The Telegraph

# Democrats will break the US labour market, not fix it

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March 19, 2021

"If it ain't broke, don't fix it" is a famous Southern phrase that re-entered US politics during president Jimmy Carter's ill-fated administration. Carter's Office of Management and Budget director Bert Lance told the US Chamber of Commerce in 1977 that governments' problem generally was "fixing things that aren't broken and not fixing things that are broken".

President Joe Biden's Democratic Party today exemplifies that charge. The pandemic is still not vanquished in the US as the vaccination rollout continues. Yet Biden's party has passed a $1.9 trillion (£1.4 trillion) "stimulus" Bill littered with Left-wing hobby horses that goes way beyond what mainstream economists consider necessary pandemic relief. Now, they are turning their attention to overhauling US labour laws, despite the jobs market having been the crown jewel of American economic outcomes prior to Covid-19.

The numbers achieved under president Trump speak for themselves. The US unemployment rate stood at just 3.5pc at the turn of 2020 – its lowest level since 1969. Hispanic and African-American unemployment were at their lowest recorded rates since those categories began in 1972. Employment of what Americans dub "prime age workers" (25-54 year olds) was almost at its highest ever level for women and its highest level since the turn of the millennium for men.

This tight labour market was producing rising wages. Annual wage growth reached 3pc in 2018 for the first time in a decade, before staying above that threshold for 16 straight months. Importantly, for a country increasingly sensitive to inequities, lower-income workers saw faster wage growth than higher-income ones, ordinary workers saw faster wage growth than managers, and African Americans saw faster growth than whites. Combined with tax cuts, US median household income was booming, rising 6.8pc in 2019 according to official figures.

These successes were a testament to America's freedom-driven labour laws and modest safety net, on the one hand, and tax cut-driven macroeconomic policies on the other. The latter boosted demand for workers and encouraged investment in them. Yet the healthier the labour market got, the more Democrats dreamed of transforming it. Bizarrely, talk even filtered out in the presidential primaries about a "jobs guarantee" policy – a federal government "make work" scheme at $15 per hour – at a time when most economists thought the country near "full employment".

Mercifully, Biden isn't going there. But he's appointed economists who desire a much higher minimum wage, clampdowns on independent contractors and fresh mandates on businesses. In flexible labour markets, unemployment spikes when shocks such as pandemics hit, and that experience last year is being used as a precursor for policies to provide more "security". The trade-off evident in much of Europe – permanently higher unemployment – goes unmentioned. While US pandemic unemployment peaked at

14.8pc last year, it has already fallen to 6.2pc, lower than the average EU rate even before Covid-19 hit.

Democrats, though, would jeopardise the policy environment that delivered low unemployment and rising wages. In the near-term, their stimulus extends generous supplemental unemployment benefits of $300 per week to laid off workers until September 2021. That will deter individuals from taking up new roles as the economy reopens. In the longer term, the party intends to part-finance its agenda by raising the corporate tax rate back up from 21pc to 28pc, a large proportion of which will be ultimately borne by workers through lower wages owing to less investment.

In Congress, Democrats are pushing a $15 per hour national minimum wage phased in by 2025, despite estimates it will reduce employment by 1.4m people. An aggressive first rise from $7.25 to $9.50 would occur this year, despite the fact that 60pc of jobs that pay the current federal minimum wage are in leisure and hospitality, industries crushed by forced closures, reluctant consumers and social distancing.

The party's proposed Pro Act, passed already by the House of Representatives, would redefine a lot of working adults who currently operate as independent contractors as "employees" through application of a strict "ABC test" for contractor status. This test would put a wide range of freelance and gig economy work at risk by making the business models of the companies offering them unviable, despite these roles offering flexibilities that the contractors say they enjoy.

The party's Act would also effectively preclude against current state "right-to-work" laws, which, in over half of the country, prevent unions forcing workers to pay dues in order to maintain their employment. Indeed, Biden is pushing a range of pro-trade union legislation that would make collective bargaining easier and has described himself as "the strongest labour president you have ever had".

This embrace of an old-school continental insider-outsider labour market model doesn't stop with employment legislation. An aggressive government-led green agenda, new "Buy American" provisions, and a range of other mercantilist tariffs, means Biden's administration intends to be much more activist on "job creation" too. We would thus see the US government playing a far more intrusive role on both the supply and demand side of the labour market.

One could understand the urgency for a revolution in labour interventions if the US had suffered from high unemployment or falling wages for years. But the pre-pandemic world shows that the US has a very low natural rate of unemployment under existing policies, meaning the key to avoiding high unemployment is avoiding macroeconomic mistakes. The party's intent on the retrograde Europeanisation of US labour laws is therefore quite baffling. Biden should listen again to Lance’s message: If it ain’t broke, Joe, don’t try to fix it.

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