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GLOBALIZATION AND THE AMERICAN LABOR FORCE

FRED MAIDMENT
Ancell School of Business
Western Connecticut State University

ABSTRACT

The global economy has changed the way national economies recover from recessions and create jobs. This article focuses on the impact of technology and the presence of educated workers in developing countries. Our basic idea is that these two factors have created a market for highly skilled and educated workers that is international in nature and extremely competitive. This article describes this development, analyzes its impact on the United States, discusses public policy alternatives developed in the United States, continental Europe, and Great Britain, and offers some initial ideas that could lead to a solution.

Over the past three years or so, the U.S. economy has struggled to come out of a recession that started as the Bush administration took office in 2001 [1], following a period of historic economic growth and expansion. The U.S. economy peaked in the summer of 1999 and declined slowly until the country experienced three consecutive quarters of negative economic growth as President George W. Bush took office. The economy then began a slow recovery that was set back by a series of events including Sept. 11 and revelations of corporate wrongdoing (e.g., Enron, Global Crossing, and Arthur Anderson) that came to light as the economy was beginning to rebound from the relatively mild recession of 2001. In addition, the dot-com bubble—one of the greatest stock market speculation bubbles of all time—burst, taking with it many of the assets of individual and institutional investors, causing them to be far more cautious and less likely to invest on future promises of high returns [2].

The post-2001 recovery has been slow and painful. Although the nation may be seeing the beginnings of a truly significant recovery, job-growth figures have been disappointing [3]. Although there are many reasons for this lack of job growth, this article argues that a systemic change has occurred: that there is now a global economy, not only for markets and raw materials, but for labor. The jobs that workers held in the Unietd States prior to the last recession are returning, but they are not necessarily returning to American workers.

THE DISAPPOINTING JOB PICTURE

While economic growth figures for the United States in 2004 are impressive, the question remains, "Where are the jobs?" These are some recent figures:

Month	Net New Jobs Added to Payroll
November 2003	57,000
December 2003	1,000
January 2004	112,000
February 2004	21,000
March 2004	308,000
April 2004	288,000
May 2004	249,000
June 2004	112,000
July 2004	32,000
August 2004	144,000

Jobs have always been a lagging indicator, i.e., they follow rather than lead economic growth. Employers would rather have their employees work overtime than hire additional workers when an economic upturn begins because hiring new workers is expensive and, if the upturn is not real, or is cut short, terminating new hires is expensive and painful. Although the numbers reported above are all positive and can be subject to different interpretations (as we saw in the recent presidential campaign), they fall below the numbers of new jobs necessary to keep up with changes in the population.

THE LINK TO TECHNOLOGY

For years, the manufacturing sector of the U.S. economy has been sending jobs to less-costly locations. For example, jobs in the textile and auto industries first left the Northeast and the upper Midwest for the South. Now, the textile industry is in the process of departing from the United States almost completely, and the auto industry is becoming so globalized that it is hard to tell whether a car was made in America, Japan, Korea, or Europe. But the jobs affected in these more-traditional downsizings have almost always been jobs that require limited skills. A job that can be learned in 30 minutes on an assembly line will always be in danger of going to the lowest bidder. It does not take long for a relatively unskilled worker in the Third World to reach the level of proficiency of a much more-expensive employee working in a developed country.

Technology has not only enabled manufacturing workers to become far more productive, but it has also enabled much of that work to be done outside the developed world in plants in the Third World. More recently, in the high-technology service industries, the back-office work was moved to workers outside of the developed world. This is especially true in information technology, finance, and other service sectors [4]. Those jobs are never going to return to the United States or to any other developed country.

From Technology to Education

But this is material that is well-known. The focus of this article is the new forces that have come into play. For the first time in developing countries there are critical masses of highly skilled, well-educated workers who are capable, willing, and perfectly able to perform complicated and advanced tasks at a very high level [5]. Throughout most of history, this type of person has been found in substantial numbers only in advanced economies. But that has changed, partly as a result of more than 50 years of student exchanges between the United States, Europe, and the developing world, especially China and India.

The original exchange students went to the United States and Europe to study at the end of World War II and a stream followed. Some of them stayed, but many of them returned to their homes, where they became teachers and often leaders in their societies. As the generations have passed, universities have been established in countries such as China and India that produce engineers, teachers, accountants, doctors, scientists, and other professionals who are often as skilled as those produced in the West. Perhaps their equipment is not as current as that of MIT or Caltech, but the faculty went to school there or was taught by faculty that went to school there. They read the same journals, go to the same meetings, have many of the same ambitions (for comparison purposes, think of the United States, circa 1920, with middle-class families getting their first cars, houses, and even indoor plumbing), and work on many of the same projects, including putting people into space, as the Chinese recently did [6].

