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Union Strength Dependent on a Non-competitive Environment

In his study "Labor Unions: A Corporatist Institution in a Competitive World", Professor Michael L. Wachter of the University of Pennsylvania, chronicles the rise and fall of private sector unionism in the United States[1]. Wachter describes the conditions necessary for unions to thrive and how, in the absence of these factors, they languish. He traces the rise of the modern labor movement in the 1930s, its growth in post-depression America's environment of corporatist policies—specifically President Roosevelt's New Deal—and outlines the decline of private sector unions brought about by the re-emergence of robust competition in the nation's economy during the latter part of the twentieth century. Wachter's study offers insights into how the labor climate of southwestern Pennsylvania acts as a constraint on the economy's ability to grow and create jobs.

The labor movement gained considerable steam in the 1930s when the country, under President Roosevelt, instituted a series of policies Wachter labels as "corporatism". He observes that "corporatism views competition as a destructive force that has to be both controlled and channeled through institutions that practice fair—but not free—competition under the watchful, mediating power of the government." This was of course in response to the Great Depression which left many people wary of the business community and free market capitalism, and more trusting of, or even reliant upon, government to guide the economy. A response we now know was misguided, overblown and unfortunate.

First and foremost, corporatism dampens competition. Under such a policy regime government restricts competition among firms, enabling them to pay "fair" (above market) wages to their employees. With competition limited, firms could charge a "fair" price for their products which would be sufficient to pay above market wages. In this environment, union membership rocketed from less than 10 percent of the nation's private sector workforce in 1930 to nearly 35 percent by 1945.

As long as the government imposed its heavy handed corporatist policies—which they were able to do during the depression, the war years and the early 1950s—unions were able to expand membership and power. However, beginning in the mid 1950s, there was

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[1] Wachter, Michael. "Labor Unions: A Corporatist Institution in a Competitive World". Research Paper No. 06-17. July 2006. University of Pennsylvania Institute for Law and Economics. Available online at: http://ssrn.com/abstract=920458.

a gradual shift back to the realization that competition best served the country's economic growth and development. In the increasingly competitive economy, costs had to be kept as low as possible and, as a consequence, above-market wages paid to union workers became harder for firms to afford since they could no longer willy-nilly pass on higher costs in their prices.

In a stunning reversal of the enormous jumps during the 1930s and 1940s, private sector union membership has plunged to less than eight percent in 2007. Many of the underpinnings of union strength have been taken away or curbed, including: government protection of union power; an environment where competition is discouraged; and the use of subsidies to mask above-market wages and inefficiencies.

Today, the only sector where union favoring conditions exist in abundance is the public sector. Wachter notes, "unions may continue to prosper as a niche movement in the government sector, which is the sole remaining noncompetitive sector." Such is the case in the Pittsburgh metro area where only 10 percent or so of private sector employees are union members but more than 60 percent of public sector workers belong to a union—almost all employees who are eligible to join a union are members.

Pittsburgh's public sector unions enjoy monopoly (or near monopoly) status not only in county and municipal governments but also in areas such as education, mass transit and other authorities. As a result, workers at the Port Authority (mass transit) and many Pittsburgh area schools pay wages and benefits well above the compensation found in the private sector as well as substantially higher than the national average for similar public workers—even though per capita incomes in the region are virtually the same as the average of all metro areas across the country.

As a consequence of the higher relative worker compensation, government outlays to provide services are also relatively higher. This translates into greater tax burdens for citizens and/or fewer or lower quality services. And the evidence of what that leads to is plainly visible in the region's job numbers. The Pittsburgh metro area has added no net new private sector jobs in seven years. Indeed, employment was lower in July 2007 than in July 2000—a truly astonishing fact in light of the national gains posted during that period. What's worse, without the strong numbers posted by health care, the seven year decline would be far steeper.

Further, the heavy unionization of the public sector is far more of a problem for the economy than private sector unionization. Free market competition in the private sector can and will restrain the power of unions by punishing firms who are cost inefficient because they are paying above market worker wages. On the other hand, governments are monopoly providers of services and are not subject to the same market pressures as private firms. The only choice available to unsatisfied customers (taxpayers) is to move to another area where government services and taxes are more to their liking.

Unfortunately, the out migration mechanism often takes a long time to bring down costs of expensive governments, if it ever does. Witness the situation in the City of Pittsburgh.

The still falling population count has dwindled to less than half of its 1950 level and yet there is no evidence that the power and political influence of public sector unions or their upward pressure on tax burdens has been in any way diminished by the ongoing exodus from the City. Indeed, there is every indication that the political structure and unionism are tied symbiotically at the hip as they watch the City's slide.

An earlier Allegheny Institute *Policy Brief* (Vol. 3 No. 29) has demonstrated the correlation between the percentage of public sector workers who are unionized in a state and the likelihood the state will vote Democratic. There can be little doubt that the percentage of public sector union membership is a strong indicator of the prevailing philosophical leaning in a state including attitudes toward the role of government in the economy. Beyond that, it is entirely reasonable to expect that government workers will support candidates who favor expanding the size and scope of government and who demonstrate allegiance to public sector unions. Thus, over time politicos and government workers become philosophically indistinguishable while becoming mutually supportive and reinforcing.

Finally, and very importantly in Pennsylvania, the strong public sector union presence helps the diminished private sector unions maintain extraordinary clout with legislative bodies. Working together the two groups can and do prevent the types of labor law reforms that would benefit the residents, taxpayers and business community—to the union members' own long term detriment as jobs and people (many of them children of union members) leave for states friendlier to business and taxpayers. History shows that the damage done by union policy victories cannot be overcome by constructing wasteful transit projects and building stadiums, or engaging in programs of hopelessly misguided, ineffectual economic development subsidies. The principal accomplishment of these efforts is to raise the costs already overburdened taxpayers must eventually bear.

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