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# GRISWOLD: Unions out of step with dynamic U.S. private sector

**Daniel Griswold**

**ANALYSIS/OPINION:**

The share of private-sector workers in America who belong to labor unions fell again in 2009 to levels not seen in more than a century, according to a recent report from the Department of Labor. The news was yet another setback for an American labor movement that is rapidly losing its relevance in a more open and competitive world.

In America last year, a mere 7.2 percent of private-sector workers were members of a labor union, the lowest "union density" since 1900, and far below the peak of more than 30 percent in the 1950s. Labor leaders blame union-busting tactics by employers and expanding trade and globalization, and there is some truth to both those causes. But a more fundamental reason for the decline is that unions have proven to be a liability in a more open, dynamic and competitive economy.

The story spun by labor leaders is that foreign competition has caused manufacturing and other, more unionized sectors of the economy to shrink, shifting the weight of our economy to less-unionized service sectors.

The reality is more sobering for the union movement. The decline in union density in the United States has not been driven by a shift of employment from unionized sectors to non-unionized sectors, but by a broad economy-wide decline of unionization across sectors and regions. Private-sector unionization rates have fallen in virtually every manufacturing sector and most service sectors in the past three decades and across all regions of the country.

The weight of evidence indicates that, for most firms in most sectors, unionization leaves

companies less able to compete successfully. The core problem is that unions cause compensation to rise faster than productivity, eroding profits while at the same time reducing the ability of firms to remain price-competitive. The result over time is that unionized firms have tended to lose market share to nonunionized firms, in domestic as well as international markets.

After studying the effects of unions on company performance, Barry Hirsch of Georgia State University concluded that unions will typically raise labor costs to a firm by 15 percent to 20 percent, while delivering a negligible increase in productivity. As a result, "Unionization is associated with lower investment in physical and intangible capital and slower growth. The combination of a union tax and sluggish governance is proving debilitating in economic environments that are highly competitive and dynamic," Mr. Hirsch wrote in a 2008 study.

To the extent that output and resources are mobile, poor union performance has led to a shift of production and employment away from unionized industries, firms and plants and into the nonunion sector or to producers overseas.

Unions have been able to thrive in the public sector because governments, by definition, exercise monopoly power to raise revenue. Public employee unions can demand higher pay and ever more generous benefits, knowing their employers can simply pass costs on to captive taxpayers. As a result of those divergent trends, 2009 marked the first time ever in the United States that union members in the public sector outnumbered those in the private sector.

Union leaders desperate to stem the decline in private-sector membership have worked hard to pass the misnamed Employee Free Choice Act, which would tilt the deck in favor of union organizers by, among other things, putting in jeopardy the secret ballot for union elections. Union leaders also reflexively oppose virtually every effort to open the U.S. economy to more vigorous international competition, knowing that more competitive markets make it more difficult for unions to extract above-market pay and benefits.

Unions are rapidly becoming an economic anachronism. In recent decades, barriers to international trade and investment have fallen, and domestic markets, including transportation, energy and telecommunications, have been largely deregulated.

U.S. industries, on the whole, have accepted and even embraced the more competitive environment. Sectors such as steel, textiles and sugar continue to demand protection from foreign competitors, but they are now the exceptions and not the rule. But leaders of

organized labor, on the whole, do not accept the new, more competitive environment.

A return to the era of more closed and regulated markets should be strongly resisted. Although it may be seen by labor leaders as a golden era, it extracted a heavy price on Americans in the form of lost consumer welfare, product innovation and freedom. The preferable policy alternative is to allow competition to work in labor markets just as it has been allowed to work more fully in product markets.

• *Daniel Griswold is director of the Cato Institutes Center for Trade Policy studies and author of the new book, "Mad about Trade: Why Main Street America Should Embrace Globalization."*

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