

Labor Unions: A Benefit to Stakeholders?

Have labor unions become counterproductive “political” instruments who have outlived their value to the long-term detriment of U.S. labor and the economy?

Unions have been studied extensively by economists, and a broad survey of academic studies suggests that while unions achieve benefits for their members, they can also harm the overall economy (Sherk). The history of labor unions in America dates back to the mid-nineteenth century in response to growing demands for, and subsequent abuses of labor pools during the industrial revolution. There are countless examples of the positive impact labor unions and collective bargaining power have had on employee wages, benefits and working conditions in the U.S. While union membership peaked at nearly 35% of wage and salary workers in the mid-1950s, it has continued to experience a general membership decline in the private sector since the late 1950s (see Figure 1) (Wikipedia). The possible reasons for the steady decline are numerous and the subject of constant political and economic debate. Despite decreasing membership nation-wide in the private sector, public opinion appears to follow its own cyclical pattern more associated with economic trends as well as alignment with political views and affiliations. Regardless, it is important that labor unions as institutions in the U.S. be closely evaluated to assess their true value and overall short- and long-term impact on all key stakeholders (labor, companies, economy and government regulators), not just employees (labor). Discussions about labor unions' benefits often refer to their historical benefits to the labor stakeholder by addressing perceived power imbalances between labor and management during past eras. We must now consider the role of unions and their impact in today's U.S. and global business environments characterized by a rapidly expanding globalized economy that challenges businesses with the demands of global competitiveness which often drive management efforts to cut costs.

Organized labor movements in America have been somewhat cyclical with union memberships below 10% in the 1920s to a steady rise in union membership from the 1920s through the 1930s, peaking in the mid-1950s and as mentioned earlier, being in a steady decline since its peak. Of note, according to the Bureau of Labor Statistics, the public sector (educators, civil servants, etc.) unions grew steadily over that time (at 35.9% through 2012, as compared to the private sector rate of 6.6%). During the decade leading to its membership height, American labor unions benefitted greatly from New Deal policies under President F.D. Roosevelt. Specifically, the National Labor Relations Act of 1935 (aka the Wagner Act) legally protected the right of unions to organize and allowed unions and employers covered by the Act to lawfully agree to a “closed shop,” in which union membership was a condition of employment at unionized workplaces. (Wikipedia) During this period, unions also developed close and powerful political ties, namely with the Democratic Party and became a major political force exerting significant influence in local, state and national politics. Labor unions’ divisive political force inspired the conservative anti-union Taft-Hartley Act of 1947 which contained numerous measures to weaken unions by banning such things as union contributions to political candidates and restricting the power of unions to engage in strikes that “threatened national security.”(Wikipedia) The Taft-Hartley Act also made it illegal for any employer to force an employee to join a union, paving the way for “right-to-work” laws currently in place in approximately half of the states in the U.S. including Colorado’s hybrid “Labor Peace Act.” According to the Labor Peace Act, “Colorado law is unique and provides a specific procedure for the conduct of elections when an all-union agreement is sought.” In addition, highly publicized corruption in the Teamsters and other unions during the 1950s also caused greater public scrutiny of American labor movement leadership and activities and is believed to be a source of further union weakening. It is interesting to also note that periods of high unemployment rates historically correlates with lower public approval of labor unions (Surowiecki). “Public approval for unions climbed during the 1980s much as it did in other industrialized nations,(Sexton) but declined to below 50% for the first time in 2009 during the “Great Recession.”

Labor unions have been credited with transforming the early 20th-century workplace from an unsafe, low-paying environment where workers used to spend upward of 60 hours a week. Union battles eventually led to the 40-hour work week for its members as the norm. The non-union sector followed suit, and now federal laws demand overtime be paid to workers amassing more than 40 hours in a week. Unions were instrumental in significantly raising worker's wages (Bondigas). Union impact reaches even beyond benefiting just its members as employers are pressured to offer wages and benefits comparable to competitors to compete for quality employees. In some cases employers offer higher wages and better benefits just to counter the threat of unionization. According to the Bureau of Labor Statistics, unionized workers earned a median average of \$943 per week in 2012, as compared with \$742 for non-union labor. Union worker can often count on benefits packages including retirement, health insurance and profit sharing. Safer working conditions and grievance processes are among other labor condition improvements credited to unions (Bondigas).

