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# THE RISE OF GOVERNMENT UNIONS

*A review of public-sector unions and their impact on public policy*

BY: GEOFFREY LAWRENCE AND CAMERON BELT

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## Executive Summary

Unions in America are changing. In 2009, for the first time, a majority of union members were not workers in private industry, but in government.

Following decades in which the forces of increased economic dynamism and global competition led to lower union participation in the private sector, national union leaders began to recognize that government workers were not subject to the same constraints and would be a desirable target for unionization. By their nature, governments enjoy a protected monopoly on services within a given jurisdiction and almost never go out of business—in part because there are few limitations on their ability to increase revenue through taxation.

Large national unions—beginning with the American Federation of State, County, and Municipal Employees (AFSCME)—recognized that these key advantages could allow union leaders to maintain their membership base even in the face of declining private sector union density. Although prominent leaders within the union movement initially opposed unionizing government, AFSCME's success prompted them to change their position. Within several large unions, a new focus emerged on organizing government employees and pursuing legal changes that would facilitate this unionization.

In particular, union leaders pushed policymakers to pass laws that would *require* government employers to negotiate with unions and submit to a forcible dispute-resolution process that would guarantee a union contract. At the prodding of AFSCME, Wisconsin to become the first state to pass a statewide compulsory-bargaining law for government employees. Subsequently President Kennedy issued an executive order encouraging federal workers to unionize. Next, state lawmakers passed a wave of compulsory-bargaining laws, with 35 states enacting them by 1984. In 2009, for the first time in U.S. history, a majority of union members worked in government.

Despite highly-publicized efforts to curtail government union collective bargaining powers in Ohio and Wisconsin, almost all changes to government collective bargaining statutes over the past 20 years have increased, rather than decreased, the powers enjoyed by government unions.

In part, this has happened because government employers have very different incentives from private employers. Many elected officials primarily care about getting re-elected. Government unions donate heavily to political campaigns and can devote vast manpower to “get out the vote” activities. Many politicians have actively encouraged unionization of the government in order to boost their electoral prospects. They have also given government unions pay and staffing concessions they knew would strain public finances in order to secure their support.

This paper provides theoretical and historical background for our companion paper,<sup>1</sup> which uses three different advanced econometric to examine the extent to which collective bargaining in government increases the cost of state and local government. It concludes that mandatory collective bargaining statutes raise the *per capita* costs of state and local government by \$500 to \$750 annually. In total, state and local governments spent \$127 billion to \$164 billion more than they otherwise would have in 2014 due to these requirements.

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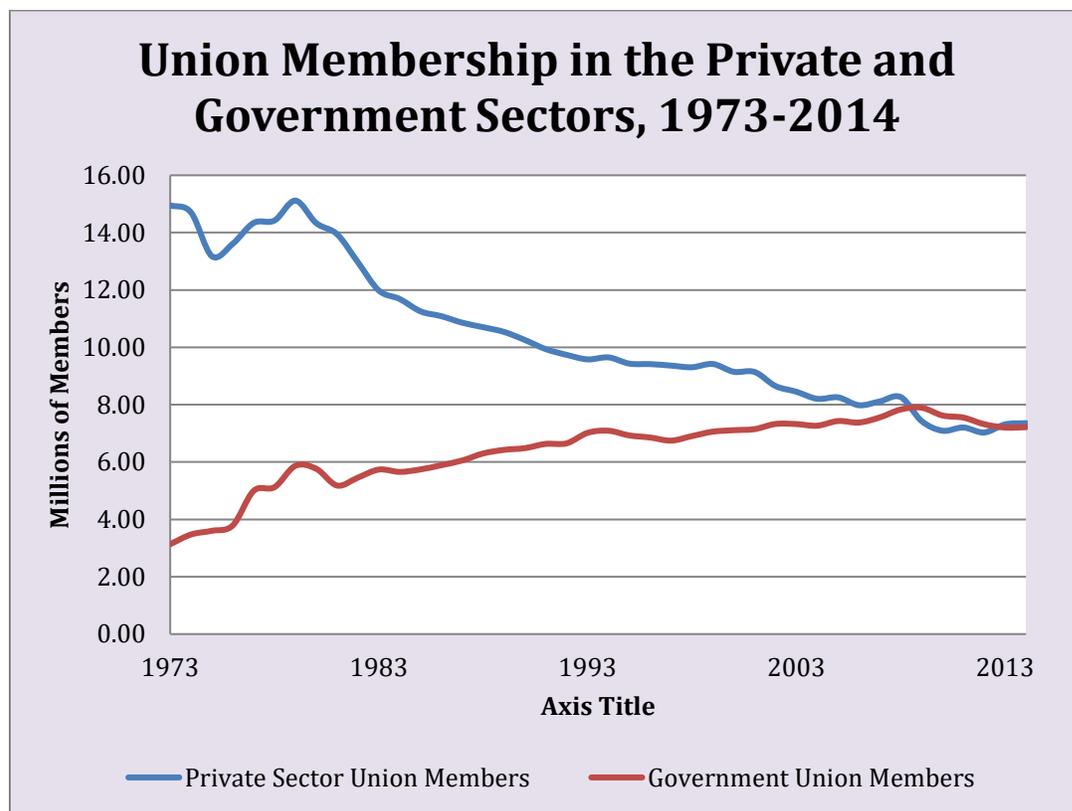
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## Introduction

