

# **An Empirical Assessment of the Employee Free Choice Act: The Economic Implications**

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## ***Key Facts, Findings & Quotes***

Dr. Anne Layne-Farrar finds that the Employee Free Choice Act (EFCA) is unlikely to achieve the proponents stated goal of improving overall social welfare because the legislation will increase unemployment and reduce the job creation – two adverse effects that America can ill afford at any time, especially during this time of recession. She conclusively states that greater unionization as a result of EFCA may provide some with earnings growth, but it likely decrease employment opportunities for others and increase inflation for all Americans.

Specifically, her study conclusively states that increases in unionization by the card check and mandatory binding arbitration methods employed under EFCA would lead to a 1 percentage point increase in the unemployment rate for every 3 percentage point increase in workers organized. In other words:

- If an additional 3.9 million existing jobs are unionized under EFCA (a 3 percentage point increase over 2008), another 1.6 million workers will either lose their jobs or not be able to find new employment (a 1 percentage point increase in the unemployment rate).
- If EFCA results in a 10 percentage point increase in organized workers, up to 5.4 million Americans will become unemployed—a 3.5 percentage point increase in the unemployment rate over current levels.

Therefore, Dr. Layne-Farrar's review reveals that these increased labor costs associated with increased unionization must be offset by decreases in other areas which go beyond wages and benefits. In particular, the other real economic consequences of EFCA are:

- Higher union wages can lead to fewer positions for unionized workers and slower employment growth within the firm, as firms shift work from unionized sectors to nonunionized sectors. This process could involve shifting work within unionized firms, or by having nonunionized firms perform some of the work.
- As union labor becomes more expensive and firms substitute away from it, the result can be a decrease in the efficient allocation of resources that in turn lowers national production. One study has calculated the GDP loss as 0.40 percent,<sup>1</sup> or a loss of \$57 billion in national output.
- Several studies have also found that unionization reduces spending on research and development, and that nonunion firms invest roughly 10 percent more in research and development than union firms.<sup>2</sup>

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<sup>1</sup> ROBERT FREEMAN AND J. L. MEDOFF, WHAT DO UNIONS DO? (1984).

<sup>2</sup> Barry Hirsch, *Innovative Activity, Productivity Growth and Firm Performance: Are Labor Unions a Spur or Deterrent?* in *ADVANCES IN APPLIED MICROECONOMICS* (A. N. Link and V. K. Smith, eds., 1990).

## STUDY QUOTES:

"I conclude that the unintended consequences of passing EFCA are likely to be significant. Increased unemployment and reduced labor supply are very high prices to pay during any time, but especially during a recession. The empirical results presented in this paper therefore recommend against passing EFCA."

"I conclude on the basis of these results that a card check and mandatory contract arbitration system which raise union membership – such as those detailed in EFCA are expected to do – would lead to a reduction in the US employment rate and a subsequent reduction in US industry output...Predicted decreases in the employment rate get progressively higher for larger gains in union membership"

"I find that EFCA is unlikely to achieve its primary goal of improving overall social welfare"

"To get a complete picture of employee welfare, we need to examine not just the direct impact of unions on wages and benefits for some workers at a given point in time, but also on the indirect effects over time of *all* workers"

"The costs [of EFCA] should be carefully weighed against any purported benefits of passing the Act, all of which appear to benefit some groups at the expense of others. There is no coherent theoretical argument that explains how the higher costs, greater legal uncertainty, and expanded government intervention entailed in EFCA would improve overall social welfare."

"EFCA supporters contend that the unions' steady decline in the US is the result of employer misconduct that has been improperly permitted under US labor law. Yet, the levels of unionized workers have declined everywhere in developed economies regardless of the labor law regime in effect."

"Successful union organizing requires an underlying desire by employees to belong to a union, and there is ample evidence that modern employees have an array of likes and dislikes that differ significantly from past generations such that workers have found it less attractive to join unions than they have in previous years."