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Question: "Is Organized Labor A Decaying Business Model?"

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Question: "Is Organized Labor A Decaying Business Model?" By Chris Mosquera

Is Organized Labor a Decaying Business Model? The answer is not a definitive yes or no, but rather yes and no. If organized labor continues in the same manner it has for the last century, then the probability of relevant existence in the next century is very slim, and labor will become the one-century wonder. Unions must accept the new paradigm, which is the nature of work is changing, and will continue to evolve. The economic forces of globalization are a major contributor to this evolution, as is the shift towards an internet based information society. The traditional blue-collar labor business model is being replaced with robotics, technology, outsourcing, and globalization.

Big labor is big business, but still stuck in the last century. Unions have failed to accept that the nature of work has changed. Business as usual, usually means that you are out of business. Market forces are forcing economic changes, and unless labor adapts quickly, it will become irrelevant in the global market. Virtually every product and most services can be performed offshore in low wage countries, or outsourced to lower wage states, using eager low-wage non-union workers.

The internet and technology, has created the global 24-hour workday. When it is night in the western hemisphere, it is day in the eastern hemisphere and workers can perform back office functions in the east, ready for the workers in the west the next business day. Telephone communications is seamlessly transferring calls to worldwide call centers, where cheerful representatives, will answer your concerns in the language you have chosen. "For English press one, for Spanish press two, and for other languages, please press three," is the globalized method for customer service communications.

American companies can make candles in China, and sell them in Chicago, cheaper than making candles in Chicago and selling them in Chicago. These same companies can make candles in China and sell them in China, and internationally, even cheaper and for a greater profit, than selling the same candles in Chicago. To an extent, labor unions are to blame. They have priced labor above economic returns. This oversight is a significant contributor to the decline of the organized labor business model.

Labor, in its basic element, is a commodity, like any raw material or production facility. Best business practices mandates that companies go where they make the most profit. Labor is expensive. Corporate America has fought back, by outsourcing, moving to non-union and less expensive environments, downsizing, embracing technology, and by aggressively fighting union organizing campaigns. It is not personal, just business.

The survival business model for organized labor is to become more relevant with the times and re-format itself to meet the needs of its members. Corporate America uses a similar business model, as they shed old products, and old production methods. Corporate America emerges leaner and more agile, able to meet product demands quickly and adjust to market realities. Unions need to adjust their business model to market realities and become more business centric and less fraternal.

If organized labor is to survive, it must look to the past to see the future. Labor unions have become complacent, unable, or unwilling to adjust to change. The axiom of unions being "male, pale, and stale" has merit. Unions are coming to the slow realization they must shed their old-boy ways, and embrace immigrants, minorities, service workers, and all disenfranchised workers. Traditional blue-collar workers in heavy industry are declining, and no company or industry wants to bet on a loosing horse.

Politically and economically, the future for organized labor as an industry is with the sectors of the economy that have been previously ignored. This includes service sector employment, low-wage workers, minorities, and immigrants. These workers need the services that unions provide, such as better wages and benefits, better health care, and collective bargaining benefits. Unions must return to their roots. Historically, unions represented oppressed workers, which is exactly the category that minorities, immigrants, and low-wage workers represent.

Unions have seen better days. Private sector unions have experienced a rapid decline in saturation, as companies search for lower cost business models. Public sector unions are the only bright spot, and these numbers are barely holding steady as governments on all levels are facing the dilemma of servicing more people with shrinking budgets.

The key to union growth is organizing, and the mantra of "Organize or Perish" is an absolute. Organizing is the method for unions to grow and expand their business. Companies expand by adding paying clients. Unions expand by adding dues paying members. Corporate America wishes to remain non-union, and when faced with an organizing attempt, swings a heavy hammer spending vast sums to remain union free.

The labor relations business ('union busting' in the labor vernacular) is a huge industry on to itself, and has been a significant contributing factor to the decline of unions. The goals of the labor consultants are to convince employees that unions are bad, and the company is good. Companies that hire professional labor consultants, have a significantly higher win rate over those companies that try to do it in house, or do nothing at all.

Unions argue that labor laws are written to support the employer, and make organizing difficult. That will change when some version of the Employee Free Choice Act (EFCA) becomes the labor law of the land! It will simplify and speed labor's ability to unionize companies. Unions consider the EFCA vital to the survival of the labor movement, and have pledged to spend \$300 million on the election and securing passage of the Employee Free Choice Act. The Service Employees International Union said the legislation would

enable it to organize a million workers per year, up from its current pace of 100,000 workers per year. This is good for unions, and bad for employers!

Currently, companies can demand a secret-ballot election to determine union representation. Those elections often are preceded by months of aggressive employer union free campaigns, and pro union campaigns. Under the proposed legislation, companies could no longer have the right to insist on a secret ballot. Instead, the Free Choice, or "card check", legislation would let unions form if more than 50% of workers simply sign a card saying they want to join. It is far easier for unions to get workers to sign cards because the union organizers can pressure workers repeatedly, over a period of weeks or months, until the union obtains the support needed.

Unions thrive when employment relationships are oppressive and exploitative. Unions have difficulties organizing companies when employees are happy, fairly compensated, and productive. Repressive employers create strong unions, and good companies do not have unions. Happy workers are productive workers, and the employer and stakeholders all benefit.

Union labor has priced itself out of the global marketplace. Blue-collar industrial employment is outsourced to non-union low wage nations. Private industry must earn a profit or go out of business. "Union Made in America" is not an economic reality, given globalization and technology. Gone are the days of the workers versus management mentality. Labor must accept that to survive and prosper, they must become productive partners with business, not anti-productive adversaries. Welcome to the new reality!