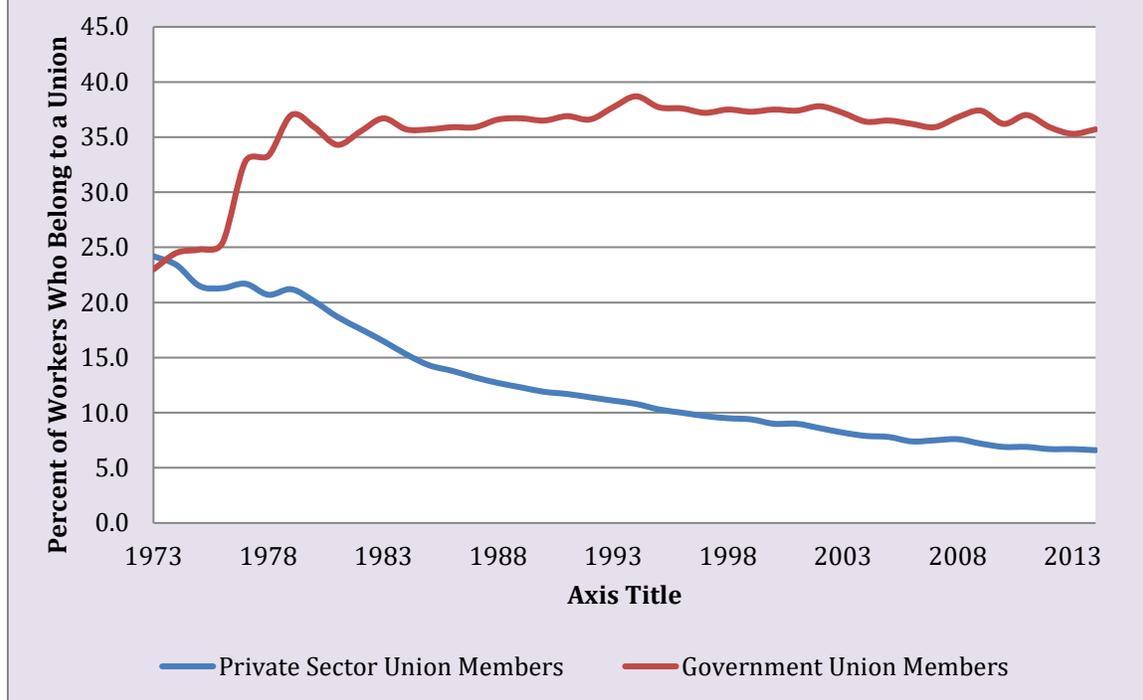
There was a time when the American labor movement was concentrated in factories, mills, shipyards, construction sites and other locales of private commerce. Today, however, roughly half of union members are no longer skilled tradesmen or factory workers, but government employees.

In 2009, for the first time, the number of unionized government workers began to exceed the raw number of unionized workers in the private sector, despite the fact that the private-sector workforce was about five times as large. As recovery from economic recession has proceeded in the time since, private-sector union membership has made only modest gains and government workers continue to comprise about half of all union members.<sup>2</sup>



This shift in the composition of union membership has reflected a decades-long decline in union participation among private-sector workers. Union participation rates for government employees, on the other hand, increased sharply throughout the 1970s and have remained stable at between 35 and 40 percent since the early 1980s.<sup>3</sup> The shift in union membership away from the private-sector and toward government has important implications for public policy.

## Union Participation Rates in the Private and Government Sectors, 1973 to 2014



Government unions are inherently different than private-sector unions for a number of reasons. They can act as political agents to help select their own bosses. Politicians often seek out this help and reward government unions for their electoral assistance — in terms of both higher compensation *and* higher staffing levels — even when they know it will strain public finances. This collusion between union operatives and enabling politician-employers differs markedly from the private sector, where employers have more of an incentive to oppose unionization, and workers more of an incentive to exercise prudence in their demands.

This collusion tends to corrupt American politics and undermine democratic accountability — an observation that prompted even early union advocates and Progressive thought leaders such as President Franklin Delano Roosevelt to actively oppose unionization of the government sector.

An obvious danger arising from this possibility of collusion between union operatives and their political employers is that it could add substantially to the cost of providing public services — a cost shared by all Americans in their capacity as taxpayers.

\* \* \*

This analysis begins with a conceptual overview of how unions behave as economic entities and then reviews the historical development of government-sector unions in America.

In our companion paper, we empirically examine spending data for state and local governments over the past six decades and compare that data to changes in collective bargaining laws for government unions.<sup>4</sup> According to which powers of compulsion they award to union leaders, these laws are coded according to a hierarchy developed for the *NBER Collective Bargaining Law Data Set*.

The analysis reveals a direct relationship between government unions' powers and the cost of state and local government operations. We estimate that states that extend mandatory collective bargaining powers to all state and employees spend \$500 to \$750 more per capita than states that do not. This raises the average cost of government by approximately \$2,000 to \$3,000 for a family of four.

## **What Is a Union?**

*[Unions] are the one institution where government has significantly failed in its first task, that of preventing coercion of men by other men and by coercion I do not mean primarily the coercion of employers but the coercion of workers by their fellow workers.*<sup>5</sup>

— Nobel laureate Friedrich Hayek

### ***Unions as Economic Entities***

To understand how unions impact economic conditions one must understand how they operate economically: unions function as a labor cartel. The term cartel, in this sense, is not meant to invoke images of drug lords controlling violent gangs, but is used as economists understand the term. Economic cartels restrict access to the good or service they produce so purchasers must pay higher prices. This enables the cartel's members to make more than they would in a competitive market. For example, the Organization of Petroleum Exporting Countries (OPEC) restricts oil production to increase oil prices.

Unions are labor cartels. They try to control the supply of labor in an industry in order to increase wages. Labor cartels have the same economic effect as other cartels—the monopoly providers (workers, in this case) benefit at the expense of the general public, which experiences a net welfare loss. For instance, if unionized automotive workers drive up their wages, then automakers may pass those costs onto consumers as higher automobile prices. Alternatively they may offset higher wage costs using less expensive, and perhaps lower quality, materials or production methods.

Whether through price increases or quality reductions, the consuming public experiences welfare losses directly proportional to the union's ability to command

higher wages. These public welfare losses slightly exceed the economic gains union members enjoy.<sup>6</sup>

Higher prices and lower quality tend to reduce sales—which reduces the need for workers. Similarly, entrepreneurs may offset higher labor costs by purchasing labor-saving technology. Consequently economists generally view unionization as implying a trade-off between higher compensation for union members and job opportunities in unionized firms.<sup>7</sup>

Union advocates sometimes argue that wage increases won by union leadership simply redistribute profits earned by a firm's owners to the firm's workers. In competitive industries, however, entrepreneurial profits are naturally limited by the continual entry and exit of new firms. High profits in a particular industry attract new entrants to the marketplace until the supply of the good or service in question satiates the demand, at which point the profit potential disappears.

Because the profit potential in any industry approaches zero over the medium term, it is unrealistic to presume that a union premium for labor could be entirely absorbed by a reduction in firm profits. The only sense in which this is possible is if the firm itself also benefits from monopolistic privilege as a result of government protection or other artificial barriers to competition. Examples might include the imposition of tariffs or import quotas against competing manufacturers or the provision of government financing to favored manufacturers. In these cases, an effective labor union can transfer the monopoly rents received by the firm through its political clout to the firm's workers. Yet even this structure, it must be noted, still implies a welfare loss for the consuming public, which must pay higher prices (or taxes) and face fewer available choices.

In fact, union leaders often *prefer* to deal with a single employer that enjoys governmental protections from competition. A protected monopoly makes inflated profits that unions can redistribute to their members. This dynamic explains, for example, why the United Steelworkers lobbied for high tariffs on imported steel in the 2000s.<sup>8</sup>

For the same reason government unions consistently oppose efforts to open government services to competition. Teacher unions have consistently opposed various forms of educational choice — such as public charter schools,<sup>9</sup> education savings accounts, or scholarship vouchers<sup>10</sup> — that break the monopoly of local school districts. Likewise, firefighter unions have opposed attempts to privatize emergency medical services so that municipal fire departments could maintain a monopoly on these services.<sup>11</sup> Similar stories could be told for other employee groups.

