

Ban extra overtime money to save manufacturing jobs



Capitalism lacks a mechanism to convert its productivity gains into shorter hours at work

In a recent article, I concluded as follows, “When output is reduced, why not share the work by cutting average hours per worker instead of laying off some while the rest clock overtime and even get paid a premium for it?” (1 May, Mint). The huge jump in America’s unemployment rate from 4.5% in March to 14.7% in April, due to the corona calamity, calls for attention to this enormously vital yet hugely neglected matter.

Whether saving “good” manufacturing jobs is feasible and desirable or not, US President Donald Trump campaigned for such a policy—bring the good jobs back to America. He won. In the Midwest, struggling blue collar workers, traditionally Democrats, cast some of the swing votes for him in 2016.

Well before Huawei and now the “Wuhan virus” and the World Health Organization became critical in US-China disputes, America’s trade deficit and steel imports were the main bone of contention. What is particularly noteworthy is that well before China started competing in a big way in manufacturing, Japan was America’s main economic rival and favourite whipping boy in trade matters, accused of dumping various products in the US. In the 1980s Pennsylvania, the Japanese were derided as “the Pittsburgh Stealers”, a play on the famed steel city’s football team, the Pittsburgh Steelers.

Free-market economists, arguing against protection, always stress that new jobs in dynamic new sectors are constantly being created to replace old ones. For them, trade is a positive-sum game, in which all nations overall benefit. According to them, while displaced

workers in declining industries suffer, they get reabsorbed in the growing ones. Labour market data for the US in recent decades does not quite validate this view, but that is beyond our scope to discuss.

My inclination is toward free trade barring critical items such as vaccines, for which national security considerations may warrant a degree of self-sufficiency. All trade involves some risk, even inter-regional trade in a country. In an extreme case, to be safe, we should revert to subsistence farming and grow veggies in our backyard. Consumers and workers rarely opt for such stifling self sufficiency. Nevertheless, by ignoring the risks of global supply chain breakdowns, the free trade brigade has oversold its benefits.

The fundamental fact that protectionists, such as Trump, are missing is that trade per se does not steal good manufacturing jobs. Planet Earth as a whole is a closed economy. It does not lose manufacturing jobs to Mars. Granted, manufacturing jobs do shift, from the US to China, for example, and from China now to lower-cost Vietnam, but this is a minor matter. Automation is the main, invisible thief.

The share of manufacturing jobs in US employment peaked in the early 1950s at about 32%. This share declined through the 1960s, when the US was still the world's leading manufacturing nation. As of end-2019, manufacturing's share in total employment was close to 8%, a quarter of its 1950s peak. However, robots are to blame far more than China for this steep decline.

Indeed, some of the job losses in US manufacturing in recent years has occurred despite the robotics-based revival of manufacturing in the Midwest, its heartland. Real value added in US manufacturing gross domestic product surpassed its 2007 pre- financial crisis peak in a decade after that, while employment has lagged behind.

By the same token, the emphasis on trade as the main engine of growth and creation of good jobs is somewhat misplaced. At one conceptual level, countries are just regions, separated by passports and often oceans. Neither free trade nor protection can staunch job losses due to robots. Both Trump and his critics miss a factor that is fundamental to the problem of employment.

The fundamental weakness of capitalism, as I see it, is that it lacks a mechanism to convert the long term rise in productivity gains into shorter average hours per worker. If some law were enacted to do so, that would slow down and ease the pressure of job losses. When factories shut down, ancillary service jobs are also lost. Whole communities get hollowed out, leading to suicides—deaths of despair.

My preference is for legislation to incentivize shorter weekly manufacturing hours via differential payroll tax rates based on hours per worker. (Service-sector jobs require a

separate discussion; the nature of the work many do—for example, doctors and nurses, who need to be on call—often warrants long hours at a stretch).

In February 2020, when US unemployment was 3.5%, average weekly hours in US manufacturing was 40.7 hours, while average overtime was 3.2 hours. Overtime is sharply cyclical. It fell to 2.0 hours in April. Despite the large drop, barring health equipment and related sectors at present, one can ask why overtime exists at all when unemployment is near 15%?

Overtime (over 40 hours a week) in the US earns a 50% premium, enacted by the Fair Labor Standards Act of 1938, along with a minimum wage and other measures. The Depression era goal was to induce firms to share the work, making it costlier to employ workers over 40 hours. However, the 50% premium created perverse incentives to work longer, as Juliet Schor pointed out in *The Overworked American* (1991). In short, the overtime premium should be scrapped, and the payroll tax in the US on workers under 40 hours a week should be junked to incentivize shorter hours. That will save some “good” manufacturing jobs.

Vivek Moorthy is professor, economics and social sciences area, Indian Institute of Management Bangalore