Thus, the institutions of higher education in the developing world have created a significant number of highly qualified workers, and, as is well-known, the costs and standards of living in India and China and other developing countries are very much lower than that of the United States or other developed countries. An engineer or a computer programmer in one of these countries would, obviously, be paid far less than a U.S., Japanese, or European counterpart.

Multinational corporations are fully conversant about the differences in labor costs and the capabilities of their employees and have started to take advantage of them on a wide variety of fronts. Today, smaller organizations are also taking advantage of this, often through the euphemism of "third-party provider," especially in information technology [7]. India's and China's workforces are at least three-and-one-half times larger than the American workforce. Even if the technologically advanced workforces in China and India are only one-third of the relative size of that in the United States, then both China and India have as many technology workers as the United States has.

The Historical Lesson

There is historic precedent for the situation facing the developed countries. At the end of World War II, both Germany and Japan were completely devastated. Yet, they still had a large number of highly skilled, well-educated, and trained workers. While their traditional forms of capital had been obliterated by the war, their human capital, while damaged, had more-or-less survived. With the assistance of the United States, through the Marshall Plan and other programs, these two countries were back on their economic and political feet in less than a decade, producing goods and services that were often competitive on the world market, and in 25 years, giving American industry a real challenge.

EXISTING PUBLIC POLICY RESPONSES

The Continental European Approach

The European approach to the more competitive global environment is far more protective of labor than the U.S. approach. This orientation stems from the historic relationship among European unions, their employing corporations, and the governments [8]. The union movement in Europe is far more politically involved than its American counterpart. There are political parties in many of the countries in Europe that are called "Labor" parties, and they tend to be somewhat more closely aligned with more liberal social causes and issues, including extensive holidays, family leave, and significantly fewer working hours. In Germany, for example, it is not uncommon, for a member of the labor union to have a seat on the board of directors of the corporation, something that might bring on a heart attack for an American CEO.

For European corporations, this means that it is very difficult to terminate employees, because they have many protections against being fired. The result is that corporations in Europe hire new employees only when they absolutely must, and once an employee has a job s/he does not leave. This has resulted in at least two unintended consequences.

First, unemployment in Europe has remained relatively high for the past 15 years, especially among the young, as compared to the United States [9]. The major economies of Germany, France, and Italy have had unemployment rates of around 10% or more [10]. Second, this very restrictive labor market, along with very high rates of taxation, has resulted in very low economic growth in Europe over the past 15 years. During the 1990s, the European Union grew by only a little over 8%, while the U.S. economy grew by over 60% [11]. As Michael Burda of Humboldt University in Berlin said, "You have to work to grow," [12, p. A1].

The American Approach

American public policy toward corporate and workplace issues has had three major components. First, stated in its most simple form, the policy has been to keep government out of most of the affairs of business, as long as competitive conditions in the marketplace were maintained. Since the latter part of the 19th century, the country has at least paid lip service to an antitrust policy, focusing on the prohibition of marketing and industrial practices that would restrict trade. These antitrust laws addressed conditions that had developed in the 1800s. These laws were later augmented by New Deal legislation in the 1930s and still later by the social legislation of the Johnson years. These policies were based on the assumption that the relationship between corporations and the people is essentially adversarial in nature; that companies do not necessarily have the best interests of their employees and customers at heart. Many European countries and, in particular, Japan, have not followed this path, and have instead encouraged the development of large, often multi-industry cartels, such as Mitsubishi and Hitachi.

Second, with the exception of unionized organizations, American firms operate under the doctrine of employment at-will. Essentially, this means that employees can be hired or terminated for any reason. While this doctrine has been modified over the years to account for racial, gender, and other forms of specific discrimination such as those covered by the ADA, Title VII, and the ADEA, it is still alive, if not fully well. This allows American organizations to be far more flexible in their hiring practices than their continental European counterparts. There have been efforts to reform the employment at-will doctrine, notably the Model Employment Termination Act [13], but these efforts have so far been largely unsuccessful. When reform arguments of substantial cost savings were presented, they were ignored by U.S. industry, which holds the doctrine of employment at-will near and dear to its heart [14]. Even in unionized environments, American companies are not as restricted as many continental European organizations. What this means is that American organizations can expand or contract their workforces far more easily than their continental European or Japanese counterparts. Unlike in continental Europe or Japan, it places the burden of responding to changes in the economy on the workers, not on the corporations, because in the United States, workers must respond by taking the initiative and making themselves more marketable in the workforce. In continental Europe and Japan, more of the burden is placed on the corporations because it is more difficult to shed workers when the economy slows.

