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EFCA: WHO PAYS FOR THE UNINTENDED CONSEQUENCES OF INCREASING UNION INFLUENCE

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Contention: *The Employee Free Choice Act, which is likely to be one of the most important issues debated by the 111th Congress, holds the promise of boosting unionization rates and improving millions of American's economic standing and workplace conditions. If union coverage rates increase by just 5 percentage points over current levels, newly unionized workers would earn an estimated $25.5 billion more in wages and salaries per year. Increasing unionization is a good way to get out of our current economic troubles.*

> David Madland and Karla Walter, Unions Are Good for the American Economy, *Center for American Progress Fund,* (February 2009)

Fact: Someone Will Have to Pay for the Economic Impact of Increasing Union Influence. Every one agrees that passage of the Employee Free Choice Act (EFCA) will be the most significant change in the Nation's labor-relations laws since 1949. For good or bad, bypassing the secret ballot process thereby enabling the recognition of union representation by the "card check" process and mandating collective bargaining agreements by government arbitrators will dramatically increase the influence of unions in the American economy. Clearly, some workers will benefit because on average union members are paid $4.01 more per hour than their non-union counterparts and receive $6.67 more per hour in benefits.[1]

However, a policy decision like passing EFCA is not cost-free; someone has to pay for it. Economic research and state comparisons indicate that American workers, including union members, will pay for a large part of the cost with higher unemployment, slower job growth and fewer job opportunities, and slower wage growth – costs that many workers can not afford, especially in this recession. Research also shows that higher labor costs are passed on to consumers through higher prices, and businesses though lower profits – two additional costs that will hit the economy just as profits have collapsed by 21.5 percent over the past year and family budgets are under great stress.[2]

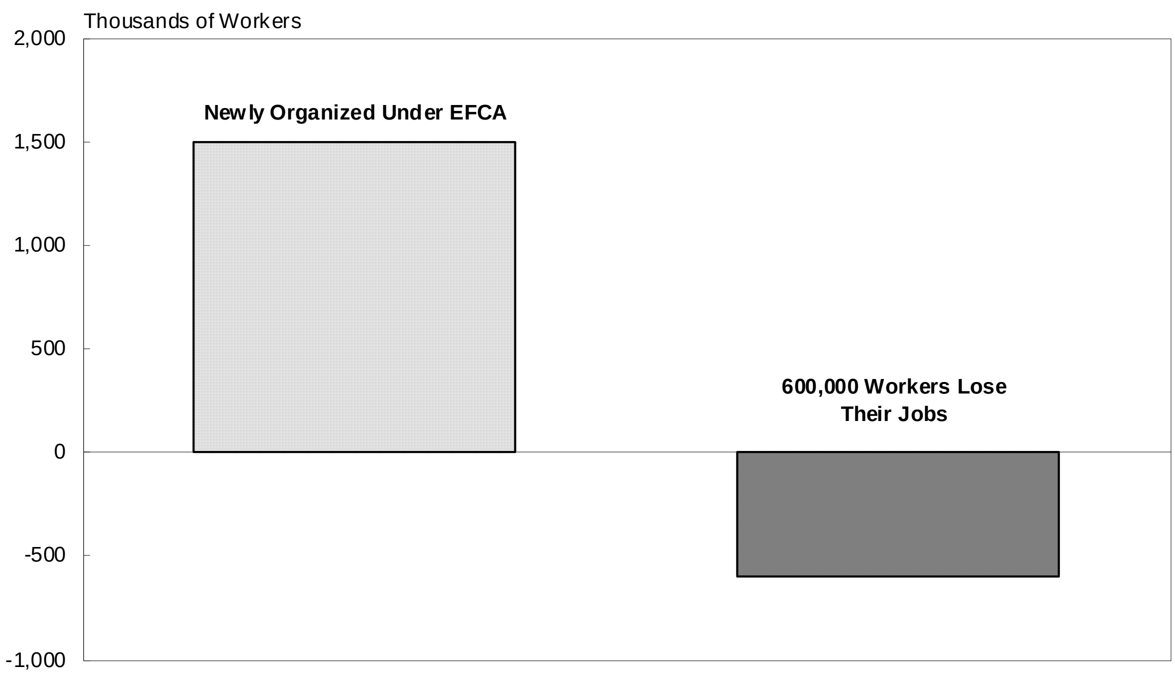
[1] Bureau of Labor Statistics, *Employer Costs for Employee Compensation – September 2008*, Table 5, available at: www.bls.gov/news.release/pdf/ecec.pdf.

