

EXECUTIVE BOOK REPORT

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Robert B. Reich
The Work of Nations
Preparing Ourselves for 21st-Century Capitalism
(Vintage Books, 1991, ISBN 0-679-73615-8)

This book challenges the assumptions upon which nations conduct their economic affairs. Secretary of Labor, Robert B. Reich dismisses the "vestigial" thoughts that have dominated economic theory in the 20th century and reintroduces them in terms more conducive to the dawning Information Age.

Now that technology allows for the rapid transfer of wealth and information throughout the world, the boundaries which have protected a nation's economic autonomy are slowly being transgressed. As a result, Reich argues that there is no longer an American, German, or Japanese economy in the traditional sense.

In fact, the economies of all nations have evolved into "global webs," becoming so intertwined, that the current measures of economic performance are no longer valid. Reich reexamines the age old debate on the origins of wealth and finds that in a knowledge based economy wealth originates from a strong, innovative, and skilled work force.

"The skills of a nation's work force and the quality of its infrastructure are what makes it unique, and uniquely attractive, in the world economy."¹ The Work of Nations depicts a radical transformation in the global economy and prepares us for the inexorable social and political upheavals that are bound to result from this metamorphosis. Reich so drastically alters our thinking on global economic issues that to eschew this work is tantamount to capitulation in the international economic arena.

Reich is one of the leading figures in President Clinton's economic team. Therefore, it is not surprising that many of the issues presented in this work are part of Clinton's economic agenda.

Out of political pragmatism, Clinton campaigned against the Bush administration and the Republican's twelve year reign on the grounds that they had directly led the United States economy into its current state of degradation. According to Reich, the

Republicans facilitated the decline of the U.S. economy, but the true nature of the deterioration lies in America's inability to adopt to the new realities of a globalized economy.

A few of the glaring problems facing America are its inability to nurture a competitive work force, a declining technological base and a general movement towards economic protectionism.

Thus, the Clinton administration is attempting to offer programs on health care and education to bolster the American work force, the Information Super Highway to revitalize our technological base, and The North American Free Trade Agreement to defend against protectionist tendencies.² Reich's work undoubtedly had an influence on the aforementioned policies adopted by the Clinton administration.

During the post-war period, the United States built an unprecedented level of economic prosperity by using government assistance to cultivate a tacit understanding between its people and its large corporations. The new demands of the Information Age have breached this economic contract forcing a new alignment between the major economic actors in the U.S. economy.

During the last decades of the 19th century, the idea that a nation's citizens shared a similar economic fate became more prevalent. Patriotism was soon equated with actions on the economic front which would secure the nations competitiveness. Americans penchant for acting in their own self interest needed little manipulation in order to fit into the new mindset. "Americans have willingly sacrificed for the nation's well-being because --Americans have repeatedly claimed--such sacrifices are ultimately in their own best interest."³ It soon became clear that a nation's economic might was directly related to its citizens economic health.

This new thinking combined with a surge in high-volume production layed the ground work for America's rise to economic preeminence. One problem was left to be rectified before the U.S. could depart down the road of economic prosperity and that was the problem of overproduction. In order to remedy this problem, the United States dabbled with the application of trade tariffs and even imperialism, however both met with failure. "The solution was to reduce domestic competition by consolidating production with in large, nationally based corporations."⁴ This allowed the large corporations to gain economies of scale thereby drastically improving their efficiency.

On the other hand, the Wagner Act of 1935 allowed labor to organize and eventually form a political and economic institution on par with the mammoth corporations. Thus developed the relationship between the economic triad -- government, business, and labor. The corporations large-scale mass production was supported by labor's mass consumption. Of course, this was all done under the auspices of the government which rarely thought it necessary to intervene. "The [National]bargain thus rested on a tacit agreement by each party -- business executives and investors, labor, and the public, as represented through the government -- to exercise restraint, sacrificing immediate gains for the sake of larger gains for all parties later on."⁵

In fact, the "National Bargain" was so successful that it lured the United States into a false sense of economic security. Furthermore, many of the large corporations or "National Champions" had such a dominant market share that they became complacent. The smug feeling was all but gone by the close of the 1960s, foreign competition had intensified and market share began to deteriorate, the U.S. corporations could no longer set their prices. The United States and its core corporations reacted by searching their repertoire for standard operating procedures to deal with the dilemma. Three unsuccessful measures were taken to protect the American market share. First, a measure from the past, protectionist policy was attempted. As this proved unsuccessful, corporations, under intense pressure violated the tacit understanding it had with labor and demanded sizable wage cuts and began to move production overseas. When this also proved fruitless, corporations attempted their final measure. They converted themselves into financial holding companies in an attempt to utilize their assets more efficiently. This also failed to produce dividends.

