

# Fiscal Crisis and the Future of **Public Unions**

BARRY BLUESTONE

Until the Great Recession set in, public sector unions seemed immune to the unfolding fate of those in the private sector. While union membership among non-government employees has dwindled to just 6.9 percent, more than 36 percent of public sector workers remain within the union fold, a rate largely unchanged for at least three decades. Union density is highest in local government, where it exceeds 42 percent.<sup>1</sup>

Regardless of industry, the ability of unions to maintain membership and negotiate improved wages and benefits has always been linked to two principal factors. One is the *economic environment* that either permits or inhibits unions to win at the bargaining table. Number two is the *political environment* that either nurtures union organization or creates barriers to it.

When state and local coffers were filled and public services expanding, public sector unions flourished. But now with nearly every state and municipality facing an economic environment of structural deficits and an associated political environment of emergent anti-union animus, the long-standing secure position of public sector unionism is under assault. Can public sector unions avoid the fate of organized labor in the private sector?

## Lessons from the Private Sector

Taking advantage of the oligopolistic power that firms maintained in the post-World War II era, unions in the manufacturing sector were able to continuously win improved wages and benefits for their members. In the benign economic environment that stretched from the late 1940s through most of the 1970s, firms could pay for these gains by expanding productivity or by boosting consumer prices.

Politically, private sector unions maintained broad support for their members by taking the concept of worker solidarity seriously. Solidarity meant not only fighting for their own members, but for all workers whether they paid union dues or not. Organized labor supported universal health insurance, a benefit its own members already enjoyed. It repeatedly supported increasing the minimum wage, even though their members were paid well above it. Many union leaders helped lead the civil rights movement and the battle against poverty. As such, unions gained popular support from millions of unorganized workers who went to the polls to vote for candidates unions endorsed. The combination of a benign economic environment and a

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supportive political milieu served unions and their members remarkably well.

For the private sector, emerging global competition brought major changes to the economic environment. With foreign imports surging, US industry lost its oligopolistic advantage and hence its ability to simply raise prices to cover their costs. At the same time, many companies failed to improve productivity or the quality and innovation consumers demanded. The result was loss of market share, downsizing, outsourcing, and ultimately for some major firms, bankruptcy. Employment plummeted and with it union membership. Unions no longer could maintain the wages, benefits, and employment security their members had come to expect, and with fewer members, their political clout atrophied.

Corporate managers were essentially culpable for the failure of many of America's premier manufacturing establishments. But unions too often were partly to blame. Even after imports began flooding the American market, union leaders seldom pressed management to build better products, despite the fact that their members knew what was coming off their own assembly lines could not compete. Union leaders often insisted on maintaining outdated work rules, undermining efficiency and their industry's competitiveness. Too often they demanded wage increases that exceeded productiv-

ity. While it may not have been possible for the unions to save their companies, they may have been able to help prevent such a rapid cataclysmic decline.

### **Economic Threats to the Public Sector**

The huge fiscal deficits now facing government pose the equivalent to the global competition challenging the private sector. This year, forty-six states confront budget shortfalls totaling 130 billion dollars—20 percent of what they hoped to spend. Already forty states have projected budget gaps that total 113 billion dollars in FY2012, and once all states have prepared their

