

37. Labor Relations Law

Congress should

- eliminate exclusive representation, or at least pass a national right-to-work law, or codify the U.S. Supreme Court's decisions in *NLRB v. General Motors* (1963) and *Communications Workers of America v. Beck* (1988);
- repeal section 8(a)2 of the National Labor Relations Act, or at least permit labor-management cooperation that is not union-management cooperation only;
- codify the Supreme Court's ruling in *NLRB v. Mackay Radio & Telegraph* (1938) that employers have an undisputed right to hire permanent replacement workers for striking workers in economic strikes;
- overturn the Supreme Court's ruling in *U.S. v. Enmons* (1973) that prohibits federal prosecution of unionists for acts of extortion and violence when those acts are undertaken in pursuit of "legitimate union objectives";
- overturn the Supreme Court's ruling in *NLRB v. Town & Country Electric* (1995) that forces employers to hire paid union organizers as ordinary employees;
- protect the associational rights of state employees by overriding state and local laws that impose NLRA-style unionism on state and local government employment; and
- repeal the 1931 Davis-Bacon Act and the 1965 Service Contract Act.

In a market economy it makes little sense to distinguish between producers and consumers because most people are both. It also makes no sense, outside discredited Marxist theory, to distinguish between management and labor since both are employed by consumers to produce goods and

services. Management and labor are complementary, not rivalrous, inputs to the production process. Unfortunately, U.S. labor relations law is based on the mistaken ideas that management and labor are natural enemies; that labor is at an inherent bargaining power disadvantage relative to management; and that only unions backed by government power, which eliminate competition among sellers of labor services, can redress that situation. The National Labor Relations Act, as amended, is based on ideas that might have seemed sensible in the 1930s but do not make any sense in today's information age. That act is an impediment to labor market innovations that are necessary if the United States is to continue to be the world's premier economy in the new millennium. The NLRA ought to be scrapped, or at least substantially amended so it reflects modern labor market realities.

The Labor Front Today

Unions represent a small and declining share of the American labor market. In 1999 only 9.4 percent of the private-sector workforce was unionized. That figure has been declining since 1953 when it was 36 percent, and soon it will be no higher than 7 percent—exactly where it was in 1900. Unions, at least in the private sector, are going the way of the dinosaur. They are institutions that cannot succeed in the competitive global economy of the future. Firms and workers must be more innovative and have the freedom to adjust to changing market conditions if they are to reap the rich rewards of a more prosperous world economy.

Further, nearly half of union members now work for federal, state, and local governments. In 1999, 37.3 percent of the government-sector workforce was unionized. Even that number has declined from its 1994 peak of 38.7 percent. Yet, despite the decline of unions, the old regime that supports them is still in place.

Exclusive Representation and Union Security

The principle of exclusive representation, as provided for in sec. 9(a) of the NLRA, mandates that if a majority of employees of a particular firm vote to be represented by a particular union, that union is the sole representative of *all* workers—regardless of whether an individual worker voted for or against it or did not vote at all. Individual workers are not free to designate representatives of their own choosing. Although workers should be free, on an individual basis, to hire a union to represent them,

they should not be forced to do so by majority vote. Unions are not governments; they are private associations. For government to tell individual workers that they must allow a union that has majority support among their coworkers to represent them is for government to violate those workers' freedom of association.

Union security is the principle under which workers who are represented by exclusive bargaining agents are forced to join, or at least pay dues to, the union with monopoly bargaining privileges. In the 21 right-to-work states such coercive arrangements are forbidden by state law. (Sec. 14[b] of the NLRA gives states the right to pass such laws.) The union justification for union security is that some workers whom unions represent would otherwise get union-generated benefits for free. But if exclusive representation were repealed, only a union's voluntary members could get benefits from the union because the union would represent only its voluntary members. The right-to-work issue would be moot. Forced unionism would, at long last, be replaced by voluntary unionism.

The NLRA serves the particular interests of unionized labor rather than the general interests of all labor, and it abrogates one of the most important privileges and immunities of U.S. citizens—the right of each individual worker to enter into hiring contracts with willing employers on terms that are mutually acceptable. Unfortunately, no court has had the courage to take up the issue since the 1930s. It is time for Congress to do so.