"Indeed, the tacit national bargain is no more."⁶ This decline which began in the 1960s has continued unabated into the 1990s has steadily cut deeper into the United States's technological base.⁷ The problem is that many have failed to truly comprehend the profound transformation of the new economic environment. According to Reich, many still view the global economy from an antiquated perspective. Economic nationalism has become obsolete and measures have to be taken that address this new reality.

As high-volume production continues to plague numerous American corporations with decreasing market share, many corporations are reconfiguring themselves into enterprise webs in order to exploit the more lucrative high-value production.

The most successful American corporations have shifted from

labor intensive high-volume production to thought intensive high-value production. Those corporations that are on the forefront of technological innovation realize that we are making a transition into a "super-symbolic economy." In fact, "The new system for making wealth is totally dependent on the instant communications and dissemination of data, ideas, symbols, and symbolism."⁸ The new emphasis is on appealing to the specific needs of consumers or what Alvin Toffler calls "niche markets." "In the high-value enterprise, profits derive not from scale and volume but from continuous discovery of new linkages between solutions and needs."⁹

This new very flexible and responsive form of production requires a new work force and a new system of organization. Reich identifies three groups of workers that will comprise the corporations of the future -- the strategic brokers, problem-identifiers, and problem solvers. The strategic brokers would partake in strategic planning while also ensuring that the problem-identifiers and problem-solvers work in an environment with as little bureaucratic interference as possible. Problem-identifiers will work directly with the public in order to detect any subtle shift in the market. Once a shift in demand or customer preference is detected the information is immediately passed to the problem-solvers which manipulate the output in order to satisfy the customer. As one can see, direct communication is essential between all three groups in order to stay on top of the ephemeral and fleeting nature of the new international market place.

As a result, enterprise webs are inherently anti-bureaucratic and demand a decentralized form of control. This innovative system of organization will utilize a horizontal rather than a ridged hierarchial structure. "Instead of a pyramid, then, the high-value enterprise looks more like a spider web. Strategic brokers are at the center, but there are all sorts of connects that do not involve them directly, and new connections are being spun all the time."¹⁰

A new international division of labor is forming between those countries that possess the comparative advantage in high-value production and those that retain an edge in high-volume production. This new global configuration is making the "National Champions" obsolete.

"The trend is worldwide. National champions everywhere are becoming global webs with no particular connection to a single nation."¹¹ As technology makes possible the transfer of information and money across national boundaries more and more resources are flowing across the globe in search of nations that possess a work force capable of adding value to the global

economy. In fact, a nation's competitiveness is no longer related to the amount of money its citizens save or invest because funds tend to flow to nations with a skilled work force. These nations are linked by "The threads of the global web [which] are computers, facsimile machines, satellites, high resolution monitors, and modems..."¹² These threads have permeated national boundaries making any attempt to disrupt the flow of data close to impossible. Nations, in the traditional sense are losing their economic autonomy and transforming into economic regions.

The world is being bifurcated into high-value production regions and high-volume production regions. "Closely examine each and you begin to see a similar pattern: high-volume, standardized production occurs mainly in low wage countries...high value problem-solving, identifying, and brokering occurs wherever useful insights can be found around the world."¹³ The division is spreading more and more along the lines of a North - South split with the economic regions of the First and Second World producing high-value goods and the Third World forced to produce high-volume goods. Therefore, products with national identities are becoming an anomaly. Products are being planned in one country, designed in another and produced in still yet another. Multi-national products are making the traditional measures used to determine the extent of the trade deficit passé.

"As corporations of all nations are transformed into global webs, the important question--from the stand point of national wealth--is not which nation's citizens own what, but what nation's citizens learn how to do what, so they are capable of adding more value to the world economy and therefore increasing their potential worth."¹⁴

As the Information Age continues to highlight the irrelevancy of national boundaries, many citizens are discovering that their well-being is no longer tied to the economic performance of their countries. This is causing an international trend to reveal itself within which three main categories of work constitute the majority of jobs of the future.

The days when American workers shared a common fate are clearly over. "The competitiveness of Americans in this global market is coming to depend, not on the fortunes of any American corporation or on American industry, but on the function that Americans perform--the value they add--within the global economy."¹⁵ American workers are becoming an integral part of an international labor market. Whether one will prosper or fail in this daunting global market, will depend upon which category of labor one finds himself in. These new categories of labor are

routine production services, in-person services, and symbolic-analytical services.