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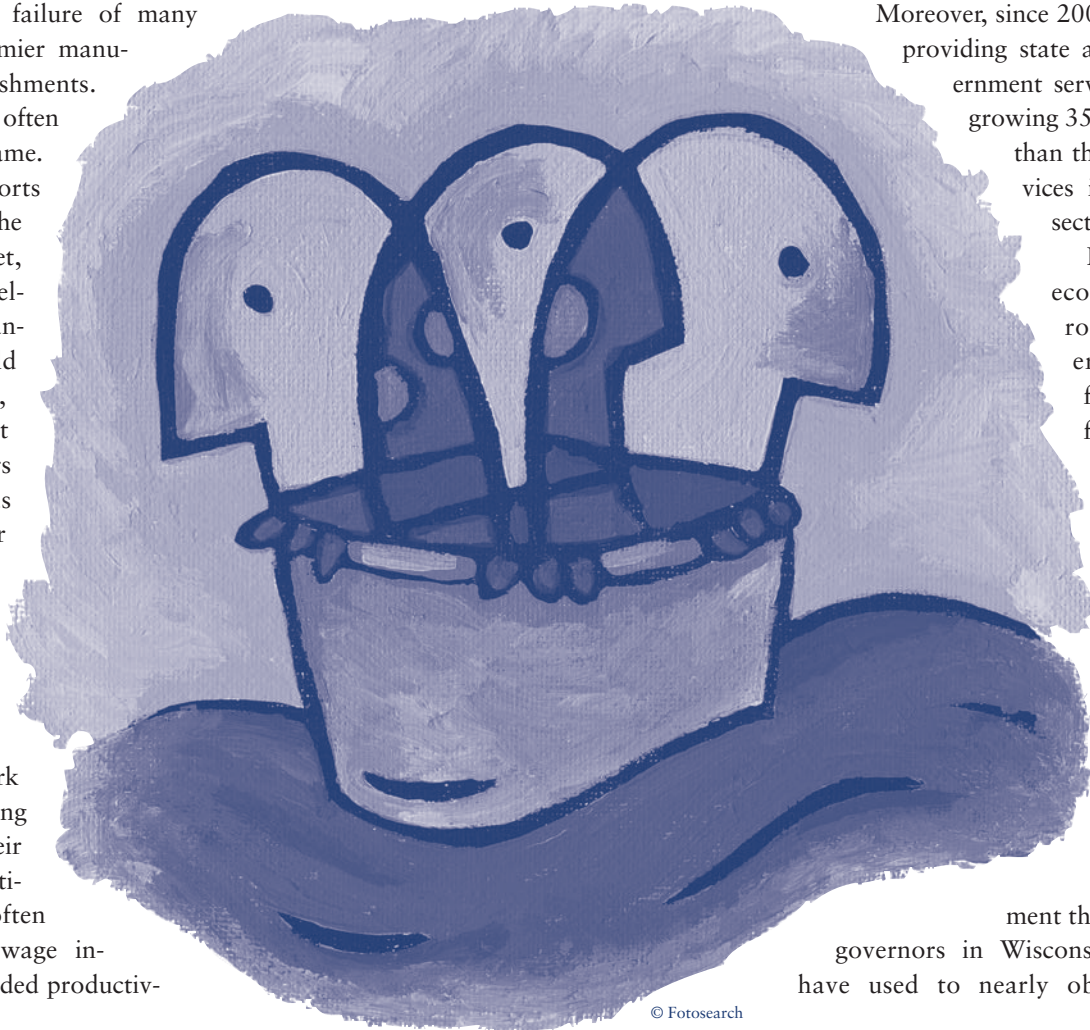
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budgets, this figure could swell to 140 billion dollars.<sup>2</sup> With the end of federal stimulus funds, the current situation has become dire.

The real problem, however, is that even after the full effects of the economic crisis are over, states and local municipalities will still encounter structural deficits for years to come. The cost of Medicaid payments, premiums for public employee health insurance, the rising cost of pensions, and debt service on past investments in infrastructure will overwhelm the ability of most states to raise revenue fast enough to avoid sharp cuts in services no matter how buoyant the national economy.

Moreover, since 2005 the price of providing state and local government services has been growing 35 percent faster than the price of services in the private sector.<sup>3</sup>

In this new economic environment, government officials often feel they have no choice but to demand relief from their unions to avoid slashing public services or bankruptcy. This, of course, is the argument that Republican governors in Wisconsin and Ohio have used to nearly obliterate pub-



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lic sector collective bargaining in their states. But the structural deficits are so daunting that even liberal Democratic governors are proposing measures that curtail at least some aspects of collective bargaining.

