reducing the chances of developing an adequate workforce. Their solution to this problem is set out in the final chapter, in which they propose new policies to accompany investments in education and training. Based on the idea that service sector performance cannot be improved by using methods developed in mass manufacturing, the authors call for the strengthening of certain labour market institutions in order to create a system that is appropriate for the new economy.

Their first proposition is to diminish the unrationalized labour-intensive work system by using the minimum wage and other wage-setting policies. To achieve this goal, the minimum wage should be increased, occupational wage standards should be established by federal, state, and local governments, and equivalent compensation for nonstandard employ-

ment should be introduced. The authors accept that increasing the minimum wage can lead to unemployment. But they argue, in an unconvincing way, that this will not have a dramatic effect on workers. Diminishing the unrationalized labour-intensive work systems seems like a noble goal, but at whose expense will it be done? Despite the authors' effort (by using statistical data and projecting future trends) to show that in the long run the workers will benefit, I do not think they provide a satisfactory explanation of what can be done about the short-run negative impact.

Their second proposition is the introduction of public policies that would encourage the service sector to improve performance through economies of depth and coordination. The third proposition is incentives (e.g., tax incentives, levies) to encourage workers and employers to establish multi-employer institutions. Such institutions would provide career security and opportunities for training and learning.

The last proposition is the strengthening of unions. The authors view strong unions as an important part of the new system, reinforcing other elements of the proposed system. But the number one requirement for increasing union power is changes to labour law to permit multi-employer bargaining, the pre-entry closed shop, and unionization of managerial workers. This proposition is interesting and, in my opinion, a bold one, especially given that the book is on the American new economy and the intended audience of the book is American scholars and practitioners.

The proposals put forward in this book raise important questions. What they advocate is, in a sense, an attempt to reintroduce the Keynesian approach in public policies. This approach is likely to be considered a part of history that ought not to be resurrected, especially in the American context. Policy makers and economists are no longer keen to regulate the economy and

markets to provide job security, high productivity, and income equality. Employers are on the offensive and setting the tone in the use of technology, compensation strategy, and employment relations. Existing Keynesian economic policies, such as minimum wage, laws that support labour movement, or unemployment insurance, are under attack. One wonders how public policy makers could be stimulated to take action and adopt the laws and regulations that are vital for the establishment of the system recommended in the book.

Management's reaction to such public policy attempts is another important question. It is difficult to imagine employers looking favourably at the authors' prescriptions for the new economy, such as giving an important role to certain public policies or strengthening unions. It is a fact that both labour and management have different agendas. Exclusion of other interest groups that constitute an important portion in the new economy, such as environmental groups, consumer groups, and universities, is

also a flaw in the system being recommended.

In summary, Herzenberg, Alic, and Wial provide a policy prescription to shape a new deal for the new economy. Their analysis of the current situation in the labour market is impressive and sheds light on most of the developments that have shaped the new economy. One can agree or disagree with the recommendations that they put forward—and I do not think they believe that this is the best system—but there is no doubt that their book raises interesting ideas and forces readers to think about the future of the new economy. The book is a valuable source not only for American scholars but Canadian and European scholars as well. At a minimum, this book reminds readers that it is time to think unconventionally and to take a realistic look at what is happening in the new economy.

**A. TARIK TIMUR**  
University of Calgary