The Daily Dish

March 30th Edition

MARCH 30, 2015

Maryland can count itself as one of the many states that had issues implementing the ACA. After the website that crashed on the first day and then was plagued with a number of glitches, an internal state audit found Maryland overbilled the federal government by $28.4 million. The largest error was related to a nearly $16 million calculation based on out-of-date enrollment data provided from the state to the federal government.

Health care experts are preparing for increases in costs in the coming years. As we (slowly) make our way out of the recession, experts argue “that the [health spending] slowdown was far more a legacy of recession than of greater discipline and industry reform.” Last year, spending was up 5 percent. AAF has the one chart you need to see the cyclical nature of national health expenditure spending.

The Fed says that it will raise interest rates by the end of the year. According to Chairwoman Janet Yellen, “I generally anticipate that a rather gradual rise in the federal funds rate will be appropriate over the next few years.” This would be the first time since the crisis that the Fed raises rates.

Eakinomics: NLRB, McDonalds and the Joint Employer Rule

This week an administrative law judge for the National Labor Relations Board (NLRB) will begin consideration of whether McDonald’s should be considered the “joint employer” of all McDonalds workers, instead of them being considered the employees of individual franchises. At issue is whether the franchise or the parent company is responsible for what employees say are poor working conditions and low pay at many McDonald's franchises. If the judge rules accordingly, it would be the first time that a major franchisor would be found responsible for labor violations at individual locations. Treating McDonald’s and other franchisers as a joint employer would have implications for liability in labor violations and perhaps force the corporation to enter collective bargaining.

Franchises are major employers and have contributed significantly to the recovery, despite the increasing burdens placed on them. There are over 770,000 franchises that employ over 8.5 million workers. In the typical setup, the strength of franchising is the value of the brand, and franchises set standards to ensure quality and, thus, protect and enhance the brands. However, this typically does not mean that the franchisor sets particular employment or hiring practices. Franchisees determine who to hire and fire, wage rates and benefits, and work schedules.

In the past, the NLRB and the courts have rejected the joint employer thesis. If the NLRB flips its position, it would make the franchises responsible for monitoring and controlling behavior at all the outlets of franchisees. This would damage, perhaps fatally, the franchise model. Franchisees would lose their independence in running their businesses, a severe disincentive to entrepreneurs who pursue the franchise route. The heavy monitoring, control and negotiating costs will likely slow the growth of franchises and their employment.

The NLRB ruling is technical, but has vast implications for U.S. labor markets.

From the Forum

Week in Regulation by Sam Batkins, AAF Director of Regulatory Policy