Congress has three options for remedying the current situation:

- Eliminate exclusive representation. Ideally, the current restrictions on the freedom of workers to choose who if anyone represents them should be eliminated. The 1991 New Zealand Employment Contracts Act would be an excellent model to follow. Although 85 percent of that country's population opposed that approach before it took effect, 73 percent of employees now report that they are “very satisfied” or “satisfied” with their working conditions and terms of employment. Initially it might be politically difficult to pass a similar act in the United States. Thus, several short-term options are available.
- Adopt a national right-to-work law. Under this option workers would still be forced to let certified unions represent them, but no worker would be forced to join, or pay dues to, a labor union. This is a poor second best to members-only bargaining.
- Codify the U.S. Supreme Court's decisions in *NLRB v. General Motors* (1963) and *Communications Workers of America v. Beck* (1988) by passing a federal “payroll protection” statute that guaran-

tees that union members as well as nonmember agency-fee payers can opt out of union political activities. This is a third-best alternative to members-only bargaining.

In *General Motors* the Court declared that the only permissible form of compulsory union membership under the NLRA is the payment of union dues. Neither unions nor employers are allowed to compel “full membership in good standing.” Notwithstanding this decision, the National Labor Relations Board still allows unions and employers in non-right-to-work states to include in collective bargaining contracts union security clauses that assert that workers must become and remain members in good standing of unions as a condition of continued employment. The NLRB permits what is clearly illegal.

On November 3, 1998, a unanimous Supreme Court, in *Marquez v. Screen Actors Guild*, decided that union security clauses may continue to state that “membership in good standing” is required as a condition of employment. It remains true that, in this context, “membership in good standing” does not mean what almost everyone thinks it means. It means only that “members” must pay some money to the union that represents them in order to keep their jobs. But unions and employers are now free to continue to deceive workers into thinking that ordinary union membership is required as a condition of employment. Only Congress can put this travesty right.

In *Beck* the Court declared that the compulsory dues and fees collected by unions from workers they represent could not be used for purposes, principally political contributions, not directly related to collective bargaining. Many unions have effectively nullified *Beck* by creative bookkeeping. In 1996 the NLRB turned a blind eye to such deceit in its *California Saw and Knife Works* decision. In that case the board accepted the union’s own staff accountants’ categorization of expenditures on activities related to and not related to collective bargaining. The NLRB stated that, under *Beck*, dissenting workers had no right to an independent audit of the union’s books. Congress should incorporate, for private-sector workers, the procedural and substantive protections that were granted by *Chicago Teachers Union v. Hudson* (1986) to government workers who are forced dues payers. Among those protections is an indisputable right of dissenting government workers to independent audits in all cases involving disputes over union uses of forced dues and fees. The Supreme Court is likely soon to take up the issue of the applicability of *Hudson* to the private sector because of a conflict between two circuit courts of appeal. The

D.C. Circuit, in *Ferriso v. NLRB* (1997), ruled that *Hudson* does apply, and the Seventh Circuit, in *Machinists v. NLRB* (1998), ruled that it does not.

A related problem is whether union expenditures for organizing union-free workers are chargeable to private-sector agency-fee payers. In *Ellis v. Railway Clerks* (1984), the Supreme Court explicitly said that organizing expenses are not chargeable to agency-fee payers under the Railway Labor Act, which sets the rules of unionism for workers in the railroad and airline industries. Until October 7, 1999, most experts assumed that the *Ellis* rule would also apply to workers under the NLRA. However, on that date the NLRB ruled in two cases, *United Food and Commercial Workers* and *Meijer, Inc.*, that the *Ellis* rule does not apply.

Questions about which procedural rules apply and which union expenses are and are not chargeable to nonmember agency-fee payers are a morass. They keep a lot of judges, lawyers, arbitrators, and accountants busy, but that is not in the public interest.

A “paycheck protection” statute that codifies only *Beck*, *Ellis*, and *Hudson* protections for nonmember agency-fee payers does not go far enough. Because of exclusive representation, individual union members should also be protected by requiring unions to acquire annually written permission from a dues payer before spending any of his or her dues on politics. Under exclusive representation, many workers may choose to be union members to get to vote on the collective bargaining agreements that affect them. Those workers also deserve to be able to opt out of union political activities. Not even a national right-to-work act would protect those workers against misuse of their dues for politics. Without exclusive representation, no worker would be subject to the terms of a collective bargaining agreement unless he or she chose to be a union member. Union membership would be genuinely voluntary. If Congress abolished exclusive representation, and protected individual workers from union violence, there would be no need for payroll protection.

