WebMemo
Published by The Heritage Foundation

No. 1202
August 29, 2006

Unions in Decline and Under Review

Tim Kane, Ph.D., and James Sherk

Organized Labor in America has lost its way. The most telling evidence is that unions have been shedding members for decades. It is time for Americans to ask why this is happening, not whether it is happening. A powerful example of how lost unions have become was seen during the debate over Social Security reform, when the AFL-CIO and other unions fought loudly against President Bush's proposals. Unions demonized all solutions aiming at solvency except one: an increase in payroll taxes. In retrospect, their argument was stunning—a direct call by a special interest for higher taxes that are paid exclusively by their interest: labor.

Other recent events highlight the peculiar dilemma facing modern American unions. The slow demise of General Motors (GM) is visibly intertwined with the inefficient labor contracts that the United Auto Workers (UAW) secured in decades past. Regular media stories showcasing problems at GM and Delphi send a potent signal to other U.S. workers that big labor's ideal business model is a bust. The AFL-CIO splintered last summer when a number of major member unions broke away. Finally, the federal government has begun implementing significant changes to labor regulations. The Labor Department is enforcing accounting transparency in an effort to weed out corruption and bring some accountability between labor bosses and membership. That has been decried as an attack on organized labor, but it may instead prove a powerfully rejuvenating tonic.

The Paradox of Modern Unions

In the Iliad, Homer sang that "There is a strength in the union even of very sorry men." The modern experience shows the opposite can be true as well: There is weakness in some unions of very strong men.

The guiding philosophy of organized labor is that a union can bargain for higher wages and better treatment than workers could obtain individually. But the union philosophy sees the economy through a 1950s lens where only two agents negotiate how to cut the economic pie: management as the agent of capital and investors, and organized labor as the agent of individual workers. It assumes monopoly power for employers, lifetime employment for workers, and non-unique (lower-skilled) labor. Consequently, unions tend to prosper only in the rare cases where all three conditions exist—an increasingly rare situation in the modern economy. The economic pie is dynamic, and burgeoning entrepreneurship simply does not make sense to the union philosophy.

Why would a uniquely skilled artist, or uniquely skilled knowledge worker, need general representation? The new rules of the technological economy mean smaller firms and more individualized work,

This paper, in its entirety, can be found at:
www.heritage.org/research/labor/wm1202.cfm

Produced by the Center for Data Analysis

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

not assembly lines. About the only place monopoly power remains a reality is government.

What is most interesting about the union philosophy is its intellectual roots in 19th century Marxism. Karl Marx famously saw the march of history in terms of a dialectic between two forces. But the forces of "capital" and "labor" were synthesized soon after the publication of *Das Kapital* when Great Britain formalized in law the limited liability stock corporation. In modern times, no one thinks twice about employee ownership of stock options, or of profit sharing, but they make the capital-versus-labor framework an anachronism. Entrepreneurs create capital out of nothing. They are neither worker nor capitalist. Yet economists who study growth now recognize that the entrepreneurial role is central—almost exclusively central—to explaining why productivity rises and why workers experience wage growth.

But the very things that big unions have been fighting for in recent years are hostile to innovation. They protect jobs of the past at the expense of jobs of the future. They fight for bailouts of inefficient corporations. They fight for higher minimum wages that price low-skilled workers out of the market (and out of competition with their members). Hostility to part-time employment, workplace flexibility, and capital gains are all antithetical to the virtual workspace that fosters start-up innovation.

In Decline: Overview of the Unionized Workforce

American workers have not remained oblivious to this fact. Over the past 25 years union membership in America has dropped dramatically: 21.4 percent of all workers belonged to a union in 1981; today, only 12.5 percent do. The decline of private sector union membership is the heart of issue, dropping from 19 percent to under 8 percent in just 25 years. In other words, nine out of 10 employees at for-profit companies are not in a union.

When the public asks whether unions are relevant, they are asking the wrong questions. Organized labor is very powerful politically, for now. But unions are almost totally irrelevant economically in the 21st century workplace of individualization and technology. There simply isn't any debate over whether unions are facing extinction, because the numbers speak for themselves.