Third, although the doctrine of employment at-will remains viable, public policy has permitted the development of two major classes of exceptions. First, since the 1930s, the government has provided at least some support to the organized labor movement, and it has permitted unions to bargain collectively over topics that would restrict the application of employment at-will. Thus, collective bargaining agreements consistently contain provisions calling for the arbitration of disputes over employee discharge or for seniority rules that influence who will be let go if there is a downturn. However, the U.S. labor movement has never been as politically involved as are the labor movements in many of the other developed countries, and it has never penetrated industry to the extent that unions have in countries such as Great Britain, France, Germany, Italy, and the Scandinavian nations. Today, only a relatively small percentage of American workers are members of a labor union, and those workers do not have the public policy protections their European counterparts possess.

In the United States today, it is well-known that union organizing attempts are often blunted by employer use of tactics of questionable legality [15], and efforts on the part of organized labor to influence elections have rarely succeeded. Some of the more recent failures include organized labor's efforts to elect Vice President Al Gore as president in 2000; campaigning for losing Democratic congressional candidates in 2002, and supporting losing Congressman Dick Gephardt in the 2004 Iowa caucuses [16]. These failures have exposed organized labor's lack of political muscle in the United States.

The results of the American approach are: 1) the U.S. economy has grown faster than virtually any other large developed economy in the world over the past 15 years, especially during the decade of the 1990s; 2) U.S. unemployment has been about half that of Germany, Italy, or France during the 1990s [11]. Even during the past recession, the U.S. unemployment rate would have been the envy of these three nations [17, 18]; and 3) American workers have become far more productive. Over the past 25 years American workers have actually increased the amount of time spent on the job, while their European and Japanese counterparts [19] have gone in the other direction. According to a United Nations study, American workers now spend more than 500 hours per year more on the job than the average German worker and about 125 hours more per year than the average Japanese worker. Only South Korean and Czech workers exceed the amount of time spent on the job by American workers. With the Czechs, the difference is about the same as it is between the Americans and the Japanese workers. South Korea is the only industrialized country where workers still work a six-day week, and the government is attempting to move the country to a five-day week, partially because the government feels that this will actually improve the economy because the people will have more time to spend their money [20].

The British Approach

The approach in Great Britain has been somewhat different from the United States and the other major European economies. In the United Kingdom, it has been more difficult to terminate employees than in the United States, but easier than in the rest of the European Union. At the same time, the British have experienced generally lower tax rates than the rest of Europe, but higher than that of the United States. The combination has lead to an unemployment rate that compares very favorably with that of the United States [11] and an economic growth rate of almost 40% for the 1990s [10, 11]. In fact, the European Union, as a whole, would actually have experienced slight negative growth for the decade of the 1990s had it not been for the British economy [21]. However, the United Kingdom may be more like its E.U. partners in the future as the officials in Brussels have started to bring the policies of all of the members of the European Union more in line with each other [22]. Also, the proposed E.U. constitution would appear to move that policy forward [23].

EVALUATION

Neither the American approach to coping with the rate of technological changes and challenges nor the European approach is completely satisfactory. As we have seen, the European approach, coupled with a high rate of taxation, trades high unemployment and low economic growth for job security for those who have jobs. The U.S. approach has produced higher levels of economic growth, a relatively low tax rate, and a lower unemployment rate. However, the cost has been paid in terms of job security, high employee stress, and low employee morale, loyalty, and commitment. The British approach of lower taxation than its E.U. partners, but higher taxation than the United States, coupled with a less-restrictive labor policy than continental Europe, but a more-restrictive policy than the Americans, has resulted in low unemployment and very respectable economic growth. The real question concerns how to achieve economic growth and low unemployment rates without some of the dysfunctional consequences. While there are some who may say that these goals are mutually exclusive, the recent British example demonstrates that they do not have to be.

Under the Thatcher government, the British instituted a series of reforms that were, at the time, very painful to many in the United Kingdom. These actions resulted in the privatization of many industries that had formerly been state monopolies, and the resulting discipline of the marketplace stemming from that privatization made those industries far more competitive than they had been in the past. As such, workers no longer had the same kind of job security frequently associated with state-run monopolies/government jobs. Companies had to compete. While British unions, unlike their American counterparts, possessed sufficient political power to temper this privatization by restricting the ability of the newly privatized and existing companies to hire and fire at will, the firms were able to gain more control over their labor force than their continental European counterparts have been able to achieve. This was then combined with the British approach of comparatively moderate taxation, especially by European standards, that has led to relatively high economic growth and low unemployment.