The history of attempts to enforce *Beck* and related cases demonstrates how complicated the issues are and how expensive it is to litigate them. Congress created these problems; only Congress can eliminate them.

Repeal Section 8(a)2 of the NLRA

This is the section that outlaws so-called company unions. More important, it is the section that unions have discovered they can use to block any labor-management cooperation that is not union-management cooperation.

Labor-management cooperation is crucial to America's ability to compete in the global market. The Employment Policy Foundation in Washington, D.C., has found that employee-involvement plans increase productivity by from 30 to more than 100 percent. Under existing law, union-free firms in America that implement such plans are at risk of NLRB prosecution.

Workers who want to have a voice in company decisionmaking without going through a union should be free to do so. A 1994 national poll of employees in private businesses with 25 or more workers, conducted by Princeton Survey Research Associates, revealed that 63 percent preferred cooperation committees to unions as a way of having a voice in decision-making. Only 20 percent preferred unions.

In the 1992 *Electromation* case, the NLRB declared that several voluntary labor-management cooperation committees, set up by management and workers in a union-free firm to give employees a significant voice in company decisionmaking, were illegal company unions. The Teamsters, who earlier had lost a certification election at the firm, then argued that the only form of labor-management cooperation the government would allow was union-management cooperation. On the basis of that argument, the Teamsters won a slim majority in a second certification election. As a result of the *Electromation* decision, Polaroid Corp. was forced to disband voluntary labor-management cooperation committees that had been in existence for 40 years.

In the 1993 *DuPont* case, the NLRB ruled that labor-management cooperation committees in a unionized setting were illegal company unions because they were separate from the union. The voluntary committees were set up to deal with problems with which the union either could not or would not deal. Under exclusive representation, management must deal only with a certified bargaining agent in a unionized firm. The solution is to simply abolish exclusive representation.

The report that was issued by the Dunlop commission on January 9, 1995, recommends "clarifying" rather than doing away with sec. 8(a)2. The report says that voluntary worker-management cooperation programs "should not be unlawful simply because they involve discussion of terms and conditions of worker compensation where such discussions are incidental to the broad purposes of these programs." That will do little to solve the problem. What is "incidental"? Who will decide? Answer: the same NLRB that has already given us the *Electromation* decision.

It is time for Congress to state unequivocally that employers and workers may formulate and participate in any voluntary cooperation schemes they

like so long as any individual worker may join and participate in any union he or she chooses without penalty.

Short of repealing sec. 8(a)2 outright, Congress should amend it to permit labor-management cooperation that is not union-management cooperation.

The Teamwork for Employees and Managers Act (H.R. 473 and S. 295), passed by Congress but vetoed by President Clinton in 1996, is an excellent second-best model. Unions supported Clinton's veto because they do not wish to compete on a level playing field with alternative types of labor-management cooperation.

Codify the Supreme Court's Ruling in NLRB v. Mackay Radio & Telegraph (1938)

Once and for all, it should be made clear that, although strikers have a right to withhold their own labor services from employers who offer unsatisfactory terms and conditions of employment, strikers have no right to withhold the labor services of workers who find those terms and conditions of employment acceptable. The constitutional right of both strikers and replacement workers should be acknowledged in the NLRA.

Overturn the Supreme Court's Ruling in U.S. v. Enmons (1973)

The federal Anti-Racketeering Act of 1934 was enacted to cope with the violence, intimidation, and injury to persons and property associated with organized crime. For example, it prohibits the use of violence, intimidation, and injury to extort money or other things of value from individuals or to force individuals to join or make payments to organizations against their will. While this legislation was wending its way through Congress, the American Federation of Labor noticed that its provisions could apply to many union activities as well as to the activities of the mob. To forestall that outcome, the AFL lobbied for and Congress added a clause saying, "No court of the United States shall construe or apply any of the provisions of this act in such a manner as to impair, diminish or in any manner affect the rights of bona-fide labor organizations in *lawfully* carrying out the legitimate objects thereof, as such rights are expressed in existing statutes of the United States" (emphasis added). Notwithstanding that the clear language of the statute protected only *lawful* actions of the unions, courts soon interpreted the act as protecting violence and intimidation by unions during strikes on the preposterous grounds that strikes are legal and are

undertaken to achieve legal ends such as improvements in the terms and conditions of employment. The Supreme Court made this interpretation of the law official in *United States v. Local 807, International Brotherhood of Teamsters* (1942).

