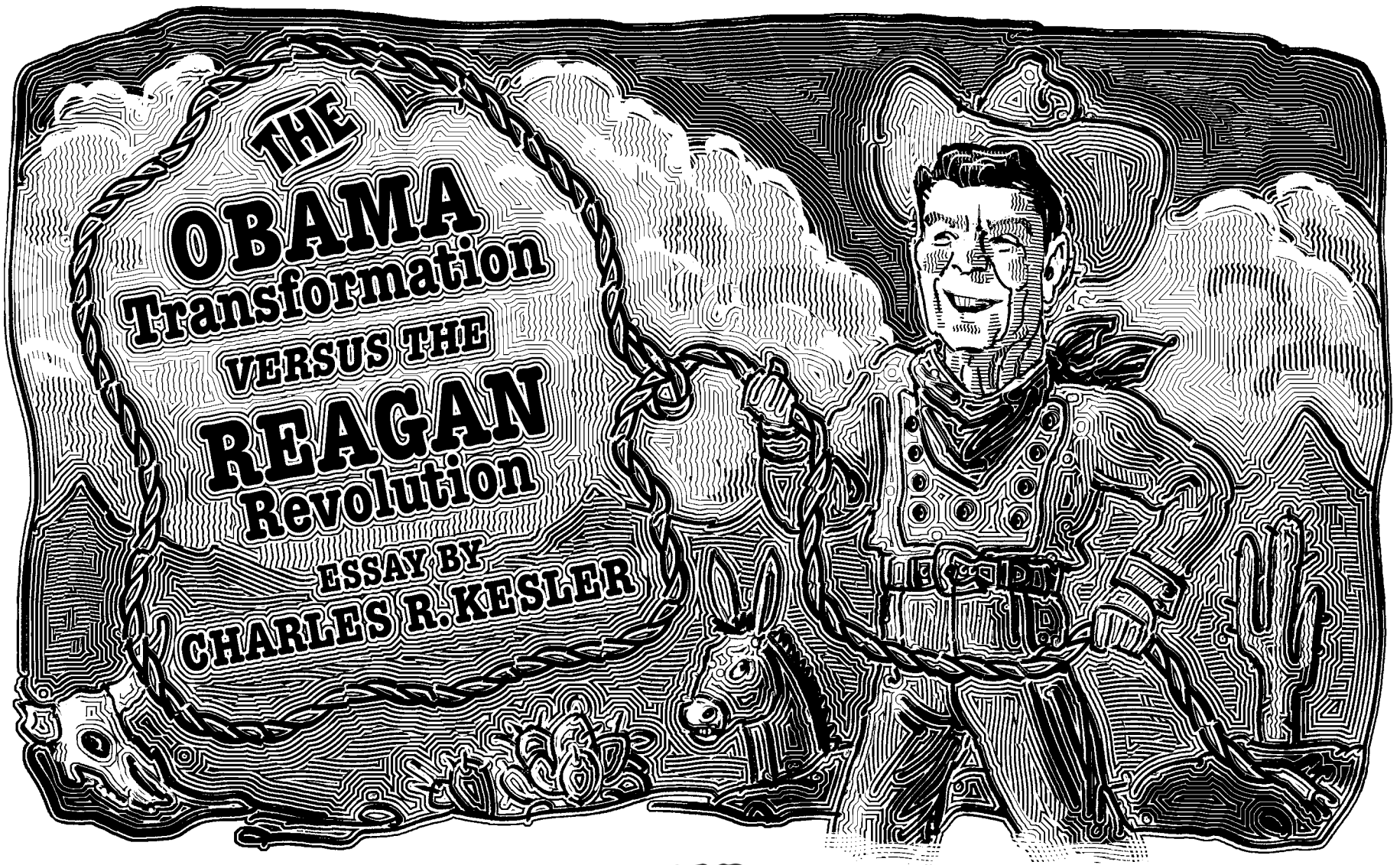


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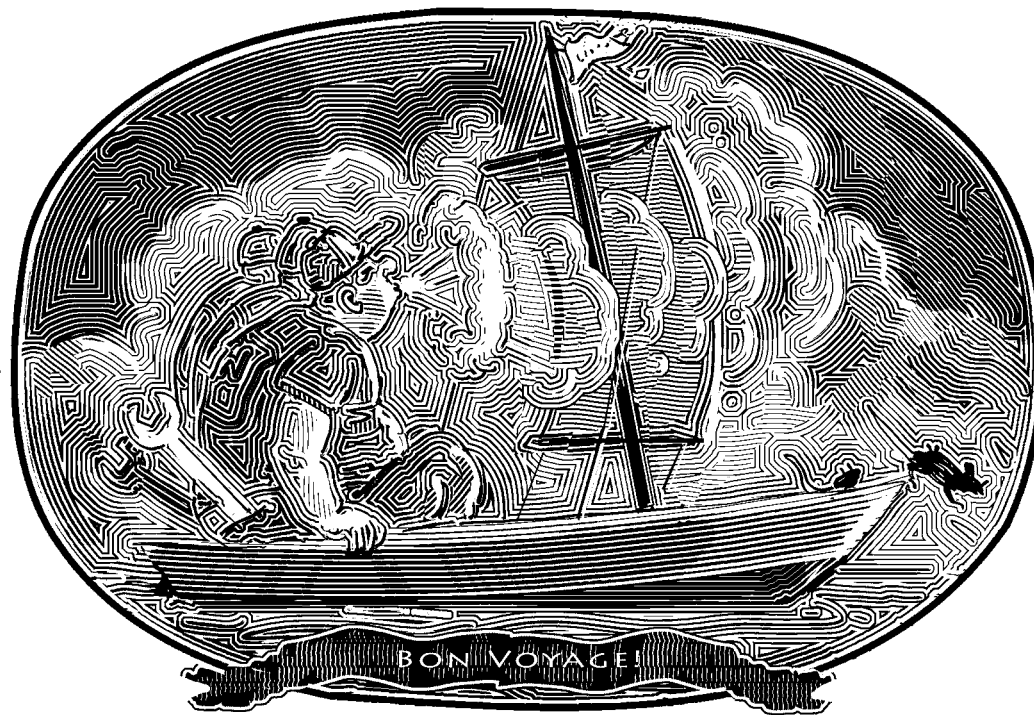
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Book Review by Diana Furchtgott-Roth

WHO NEEDS UNIONS?

Only One Thing Can Save Us: Why America Needs a New Kind of Labor Movement, by Thomas Geoghegan.
The New Press, 272 pages, \$25.95



IN ONLY ONE THING CAN SAVE US, LABOR lawyer Thomas Geoghegan argues that if we are to solve some of 21st-century America's most serious problems, many more of our workers must belong to labor unions. Though the book is witty and readable, its thesis will persuade no one who doesn't fully agree with it at the outset.

Geoghegan laments the steady, long-term decline in union membership. In 1983 (the earliest year with data comparable to today's), 20.1% of American workers belonged to unions. By 2014, 11.1% of them did. The startling contraction of *private-sector* unions has been the main cause of this decline: only 6.6% of private sector workers are unionized, compared to 35.7% in the public sector. As a result, 3 million fewer Americans belonged to a labor union last year than in 1983, even though 48 million more people were in the workforce.

At the same time, the United States has, according to Geoghegan, seen an increase in income inequality. He argues for a cause-and-effect relationship: robust, assertive unions would generate upward pressure on wages, which would benefit America's workers and the middle class, and eventually lead to an economic expansion driven by higher aggregate demand.

IT'S HIGHLY DOUBTFUL, HOWEVER, THAT Geoghegan has correctly diagnosed the disease he wants to cure. Growing inequality has many causes. They include the unintended consequences of policy changes, such as the 1986 tax reform, which led professionals and proprietors who had previously filed their taxes as corporations to re-categorize themselves as individuals, creating a statistically spurious increase in