[2] Bureau of Economic Analysis, Gross Domestic Product: Fourth Quarter 2008 (Final), March 26, 2009, available at: www.bea.gov/newsreleases/national/gdp/2009/pdf/gdp408f.pdf.

Fact: Increasing Union Influence Will Lead to Higher Unemployment Rates. A recent economic study by Anne Layne-Farrar, estimates that passing EFCA would lead to a one percentage-point increase in the unemployment rate for every three percentage-point increase in the rate of union membership.[3] Specifically:

- For every 1.5 million workers organized under EFCA, 600,000 workers will lose their jobs in the following year.[4] See Chart 1 below.
- Should the rate of union membership in the United States increase by 5 percentage points from 12.1 percent to 17.1 percent, as one study suggested is possible, up to 2.7 million workers would become unemployed in the following year and the unemployment rate would rise by up to 1.8 percentage points.[5]

Chart 1: For Every 1.5 Million Workers Who are Organized Under EFCA, 600,000 Americans Lose Their Jobs the Following Year



Source: Applied Economic Strategies estimate base on Layne-Farrar study.

[3] Anne Layne-Farrar, *An Empirical Assessment of the Employee Free Choice Act: The Economic Implications*, LECG Consulting, February 25, 2009, available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1353305.
[4] Applied Economic Strategies estimate based on Layne-Farrar economic analysis.
[5] Anne Layne-Farrar, *An Empirical Assessment of the Employee Free Choice Act: The Economic Implications,* p. 23.

Further, a comparison of state data also shows that states with higher unionization rates have significantly higher unemployment rates. For example:

- In 2008, the average unemployment rate in the 10 states with the highest unionization rates was 0.7 percentage points higher than in the 10 states with the lowest unionization rates (5.8 percent vs. 5.1 percent).[6]
- In 2008, the unemployment rate was 8.4 percent in the state with the highest unionization rate (Michigan) compared to 6.3 percent in North Carolina, the state with the lowest unionization rate.[7]

At a time when unemployment is rising, and threatening to increase further, American workers can ill-afford the chance of even a small increase in the unemployment rate that would likely occur should EFCA be enacted.

Fact: Increasing Union Influence Will Slow Job Growth. The economic study by Layne-Farrar also estimates that should passing EFCA increase the rate of union membership in the United States from 12.1 percent to 17.1 percent, then up to 950,000 fewer jobs would be created in the following year.[8] A comparison of state data also shows that states with higher unionization rates have significantly slower job growth. For example:

- From 1997 to 2007, the number of jobs increased by an average of 11.6 percent in the 10 states with the highest unionization rates compared to a 15.1 percent increase in the 10 states with the lowest unionization rates, a difference of over 30 percent. See Chart 2 below.[9]
- From 1997 to 2007, the number of jobs *decreased* by 1.3 percent in the state with the highest unionization rate (Michigan) compared to an increase of 11.6 percent in North Carolina, the state with the lowest unionization rate.[10]

