Unions—The Economic Reality

This article was written in response to Clive Crook's commentary, "A New Road for American Unionism," which appeared in *The Financial Times* on October 1, 2007. This article was submitted to *The Financial Times* but was not published.

With the recent saber rattling in Detroit between the major automobile manufacturers and the unions, union activity has once again been hailed as championing the rights of the workers. However, as circumstances have changed since unions were founded over a century ago, politicians, corporate bosses, economists, and union leaders fail to present the significant adverse impacts that unions have had on businesses, industries, and the economy.

Unions were originally founded to protect the workers and negotiate for safety improvements in what were often deplorable working conditions in mines and mills. However, many unions have evolved into powerful economic and political "machines." Whereas the pendulum originally swung in favour of management, over time the pendulum has swung too far in favour of the unions. Whilst the unions may well have had the best interests of the workers at heart, their quest for more financial gain has strayed from the fundamental values of unions' founders. The heavy handed demands for more pay, fewer redundancies, and increased legacy benefits have been at odds with management and the best interests of the shareholders. The threat of strikes or work stoppages that cripple business and industry in an effort to extort more money from the company could be considered economic terrorism. Management and shareholders are truly terrified of prolonged strikes' impact upon profitability, market share, and competitive position. Unions could, in all reality (and in the absence of an executive order to return to work), completely bankrupt a company if management were not to agree to substantial concessions.

Over the years, management has acquiesced to union demands for more generous compensation packages including healthcare and pensions. These legacy costs bankrupted the steel and textile industries in America by making them less competitive with foreign companies, whose labour costs were significantly lower, when market forces and globalization changed the dynamics of competition. But in addition, unions negotiated to prevent management from making large redundancies by forcing the creation of jobs banks—programmes whereby workers whose jobs have been eliminated report to cafeterias at the factory and are paid to sit idly, simply because they could not be

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made redundant as per agreement with the unions. These factors hardly add up to sound financial, economic, or business practice.

But rather than learn from the demise of the steel and textile industries, the auto and airline industry unions have pursued the same flawed policies that have made them less competitive and driven major airlines into bankruptcy over time. Shareholders in U.S. Air and Delta Airlines, for example, lost virtually all of their equity in the bankruptcy restructurings to the benefit of the workers. And the auto industry is still plagued by excessive legacy costs that have resulted in healthcare costs for retired workers costing more annually than the steel used to make the automobiles. This business model is unsustainable and economically disastrous. Ford and General Motors' shareholders have suffered for years with a languishing share price and are likely to experience more suffering in the future.

Many companies have passed off their exorbitant legacy costs to the Pension Benefit Guaranty Corporation (PBGC), the quasi-government entity that takes over pensions of bankrupt companies. Now, GM is pawning off its own legacy costs to a new trust that may well end up the largest shareholder in the company. This hardly seems an equitable deal for existing shareholders.

Have the unions been economically responsible? The steel and textile industries went under at the expense of hundreds of thousands of jobs. More jobs have been lost in the overall manufacturing sector and airline industry. U.S. production of vital raw materials has been substantially reduced, making us dependent upon foreign countries that may be at odds with us from time to time. Shareholders and debt holders have lost billions of dollars in their investments in doomed industries. Our economy has become less competitive overall with respect to manufacturing of all kinds. Taxpayers have been saddled with phantom liabilities associated with the PBGC and additional Medicare costs for retired workers whose healthcare programs were severely reduced when the companies went bankrupt.

Overall, unions have done tremendous damage to business and the economy by pursuing a policy of greed. Perhaps if unions were to return to a focus on protecting the safety of workers and not protecting jobs or benefits, workers would experience far greater long-term benefits.

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