

8. Jobs and Labor

THE interaction between employer and employee may be the most important one in a nation's economy. America is thriving—creating more jobs with lower unemployment rates than other industrialized nations—primarily because it has freer labor markets. Instead of pursuing economically corrosive policies to “protect” workers, lawmakers should emphasize what is right with the U.S. economy. History proves that protectionism of all kinds destroys prosperity and growth. Policymakers can and should continue to liberate both employers and employees from outdated and overly restrictive federal labor laws.

by *Tim Kane, Ph.D.*

Recommendations

1. Enhance union accountability. Over the past 20 years, union membership has declined steadily from 20.1 percent of the workforce to 12.5 percent. Organized labor is disintegrating, partly because it is wedded to an older business model of large, lifetime employers. Unions too often fail to represent what contemporary workers actually want and have become bloated, political, and plagued with a combination of corruption and stagnation. To stem this decline, Congress should encourage and extend the Labor Department's recent effort to enforce financial transparency through its LM-2 program, starting with hearings to highlight the findings so far. Congress should stiffen penalties for inaccurate or late reports, add an independent auditing requirement, and assure that workers have the final word—via secret ballot—on who represents them. Lowering the number of petitions needed to trigger union certification and decertification elections would make it easier for workers to bring in unions where they are needed and remove unions that have become corrupt or ineffective. Union membership and support should be an individual choice, based on an individual member's best interests and conscience.

2. No bailouts. When big companies stumble, they instinctively turn to Uncle Sam for protection, but bailouts are a recipe for rewarding poor performance. A level playing field means that smaller companies should not have to fight against subsidized big companies with well-connected lobbyists or be subject to higher taxes to pay for the subsidies. Highly

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unionized manufacturers with troubled pension systems will turn to Congress in 2006 and the years ahead for special favors and tax breaks. They should be told to face the music and modify their business practices to be competitive in the free market.

3. De-federalize the minimum wage. Congress has not raised the minimum wage since 1996, and it is now undeniable that average wages have risen during that time, proving that a higher minimum wage is unnecessary. Over the decade, however, more and more states have raised their own local minimum wages so that nearly a majority of Americans now live in areas with a minimum wage that is higher than the national minimum. This state freedom should be celebrated, because state-level experimentation is how societies learn and improve their institutions. But why do states not have the equivalent freedom to lower their local minimum wages? The evidence indicates that states with high minimum wages have higher unemployment rates, which confirms what most economists believe. The Fair Labor Standards Act should be amended to allow states the freedom to experiment with different labor regulations.

4. Make compensatory time available to all. The Fair Labor Standards Act specifies that when covered employees work for more than 40 hours in a given week, they must receive overtime pay. What if an employee would rather forgo the pay and instead take extra time off? Most hourly workers do not have this choice. “Compensatory time” gives workers the ability to accumulate paid leave hours (at time-and-a-half) for future use when they work overtime. Wider use of comp-time would give workers more control over their working hours, allowing them to balance the need for personal time against their work responsibilities.

5. Reform unemployment insurance. Research indicates that the current unemployment insurance (UI) program lengthens terms of unemployment for recipients. Congress should consider revising the way UI works, from modest consensus reforms to the introduction of private re-employment accounts. These accounts, which provide funds that workers may use as unemployment benefits, for retraining, or even as a bonus if they find work quickly, have the potential to increase the pace at which recipients return to the workforce, but caution is in order: Reform could take many paths and deserves more study—and especially more state freedom to innovate.

Facts and Figures

■ The U.S. economy added over 2 million payroll jobs during 2005 and nearly 3 million workers overall.

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■ Since the recession ended in late 2001, 6.7 million more Americans have found employment, the labor force has swelled by 6.1 million, and the unemployment rate has dropped to just 4.7 percent.

■ New claims for unemployment insurance remain well below 300,000—one of the strongest indicators of a surging economy.

■ Restrictive job markets choke job creation and drive up unemployment rates. Laws designed specifically to prevent layoffs will often backfire. Germany and France suffer from an unemployment rate twice as high as America's, largely because their heavy labor protections discourage employers from hiring new people.