Before an examination of the three categories it is important to make a few comments about the salience of human capital in coming knowledge based economy. First, an economic region's success is directly related to the skill and knowledge that its workers are able to contribute to the global economy. Thus workers are becoming the most vital intangible resource for competitive enterprise webs. Furthermore, knowledge, unlike wealth, is an inexhaustible resource. Therefore, human capital does not operate by the laws of diminishing returns. In fact, "...human capital operates according to a different principle. Because people learn through practice, the value of what they do usually increases as they gain experience."¹⁶ These aforementioned factors will determine which workers will succeed in the prevailing global market and those that will be relegated to the lower categories of the international labor market.

Now an examination of the three categories of labor-- routine production, in-person services, and symbolic-analytical services. First, routine producers are essentially the blue collar workers of the Information Age. In addition to the repetitive and routine tasks performed by these workers in the "smoke stack economy" this category has been expanded to include low level management and data processing jobs. "The foot soldiers of the information economy are hordes of data processors stationed in 'back offices' at computer terminals linked to worldwide information banks."¹⁷

In-person service jobs, are similar to routine production jobs in that they require very little education and therefore require intensive supervision. The main distinction between in-person services and routine production jobs is that in-person servers interact with people rather than objects and thus their services are not transferable throughout the world. "In person-services are in direct contact with the ultimate beneficiaries of their work; their immediate objects are specific customers rather than streams of metal, fabric or data."¹⁸ Some of the jobs in this category include: security guards, physical therapists, janitors, waiters and waitresses, and mechanics.

Those most able to adapt to the new demands of the Information Age are the symbolic-analysts. This group forms the core of the enterprise webs and include the problem-solvers, the problem-identifiers, and the strategic brokers. These analysts compete in the global market, but do not trade material objects. "Traded instead are the manipulations of symbols--data, words, oral, and visual representations."¹⁹ Symbolic analysts have thought intensive jobs in which symbols are exploited and abstract forms of reality are manipulated. Some of these jobs include: research scientists, software engineers, management

information specialists, and strategic planners.

As global webs become the dominant form of organization for businesses located in the American economic region, many of the routine production jobs are being lost to Third World. In the United States, this is causing a serious divergence of incomes between the symbolic analysts and the less fortunate routine producers and in-person servers.

One's ability to prosper in this new international economic order is completely dependent on the amount of value one is able to contribute to the world economy by utilizing one's skill, insight, and experience. "Increasingly, it is the jobs that Americans do, rather than the success of abstract entities like corporations, industries, or national economies, that determine their standard of living."²⁰ This new reality is causing an ever widening income gap between those in the waxing high-value industries and those in the waning high-volume industries.

There are two reasons for this disparity in incomes. While a problem does not exist with the quantity of jobs, the quality jobs that routine producers and in-person servers once enjoyed are becoming increasingly scarce. The United States has lost the comparative advantage in high-volume production which once guaranteed quality jobs for the masses. Even organized labor wouldn't debate this point. However, as the producers and servers desperately seek jobs paying more than minimum wage, the symbolic analysts are being pulled into a market with an insatiable demand for their services. Furthermore, the amount of money earned by an analyst is no longer constrained by a nation or corporation, so their income is unlimited.

Secondly, this income gap is caused by the very nature of the Information Age, which continuously tests the knowledge frontier by utilizing a vast array of cutting edge technologies. A solid education is a prerequisite for obtaining such a job. However, many Americans lack the solid educational foundation necessary to compete in such an environment, especially those Americans which were formerly employed as routine producers or in-person servers. Reich shows that there is a positive correlation between the level of education one attains and the amount of income that he/she can realistically command. "The wage gap thus appears to be directly related to education."²¹

As the differences between a nation's symbolic analysts and its labor intensive workers continues to grow, many analysts, no longer connected to the nation for their well-being, are disengaging from the broader public.

According to Reich, the succession of the symbolic analysts in the United States has occurred "calmly and quietly." In fact, the nature of the global economy has made the American analysts less dependent on their fellow countrymen, the routine producers and the in-person servers, for their skills and services. Actually, symbolic analysts have little reason to interact with the rest of society. "Symbolic analysts take on the responsibility of citizenship, but the communities they create are composed only of citizens with incomes close to their own. In this way, symbolic analysts are...seceding from the large and diverse publics of America into homogeneous enclaves, within which their earnings need not be redistributed to people less fortunate than themselves."²² This disengagement from the larger population has occurred because of the widening income gap, superior educational opportunities, and a less progressive tax system. As a result, symbolic analysts have formed their own communities.