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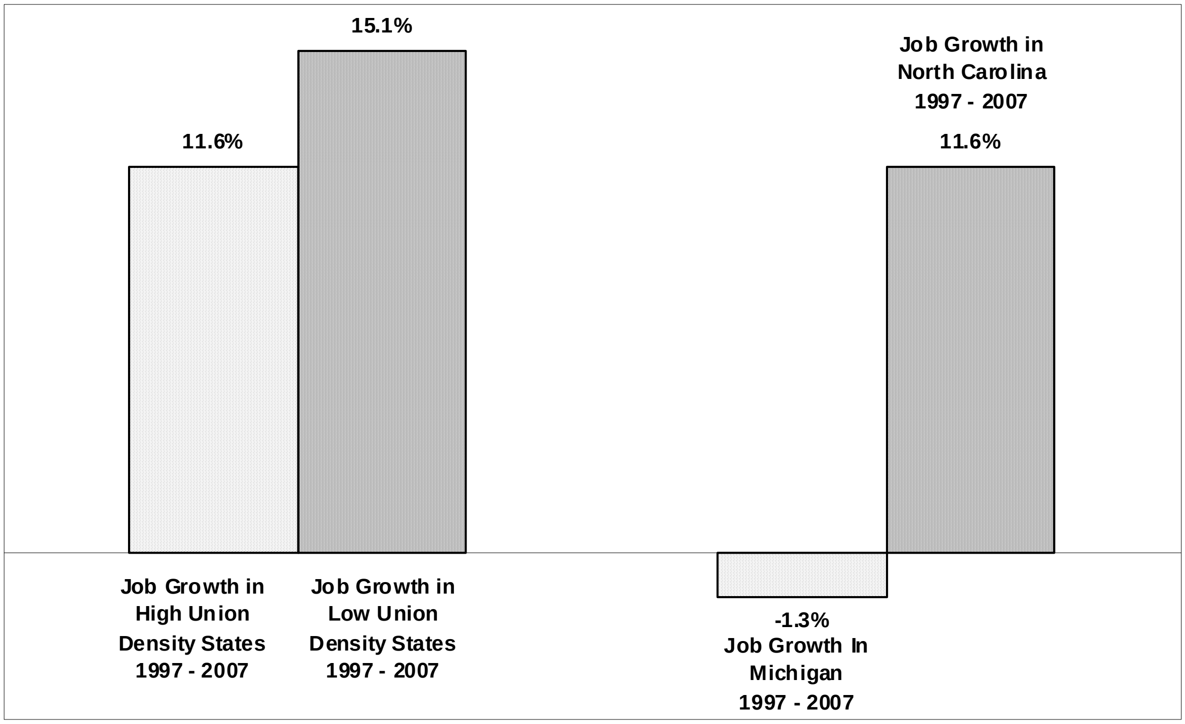
[6] Applied Economic Strategies estimate based on data from Barry T. Hirsch, *Union Membership and Earnings Data Book,* 2008, and the Bureau of Labor Statistics.
[7] *Id.*
[8] Anne Layne-Farrar, *An Empirical Assessment of the Employee Free Choice Act: The Economic Implications,* p. 23.
[9] Applied Economic Strategies estimate based on data from Hirsch and the Bureau of Labor Statistics.
[10] *Id.*

Chart 2: Job Growth is Slower In High Union Density States



Source: Applied Economic Strategies estimates based on data from the Bureau of Economic Analysis and Barry T. Hirsch, *Union Membership and Earnings Data* , 2008.

This strongly suggests that increasing union influence by enacting EFCA will lead to significantly slower real job growth in the United States and slower per job growth in those states whose unionization rates increase – a prospect that would certainly slow any future economic recovery.

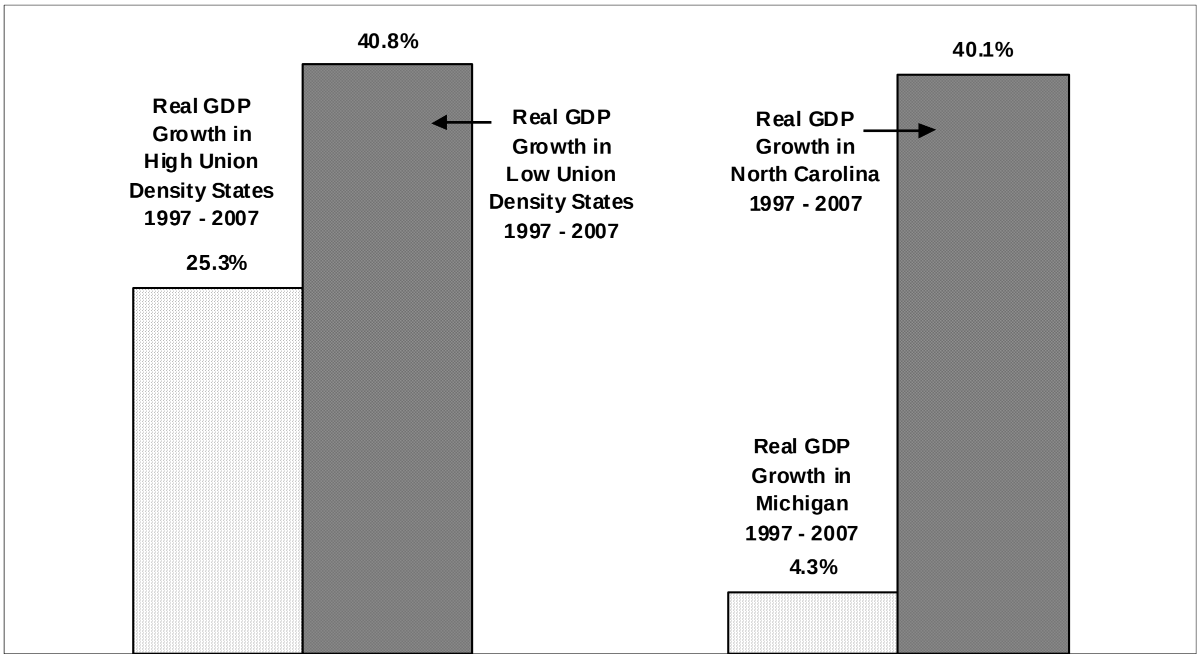
Fact: Increasing Union Influence Will Slow State GDP Growth and Per Capita Income Growth. A comparison of state data also shows that states with greater levels of union influence and higher unionization rates have significantly slower growth in the real gross domestic product (GDP) they produce and in their real per capita income. For example:

- From 1997 to 2007, real GDP in the 10 states with the lowest unionization rates increased by 40.8 percent compared to a 25.3 percent increase in the 10 states with the highest unionization rates, a difference of over 62 percent.[11] See Chart 3 below.

[11] Bureau of Economic Analysis, *Regional Economic Accounts: Gross Domestic Product by State,* available at: www.bea.gov/regional/gsp/, and Barry T. Hirsch, *Union Membership and Earnings Data Book,* 2008.

- From 1997 to 2007, real GDP increased by just 4.3 percent in Michigan, the state with the highest unionization rate, compared to 40.1 percent in North Carolina, the state with the lowest unionization rate, an almost 10-fold difference.[12]

Chart 3: States With Higher Unionization Rates Have Significantly Slower GDP Growth Rates



Source: Applied Economic Strategies estimates based on data from the Bureau of Economic Analysis and Barry T. Hirsch, *Union Membership and Earnings Data*, 2008.

- From 1997 to 2007, real per capita income in the 10 states with the lowest unionization rates increased by 15.3 percent compared to a 19.4 percent increase in the 10 states with the highest unionization rates, a difference of over 26 percent.[13]
- From 1997 to 2007, real per capita income increased by just 1.8 percent in Michigan, the state with the highest unionization rate, compared to 18.4 percent in North Carolina, the state with the lowest unionization rate, over a 10-fold difference.[14]

This strongly suggests that increasing union influence with the passage of EFCA will lead to slower real GDP growth and slower per capita income growth in those states whose unionization rates increase.

[12] Bureau of Economic Analysis, *Regional Economic Accounts: Gross Domestic Product by State,* available at: www.bea.gov/regional/gsp/, and Barry T. Hirsch, *Union Membership and Earnings Data Book,* 2008.
[13] *Id.*
[14] *Id.*

Fact: Increasing Union Influence Will Slow Wage Growth. Although on average union members are paid more per hour than their non-union counterparts and receive more per hour in benefits, their wages grow considerably slower than non-union workers over time. For example:

- From 1997 to 2007, the real median weekly earnings of non-union workers grew twice as fast as union members (14.9 percent vs. 7.7 percent).[15]
- Even in states with low union densities, the real median weekly earnings weekly earnings of non-union workers grew faster than union members (10.9 percent vs. 14.3 percent). In both high an low union density states the real weekly earnings of non-union workers increased faster than union members.[16]
- From 1997 to 2007, real median weekly earnings increased by just 2.3 percent in Michigan, the state with the highest unionization rate, compared to 7.1 percent in North Carolina, the state with the lowest unionization rate, a three-fold difference.[17]

Conclusion: A public policy decision like passing EFCA is not cost-free. Someone will have to pay for the increase in labor costs that will come from greater union influence in the economy. Although newly organized union members are likely to make more, at least initially, in the long-run, economic research and state comparisons indicate that American workers, including union members, will pay for a large part of the cost with higher unemployment, slower job growth and fewer job opportunities, and slower wage growth – costs that many workers can not afford, especially in this recession. In fact, history is filled with examples of what happens to workers in industries, such as steel, autos, tires, and textiles where union influence was relatively high.

[15] Applied Economic Strategies, estimates based on data from Barry T. Hirsch, Union Membership and Earnings, 2008.
[16] *Ibid.*
[17] *Ibid.*