Congress reacted swiftly to that decision by enacting the Hobbs Act amendments to the Anti-Racketeering Act over President Truman's veto in 1946. The clear intent of Congress was to proscribe acts of violence and intimidation by unions as well as organized crime. However, the federal courts refused to go along. They continued to apply the *Local 807* decision in most cases of union violence and intimidation during strikes, allowing unions to get away with robbery, arson, and other violence. The Supreme Court removed all doubt concerning union immunity to federal anti-racketeering laws in 1973 with its ruling in *U.S. v. Enmons*. By a 5-4 decision, the Court upheld the right of strikers under federal law to fire high-powered rifles at three utility company transformers, to drain oil from and thus ruin a transformer, and to blow up a transformer substation. The Court said it was up to state and local officials to prosecute such behavior. The federal government had to stay out of it because it involved a legal strike under the NLRA.

Congress must try again to make it clear that union violence and intimidation are not acceptable, no matter what the purpose. Equal protection under law means victims of union thuggery deserve as much protection as victims of mob thuggery. The Freedom from Union Violence Act (S. 564), proposed in the 106th Congress, is a good model for the 107th Congress to adopt.

Overturn the Supreme Court's Ruling in NLRB v. Town & Country Electric (1995)

Sec. 8(a)3 of the NLRA makes it an unfair labor practice for an employer to discriminate against a worker on the basis of union membership. According to the Supreme Court, that means that an employer cannot refuse to hire or cannot fire any employee who is a paid union organizer. Unions send paid organizers (salts) to apply for jobs at union-free firms and, if employed, to foment discontent and promote pro-union sympathies. In the *Town & Country Electric* decision the Court said that employers could not resist that practice by firing or refusing to hire salts. In other words, employers must hire people whose main intent is to subvert their business activities. That is like telling a homeowner that it is illegal to exclude visitors whose principal intent is to burglarize the home. Congress should

allow employers to resist this practice. The Truth in Employment Act (H.R. 758), which was quashed by the threat of a filibuster in the 105th Congress, is a good model for the 107th Congress to adopt.

Protect the Associational Rights of State Employees with a Federal Statute

Congress has constitutional authority under the Fourteenth Amendment to protect the privileges and immunities of citizens of the United States. Thus it is not necessary to undo the harm of government employee unionism state by state.

The principles of exclusive representation and union security abrogate the First Amendment rights of government employees who wish to remain union free. Government is the employer, hence there is sufficient government action to give rise to Bill of Rights concerns.

Under the Bill of Rights, government is not supposed to intrude on an individual citizen's right to associate or not associate with any legal private organization. A voluntary union of government employees is a legal private organization. But forcing dissenting workers to be represented by, join, or pay dues to such an organization is an abridgment of those workers' freedom of association.

Moreover, in government employment, mandatory bargaining in good faith (a feature of the NLRA incorporated into 31 state collective bargaining statutes) forces governments to share the making of public policy with privileged, unelected private organizations. Ordinary private organizations can lobby government, but only government employee unions have the backing of laws that force government agencies to bargain in good faith with them. Good-faith bargaining is conducted behind closed doors. It requires government agencies to compromise with government employee unions. Government agencies are forbidden to unilaterally set terms and conditions of government employment (questions of public policy) without the concurrence of government employee unions. Not even the Sierra Club has that special access to government decisionmakers or that kind of influence over decisionmaking. In short, government employee unionism, modeled on the NLRA, violates all basic democratic values. It should be forbidden. That is why Title VII of the 1978 Civil Service Reform Act greatly restricts the scope of bargaining with federal employee unions and forbids union security in federal employment. It ought also to forbid exclusive representation and mandatory good-faith bargaining in federal employment.