### ***Union Tactics: Limiting Competition from Nonunion Workers***

Union leaders offer a service to union members by building and consolidating a labor cartel to the point that the cartel gains leverage in wage negotiations. In exchange for these services, union leaders expect compensation from members through regular dues payments.

However, as with other cartels, a labor union's effectiveness erodes if it cannot control the supply of labor.<sup>12</sup> Workers who "break rank" and agree to employment terms other than those sought by union leadership compromise a union's ability to seek monopoly prices. To avert this possibility, union leaders often take extraordinary measures to ensure cartelization of the entire labor market for particular trades or industries and to restrict open access of employers to workers and vice versa.

In the 19<sup>th</sup> Century and early 20<sup>th</sup> Century unions often used intimidation and violence against non-union workers. Labor historians Philip Taft and Philip Ross found that union operatives most frequently aimed violence at replacement workers during strikes.<sup>13</sup> These replacement workers — who unions labeled "scabs" — threatened the union's monopoly over the labor market and undermined their negotiating position

For advocates, unions' aggressive and militant actions were excusable because they viewed unions as collectives whose interests were superior to the interests of any one individual. As such, the collective was to be awarded "rights" that superseded the rights of individuals. It's on these grounds that union leaders still lobby to secure special legal privileges and exemptions to criminal law that allow union operatives to cartelize labor markets by force, even if their actions directly threaten the safety and security of private individuals.

Though it remains a problem in places like Philadelphia, union violence has dropped significantly over the past century.<sup>14</sup> U.S. law now requires workers to participate in and employers to bargain with union cartels. Consequently most unions no longer need violence to keep nonunion workers out.

The National Labor Relations Act (NLRA) makes unions the "exclusive representatives" of all workers at a unionized facility. Once a union can demonstrate majority support at a company – generally through a secret ballot election – the law requires employers to bargain with the union over pay and working conditions. Moreover the employer may not negotiate with individual employees or hire them on terms other than those agreed to by the union.

Federal law now enforces unions' cartels. Employees cannot offer to work for different terms and conditions to get hired. The union terms apply to them, whether they agree to them or not. These legal powers of compulsion are a critical component of union strength. Union leaders can ensure their members receive monopoly wages if employers must purchase labor from the cartel.

### ***Union Tactics: Strikes and Arbitration***

Even when union leaders obtain exclusive representation, they often reach impasse in negotiations with employers. At this point they can encourage their members to collectively withhold their labor until the employer concedes— a “strike.” By depriving the employing firm of its labor supply, the union can halt production, endanger client relations, and threaten the long-term viability of the enterprise.

A strike, however, also hurts union members. They must temporarily forego their wages and benefits. Consequently union leaders have historically sought additional legal powers to force a settlement of disputes. Such powers include compelling employers to submit to mediation or binding arbitration.

Mediation is the less aggressive form of compulsory dispute settlement. It requires employers to attend hearings with mediators, but they do not have to follow their recommendations. (However, refusal to abide by a mediator’s recommendations could later be used as evidence in a legal proceeding that the employer has not collectively bargained “in good faith.”) Arbitration requires employers to accept a contract imposed by arbitrators. It guarantees union leaders a union contract.

Congress has rejected union efforts to impose binding arbitration on private sector employers. Many state legislatures, however, have imposed it on their local governments.

## **The History of Government Unions**

It’s impossible to tell the story of government unions without first detailing a brief history of private-sector unionism. While the two are very different, if it wasn’t for the growth of private-sector unions, America’s public sector likely never would have unionized at all.

### ***Growth of Private-Sector Unionism***

Throughout the late 19th century, the American economy grew increasingly specialized and sophisticated and successful businesses expanded rapidly.<sup>15</sup> Often referred to as the “Gilded Age,” American labor policy during this time, with few exceptions, might best be described as one governed purely by the freedom of contract. Individuals and entities had equal standing before the law and interactions between parties were voluntary.

Employers were free to contract with workers for their labor on mutually agreeable terms and to maintain this relationship over any time period of mutual consent. At the same time, employees were free to band together and create workers’ associations in efforts to accomplish goals the membership shared. The association itself possessed the same rights that inhered in every individual worker within the

association. Employers could either engage with these collective groups of workers and make changes until the workers were satisfied, or search out new workers to fill in for those who no longer saw the terms as beneficial.

By the turn of the 20th century, however, this labor paradigm began to be challenged by an emerging cultural zeitgeist that viewed the relationship of free association as asymmetrically favorable to employers at the expense of workers. The new paradigm eventually conquered, with passage of the first National Labor Relations Act, or “Wagner Act,” in 1935. This law empowered federal authorities to actively intervene in the employer-employee relationship to level the supposedly unequal contractual relationship between employers and workers.<sup>16</sup>

The Wagner Act awarded special legal privileges to organized unions not enjoyed by other legal entities or even by individuals in their capacity as American citizens. The Act granted powers of compulsion to the leadership of any federally recognized union that purported to represent a firm’s workers; recognized union leaders could now *force* any private-sector employer to negotiate “in good faith” toward collective bargaining agreements. No longer would the employer enjoy freedom of contract, in this respect, because the powers of compulsion granted to union leaders superseded the employer’s right to contract freely with individual workers.

The Wagner Act also defined and proscribed certain “unfair labor practices” and these proscriptions granted union leaders additional power.

Employers would no longer be able to insist that employees refuse to join labor unions as a condition of employment. Instead, employers could be forced to allow union representatives onto company premises for the explicit purpose of attempting to influence a majority of workers to allow representation by union bosses. In order to organize a new business, union representatives would need to influence a simple majority of workers to vote in favor of union representation in an election supervised by the newly formed National Labor Relations Board. Upon achieving this simple majority, *all* workers would be bound by the contractual terms imposed by union leadership and would be forced to surrender a portion of their earnings as dues to union bosses.

Employers were also prohibited from contributing financially to unions, as it was feared that employers could thus gain a controlling interest in union operations.

The Wagner Act remained unaltered until the passage of the Taft-Hartley Act in 1947. This amended the National Labor Relations Act to prohibit “closed-shop” contract provisions that restricted employers to hiring only from among an existing pool of union members. The Taft-Hartley Act went even further toward restoring a degree of contract freedom by also allowing individual states to pass “Right-to-Work” laws that would free workers of the requirement to join a union and pay dues as a condition of accepting employment.

