

Blau, Francine D. and Lawrence M. Kahn. *At home and abroad: U.S. labor market performance in international perspective*. New York: Russell Sage Foundation. 2002. 314 pp. ISBN: 978-0-87154-082-9

The authors explore alternative explanations for the difference in labor market performance between the United States, with its high employment rate together with stagnating real wages and rising wage inequality, and other OECD countries. They suggest that because America's labor market was less regulated, it could better withstand the macroeconomic shocks (productivity trends, globalization, technological change and monetary policy) experienced by all Western countries since the 1970s. The U.S. market let the absolute and relative real-wage levels adjust, which permitted the unemployment rate to stay low. The more interventionist institutions in the rest of the OECD let the shocks be expressed in employment, with the average unemployment rate in the European Union in 1999 more than double that in America during the same time period. Blau and Kahn acknowledge that institutions such as collective bargaining do affect relative wages, reducing wage inequality. Nonetheless, they warn about the societal costs of high unemployment in terms of negative psychological effects as well as lost output and income. They state that an expansion of the earned-income tax credit (EITC) would increase living standards of lower skilled workers without negative employment consequences.