Public Sector Unions Must See Beyond Their Own Interests to Survive

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The history of labor unions forms a tragic circle. Labor unions have become what they once loathed. Once the exploited, they are now the exploiters. Organized to fight the long hours, low pay, and poor working conditions of early industrial employers, they have taken their battle too far. Unfortunately, employers are no longer the sole victim of unions' success; taxpayers are now having to foot the bill.

An objective observer would believe that unions were created with good intentions. They shifted the balance of power by enabling workers, marginalized by their singularity, to negotiate with a unified voice. As their negotiating momentum increased, so did their greed. Unions went from being fair-wage representatives to quasi-extortionists. They have sought, and often received, higher compensation than nonunionized workers. This union-centric negotiating perspective rarely takes into account the well-being of the company's bottom line. As economist and professor Barry Hirsch explains, "union gains can be thought of as a 'tax' on firm profits." This inherent "tax" results in reduced innovation and expansion for the company.

As unions fought for higher pay, many corporations realized that they could no longer afford to pay the outlandish long-term labor contracts that the unions muscled for. In 2009 alone private sector unions lost 834,000 members and now represent only 7.2 percent of the workforce.

While union greed in the private sector became mainly self-destructive, public sector unions are beginning to pose a threat to all taxpayers.

Union membership continues to grow in the public sector. Prior to the 1960s less than 15 percent of state and local workers were union members; in 2009 that figure grew to 39 percent. Their growth as a percentage of the public workforce is compounded by the fact that federal, state and government employees have added 2.2 million employees in the last decade.

Public sector unions enjoy similar wage premiums as their private sector counterparts. A recent report from the Cato Institute finds that:

Unionized public sector workers have much higher average wages and benefits than nonunionized public sector workers. Bureau of Labor Statistics data in Table 2 show that union members have a 31-percent advantage in wages and 68-percent advantage in profits.

TABLE 2
PUBLIC SECTOR COMPENSATION: UNION VS. NONUNION
(June 2009 Dollars per Hour Worked)

Compensation Item	A State and Local Nonunion	B State and Local Union	Union Advantage col. B / col. A
Total Compensation	$33.33	$47.46	1.42
Wages and salaries	22.86	29.90	1.31
Benefits	10.47	17.57	1.68
Paid leave	2.63	4.06	1.54
Supplemental pay	0.26	0.45	1.73
Health insurance	3.07	5.91	1.93
Other insurance	0.12	0.22	1.83
Defined benefit retirement plan	1.94	3.98	2.05
Defined contribution retirement plan	0.36	0.25	0.69
Legally required	2.09	2.70	1.29

SOURCE: U.S. Bureau of Labor Statistics. Unpublished data.

Unlike the private sector, the business model of government is ill-equipped to naturally stop union growth despite their drag on efficiency. As a natural and static monopoly the government does not exist in the same highly competitive and dynamic market as the private sector. In this monopolistic structure, taxpayers have no other options in the marketplace for governmental services. Because government lacks a direct profit motive, it only takes into consideration what a service costs when political pressure becomes overwhelming.

Unfortunately, asking a government that is largely composed of or elected by union members to cut public sector union pay has proven fruitless. Republicans have long tried and failed. Recently they've found an ironic ally--former labor union leaders.

This development is ironic, but not surprising. These leaders witnessed the decline of private sector unions firsthand. They understand that pushing for higher wages and benefits only helps their members to the extent that the company remains profitable. This same principle applies, albeit more slowly, to the public sector. The long-term health of public sector unions is dependant on their ability to be supported by a healthy and vibrant private sector. Pensions, benefits, and wages that overburden taxpayers trigger an unintended economic backlash that threatens their survival.

Stephen Sweeney, the president of the New Jersey State Senate and former top official for an ironworkers union, says, "I'm a labor leader, but I'm also elected to do right by all the people in the state of New Jersey, and not just union members." To survive, unions must break the tragic circle of their past mistakes and realize the interests of the people and union members are intertwined. Once a mutual benefit is realized, breaking the cycle might not seem like such a formidable task.