Unions' drawing of attention to many labor concerns also influenced the implementation and government administration of hundreds of current labor laws covering Wages & Hours (Fair Labor Standards Act), Workplace Safety & Health (Occupational Safety and Health [OSH] Act), Workers' Compensation, Employee Benefit Security, Unions & Their Members, The Family and Medical Leave, and many others. (U.S. Department of Labor)

Labor union critics point to the collapse of many highly unionized domestic industries and argue that unions harm the economy (Sherk). Unions leverage their power to raise wages and benefits at times to unrealistically high levels above what markets can sustain (Silvestrie). The result of wages elevated above market rates increase production costs. As companies pass on the cost of those higher wages to consumers through higher prices, the result is often reduced sales, revenue and competitiveness. The pressures caused by unrealistically high wages, costly benefits and healthcare costs also encourage employers to either reduce the number of workers or to outsource the work to countries with cheaper costs of labor. Additionally, according to numerous studies, companies have less power today to pass price increases on to

consumers due to increased global competition. Consequently, unions do not negotiate higher wages for many newly organized workers except at companies with initial competitive advantages that allow them to pay higher wages. These, “in effect taxes” of higher union member wages lowers profits. Unionized companies respond to this “tax” by reducing investment which in turn reduces company competitiveness (Sherk). Some research suggests union-driven cuts into corporate profitability, also reducing business investment and employment over the long term hurt the job market during normal economic circumstances, and cause particular harm during recessions. Economists have found that unions delay economic recoveries. States with more union members took considerably longer than those with fewer union members to recover from the 1982 and 1991 recessions (Krol and Svorny). Sherk also suggests unions intentionally try to reduce employment as a means of raising wages for its members (Sherk). Economic research suggests union-caused business investment decreases, combined with intentional union efforts to reduce employment to drive up wages over the long term, causes unionized jobs to disappear as illustrated in Figures 2 and 3 (Sherk). “In the long term, unionized jobs disappear and unions need to replenish their membership by organizing new firms. Union jobs have disappeared especially quickly in industries where unions win the highest relative wages” (Sherk).

In conclusion, it is clear labor unions have been significant contributors to the improvement of labor conditions across a wide breadth of issues in the U.S. and continue to impact labor relations, working conditions, politics, and economies on a worldwide scale. The question now is do U.S. labor unions provide positive and relevant impact in today’s business and economic environment? Even the core of their historical provision of protective efforts for labor stakeholders has questionable current relevance given the U.S. Department of Labor now administers and enforces more than 180 federal labor and employment laws designed to balance labor-management relations. These government mandates and the regulations that implement them cover many workplace activities for about 10 million employers and 125 million workers.

There are two sides to every issue:

1. Labor unions continue to play a vital role in employer-employee relations and positively impact business and the U.S. economy.
2. Labor unions cause more harm to U.S. workers, businesses and the U.S. economy in the long-run.

Sources:

Bondigas, Al, eHow contributing author, Good Things About Labor Unions,

http://www.ehow.com/list_6502471_good-things-labor-unions.html

Bureau of Labor Statistics, U.S. Department of Labor, New Release, 23 January 2013,

<http://www.bls.gov/news.release/pdf/union2.pdf>

Colorado Labor Peace Act, TITLE 8, ARTICLE 3, CRS, Colorado Division of Labor, Colorado

Department of Labor and Employment,

<http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251844567397&ssbinary=true>

Sherk, James, What Unions Do: How Labor Unions Affect Jobs and the Economy, 21 May 2009,

<http://www.heritage.org/research/reports/2009/05/what-unions-do-how-labor-unions-affect-jobs-and-the-economy>

Barry T. Hirsch and David A. Macpherson, "Union Membership and Coverage Database from the Current Population Survey," *Industrial Labor Relations Review*, Vol. 56, No. 2 (January 2003), pp. 349-354, at <http://www.unionstats.com/> (May 5, 2009). Union refers to union members and non-union members covered by collective bargaining agreements. Non-union refers to workers not covered by collective bargaining agreements.

Bernt Bratsberg and James F. Ragan, Jr., "Changes in the Union Wage Premium by Industry," *Industrial and Labor Relations Review*, Vol. 56, No. 1 (October 2002), pp. 65-83; Peter D. Linneman, Michael L. Wachter, and William H. Carter, "Evaluating the Evidence on Union Employment and Wages," *Industrial and Labor Relations Review*, Vol. 44, No. 1 (October 1990), pp. 34-53.

Robert Krol and Shirley Svorny, "Unions and Employment Growth: Evidence from State Economic Recoveries," *Journal of Labor Research*, Vol. 28, No. 3 (Summer 2007), pp. 525-535.