During the 1990s the British experienced 39% economic growth for the decade [11]. While this did not match the growth rate of the United States, it was far better than that of the other major economies of Europe. British taxes are high when compared to those in the United States, but not as high as in much of the rest of Europe, and the unemployment rate during the 1990s compared very favorably with that of the United States. Flexibility in hiring and firing in Great Britain was somewhere between the United States and continental Europe. The British may soon have to conform to the rest of the European Union in their employment practices, even though they have opted-out of the European Union's 48-hour maximum workweek [24]. Should they choose to vote yes on the new E.U. constitution, it will be interesting to see how these new rules will affect economic growth and unemployment over the next 10 years in the United Kingdom and continental Europe [22, 23].

Where Will the High-Tech Jobs Be?

In the United States, with the economy on the rise, most organizations should be considering hiring new employees, but the question is, in a global marketplace for products, services, materials, and labor, Where are they going to be doing the hiring? It is not uncommon for "American" corporations to have well over 50% of their employees, markets, and sales outside of the United States. Such common U.S. names as Ford, IBM, and Coca Cola would fall into this category, and more firms are joining them [7]. Companies in India are also outsourcing jobs when it is their interest to do so [25]. The global marketplace is a bazaar where all things are for sale, including the classic economic factors of production: land, labor, capital, and entrepreneurship. Buyers of these factors, like shoppers on the Internet or at the mall, will look for the best possible value for their money—which could very well mean replacing highly skilled and highly expensive American workers with less-expensive but also quite skilled employees in countries such as India or China.

Just as the textile industry moved production and the jobs out of New England and just as the auto industry created the "rust-belt" in the Midwest by moving production to less-costly locations, corporations are now doing the same with high-value/high-tech service sector jobs. This is history repeating itself, with the difference being that these are service jobs that require a relatively high degree of education and training. And these jobs are going to people who are prepared to do them for far less money than the people in the United States. The question for policy makers is how to respond to this shift in the economic environment.

Economists call this an economic dislocation, but to the individual who has been "economically dislocated" it means the loss of one's source of income, damage to one's self-respect, and often an array of social and psychological problems for the person and the community. To the elected policy maker, the individual is a citizen, a constituent and, most importantly, a vote.

The primary responsibility of a corporation in a capitalistic market economy is profitability [26]. These organizations also have secondary responsibilities to various stakeholders of the organization, including their employees, customers, suppliers, the communities in which they do business, as well as others [27], but their primary function today is to achieve survival and profitability in a highly competitive global marketplace. These organizations must ruthlessly control costs, while at the same time continuously maintain, enhance, and improve the quality of their products. These considerations encourage the export of, not only routine manufacturing jobs as in the past, but the high-technology jobs of today, and traditional U.S. public policy encourages this development. This country's historical hands-off policy toward jobs and even toward the migration of entire industries has been in the name of free trade, and the American economy, on the whole, has benefited. Now, however, the industries at risk include the financial sector, information technology, and other areas of high technology, considered to be important to the future of the American economy.

Existing policy proposals are inadequate. President Bush has proposed adding some funds to community colleges to help retrain individuals whose jobs have moved overseas [28], but this is only a response to help people who have lost their jobs in the manufacturing sector, not in the high-tech/service sector. It seems unlikely that these high tech/service sector people would be candidates for welding jobs. Indeed, many of them could teach in the programs. Presidential candidate Kerry repeatedly raised the issue of outsourcing during his campaign, but he did not deal with the issue addressed in this article.

The governments of both the United States and Europe need an industrial policy that addresses the need for employment and economic growth. The European approach has not been successful in either area. The U.S. policy of *laissez faire* may not be adequate to deal with the changing marketplace, as the demand for highly skilled and educated labor becomes both global in nature and far more competitive. Advances in technology cannot be stopped, nor should they, and corporations will not stop seeking to increase their competitiveness by cutting their costs and increasing their profits. But a balance must be struck between what is fair to citizens/workers/consumers of a society and the benefits/costs/changes that advances in technology are certain to bring. The genie of technological advancement and communication is out of the bottle, and nobody wants to or is able to put it back in, but dealing with that genie will not be easy. There are bound to be economic dislocations as willing, capable, and educated workers in developing countries compete with workers in developed societies.