The National Labor Relations Act would be amended again in 1959, by the Landrum-Griffith Act, which aimed to root out corruption among union leaders and violent compulsion of workers by instituting secret union elections and requiring unions to publicly disclose their finances.

### ***Progressive Opposition to Government Unions***

The breadth of the National Labor Relations Act, however, extended only to private-sector labor relations and, despite an early 20<sup>th</sup> century shift in public attitudes that favored greater power for union leaders, there remained sharp opposition to the unionization of government workers.

Early militant action had produced a national consensus unions did not belong in government. The Boston police strike in 1919 provoked widespread national outrage. Once the city's police went on strike, mass riots and looting immediately broke out.<sup>17</sup> Both then-Gov. Calvin Coolidge and President Woodrow Wilson spoke out against the strike. Wilson labeled it "an intolerable crime against civilization."<sup>18</sup> Gov. Coolidge took a hard line against the strikers, a popular stance that helped propel him to national office.

Even some of the most fervent progressive agitators opposed public-employee unionization on purely philosophical grounds, however. As a Supreme Court Justice in 1892, Oliver Wendell Holmes noted that it was inappropriate for government workers to seek to influence the policymaking process for their own benefit. In upholding a Massachusetts law that prohibited police officer associations from contributing money to political causes, Holmes suggested that government workers should seek alternative employment if they wanted to become active politically. "The petitioner may have a constitutional right to talk politics," Holmes reasoned, "but he has no constitutional right to be a policeman."<sup>19</sup>

Holmes' rationale suggested that public employment was intrinsically different than employment in the private sector and this sentiment was expressed by other early leaders of progressive thought as well. Chief among these was President Franklin Delano Roosevelt, who explained in a 1937 letter to the Federation of Federal Employees thusly:

All Government employees should realize that the process of collective bargaining, as usually understood, cannot be transplanted into public service. It has its distinct and insurmountable limitations when applied to public personnel management. The very nature and purposes of Government make it impossible for administrative officials to represent fully or to bind the employer in mutual discussions with Government employee organizations [because] the employer is the whole people.<sup>20</sup>

Roosevelt believed that government unions introduce an unelected and self-interested body into the policymaking process that undermines the democratic

sovereignty of the people.<sup>21</sup> In a democracy the voters' elected representatives must have final say over public policy.

National union leaders agreed. In 1955, AFL-CIO President George Meany said, "It is impossible to bargain collectively with the government."<sup>22</sup> Four years later, the AFL-CIO executive council passed a resolution declaring that, "In terms of accepted collective bargaining procedures, government workers have no right beyond the authority to petition Congress — a right available to every citizen."<sup>23</sup>

### ***A Changing World***

Despite such unambiguous opposition to public-sector unionism from among even the nation's most prominent union advocates, union membership among government workers grew from a mere 13 percent in the 1950s to nearly 40 percent by the early 1990s.<sup>24</sup>

What changed?

A central reason appears to have been a growing recognition among union leaders of the revenue potential from dues collections among government workers. As early as the late 1950s, private-sector union membership was on the decline and large, national unions began searching for new ways to sustain their existence.

Several factors contributed simultaneously to the decline in private-sector union membership. First, changes to the legal environment, via the Taft-Hartley and Landrum-Griffith Acts, had granted workers additional rights and protections vis-à-vis union bosses and empowered workers who did not wish to become unionized to more effectively resist unionization.

Second, an ongoing and concurrent transformation of the American economy separated private-sector unionism from its industrial base, as manufacturing began to give way to services and knowledge-based enterprises. This transformation was accompanied by an accelerated economic dynamism, with new businesses continually forming even as some older firms closed shop. Organizing new workers amid this increasing dynamism would prove challenging and costly for union leaders, since all new firms are born nonunion and at least a share of firms that close are unionized. Hence, the organizing efforts required just to maintain union membership proved too daunting for union leaders.<sup>25</sup>

Third, increasing mobility of capital and the elimination of trade barriers in the post-World War II era facilitated increased global competition and compromised the ability of unions operating only at a national level to maintain a cartel on what were increasingly international labor markets. Foreign workers willing to accept market wages were able to undercut the bargaining power of national labor unions and compromise their ability to secure monopoly wage rates. As a result, labor unions became less valuable to American workers.<sup>26</sup>

In contrast to the tumultuous private sector, government employees offered unique advantages to union leaders. First, government employment expanded rapidly in the post-war era. Between 1946 and 1962, the number of state and local government employees nearly doubled to 6.4 million.<sup>27</sup> Second, governments rarely, if ever, go out of business. Hence, most government workers only need to be organized once.<sup>28</sup> Third, large groups of government workers had already organized themselves into workers' associations. Union leaders realized they could easily assimilate these existing organizational structures.

### ***Government Unions Take Hold***

The American Federation of State, County, and Municipal Employees (AFSCME) was the first labor organization to explicitly acknowledge these points and to begin a systematic effort to bring compulsory collective bargaining to state and local governments. "Industrial unions seem to be at the end of a line...as more and more plants are automated," and craft union membership "is growing only slowly," the organization observed. "In public employment, however, there is an expanding reservoir of workers."<sup>29</sup>

AFSCME began as the Wisconsin State Administrative Employees Association in 1932. In 1936 it re-chartered itself with the new name and began working aggressively to secure collective bargaining agreements for government employees across Wisconsin. Despite lacking the legal power of compulsion, AFSCME reported that it had already secured 445 collective bargaining agreements with state and local governments by the late 1950s.<sup>30</sup> The organization also saw its membership grow from 5,355 in 1936 to more than 200,000 by 1956, largely by absorbing the members of existing employees' associations.<sup>31</sup>

By 1955, national union leaders began to recognize AFSCME's success and the AFL-CIO admitted it to its labor federation. This gave AFSCME a national platform to promote compulsory collective bargaining for state and local governments. AFSCME's first successes came at the municipal level, when Philadelphia granted compulsory bargaining powers to union officials in 1955. New York City followed suit in 1958, and in 1959 AFSCME secured passage of the first state-level compulsory bargaining law in its home state of Wisconsin.<sup>32</sup>

In 1962, President John F. Kennedy — fulfilling a campaign promise to the AFL-CIO — issued Executive Order 10988, which allowed federal workers to form unions and bargain collectively with federal agencies. This was a watershed moment. It made government unions mainstream and prompted state policymakers across the country to consider a wave of legislation to establish parallel collective-bargaining powers for state and local employee unions. Between 1959 and 1984, 35 states passed laws requiring government employers to bargain collectively with at least some groups of government employees.

