The Washington Post

# Is organized labor obsolete?

By Robert J. Samuelson
Monday, February 28, 2011;



What we are witnessing in Wisconsin and elsewhere is the death knell of Big Labor. Once upon a time, most Americans could identify the head of the AFL-CIO. He was George Meany, the cigar-chomping ex-plumber who ran the union federation from 1955 to 1979. He was one of the nation's great power brokers, much quoted and wooed by presidents. It's doubtful that as many Americans can name Meany's present successor. (Answer: Richard Trumka, former head of the mine workers' union.)

The American labor movement has been in eclipse for decades, but public- sector unions were one of its few remaining bastions. Now, their power too is waning. States and localities face long-term budget squeezes. Labor costs represent roughly half of their spending, notes the Cato Institute's Chris Edwards. Pension and retiree health benefits are underfunded. Teachers unions are being pressed to weed out poor performers. All these unions are on the defensive. Critics are less Republicans than taxpayers and parents.

It's hard for us to recall now how dominant unions were immediately after World War II. By the mid-1950s, unions represented 36 percent of private-sector workers. Most major industries were organized: railroads, coal, steel, autos, telephones, tires, airlines, trucking. Strikes in crucial industries constantly threatened to hobble the entire economy, though in practice, companies stockpiled steel and coal in advance of contract expirations, and Congress cut short railroad strikes.

Even this understates unions' influence. Most small businesses weren't worth organizing, and large, nonunion firms were so fearful of being organized that many paralleled union demands in their own pay and personnel policies. Wages rose annually, reflecting inflation plus a bit more; fringe benefits (pensions, health insurance, vacations) expanded; seniority prevailed in wages to minimize arbitrary favoritism.

Labor's fall has been stunning. In 2010, unions represented 6.9 percent of private-sector workers. That's lower than the 12 percent in 1929, before passage of the 1935 Wagner Act - the National Labor Relations Act - which gave workers the right to organize and required employers to recognize unions that won a secret ballot.

Many theories explain this collapse: greater management pushback and intimidation; business expansion in anti-union regions, the South and West; more white-collar office workers and fewer blue-collar factory workers. All these theories contain some truth, but unions' downfall mainly reflected their inability to adapt to change.

To members, unions exist to win higher wages and fringe benefits, and in this, they mainly succeeded. In 2006, union wages in the private sector were about 19 percent higher than those in comparable nonunion firms, estimates economist Barry Hirsch of Georgia State University. The wage premium can endure if higher productivity (a.k.a. efficiency) justifies higher wages or if companies can pass along costs to customers. The productivity advantages of unionized firms are scant, Hirsch says. The formula worked, because many heavily unionized industries were dominated by a few large firms with similar labor costs. These could be recovered in higher prices.

That changed in the 1970s and 1980s. Imports and "transplant" factories created new competition in steel and autos. Airlines, trucking and communications (telephones) were deregulated, allowing new low-cost rivals into the market. Digital technology and the Internet transformed communications and threatened many industries, including traditional phone companies and newspapers.

For unions, this pitted present members' expectations - for high wages, generous fringe benefits - against companies' needs to lower costs and, thereby, protect future jobs. By and large, union concessions were too little, too late. Corporate managers, their business models besieged, were also slow. Both executives and union leaders underestimated the vulnerability of once impregnable market positions. The downfall of the "Big Three" automakers epitomized this disastrous cycle. Nonunion firms gained market share; union membership fell. Unions also had a harder time organizing other companies, because both managers and workers feared job loss.

Public-sector unions now face a similar predicament. Among government workers, 36.2 percent are unionized. Their growth partially offset the erosion of private-sector unions (the combined unionization rate for private and public workers: 11.9 percent). Traditionally, public-worker unions flourished in an alliance with liberal Democrats. But the huge loss of state and local government revenue has - like new competitors for firms - transformed the economic and political climate. Labor costs put upward pressure on taxes and downward pressure on public services.

The result is a dilemma that transcends partisan union-bashing. Striving too hard to protect existing wages and benefits will stimulate more political opposition, and not just from Republicans (see Gov. Andrew Cuomo in New York). But sacrificing too much may trigger a revolt from angry rank-and-file members. Private-sector unions couldn't solve this dilemma; they never reconciled past successes with future survival. So Big Labor became Little Labor. If public-sector unions fail, Little Labor could become Mini Labor.