

The Washington Post

[Back to previous page](#)

Commentary: Jettison those musty jobless benefit and union rules

By Chris Edwards, Published: July 17

Many of the laws covering today's workforce were written more than seven decades ago during the New Deal.

Collective bargaining and the unemployment insurance system, for example, were both established in 1935. Since then, the U.S. labor force and industrial structure have vastly changed, which creates an opportunity to update the laws to better suit the modern economy.

Let's look at unemployment insurance. UI has aided millions of laid-off workers during the recent recession, but the system has also created problems. For one thing, high unemployment and expansive benefits have drained UI funds in most states, and now most states — including Maryland and Virginia — are jacking up UI taxes on businesses to replenish their reserves. But the economic recovery is still very shaky, and higher UI taxes will dampen business hiring at a time when unemployment is still very high.

Another problem is that UI pushes up the unemployment rate because it dissuades laid-off workers from reducing their wage demands, moving or making other tough but needed decisions. Harvard University's Robert Barro estimated last year that recent expansions in UI benefits pushed up the U.S. employment rate by about 2.7 percentage points.

There is a better way. In 2002, the nation of Chile created personal UI savings accounts funded by payroll contributions. When workers lose their jobs, they draw on their UI accounts, giving them a strong incentive to find a job quickly and not deplete their funds. A detailed study of the Chilean system found that, indeed, workers using the new accounts had shorter spells of unemployment. A side benefit of Chile's system is that when workers retire, they have an additional pot of savings to enjoy.

We should also reform labor union rules. Workers have generally rejected the current system of collective bargaining, which amounts to monopoly union control of a workforce after a majority vote. The share of private-sector workers in labor unions has plunged from a peak of 35 percent in the 1940s to just 7 percent today — despite the pro-union tilt of federal laws.

Collective bargaining is out of step with today's individualistic culture. The system is inconsistent with the right to freedom of association, and it effectively silences workers who disagree with union heads. Collective bargaining also creates rigid work structures in companies, which is damaging to firms competing in the dynamic global economy.

A better alternative is voluntary unions or worker associations. In Virginia, for example, collective bargaining

is outlawed in the public sector, but the state has voluntary associations of teachers and other government workers. That voluntary approach should be the rule for both the private and public sectors nationwide.

The Cato Institute in Washington looks out over Samuel Gompers Park, named after the founder of the American Federation of Labor. Gompers was strongly against a federal UI system because he thought it would restrict freedom and undermine the union role in providing unemployment benefits, which was commonplace before 1935.

Today, unions based on voluntary membership — rather than forced collective bargaining — could work if they provided useful services to their members such as UI benefits. As for UI, policymakers should explore nonfederal options such as union plans and private insurance, and they should study the advantages of Chile's savings-based system.

Chris Edwards is editor of Cato Institute's www.DownsizingGovernment.org.

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