These changes typically proceeded on a piecemeal basis, with union leaders successfully lobbying to get the legal powers of compulsion they desired over a period of years. As an example, Massachusetts lawmakers first passed legislation allowing employees of state and local governments to join unions in 1958. It was not until 1964, however, that union leaders were successful in prodding lawmakers there to require compulsory collective bargaining over working conditions. In 1965, the scope of compulsory bargaining was broadened to include wages. Union leaders, though, desired the power to coerce public employers to submit to agreement on items of dispute and, in 1974, got lawmakers to require a binding arbitration procedure to resolve impasses. Thus, over a period of 10 years, Massachusetts moved from having no legal provisions for collective bargaining in the government sector to compulsory bargaining with a coercive resolution process guaranteeing union contracts.<sup>33</sup>

These new legal privileges led to a rapid increase in union membership among government employees. Union participation rates in the government nearly tripled in less than 20 years, rising from about 13 percent in 1960<sup>34</sup> to 37 percent by 1979.<sup>35</sup>

### ***The New Face of Unions***

Organizing government employees proved a prescient strategy for union leaders. Private-sector union participation has declined continuously for five decades. Between 1983 and 2005, unions organized less than 0.2 percent of the private, nonunion workforce annually – membership gains far smaller than annual job losses at unionized companies.<sup>36</sup> Government unions have remained strong precisely because their members do not face these competitive pressures.

Today, large national unions such as the Service Employees' International Union (SEIU), which originally represented only private-sector workers, have adopted the AFSCME strategy and now represent primarily government employees. In 1977, three private-sector union members existed for every government union member.<sup>37</sup> Today that ratio is roughly one-to-one.<sup>38</sup>

## **How Government Unions Influence Public Policy**

Government unions differ in many ways from their private-sector counterparts. It is easier to organize government because it faces little competition.<sup>39</sup> This lack of competition makes it easier for unions to charge taxpayers monopoly prices.<sup>40</sup> But government unions are also unique in that they can act as political agents to select the superiors with whom they will negotiate. As the head of New York City's AFSCME chapter famously stated, "We have the power, in a sense, to elect our own boss."<sup>41</sup>

### ***Electoral Influence***

Government unions have a massive influence on American political campaigns. They donate heavily to politicians they support, their operatives volunteer on behalf of those campaigns, and their leaders encourage their members to vote as a bloc in favor of union-endorsed candidates.

These factors make a large difference. The Center for Responsive Politics reports that the second largest donor to political campaigns nationwide since 1989 is AFSCME. The fourth largest donor is the National Education Association. SEIU is the 10<sup>th</sup> largest donor. These figures don't reflect additional, outside spending through political action groups and other organizations that unions also use to influence elections.<sup>42</sup>

Research also shows government unions maximize their influence as a voting bloc by getting their members to vote more regularly than other citizens. In the 1996 presidential election, government employees had a turnout rate 12 percent higher than other citizens.<sup>43</sup>

This difference grows even starker in local elections of direct interest to union occupational groups. Stanford professor Terry Moe examined the voting records and residency patterns of teachers regarding school board and bond issue elections in California over the years 1998 to 2001. He found that teachers who live in their districts were *two to seven times* more likely to vote on these issues than other citizens and, because school districts employ so many people, the turnout difference alone was enough to swing many elections. Moe's statistical calculations over 245 school district elections show that endorsement by the local teachers union is the single most influential factor in the outcome of these elections — even more so than incumbency. In other words, when union leaders endorse a challenger, that candidate instantly becomes favored (on average) to unseat the incumbent.<sup>44</sup>

Moe concludes that government unions are likely to have the biggest impact in local, low-turnout, low-information elections because their organizational power produces the greatest advantage in these elections.\* He says:

As a rule, the power of public sector unions tends to be greater the lower the level of government. For as governments in the United States get closer to where the bureaucrats in those governments live, the numbers and resources of bureaucrats become more politically effective and their interests more coherent; public workers are more likely to be unionized; and there is likely to be less competition from organized competitors... State and local governments — which employ 87% of the nation's public workers and either formulate or carry out most of the nation's public policies — are the arenas where public sector unions probably have the greatest impact.<sup>45</sup>

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\* Moe's findings should call into question the oft-repeated mantra that "the government closest to the people governs best."

## ***Politician-Employers***

Politicians have taken careful note of government unions' ability to influence elections. Many politicians actively seek union political support. Some politicians have shown a willingness to promise compensation levels for government workers they know will strain public finances in exchange for union help in getting elected.

Accordingly, observe labor economists Jeffrey Zax of Queens College and Casey Ichniowski of Columbia University, "The political objectives of government officials and of public employees may often be in concert rather than in conflict."<sup>46</sup> Harvard professor Richard Freeman suggests that this alignment of interests between government unions and their politician-employers is a major reason for the rapid growth of unions in government.<sup>47</sup> Instead of resisting union demands, politician-employers have a keen interest in *encouraging* unionization among government employees because they can use government unions as political machines to secure election.

William Hunter and Carol Rankin, labor economists from Marquette and Xavier Universities, further explain:

Public employees are compensated for providing two sets of services: public services and political services. Public services are those activities that the public expects to be provided as given in the public sector employees' job description... Political services are tasks provided by public employees to aid politicians in securing elections or lobbying higher levels of government. Political services include public endorsement of candidates, providing funds or manpower for particular elections, aid in "getting out the vote," and so forth.

Nevada's fiscally distressed City of North Las Vegas provides an interesting example of government unions acting to select politicians who will cater to their demands and of politicians, in turn, seeking out this union support.

Leading up to the 2011 city council election city police and fire unions lobbied for higher city property taxes to sustain their well above-average compensation packages. This happened after a steering committee formed to help the city avert bankruptcy advised that it would be "very unfair to saddle the public, struggling right now, with fee or tax increases to sustain salaries that are double, triple what their household incomes are."<sup>48</sup>

In fact, public records indicate that only 10 percent of the city's firefighters and 25 percent of the city's police force actually lived within city limits, so the unions were asking the city council to levy taxes that most members would not pay.<sup>49</sup> Union operatives went so far as to erect signs around the city warning "We can no longer guarantee your safety," in an effort to secure community acquiescence to the tax

proposal.<sup>50</sup> But the union still faced a problem: Councilman Richard Cherchio was disinclined to raise city property taxes and instead demanded the unions make concessions in their collective bargaining agreements or face layoffs.

Union officials responded by circulating fliers that made false claims about Cherchio's record as a councilman, including that he had caused the city's crime rate to spike 50 percent.<sup>51</sup> Union officials also flouted state election laws: exceeding donation limits to Cherchio's union-backed opponent and failing to file financial disclosure reports on time.<sup>52</sup> Cherchio's opponent, Wade Wagner, welcomed the union support — in addition to the on-the-ground support, more than half of Wagner's campaign contributions came from union sources. In the end, the unions prevailed and Wagner won the election by a single vote.

