

William Vickrey's vision

Full Employment and Price Stability: The Macroeconomic Vision of William S. Vickrey. Edited by Michael Forstater and Pavlina R. Tcherneva. Northampton, MA, Edward Elgar, 2004, 141 pp., \$85/cloth.

William Vickrey, the 1996 Nobel Laureate in Economics, died 3 days after the award was announced. This collection of Vickrey's articles on full employment and price stability is a last testament to his consuming passion for economics. The collection adds poignancy to Vickrey's wish to use Nobel Committee recognition as a bully pulpit on the topic—this, despite the fact that his prize was for fundamental contributions to the economic theory of incentives under asymmetric information.

Vickrey was a rare combination of pure theoretician with idealist. While many economists assume that market prices under perfect competition are the best measure of relevant marginal social cost, Vickrey would not agree; he looked to recent historical experience and such conventional wisdom as probable causes of current problems. "In the 1960's, the simple Keynesian analysis began to be called into question by the emergence of stagflation...A new relationship, the Phillips curve, relating the evolution of inflation to the level of unemployment was added to the economists' armamentarium, with its non-inflation-accelerating rate of unemployment [NAIRU]." It was termed, as Vickrey remarks, "the 'natural' rate of unemployment, in one of the most vicious euphemisms ever coined...[A 5 percent unemployment rate] is totally unacceptable as a social goal when it means unemployment rates of 10, 20 or even 40 percent among disadvantaged groups with resulting increases in poverty, homelessness,..."

Proposing neither paradigmatic shift in conceptualizing the employment problem nor reversion to an earlier model, Vickrey sought a deeper probe of the Keynesian potential. He proposed job creation through government investment. Revising Say's law, he stated that "capital formation creates its own savings...Similarly, if the government borrows funds created by credit expansion and recycles them into purchasing power through outlays, whether on current or capital account, this creates both income out of which additional savings will be attempted and demand that may induce the private investment to meet it." Vickrey interpreted savings in the private sector as demand to hold assets. In his opinion, the government should access this demand and recycle it to create jobs.

Unanticipated inflation merely redistributes output. The resulting social tension, which diverts attention from unemployment, should be controlled, nevertheless. Vickrey proposed a new tool, an added dimension to the Keynes model. Beyond monetary and fiscal policy, his plan called for marketable gross markup warrants. This system would create a market in the purchase and sale of the rights to change prices so that the overall price level would remain stable.

Though abstruse, Vickrey's essays addressed the general reader. His complex explication merely reflects the complexity of the real world. Although the reader may find discussions of tax policy that underlie Vickrey's policy recommendations hard going, they should have no difficulty with his strictures against the government budget's failure to distinguish outlays on capital account from those on current account. This indepth focus on but one aspect of Vickrey's wide-ranging work enlightens the reader. Its repetitiveness illuminates Vickrey's progressive honing of his

analysis.

In his presidential address to the American Economic Association, Vickrey quoted Dennis Robertson, "Since economists are the most expert economizers they should economize the most precious thing in the world," that is, altruism. For Vickrey this meant devoting "a major part of my career to the promotion of marginal social cost pricing, but thus far with a notable lack of practical success outside academia." It is past time for Vickrey's ideas to be debated beyond the academy.

—Solidelle Fortier Wasser

Bureau of Labor Statistics,
New York region

American unionism

The Paradox of American Unionism: Why Americans Like Unions More Than Canadians Do But Join Much Less. By Seymour Martin Lipset and Noah M. Meltz. Ithaca, New York, Cornell University Press, 2004, 240 pp., \$32.50/cloth.

In this book, Seymour Martin Lipset and Noah M. Meltz compare and contrast the union movement in the United States and Canada. Their goal is to explain the answers to three questions they consider paradoxical: "Why has union membership historically been higher in Canada than in the United States, even though unions are rated more favorably in the United States? Why, after moving in parallel for nearly sixty years, did membership grow in Canada and decline in the United States between 1964 and 1981? And, finally, why has union membership declined in both countries in the past two decades, even though an increasing number of workers indicate an interest in becoming union members?"

While on the surface the two countries appear very similar, the authors contend that there are fundamental differences in how people in the two countries view the roles of government in general and unions in particular. These differences, they feel, date back to the beginnings of both countries. In effect, two countries were born out of the American Revolution, not one.

The U.S. founding fathers envisioned a country that emphasized individualism, libertarianism, and meritocratic values; such values may have led to less friendly labor legislation and worked to impede unionism. Only temporarily during extraordinary circumstances, such as war or prolonged economic downturns, has the United States veered from this philosophy. Conversely, the Canadian Constitution speaks of “peace, order and good government;” that approach worked to promote social democratic, statist, group-oriented values, more in line with its European origins and more sympathetic to promoting unionism.

The authors feel that the paradox of strong unionism coexisting with weak public support occurs because perceived union power is negatively correlated with union approval. Unions generally rank toward the bottom among major

institutions in public esteem. Given this background, it follows that if unions become more powerful or display greater militancy, they will suffer in public evaluation. Canadian unions are much more socially and politically active than their southern counterparts, and hence are not viewed as positively by the public.

The 1964–81 period was the time frame in which union density “dramatically diverged” in the two countries. In the United States, employment was not growing fast enough in the unionized, blue-collar sectors, such as manufacturing, mining, construction, and transportation, to offset growth in the predominantly nonunion sectors of trade, finance, restaurants, accommodation, and personal services. Right-to-work laws, which prohibit unions and management from signing collective agreements that enforce universal membership or dues check off, spread rapidly during the 1970s.

Developments in Canada were very different. Legislation was passed in 1964 that gave all Quebec public-sector workers the right to be represented by a union, to bargain collectively, and to strike. This set the stage for a move in Canada toward more union-friendly

labor legislation, in both the public and private sectors. By 1981, labor was “riding very high” in Canada, while it was continuing to lose strength in the United States.

Since 1981, union density has continued to fall in the United States and has begun to fall in Canada after a membership plateau of 36 percent over the 1964–81 period. The continued decline in the traditionally heavily unionized blue-collar sectors has more than offset gains in unionization in the public sector. The public sector was (and still is) proportionately larger in Canada than the United States; in 1997, 23.7 percent of Canadian workers were government employees, compared with 16.1 percent in the United States.

The authors put forth compelling arguments for explaining the paradoxes they see in the union movement in the United States and Canada. Despite their physical proximity, the two countries have evolved very differently, both in terms of the development of unions and how they are perceived.

—Jim Titkemeyer

Office of Publications
and Special Studies,
Bureau of Labor Statistics