top-bracket incomes. Other causes are social trends that public policies cannot reverse or correct for: the movement of women into the labor force; the growing number of two-earner households highly represented in the top income quintile; delayed marriage; and divorce, more common than it was before the 1970s, and often resulting in the division of one higher-income household into two lower-income ones.

Moreover, Geoghegan's prescription has drawbacks and injustices. Unions operate as labor cartels, increasing wages for their members—and only their members—by raising employers' labor costs. These higher costs mean fewer job opportunities for all workers, union and non-union alike. Geoghegan, who represents union interests professionally, is clearly a committed advocate rather than a hired gun, but few economists share his belief

that unions raise living standards across an entire economy.

If labor cartels really were broadly beneficial, then Congress could just raise the minimum wage to \$25 or \$50 an hour, and the economy would magically flourish. But, of course, money has to come from somewhere. And if employers spend more on labor, they must spend less on everything else, leaving the overall economy no more prosperous than it was.

IT IS NOT NECESSARY TO CONDUCT thought experiments. Since 1947, when Congress enacted the Taft-Hartley Act over President Harry Truman's veto, the U.S. has conducted an actual experiment. The law allows states to enact "right-to-work" laws, which prohibit making union membership a condition of employment. Twenty-five states now have such laws; Indiana, Michigan, and Wisconsin enacted them within the past three years. If we compare right-to-work states (excluding those three) to others over the past five years, we find lower unemployment rates (by an average of four tenths of a percentage point) and higher rates of job creation (a 6.5% increase over the five-year period in right-to-work states compared to a 4.8% increase in the others).