Cherchio summed up the unions' impact on city elections: "It really comes down to control. It doesn't matter who you are. Anybody who says no to them winds up being a target."

### ***Fiscal Illusion***

As Hunter and Rankin suggest, when government unions take such overt actions to control the outcomes of elections, they expect compensation for their "political services." However, as Hunter and Rankin explain "the public has little interest in paying for political services... and thus politicians must make this compensation in a way that would not arouse public scrutiny."<sup>53</sup>

Politicians can accomplish this by rewarding unions with multiple unique pay categories to supplement base wages or salaries. For example many government unions negotiate premium pay, allowances and other categories such as "longevity pay" generally foreign to the private sector. In addition, politicians reward unions with generous deferred-compensation packages including pension and health benefits for retirees. The complex accounting behind these perks makes it difficult for the public to easily understand the full cost of what politicians and unions have agreed to. Additionally, in the case of deferred-compensation packages, the full cost usually does not encumber public finances until long after the politicians leave office.

George Mason University research fellow Eileen Norcross refers to these practices as "fiscal illusion" because unions and politicians use them to intentionally obscure the public's understanding of government compensation.<sup>54</sup> Thom Reilly, former manager of Nevada's Clark County — home to North Las Vegas — concurs in his book, *Rethinking Public Sector Compensation*:

Shortsighted politicians, union officials, and public managers have chosen to provide compensation via deferred benefits because it is less transparent and because the cost can be spread out over time.<sup>55</sup>

Empirical evidence shows that government unions increase the cost of benefits far more rapidly than they increase base rates of pay. The University of California - Berkeley's Sarah Anzia and Stanford's Terry Moe examined municipal spending on wages and benefits for police and firefighters nationwide between 1992 and 2010. They found that municipal fire departments with collective bargaining pay wages about 9 percent higher than those without collective bargaining. They also pay 25 percent more for per employee for health, dental, disability and life insurance benefits. For police, the findings were similar — municipal departments with collective bargaining paid 10 percent more in wages, but 21 percent more for benefits than the typical city without collective bargaining.<sup>56</sup> These results were comparable to earlier studies by Feuille, Hendricks and Delaney that found unionized police departments paid 5 to 11 percent more in wages, but 20 to 30 percent more in benefits.<sup>57</sup>

### ***Lobbying***

Government unions differ from their private-sector counterparts not only in their ability to select their own bosses, but also how they can use lobbying to achieve their goals. As Princeton economist Henry Farber notes:

Aside from broad lobbying activities that can affect public policy, private sector unions do not play a political role that affects the wages and other benefits of members in any direct fashion. Unions in the public sector have additional incentives and functions. In particular, the payoff to unions in the public sector of involving themselves in the political process can be substantial. Allocation of funds that can be used to pay public employees is in the hands of local and state government officials.<sup>58</sup>

Consequently government unions devote significant time and resources after the election to lobbying politicians to increase their departments' budgets and staffing levels.

This is another unique advantage that government unions enjoy: They can increase the demand for their services through effective lobbying. Most economists agree that private-sector unions face a tradeoff between higher wages and fewer jobs. Because the government has no competitors government unions can increase the demand for government employment — securing both higher wages and greater employment simultaneously.

Bradley University economist Kevin O'Brien has examined this practice in detail and confirmed that the lobbying efforts of government unions increase government employment. O'Brien examined data for municipal police and fire departments nationwide and found that departments with collective bargaining agreements paid 13 to 14 percent higher wages but that lower employment offset the higher wages, leaving total spending unchanged — consistent with standard economic theory.

When these unions engaged in lobbying, however, staffing levels increased, resulting in greater department spending.<sup>59</sup>

O'Brien obtained data on seven different types of political activities engaged in by unions and used this data to isolate the effects of collective bargaining alone from the effects of unions' political activism. He found that increases in department spending are entirely attributable to unions' political activities and not to the collective bargaining process itself, although collective bargaining was a necessary precursor. He concludes:

It appears that if a public employee union wants to increase its employment and wage bill, having a collective bargaining agreement is not sufficient — public employee unions must also be politically active... Thus, political activities by unions can be viewed simply as a means to escape the wage-employment trade-off imposed on bargaining outcomes by the demand for labor.<sup>60</sup>

O'Brien further distinguished between political activities designed to influence politicians and those designed to appeal to the public directly, such as publicity campaigns or referendums. He found that political activities aimed at politicians had a greater success rate for unions than those aimed at the public directly and suggests that politicians are "less resistant to measures that increase expenditures." Consequently, efforts to persuade politicians are also more popular among union leaders, with state-level lobbying the most prevalent form of political activism.<sup>61</sup>

Zax and Ichniowski note that union leaders can avoid the trade-off between higher wages and fewer workers by pressing for higher wages and benefits through collective bargaining but also pressing for legislative or voter mandates specifying minimum staffing requirements so the government must hire more workers.<sup>62</sup> Union leaders have successfully obtained minimum staffing requirements through both legislative mandates and voter referenda.

In the mid-1990s, the California Teachers' Association launched a \$2 million media campaign designed to mobilize support for the state legislature to allocate new funding for a class-size reduction program that would reduce the student-teacher ratio in kindergarten through third grade. The union's efforts prompted lawmakers in 1996 to allocate \$1 billion to hire 30,000 new teachers (who were required by state law to pay union dues). The episode dramatically expanded the size and power of this government union, although a Rand Corporation study found no significant improvement among students who wound up in the smaller classes.<sup>63</sup>

The California experiment with class-size reduction mandates mirrored a similar program passed in neighboring Nevada five years earlier. Between 1991 and 2013, Nevada taxpayers spent a cumulative \$2.21 billion hiring additional teachers to comply with the class-size reduction mandates. However, the state's own data shows that students in *larger* classes have outperformed students in the classes of

reduced size.<sup>64</sup> According to research from Stanford education scholar Eric Hanushek, these results should be expected, because the “evidence uniformly indicates no consistent improvements in achievement with class size reduction. This evidence comes from very different sources and methodologies, making the consistence of results quite striking.”<sup>65</sup>

Although education union leaders have argued that class-size mandates are intended to benefit children, the consistent lack of visible achievement gains among students who participate in these programs suggests that union leaders primarily push them to boost union membership and dues revenues. If so, class-size reduction mandates have been remarkably effective.

### ***Taxing Power***

A key reason that government unions enjoy so much leverage relative to their private-sector counterparts is that governments wield the power of compulsion over taxpaying citizens. In the private sector, the ultimate check on union power is the fact that transactions are voluntary and consumers are only willing to spend so much for a given good or service. In the government realm, however, taxpayers can be *coerced* into financing an expanding workforce with above-market compensation.