We think that the British have presented at least a middle way. Something closer to a solution to the problem of dealing with outsourcing/technological unemployment, while at the same time providing an environment that encourages economic growth and development—not as Darwinian as the American, but not as protectionist as their continental neighbors. It is still more difficult to terminate employees in the United Kingdom than in the United States, but it is still much easier than in the rest of Europe. The British approach gives firms the flexibility they need to respond to changes in the marketplace, while giving the employees a certain amount of protection from the whims and potential incompetence of management. This spreads the systemic risk of the marketplace to both the employer and the employee, forcing the employer to take a more active role in determining the future human resources needs of the organization, as well as the technological needs the organization will have to address to make those human resources competitive. The employees still have the responsibility to maintain and improve their skills. The difference is that in the British model, there is more sharing of the burden of rapidly changing technology and the resulting outsourcing of the human resources needs of the company.

An Overall View

As a result of the forces discussed in this article, policy makers should consider the following when addressing the needs of the 21st century in employee-management relations:

- Corporations have a duty not only to their stockholders to make a profit, but to their other stakeholders and the communities in which they do business;
- Technological change is going to be rapid and both predictable and unpredictable;
- The global marketplace will be hyper-competitive for the foreseeable future and companies must continue to pursue technological change and advancement while at the same time ruthlessly attempting to control costs.
- The cost of addressing the global economy of the 21st century must be paid. The only real question is who will pay for it.
  - In the American approach, it is paid directly by the workers, who are subsidized, at least in part, by the government;
  - In the continental European model it is paid by the corporations, who are also subsidized, directly or indirectly, by the government;
  - In the British model, the labor force and the employers share responsibility, and there is some direct or indirect government support.

Policy makers must select the approach that will be most beneficial and cost-effective for their societies. Each approach to the problem of outsourcing/technological unemployment has costs associated with it, and each has certain benefits. This author favors an approach more in line with the British model, since it spreads the systemic cost of outsourcing and technological unemployment more evenly among the concerned parties. However, it should also be recognized that American industry has demonstrated that it will be very reluctant to give up the doctrine of employment at-will even if it can be definitively demonstrated that it is in its best interests to do so, and that firms will be generally unwilling to assume any additional costs in the hypercompetitive global marketplace unless either required and/or given incentives to do so.

The history of American industry has demonstrated a reluctance to reform itself, and major reforms have been imposed only from the outside in the form of industrial policy. Unfortunately, these reforms have come only when the abuses of industry have finally demanded they be instituted. Policy makers need to take action to prevent these kinds of abuses from occurring. The need is obvious, but is the political will to act sufficient to avoid the inevitable crisis that has been necessary for action in the past?

SUMMARY AND CONCLUSIONS

The world has become a global marketplace that is more competitive and far less forgiving than the national economies of just a few decades ago. To survive in this hypercompetitive world, corporations must produce the highest quality goods possible while at the same time ruthlessly cutting costs, a major component of which is almost certain to be labor.

Outsourcing jobs to less-expensive venues is nothing new; manufacturing jobs have been outsourced for years. What is new is that service sector jobs, often requiring a high degree of education and training, are now being outsourced to countries where the cost of similarly educated and competent employees is much less than that in developed countries.

Since World War II, many people from the developing world went to the United States and Europe, were educated in the major universities, returned to their home countries and taught others. These educated and skilled workers in places like India and China have reached a critical mass and are now capable of doing many of the jobs that were once the sole domain of workers in developed countries. Corporations have realized this and have transferred much of the work to these less-costly locations because the technology of today's environment allows them to do so at minimal cost. The workers are highly competent, motivated, and much less costly.

This has presented governments in developed countries with the problem of increased unemployment, not because the company has done away with the job, but because the job has left the country. There have been a variety of responses to these events. In the United States, the burden has fallen primarily on the employees to seek retraining and new jobs. In continental Europe, the burden falls primarily on the firms to retrain the human resources and to provide them with the technology to make them competitive in the global economy. Great Britain has found a middle way, however, that provides the basis for our recommendations concerning the future of labor relations in the 21st century.

Government policy makers have a vested interest in how corporations treat their workers. If the government is going to accomplish its primary task of protecting the citizenry/workers/voters, it will have to take an active role in establishing an industrial policy that will do that, while at the same time allowing private industry to have the necessary flexibility to grow, prosper, and provide a standard of living that will benefit all of the citizens.

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Direct reprint requests to:

Professor Fred Maidment
195 Rock Creek Lane
Torrington, CT 06780
e-mail: fhm4@juno.com