Unfortunately, Reich has little to offer as a solution to the fragmentation of society, except for the traditional liberal remedies and a quixotic form of nationalism. Although, Reich acknowledges that money may not be the answer to the social ills afflicting the United States, he advocates a more progressive tax rate, higher capital gains tax and the removal of tax shelters for the more affluent. With the increased revenue generated by the new taxes and the still lucid "peace dividend," Reich suggests we rebuild the nation's infrastructure, retrain its workers, and undertake a number of other social programs. Since being appointed Secretary of Labor, Reich has attempted to bring his vision to fruition through a program focused on empowering individuals in the American Workplace.

In an attempt to once again assimilate the symbolic analysts into the populace, Reich offers a mix of zero-sum nationalism and dispassionate cosmopolitanism. His political concoction is positive economic nationalism, "...in which each nation's citizens take primary responsibility for enhancing the capacities of their countrymen for full and productive lives, but who also work with other nations to ensure that these improvements do not come at others' expense."²³

Now that technology has rendered the nation-state powerless against the influx of symbols and ideas, its role in the global economy must be reassessed.

Reich, once an advocate of industrial policy, now sees the role of the nation-state as a promoter of social policy. In fact, "...a nation's economic role is to improve its citizens' standard of living by enhancing the value of what they contribute to the world economy."²⁴ In this new economic paradigm, in which the tariffs and/or subsidies are no longer effective, nations are

being forced to rethink their roles in economic intervention and distribution.

The end of the Cold War and the demands of the new economic paradigm are changing the way in which nations think about national security.

Today, national security is being equated with economic competitiveness. "It is commonly assumed, that absent the Soviet threat, America can redirect its resources to the nation's domestic needs."²⁵ However, Reich argues that America's national identity has been forged in conflict. Therefore, now that the conflict with communism has come to an abrupt end, America may lack the political will necessary to revitalize its economy. Reich, points out that the United States needs to formulate a "grand strategy" for both its foreign and domestic policy.

However, one of the weakness of this work is that it avoids fully addressing the issue of decline within the United States. Reich, dismisses many of the problems faced by the United States as vestiges of the old economic order. When the United States began losing its industrial base, it was thought of as a natural shift from a labor intensive to a knowledge dominated economy. However, today we are faced with a deteriorating technological base. Indeed, "...America's relative technological superiority has eroded. This decline has undermined America's competitiveness in world markets and forced a reevaluation of U.S. national security."²⁶ The question is, why have both Japan and Germany, unlike the United States, been able to maintain an industrial base while moving into the Information Age?²⁷

One possible answer is the close cooperation which exists between government and industry in those countries. Therefore, in a world in which mercantilist trade policies are alive and well the United States should proceed with caution when considering complete government withdrawal on issues pertaining to our technological base.

1. Robert K. Reich. The Work of Nations: Preparing Ourselves for 21st-Century Capitalism. (New York: Vintage Books, 1991) page 264.
2. One issue being pursued by the Clinton administration that was not mentioned by Reich is the Reinventing Government program. For more on this see David Osborne's work Reinventing Government.
3. Ibid., page 24.
4. Ibid., page 34.
5. Ibid., page 68.
6. Ibid., page 212.
7. Michael Borrus and John Zysman, "Industrial Competativeness and National Security," Rethinking America's Security ed. Graham Allison and Gregory F. Treverton (New York: W.W. Norton & Company, 1992) Although, Reich neglects to confront the issue of decline, Borrus and Zysman discuss America's industrial decline in a comprehensive fashion.
8. Alvin Toffler. Power Shift: Knowledge, Wealth, and Violence at the Edge of the 21st Century. (New York: Bantam Books, 1990) page 23.
9. The Work of Nations., page 85.
10. Ibid., page 89.
11. Ibid., page 131.
12. Ibid., page 111.
13. Ibid., page 132.
14. Ibid., page 137.
15. Ibid., page 172.
16. Ibid., page 109.
17. Ibid., page 175.
18. Ibid., page 176.
19. Ibid., page 177.
20. Ibid., page 196

21. Ibid., page 206.

22. Ibid., page 268.

23. Ibid., page 311.

24. Ibid., page 301.

25. Ibid., page 317.

26. B.R. Inman and Daniel F. Burton "Technology and U.S. National Security," Rethinking America's Security, ed. Graham Allison and Gregory F. Treverton (New York: W.W. Norton & Company, 1992) 118.

27. Ibid., page 142.

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