Of course, there are limits to this coercion. Freeman notes that voters demand some level of fiscal discipline from policymakers and occasionally stage taxpayer revolts that limit the power of government unions.<sup>66</sup> A landmark 1978 voter initiative in California — Proposition 13 — is often cited as an example. The initiative amended the state constitution to limit annual property taxes to no more than one percent of a parcel’s full cash value. Taxpayer revolts, however, are both sporadic and infrequent. They do not, therefore, constitute a meaningful counter-balance to the ongoing efforts of government unions to grow public spending.

Freeman also notes that, although local governments exercise a monopoly on public services within their jurisdiction, residents can and do move in and out of jurisdictions based on their preference for tax rates versus the level and quality of public services. Thus, the competition for residents forces policymakers to exercise some degree of fiscal discipline.<sup>67</sup> Zax and Ichniowski counter, however, that this form of competition is imperfect because individuals make residency decisions based on factors other than taxation alone. In addition, inter-jurisdictional competition suffers from time lags because the decision to relocate normally occurs sometime after changes in tax policy and so government spending levels at any point in time are unlikely to perfectly reflect residents’ preferences.<sup>68</sup>

A more fundamental problem, however, handicaps the ability of residents to control spending on government unions: As noted earlier, politicians tend to insulate themselves from voter outrage by compensating government workers through complex formulas and deferred-compensation schemes that obscure residents’ ability to clearly understand how much government workers are paid. Pay structure

is not the only complexity that obscures public understanding, either. As Norcross points out:

Governments may resort to debt finance, spending deferrals, or intergovernmental aid, thus enabling the government to increase employment and wages (either current or deferred) for union workers while concealing the true cost to voters. That is, the spending limit, or budgetary constraint under which governments operate may be evaded by resorting to accounting techniques or fiscal illusion. Fiscal illusion occurs when the methods government uses to finance spending cause taxpayers to perceive spending as less costly than it actually is. Examples include an overly complex revenue system, debt finance, and income tax withholding.<sup>69</sup>

These realities limit the ability of residents to effectively discipline politicians who do not exercise the residents' desired level of fiscal restraint. The result is that the taxing power unquestionably benefits government unions who are able to coerce residents into paying monopoly wages for public services while concealing the true cost from taxpayers. As Thomas DiLorenzo, Loyola University Maryland economics professor, puts it, "Government employee unions effectively [transfer] the power to tax from voters to the unions."<sup>70</sup>

## **How do Government Unions Affect Government Spending?**

If government unions can increase government compensation while increasing government employment, it follows that unionizing government should increase government spending. Scholars have spent decades trying to answer just how much unions increase government spending.

In doing so it has become clear that government unions' leverage is closely tied to the strength of their legal powers of compulsion. In other words, union leaders increase compensation and staffing levels in government the most when the law requires government employers to negotiate with them and to submit to a compulsory dispute-resolution process.

### ***The Legal Environment***

For this reason, researchers quickly realized they would need to evaluate the degree to which state collective bargaining laws empower government unions. That allowed scholars to then estimate how changes in the law affected key outcomes — such as union density, government compensation and employment levels, or total government expenditures.

Along with UC-Irvine economics professor Robert Valletta, Harvard economist Richard Freeman took on this task as Director of Labor Studies for the National Bureau of Economic Research (NBER) in 1988, to construct the *NBER Collective*

*Bargaining Law Dataset*.<sup>71</sup> The dataset extends back to 1955 so researchers can measure changes in the law over time. In addition, the dataset maintains a coding unique to each of five different employee groups: state workers, local schoolteachers, local police, local firefighters, and other local employees.

In our companion paper, we update this dataset through 2011 and perform three types of econometric analyses to measure the extent to which changes in state collective bargaining laws impact total spending by state and local governments. Depending on the method of analysis, we conclude that mandatory collective bargaining increases the annual *per capita* costs of government by \$500 to \$750. For a four-person household, that amounts to \$2,000 to \$3,000 annually.

## Conclusion

Many—but not all—American states have given unions considerable power over government employees and government operations. Government unions can frequently force workers to accept their representation, require state and local governments to bargain with them, and prevent non-union workers from working for terms outside the union contract. These powers enable unions to increase compensation for government employees.

Private sector unions face a trade-off between higher wages and fewer jobs for their members. Studies find that government unions avoid this tradeoff through political activism. Their lobbying and political activities raise the demand for government services overall – enabling them to raise government pay without reducing government employment.

Nationwide, states' decisions to give government unions collective bargaining powers have inflated spending by state and local governments and imposed a significant fiscal burden on taxpayers. Our results indicate that somewhere between \$127 billion and \$164 billion in 2014 spending by these governments is attributable to public-sector collective bargaining rules, with these additional costs concentrated among the states that award the most aggressive powers to unions.

## Endnotes

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<sup>3</sup> *Ibid.*

<sup>4</sup> The comparison utilizes a fixed-effects time-series approach. See page 29.

<sup>5</sup> Friedrich A. Hayek, "Unions, Inflation, and Profits," In *The Public Stake in Union Power*, Philip D. Bradley (Ed.), University of Virginia Press (1959).

<sup>6</sup> George Borjas, *Labor Economics*, 3rd ed. (Columbus, OH: McGraw-Hill, 2005), pp. 413–415.

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<sup>7</sup> See, e.g., Richard Freeman, "Unionism Comes to the Public Sector," NBER Working Paper No. 1452, September 1984.

<sup>8</sup> James P. Miller, "U.S. trade panel ends steel tariff," *Chicago Tribune*, December 15, 2006, [http://articles.chicagotribune.com/2006-12-15/business/0612150164\\_1\\_domestic-steel-steel-industry-carbon-steel](http://articles.chicagotribune.com/2006-12-15/business/0612150164_1_domestic-steel-steel-industry-carbon-steel).

<sup>9</sup> Jay P. Greene, "The Union War on Charter Schools," *The Wall Street Journal*, April 16, 2009, <http://online.wsj.com/news/articles/SB123985052084823887>.

<sup>10</sup> National Education Association, "NEA on Vouchers: Opposed," NEA website, <http://www.nea.org/home/19267.htm>.

<sup>11</sup> See, e.g., "Firefighter unions criticize EMT service," *Las Vegas Review-Journal*, October 4, 2010, <http://www.reviewjournal.com/news/firefighter-unions-criticize-emt-service>.