The only stability is in the public sector. Organized labor contributes to political parties and campaigns, and therefore politicians do not want to bite the hand that feeds them! They placidly support government union organizing or remain neutral. Government services are not profit motivated and the increased labor costs are supported by taxpayers.

An unintended consequence of public sector unions is an entrenched bureaucracy where it is extremely difficult to terminate under performing employees. The stereotype of lazy government workers is legendary. When you compound the union job protection clauses, it becomes the perfect storm for incompetence. Unions protect low productivity workers, support poor employee work ethics, and enable incompetency. The system rewards longevity and not productivity. The bureaucracy outlives the bureaucrats.

Foreign automakers (such as Honda and Toyota) are awarded tax incentives to build domestic factories, usually in lower wage states. The foreign automakers create blue-collar and white-collar jobs in states with high unemployment, low union saturation, and improve the prevailing area wages. This raises the local standards of living, and increases the tax base, which in turn helps the local economy. It is a winning situation for all parties. The plants tend to be staffed with younger, non-union, less costly workers, and therefore the retirement and health care liabilities for the employers are less expensive. The legacy automakers are usually saddle with archaic union work rules, and staffed with unionized, older, higher paid workers, with expensive health care and retirement benefits.

If unions are to succeed and remain relevant, employers need to view workers and unions, not just as costs factors, but also as productive partners. A modern employer and progressive labor union, working together, and not as adversaries, can achieve higher productivity, and higher wages, with increased competitiveness and higher corporate profitability.

A case in point is the comparison between Costco and Sam's Club (a Wal-Mart company). Both firms sell similar products to similar customers, and are aggressive competitors. Costco's labor costs are about 40% higher than Sam's Club is. In 2005, Costco's operating profit per employee was \$21,805, as compared to Sam's Club of \$11,615, and Costco's sales per square foot was \$866, compared to \$525 for Sam's Club. Moreover, Costco's employee turnover rate was only 6%, as compared to 21% for Sam's Club. Profit, productivity, and unionization can be positively related, if all partners work in concert. (Economic Policy Institute Briefing Paper. Unions, the Economy, and the Employee Free Choice Act. Briefing Paper #181. Shaiken, Harley. 2007).

One of the roles of government is to distribute economic prosperity to the workers who are both a major contributor and a major benefactor. Business and labor are mutually dependent on each other, and their success is based on a cooperative positive relationship. A company that fails to be profitable because of out dated and unrealistic labor policies, soon consolidates, files for bankruptcy or closes shop, and the workers loose. An empty factory or closed store does not need workers. Simply put, no employer, no employees!

The American Dream, and thus the nation's "American Dream" of economic prosperity are co-dependent on productive labor relations. Globalization, outsourcing, downsizing, technology, and the internet are real threats to the American blue-collar worker. "Union Made in America" has become a history lesson, and now might mean, at best, "Maybe Partially Assembled in America." A realistic economic alternative is a mutually dependent labor and management relationship, with government acting as a helpful "consigliere" or counselor and adviser to both sides.

Government plays a role in American prosperity, by establishing and developing economic initiatives that benefit workers, and support economic growth policies. Government institutes macroeconomic policies to support long-term job creation, and to provide the tools to educate, train and support workers and their families. Micro economic policies, such as local job creation requires the sustained support of government, industry, and unions, to provide the education, training, and career paths to create jobs consistent with the economy, industry and community needs.

All workers need to earn a living wage, in order to support a family and to grow the economy. Workers at the lower end of the wage scale, require larger social services supports, and contribute little to the economic wellbeing of the nation as a whole. Raising the federal minimum wage to a level that may actually support a family is an example of a government policy that may positively affect families, and in the long term the nation. To keep up with the real purchasing power, wages must be relative to the local economy. Higher wages provide benefits to society, by increasing the families buying power, which

stimulates production and consumption, and reduces dependency on social services and government programs.

Lifetime employment, if it ever really existed in the United States, is an outdated concept and does not connect with a fast changing global environment. Advances in technology and economic global competitive realities have reduced the power of the unionized rank-and-file worker, and increase the pressure of management to increase corporate profitability. This has fundamentally changed the nature of work. No longer does an employee expect to spend their entire working lives with one employer, and retire with a gold watch and a small pension for a lifetime of service!

Labor unions understand the needs of the workers, but few unions understand and accept the needs of business. This is a very important concept often ignored. When an employer does not earn a profit, the business will be out of business, and does not need workers. The reality is the old ways of doing business do not work in the new global market place. Labor unions need to become a value added partner with business, not an adversary to economic survival.

The labor unions versus management mindset will lead to labor without a place to work, because management has reduced production, merged, or moved the industry to a lower cost environment. "If unions are going to survive and prosper in the 21st century, we still need to meet the needs of workers, but we also need to find a way to serve important business needs... We can no longer simply demand that business adapt to our needs. We need to adapt to the needs of business..."
(<http://www.virginiaclassifieds.com/biz/virginiabusiness/magazine/yr2006/dec06/ideas.shtml>)

The nature of work has changed, and unions must change together to meet global market demands. The key to long-term union survival, increased economic strength, and political power lies in the ability to adapt to changes. In other words, organized labor must become productive allies with business, and become part of the solution, not part of the problem. To do less will result in a decayed organized labor business model creating its own irrelevance, and labor unions will soon go the way of the dinosaurs.

"If organized labor continues to do what it has always done, it will continue to get less than it has always got." -Anonymous-

For more information, please refer to the book: *"Is Organized Labor A Decaying Business Model?"* [1]