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Leaves Fall, But Not Jobs

Rea S. Hederman, Jr., and James Sherk

While some journalists covering today's jobs report will focus on the slight uptick in the unemployment rate, everyone else will be looking at the strong rate of job creation in September and the upward revisions to job numbers for the previous two months. The number of new jobs created by private and public employers in September is estimated at 110,000, and job growth in August was revised upward from a loss of 4,000 to a gain of 89,000. This means that September was the 49th consecutive month of job growth. The good news, then, is that fears of recession are misplaced, but Congress must still take care to avoid upsetting the economy with heavy-handed economic interventions and growth-sapping policies.

The September Jobs Report. In September, the economy added 110,000 jobs, which exceeded the consensus forecast of job growth of 100,000. The majority of these jobs were in the education and health sectors (44,000), professional and business services (21,000), and government (37,000). The construction sector continued to shed jobs (14,000) as that industry continues to weather a slump in housing construction. Manufacturing continued to shed employment (18,000) as the sector becomes more efficient.

Now at its highest level in over a year, the unemployment rate climbed to 4.7 percent from 4.6 percent. This increase is due to a 573,000-worker increase in the civilian labor force. While most of the new entrants had jobs, the number of unemployed was high enough to increase the unemployment rate. The labor force participation rate climbed back up to 66 percent, which has been typical of the last several months.

The large increase in the labor force is an indication that workers may feel better about the economy. Fears of a recession will be eased by today's report.

Restraining Government Intervention in the Economy. Some policymakers and commentators believe that the government should intervene in the economy to create a stronger job market. Specifically, they believe that by raising the minimum wage and expanding union membership, the government can raise wages and living standards. These policymakers have good intentions, but that is not enough. The evidence shows that these policies are counterproductive. Congress should look elsewhere to strengthen the economy.

Raising the minimum wage seems like an intuitive way to help low-income families. By increasing wages directly, Congress can ensure that some low-wage workers get a raise. And raising the minimum wage does in fact increase wages for some low-income workers. Unfortunately, its effects do not stop there. Because they must pay more, businesses replace many of their less-skilled low-income work-

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(202) 546-4400 • heritage.org

ers with higher skilled, more productive workers who charge more for their services.[1] Employers also cut back on the total number of workers they hire and how many hours they hire them for.

Studies of low-income workers following minimum wage hikes show that, even though wages rise, total earned income falls slightly because lost jobs and lost hours more than offsets the higher wages.[2] Unsurprisingly, then, study after study finds that higher minimum wages do nothing to reduce poverty.[3] A higher minimum wage simply does not help those its supporters want it to.

Many also believe expanded union membership will strengthen the middle class. They point to the fact that the typical union member earns about 30 percent more than the typical nonunion worker and argue that greater unionization would bring millions of Americans significantly higher wages.[4] This analysis seems straightforward, but it is also incomplete.

Unions are cartels, seeking to drive up the wages of their members by restricting the number of workers available to do a given job. Companies must pay more for unionized workers, and they pass that cost on to consumers in the form of higher prices. This increases wages for union members somewhat, but it also creates a labor monopoly that costs jobs, hurts consumers, and slows the economy. In practice, competition makes it difficult for unions to monopolize labor fully and prevents them from winning large wage increases. Studies show that the union wage difference is usually small to nonexistent, not the 30 percent premium that unions claim.

Union members earn more than nonunion members primarily because they tend to work in industries that pay higher wages, such as the airline and auto industries, and because they tend to have more skills than the average worker. Unionized companies tend to hire more skilled and productive workers in the first place because union contracts make it almost impossible to fire workers once they are hired. That a skilled worker in a high-wage industry earns more than the average worker does not mean that the average worker's wages will rise if he or she joins a union.

Studies that follow workers over time show that wages rise modestly upon joining a union—about six percent.[5] One study looked at the wages of workers who voted to unionize and compared them to the wages of workers who voted against unionizing. Forming a union did not raise workers' wages.[6] According to the research, joining a union does not significantly raise wages.

Unionization does hurt the economy, however. Unionized companies earn lower profits than nonunion companies. This causes them to reduce their investments in capital and research and development by between 13 and 25 percent, because they earn a lower return on their investment.[7] A union forming at a firm has the same effect on business investment as Congress raising the corporate

1. James Sherk, "Minimum Wage Hikes Hurt Unskilled and Disadvantaged Workers' Job Prospects," Heritage Foundation *WebMemo* No. 1294, January 2, 2007, at *www.heritage.org/Research/Labor/wm1294.cfm*.
2. David Neumark, Mark Schweitzer, and William Wascher. "Minimum Wage Effects Throughout the Wage Distribution." *Journal of Human Resources*, Vol. 39, No. 2, pp. 425-50.
3. Richard K. Vedder and Lowell E. Gallaway, "Does the Minimum Wage Reduce Poverty?" Employment Policies Institute, June 2001, at *www.epionline.org/studies/vedder_06-2001.pdf*; David Neumark, Mark Schweitzer, and William Wascher, "The Effects of Minimum Wages on the Distribution of Family Incomes: A Non-Parametric Analysis," forthcoming in *Journal of Human Resources*; and David Neumark and William Wascher, "Do Minimum Wages Fight Poverty?" *Economic Inquiry*, July 2002, pp. 315–333.
4. AFL-CIO, "Unions Raise Wages – Especially for Women and Minorities," at *www.aflcio.org/joinaunion/why/uniondifference/uniondiff4.cfm*.
5. David Card, "The Effects of Unions on the Structure of Wages: A Longitudinal Analysis" *Econometrica*, Vol. 64, No. 4, pp. 957-979.
6. John Dinardo and David Lee, "Economic Impacts of Unionization on Private Sector Employers," NBER *Working Paper* No. 10598, 2004.

income tax rate to 67 percent.[8] Less investment, less research and development, and less access to capital causes unionized companies to grow much less quickly and create far fewer jobs than nonunion companies.[9] More unions are not the way to raise wages and create opportunities for workers.

Conclusion. This month's job report is good news and allays fears that the economy is sliding into a recession. Though economic growth and job growth are slower than in those years immediately following the 2003 tax cut, the economy is growing. Congress should not use slightly slower growth to justify heavy-handed interventions in the marketplace. Instead Congress should look at fiscal restraint and consider extending the pro-growth elements of the Bush tax cuts.

—Rea S. Hederman, Jr., is Senior Policy Analyst in the Center for Data Analysis at The Heritage Foundation. James Sherk is Bradley Fellow in Labor Policy in the Center for Data Analysis at The Heritage Foundation.

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8. Bruce Fallick and Kevin A. Hassett, "Investment and Union Certification." *Journal of Labor Economics,* vol. 17, pp. 570-82.
9. Timothy Dunne and David A. Macpherson, "Unionism and Gross Employment Flows." *Southern Economic Journal*, vol. 60, pp. 727-38; Barry Hirsch, "What do Unions Do to Economic Performance?" Institute for the Study of Labor (IZA) *Discussion Paper* No. 892; Henry Farber and Bruce Western, "Round Up the Usual Suspects: The Decline of Unions in the Private Sector 1973-1998," Princeton University Industrial Relations Section *Working Paper* No. 437.