<sup>12</sup> Most readers are familiar with the Organization of Petroleum Exporting Countries as an example of a cartel, for instance. See, e.g., Dan Well, "If OPEC is a cartel, why isn't it illegal?" *Newsmax*, November 25, 2007, <http://www.newsmax.com/Newsfront/opec-cartel-illegal/2009/12/12/id/341497/>.

<sup>13</sup> Philip Taft and Philip Ross, "American Labor Violence: Its Causes, Character, and Outcome," *The History of Violence in America: A Report to the National Commission on the Causes and Prevention of Violence*, (Ed.) High Davis Graham and Ted Robert Gurr, 1969.

<sup>14</sup> Jeremy Roebuck and Joseph A. Slobodzian, "Federal jury convicts Ironworkers boss in racketeering trial," *Philadelphia Inquirer*, January 22nd, 2015 at [http://articles.philly.com/2015-01-22/news/58310910\\_1\\_2012-arson-goldtex-apartments-racketeering](http://articles.philly.com/2015-01-22/news/58310910_1_2012-arson-goldtex-apartments-racketeering)

<sup>15</sup> For a detailed account of this transformation, see Robert Higgs, *Transformation of the American Economy, 1865-1914*, 1971, John Wiley & Sons, Inc., Reprinted: 2011, Ludwig von Mises Institute, Auburn, AL, [http://mises.org/books/transformation\\_of\\_american\\_economy\\_higgs\\_web.pdf](http://mises.org/books/transformation_of_american_economy_higgs_web.pdf).

<sup>16</sup> Sylvester Petro provides a detailed historical account of labor relations in the United States in *The Labor Policy of the Free Society*, The Ronald Press Company (1957), Reprinted: The Ludwig von Mises Institute (Auburn, AL: 2007).

<sup>17</sup> Joseph Slater, *Public Workers: Government Employee Unions, the Law and the State, 1900-1962* (Cornell University Press, 2004), pp. 13-14.

<sup>18</sup> Speech, September 11, 1919, in *Papers of Woodrow Wilson*, (Ed.) Arthur S. Link, (Princeton University Press: 1966-94), Vol. 53, p. 196.

<sup>19</sup> John J. McAuliffe vs. Mayor and Board of Aldermen of New Bedford, 155 Mass. 216 (1892), p. 220.

<sup>20</sup> Franklin Delano Roosevelt, Letter to Luther Steward, August 16, 1937, In *The Public Papers and Addresses of Franklin D. Roosevelt*, Compiled by Samuel I Rosenman, Macmillan and Harper (New York: 1938-50), Vol. 6, p. 325.

<sup>21</sup> Eileen Norcross, "Public-Sector Unionism: A Review," Mercatus Center Working Paper No. 11-26, May 2011, <http://mercatus.org/publication/public-sector-unionism-review>

<sup>22</sup> Leo Kramer, *Labor's Paradox: The American Federation of State, County and Municipal Employees*, AFL-CIO (Wiley, 1962), p. 41.

<sup>23</sup> Jack Stieber, *Public Employee Unionism: Structure, Growth Policy*, Washington, D.C.: The Brookings Institution, 1973, p. 117.

<sup>24</sup> *Op cit.*, Slater, note 17.

<sup>25</sup> Henry Farber and Bruce Western, "Round Up the Usual Suspects: the Decline of Unions in the Private Sector, 1973-1998," Working Paper #437, Princeton University, Industrial Relations Section, April 2000.

<sup>26</sup> *Ibid.*

<sup>27</sup> *Op cit.*, Slater, note 17, p. 161.

<sup>28</sup> Notable reforms passed in Wisconsin in 2011, however, require unions representing state and local employees, except for those in public safety occupations, to recertify each year through a supervised election. Parallel reforms were passed in Ohio later that year, but were subsequently overturned by a union-supported ballot initiative.

<sup>29</sup> *Op cit.*, Slater, note 17, p. 161, As quoted in Norcross, note 24, p. 5.

<sup>30</sup> *Op cit.*, Slater, note 17, p. 163

<sup>31</sup> *Op cit.*, Slater, note 17, p. 164

<sup>32</sup> *Op cit.*, Slater, note 17, p. 165

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- <sup>33</sup> *Op cit.*, Freeman, note 7, pp. 10-12.
- <sup>34</sup> *Op cit.*, Slater, note 17, p.1.
- <sup>35</sup> *Op cit.*, Hirsch and Macpherson, note 2.
- <sup>36</sup> Henry Farber, "Union Membership in the United States: The Divergence between the Public and Private Sectors," Working Paper #503, Princeton University, Industrial Relations Section, September 2005, p. 7.
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- <sup>38</sup> *Ibid.*
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- <sup>47</sup> *Op cit.*, Freeman, note 7.
- <sup>48</sup> Lynette Curtis, "Worker wages, benefits 'unsustainable,' panel tells NLV City Council," *Las Vegas Review-Journal*, October 7, 2010, <http://www.lvrj.com/news/worker-wages--benefits--unsustainable---panel-tells-nlv-city-council-104474849.html>.
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- <sup>51</sup> Delen Goldberg, "Unions target incumbent Richard Cherchio in NLV council race," *Las Vegas Sun*, May 28, 2011, <http://www.lasvegassun.com/news/2011/may/28/unions-speaking-loud-nlv-race/>.
- <sup>52</sup> *Ibid.*
- <sup>53</sup> *Op cit.*, Hunter and Rankin, note 40, p. 31.
- <sup>54</sup> Eileen Norcross, "Fiscal Evasion in State Budgeting," Mercatus Center Working Paper No. 10-39, July 2010, <http://mercatus.org/publication/fiscal-evasion-state-budgeting>; see also, Eileen Norcross, "Public-Sector Unionism: A Review," Mercatus Center Working Paper No. 11-26, May 2011, <http://mercatus.org/publication/public-sector-unionism-review>.
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- <sup>60</sup> *Ibid.*
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<sup>62</sup> *Op cit.*, Zax and Ichniowski, note 46.

<sup>63</sup> Steven Malanga, *Shakedown: The Continuing Conspiracy Against the American Taxpayer* (Chicago: Ivan R. Dee, 2010), p. 28.

<sup>64</sup> Geoffrey Lawrence, "Ineffectiveness of class-size reduction underscores problems with public education in Nevada," Nevada Policy Research Institute commentary, August 7, 2013,

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<sup>66</sup> *Op cit.*, Freeman, note 7.

<sup>67</sup> *Ibid.*

<sup>68</sup> *Op cit.*, Zax and Ichniowski, note 46.

<sup>69</sup> *Op cit.*, Norcross, note 21.

<sup>70</sup> Thomas DiLorenzo, "The Political Economy of Government Employee Unions," In *Organized Crime: The Unvarnished Truth About Government*, Ludwig von Mises Institute (Auburn, AL: 2012).

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