When states pass right-to-work laws, they protect their residents from being forced to forego 2% to 4% of their paychecks in union dues, pay initiation fees of about \$50, and make contributions to frequently underfunded pension plans. Dues and initiation fees are often used to pay for political contributions: unions donated \$60 million in the 2014 campaign, almost all to Democrats.

IN ADDITION, RIGHT-TO-WORK LAWS MAKE it easier for states to attract businesses, because many companies prefer to locate in right-to-work states, believing that unions not only drive up costs but reduce productivity with baroque work rules and adversarial stances. Thus, Boeing chose to build its new Dreamliner aircraft by opening a new plant

in South Carolina, which is a right-to-work state, rather than expand existing plants in Washington, which isn't. Wisconsin, with its new law, is siphoning off business from Illinois. Toolmation Services, a manufacturer, announced earlier this year that it's moving a facility in Zion, Illinois, across the border to Kenosha, Wisconsin. Illinois now borders three right-to-work states: Indiana, Iowa, and Wisconsin. A fourth, Missouri, may join them. Its legislature passed a right-to-work bill this year that was vetoed by Governor Jay Nixon, a Democrat.

Unions have lost many high-profile elections because workers don't find membership to be a good value. Geoghegan writes that Volkswagen, actually trying to accommodate an organizing drive at the behest of

German unionists on its board of directors, "insisted on a majority vote" when the United Auto Workers sought to unionize a Chattanooga, Tennessee, plant. VW was required to bring the matter to a vote, and did it so quickly, within nine days, that employees scarcely had time to present an alternative case. VW did not allow any meetings to inform workers of the disadvantages of unionization—such as paying dues to support retired workers in Detroit. And still, workers rejected the union.

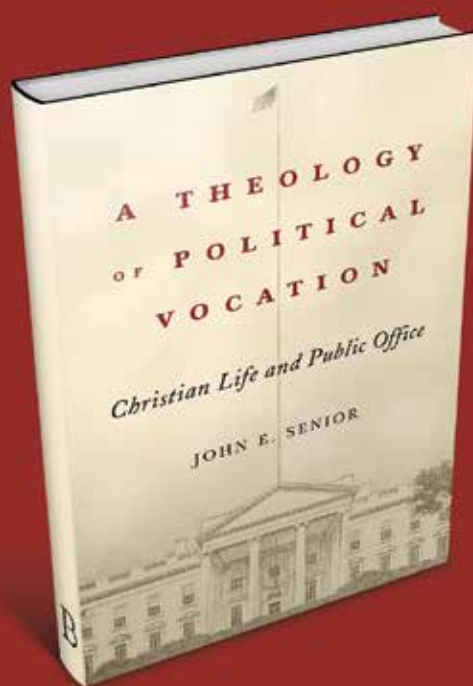
Geoghegan touts Germany's system as a model for the U.S. "[I]f the UAW won [the election for union representation], a German-type works council would be coming to America. And who would think that such an advanced model of worker power—if not worker control—would be starting in the heart of Dixie?" German works councils operate in parallel to unions, and consist of employee representatives who negotiate with management on the work environment and rules. However, U.S. labor law might not allow a union to delegate any of its duties to a works council. The TEAM Act, which would have allowed the formation of worker councils outside unions, was passed by the Republican-led House and Senate in 1996, but vetoed by President Bill Clinton under union pressure. The AFL-CIO said "this damaging and unnecessary piece of legislation would have given management the say-so over who speaks for workers on issues such as wages, hours and other terms and conditions of employment—an unfair infringement on employee rights." More to the point, it would have been an infringement on union prerogatives.

Despite the author's attraction to Germany, its GDP growth has been lower than America's in recent years. The German system might result in less income inequality, but economic growth lags.

GEOGHEGAN EXAGGERATES UNIONS' beneficial effects without mentioning the disadvantages of union dues and slower growth. Take welders, for instance. Geoghegan writes that "people start as a welder at \$17 an hour, and they stay at welder [sic] at \$17 an hour." If the welders were unionized, they would get raises, he contends.

But according to the Bureau of Labor Statistics, although the median pay for welders is \$17 an hour, those in the bottom 10% make an hourly wage of \$11, and those in the top 90% make \$25 per hour. Furthermore, wages for welders vary across the country and also rise for those with more experience. Welders in far western North Dakota (a right-to-work state) earn an average of \$23 an hour. If

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a welder in Rome, Georgia, wanted to earn more than an average of \$15 per hour, he could move to Mobile, Alabama, where the hourly pay is about \$21.

Referring to the 2014 Supreme Court decision *Harris v. Quinn*, in which Illinois personal care workers sued the government because they did *not* want to be part of the union, Geoghegan writes, “I feel terrible for the poor home health aides who lost their right to unionize like everyone else.” But Harris and others did not sign up to join the union, nor even get a vote on whether to be part of a union. They were just placed in the union through an executive order from former Illinois Governor Rod Blagojevich, now serving a 14-year jail sentence for corruption. The order was then voted into law by the Illinois legislature.