Silvestrie, Enzo, eHow contributing author, The Pros & Cons of Labor Unions,
http://www.ehow.com/about_5097523_pros-cons-labor-unions.html

United States Department of Labor, Summary of the Major Laws of the Department of Labor,
<http://www.dol.gov/opa/aboutdol/lawsprog.htm>

Wikipedia, Labor unions in the United States,
http://en.wikipedia.org/wiki/Labor_unions_in_the_United_States#History

Sexton, Patricia Cayo. "The Decline of the Labor Movement." *The Social Movements Reader: Cases and Concepts*. Goodwin, Jeff and James M. Jasper, eds. Malden, MA: Blackwell Publishing, 2003

Surowiecki, James, State Of The Unions, *The New Yorker*, 17 January 2011,
http://www.newyorker.com/talk/financial/2011/01/17/110117ta_talk_surowiecki

Wikipedia, Right-to-work law, http://en.wikipedia.org/wiki/Right-to-work_law

APPENDIX

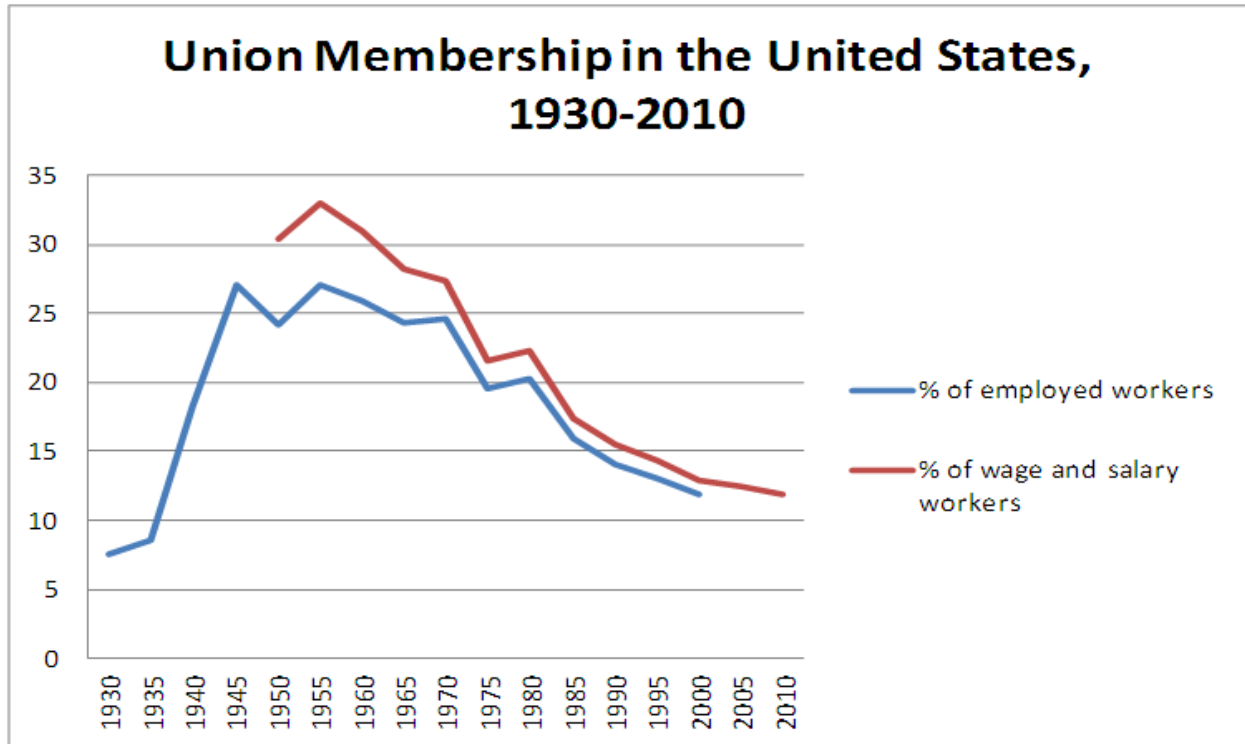


Figure 1. (http://en.wikipedia.org/wiki/Labor_unions_in_the_United_States)

Manufacturing Employment: Union vs. Non-union

Total manufacturing employment has declined steadily over the past generation because of the loss of union jobs. Three-fourths of union manufacturing jobs have disappeared over the past 30 years. Total non-union manufacturing jobs increased slightly over that time.



Note: Data for 1982 not available from Bureau of Labor Statistics.
Source: Heritage Foundation calculations based on data from Barry T. Hirsch and David A. Macpherson, "Union Membership and Coverage Database from the Current Population Survey," at <http://www.unionstats.com> (May 19, 2009). "Union" refers to union members and non-union members covered by collective bargaining agreements. "Non-union" refers to workers not covered by collective bargaining agreements.

Chart 1 • B 2275 heritage.org

Figure 2. (Sherk)

Private Construction Employment: Union vs. Non-union

Despite the recent economic downturn, non-union construction employment has grown by nearly 4 million jobs since 1977 while union construction jobs have declined by about 255,000.



Note: Data for 1982 not available from Bureau of Labor Statistics.
Source: Heritage Foundation calculations based on data from Barry T. Hirsch and David A. Macpherson, "Union Membership and Coverage Database from the Current Population Survey," at <http://www.unionstats.com> (May 19, 2009). "Union" refers to union members and non-union members covered by collective bargaining agreements. "Non-union" refers to workers not covered by collective bargaining agreements.

Chart 2 • B 2275 heritage.org

Figure 3. (Sherk)