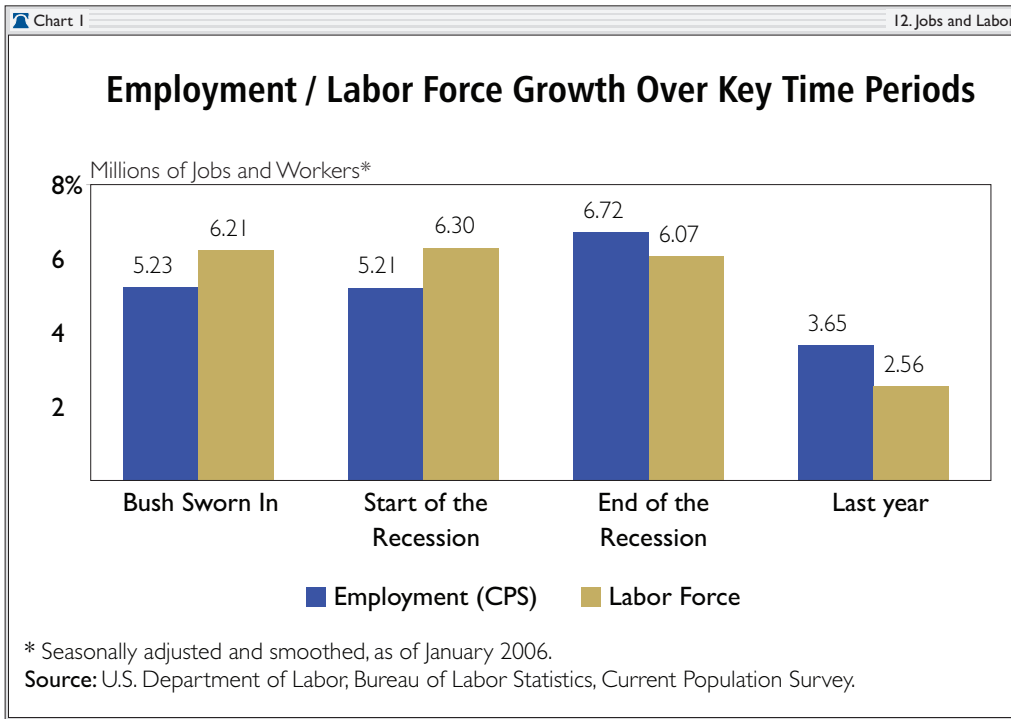
■ Globalization and the off-shoring of jobs were supposed to create tremendous damage to the U.S. economy, according to many isolationist and protectionist voices. Yet after a decade of globalization, and three years after the “outsourcing” media storm, more Americans are working than ever before. The unemployment rate went down, not up, and median earnings in inflation-adjusted dollars for non-executive American workers are higher today than during the dot-com boom.

■ Critics contend that wages are not rising fast enough, but the fact is that total compensation is doing so. Medical benefits take an ever-larger portion of total compensation, which is a sign of problems in America's medical insurance structure, not a failure of the free market. Most important, the rising compensation makes a higher federal minimum wage unnecessary.

■ Union officials' claims to represent working Americans are growing weaker and weaker. According to the Census Bureau, private-sector union membership declined from 9.7 million to 8.8 million, in spite of the addition of 14 million jobs, between 1992 and 2002. At the end of 2005, that figure fell to 8.2 million.

■ Only one in 12.7 private-sector workers is a union member, while one in 2.7 public-sector workers is. This confirms the economic prediction that union membership is strongest in monopoly industries and may be an unhealthy barrier to reducing the size of government.

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This chapter can be read online at issues2006.org/labor.

Additional Reading

Tim Kane, Ph.D., and Rea S. Hederman, Jr., “Does the World’s Mightiest Economy Have an Achilles Heel?” Heritage Foundation *WebMemo* No. 928, November 30, 2005, at www.heritage.org/Research/GovernmentReform/wm928.cfm.

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Tim Kane, Ph.D., “Labor Day Review: In Katrina’s Wake,” Heritage Foundation *WebMemo* No. 828, September 2, 2005, at www.heritage.org/Research/Economy/wm828.cfm.

Tim Kane, Ph.D., “The AFL-CIO’s Disintegration and Its Possible Implications,” Heritage Foundation *WebMemo* No. 808, July 28, 2005, at www.heritage.org/Research/Labor/wm808.cfm.

Tim Kane, Ph.D., “Minimizing Economic Opportunity by Raising the Minimum Wage,” Heritage Foundation *WebMemo* No. 676, March 4, 2005, at www.heritage.org/Research/Economy/wm676.cfm.