### Political Threats to the Public Sector

Mounting political pressure from taxpayers has emboldened these governors. While recent polls suggest that voters continue to support collective bargaining for public employees, there is an emerging movement among increasingly strapped taxpayers to demand more effective and efficient public services. Newspaper accounts of bloated pensions for a few public sector managers and the abuse of overtime and disability policy by a few firefighters and police officers add fuel to this movement, particularly when public sector unions are silent in such cases or defend behavior that is clearly out of line. In many inner cities, parents are demanding a better education for their kids as they see their children slipping further and further behind more advantaged students. Charter schools are like imported cars, an alternative to what many parents see as public schools suffering under overly restrictive union contracts.

In this economic and political environment, what can public sector unions do?

### Toward a New “Grand Bargain” for Public Sector Workers

Expanding the concept of solidarity to more fully include the interests of taxpayers and parents may be the answer. Public sector unions need to be on the front lines helping to solve the fiscal crisis and doing even more to improve public service. This begins with union leaders becoming vocal advocates for efficient and effective state and local government.

In negotiations, it would be helpful if interest-based bargaining replaced the often overly-adversarial approach common in both the private and public sectors. Such bargaining begins with defining interests, not demands. Union negotiators and local officials consider the long-term impact of their collective bargaining on municipal services and finances. There is a premium on negotiated flexibility rather than simple precedent.

Essentially, public sector unions should consider adopting the concept of the *Enterprise Compact* in place of the traditional workplace contract.<sup>4</sup> The latter is an agreement between parties who have sharply different interests and are trying to find some common ground in the workplace per se. The former is an agreement between parties who share an overriding common interest and work together to find a way to maximize their joint self-interest for the entire enterprise. Years ago, this was tried in the auto industry with the highly innovative Saturn contract between the UAW and GM.

There are a number of steps that could be taken under an Enterprise Compact to get the ball rolling. Health insurance reforms could be negotiated that lower the cost of insurance premiums without dramatically increasing co-pays or deductibles. Similarly there are pension reforms that could use union support, even if some part of future public employee benefits will be tied to defined contribution rather than defined benefit plans.

Teachers unions could be leading the charge for rewarding merit on an educationally sound basis, removing incompetent teachers from the classroom, and reforming seniority so that the most effective teachers are placed in inner city classrooms. More power to experiment should be given to teachers themselves in the classroom, enhancing their professional status. All public unions should be lead-

ing the effort for regionalizing local public services where there are clear efficiency and effectiveness gains to be realized.

If public unions can move toward supporting the concept of the Enterprise Compact and reforms like these, they will be taking steps toward a new “Grand Bargain” that will make them part of the solution to the economic crisis facing state and local government and rebuild public support for their members that will make it more difficult for demagogues to undermine collective bargaining rights. Union density in the public sector may even increase as more public employees opt to join such progressive organizations that serve their own interests as both public servant and taxpayer.

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#### NOTES

1. US Bureau of Labor Statistics, “Union Members Summary—Union Members 2010,” *Economic News Release*, USDL-11-0063, January 21, 2011, <http://www.bls.gov.new.release/union2.nro.htm>.
2. E. McNichol, P. Oliff, and N. Johnson, “States Continue to Feel Recession’s Pinch,” Center on Budget and Policy Priorities Report (Washington, DC: Center on Budget and Policy Priorities, December 16, 2010, updated June 17, 2011) <http://www.cbpp.org/cms/?fa=view&id711>.
3. US Council of Economic Advisers, *Economic Report of the President 2011* (Washington DC: Government Printing Office, 2011), Table B7, “Chain-type Price Indexes for Gross Domestic Product, 1962–2010,” 198–99.
4. See B. Bluestone and I. Bluestone, *Negotiating the Future: A Labor Perspective on American Business* (New York: Basic Books, 1992), esp. Part IV “Toward an Enterprise Compact,” 189–261.