Unions do remain a powerful force among one segment of workers: government employees. Some 36.5 percent of all government employees belong to unions, up since 1981. These numbers are highest at the local level, with 41.9 percent of all local government workers holding union cards.

The decline of private sector unions coupled with the high rates of public sector unionization has changed the face of the American labor movement. Decades ago the typical union member worked in the private sector, often in a very physically demanding job. He would strike to get higher pay or better working conditions. Today 48 percent of all union members work for the government. The typical union member nowadays is a local government worker lobbying city hall to raise taxes so the city can pay him more. Rather than striking to redress difficult working conditions, modern unions fight for more government because they are the government, drifting ever farther from labor's initial goal of improving the life of working Americans.

Under Review: Transparency Comes to the Union Hall

A new program to enforce fiscal transparency within unions by the Department of Labor is well-timed to help unions conduct a much-needed self-examination. For decades, big labor rightfully decried shady accounting in corporations, but never faced up to their own shady accounting. Laws dating back to 1959 require union reporting of finances, but until the Labor Department's Office of Labor-Management Standards began enforcing the law, very few filings occurred. That environment changed significantly on March 31, 2006, the deadline for filing a new LM-2 form that details the finances of any union with $250,000 or more in dues.

The Labor Department makes this new union disclosure data available at its Web site *http://union-reports.dol.gov/olmsWeb/docs/index.html*, and a brilliantly easy-to-use Web site has been established privately at *www.unionfacts.com/unions/* The new disclosures reveal exactly how union leaders have managed their employees dues. For example, the National Education Association has 417 employees earning over $75,000 a year. Seven hundred of the UAW's 1,209 employees have salaries exceeding $75,000. Moreover, UAW political donations are very unevenly distributed: Less than 1 percent of its $7 million in political funds were given to Republicans.

Those who support American workers can hope that the new transparency will foster the necessary change in the character and principles entrenched in union leaders. The splintering of the AFL-CIO may prove to be the tipping point needed to kick off some diversification, experimentation, and evolution in what a union is in the modern economy. This is how unions can survive. In that sense, more transparency and scrutiny are best interpreted as useful tools for rank-and-file members to reassert what they want.

Polls reveal that American workers do not see their workplaces in the negative light that union leaders do. A full 67 percent of Americans say their company has a strong sense of loyalty towards them.[1]

And conventional wisdom is wrong: American workers are *not* frightened. Just 9 percent of workers fear their job will be shipped overseas. Moreover, workers are satisfied with their job security by an 82 to 15 percent margin.[2]

What do American workers want? According to one survey, 62 percent of workers rated excessive bureaucracy as their largest barrier to job satisfaction, while 59 percent rated co-workers who focus on assigning blame instead of accomplishing tasks.[3] In another poll, 60 percent of workers said that flexibility was very important to their job satisfaction.[4] Unions have not put the effort into addressing these concerns that they have into fighting outsourcing, but these are the issues that matter to workers.

In this sense the discord among splintering unions is perhaps a sign of hope. For example, AFL-CIO chief John Sweeney is denouncing immigration reform proposals that would legalize guest workers, while Service Employees International Union boss Andy Stern has championed poor migrant workers. This is exactly the kind of diversity that will be essential for the union movement to evolve by trying different approaches to the challenges of the 21st century, not simply applying outdated approaches to modern problems.

—Tim Kane, Ph.D., is Director of the Center for International Trade and Economics, and James Sherk is a Policy Analyst in Macroeconomics in the Center for Data Analysis, at The Heritage Foundation.

1. Karlyn H. Bowman and Bryan O'Keefe. American Enterprise Institute Public Opinion Study, August 30, 2005, at *www.aei.org/publications/pubID.19072,filter.all/pub_detail.asp* (May 5 2006).
2. *Ibid.*
3. Jennifer Anderson, "Job Satisfaction Polls—Contradictory but Valuable," *Ergonomics Today*, June 27, 2005, at *www.ergoweb.com/news/detail.cfm?id=1137* (May 5, 2006).
4. *Ibid.*