Unionizing through a governor’s executive order is far easier than campaigning for members and holding an election. Unions see these conscripted members as an exploitable resource that can fund benefits for the unions’ older legacy members and retirees. But for the Supreme Court’s decision, every personal assistant funded by Medicaid in Illinois—and perhaps many other states—would have been forced to join a union.

Although Geoghegan spins *Harris v. Quinn* as a victory for public sector workers who continue to belong to unions, the case is a disaster for unions such as the Service Employees International Union (SEIU) and the American Federation of State, County and Municipal Employees, which were hoping for millions of dollars in additional dues from coerced members. The SEIU had been receiving \$3.6 million a year in dues from home healthcare workers in Illinois, funds that will be hard to replace.

UNIONS ARE UNDER SEVERE FINANCIAL pressure from declining membership. Take the United Food and Commercial Workers (UFCW), whose membership fell by 8% from 2002 to 2013, even though private sector jobs increased by 5% over that time period. Unions are desperate because they need a steady flow of dues to pay salaries of union officials, to prop up failing union pension plans, and to fund political campaigns.

That is why the UFCW calls on Walmart to pay its workers a “living wage” of \$15 an hour, even though the UFCW’s entry-level unionized members are paid close to the current minimum wage, never reaching \$15 an hour. Even many senior unionized workers do not reach \$15 an hour. Meat or bakery clerks at Kroger supermarket’s union shop in Dayton, Ohio, for example, earn a maximum

rate of \$14.25 after more than five years on the job. Those with jobs at the salad bar, drug counter, or floral shop can earn a maximum of \$10.95 after gaining years of experience. The UFCW-negotiated hourly rates for grocery baggers or food demonstrators start at \$7.70 and are capped at \$8.25—barely half the \$15 advocated by the UFCW.

These wages are no secret. Walmart employees who might consider joining the UFCW can browse its helpful, easy-to-read handout for members in West Virginia, Kentucky, and Ohio. Three sample part-time workers will reach top earnings of \$11.40 an hour after eight years on the job. The sample full-time worker will reach a peak of \$14.51 after six years.

The UFCW treats its own employees far better than the workers it represents. Average total compensation for those employed by the UFCW, rather than represented by it, is \$90,907 a year. This income is almost six times what the union negotiated for cashiers at Kroger’s. UFCW president Joseph Hansen earns over \$350,000 a year—over 20 times the earnings of many of the workers he represents. Other top officers also make over \$300,000. Entry-level union workers making \$7.40 an hour help fund these salaries with dues from their paychecks.

ONE BENEFIT UFCW MEMBERS LACK is a good pension—and the UFCW has one of the worst records for negotiating fiscally sound pension plans. In 2014 the Labor Department informed the UFCW that seven of its pension plans had reached “critical status,” meaning they have less than 65% of the assets they need to pay the retirement benefits members have been promised. Some plans have been critically underfunded for more than five years. They are unlikely to be placed on a sound financial foundation unless the UFCW can perpetrate a pyramid scheme, convincing new members to join and pay dues without receiving benefits as generous as the ones they’ll be subsidizing.

Contrary to Thomas Geoghegan, workers are leaving unions because unions’ drawbacks exceed their advantages. Unions take money from workers’ paychecks but provide little in return. If there is one thing that will save workers it is economic growth, which unions do more to thwart than to encourage.

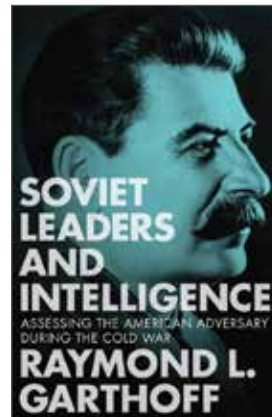
Diana Furchtgott-Roth, former chief economist of the U.S. Department of Labor, is director of Economics21 and a senior fellow of the Manhattan Institute for Policy Research. She is the co-author, with Jared Meyer, of Disinherited: How Washington Is Betraying America’s Young (Encounter Books).

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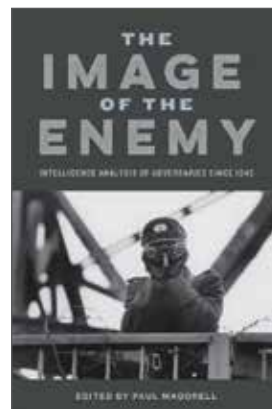
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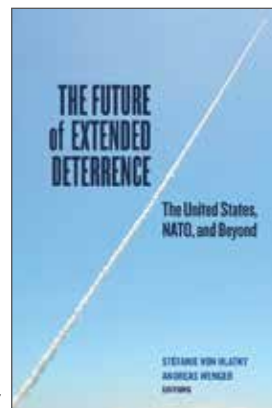
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