Incredibly, in the 106th Congress there was bipartisan support for a statute (S. 1016 and H.R. 1093) that would force all states to give exclusive representation, mandatory bargaining, and union security privileges to unions representing police and firefighters. The record of disaster in the states that already give public safety unions such privileges is clear. Firefighters who refuse to fight fires and police who refuse to maintain order and prevent crimes are anathema to civil society. The strikes of public safety workers in San Francisco during the 1970s prove the point. The proposed legislation would expose the 20 states that now deny NLRA-style privileges to public safety unions to the same predation. It proscribes strikes by public safety personnel, but the record is clear. Public-sector unions with NLRA-style privileges are almost never deterred by laws that make strikes illegal. Moreover, once states are forced to give public safety unions such privileges, the teachers' unions and other public-sector unions will demand equal treatment. The 107th Congress should drive a stake through the heart of this idea as soon as possible.

Repeal the 1931 Davis-Bacon Act and the 1965 Service Contract Act

The Davis-Bacon Act, passed at the beginning of the Great Depression, had two purposes: to stop prices and wages from falling and to keep blacks from competing for jobs that had previously been done by white unionized labor. Both of those purposes were wrong. Falling wages and prices were precisely what were needed to reverse the collapse of real income and employment in the early 1930s. (Both fell from 1929 to 1933, but prices fell by more than wages. Thus the real cost of hiring workers increased during that time period.) The purchasing power fallacy that misled first Herbert Hoover and later Franklin Roosevelt (e.g., the National Industrial Recovery Act) did as much to deepen and prolong the Great Depression as did the Smoot-Hawley tariff.

The racist motivation for the legislation is clear to anyone who reads the *Congressional Record* of 1931. For example, Rep. Clayton Allgood, in support of the bill, complained of “cheap colored labor” that “is in competition with white labor throughout the country.”

While most current supporters of Davis-Bacon are not racists, the law still has racist effects. There are very few minority-owned firms that can afford to pay union wages. As a result, they rarely are awarded Davis-Bacon contracts, and many of them stop even trying for those contracts.

Moreover, Davis-Bacon adds over a billion dollars each year directly to federal government expenditures, and billions more to private expenditures on projects that are partially funded with federal funds, by making it impossible for union-free, efficient firms to bid on construction contracts financed in whole or in part with federal funds. Today Davis-Bacon serves no interest whatsoever other than protecting the turf of white-dominated construction trade unions.

The claim, made on January 6, 1995, by Robert A. Georgine, president of the AFL-CIO Building and Construction Trades Department, that Davis-Bacon has long been supported by the GOP because it adheres to “free market principles by recognizing existing wages within each community set by the private marketplace, not by imposing an artificial standard or deleterious government interference,” is self-serving nonsense. Prices set by the free market do not need any government enforcement at all. They are the prices at which the production and exchange plans of buyers and sellers of inputs and outputs are coordinated with each other. They are the prices that would exist in the *absence* of any government involvement. The AFL-CIO and its constituent unions want government to impose prices that are more favorable to their members and officers than prices produced by the marketplace would be. The “prevailing wage,” or “community wage,” set by the Department of Labor under the Davis-Bacon Act is always the union wage—not the free-market wage. After all, unions insist that they make wages higher than market-determined wages. Only members of the GOP in thrall to unions’ in-kind and financial bribes would support Davis-Bacon. No member of Congress, of either party, who supports the free market can be against repealing Davis-Bacon.

Several states have their own “little Davis-Bacon Acts.” In 1994 a federal district court in Michigan found that that state’s prevailing wage law violated the 1974 Employee Retirement Income Security Act. As a result, the Michigan law was suspended between 1994 and 1997 when an appellate court reinstated it. According to a study done for the Mackinac Center for Public Policy, as a direct result of the suspension, more than 11,000 new jobs were created. Comparing the costs of state government construction projects during the suspension with their costs under the prevailing wage rules suggests that those regulations increase construction costs at least \$275 million per year.

The Service Contract Act does for federal purchases of services what the Davis-Bacon Act does for federally funded construction. It wastes billions of taxpayer dollars for the sole purpose of attempting to price

union-free service providers out of the market. Both acts should be placed in the dustbin of history along with the syndicalist sympathies that inspired them.

Conclusion

The more integrated global economy of the new millennium offers greater opportunities for American enterprises and workers to prosper. Greater productivity worldwide means more wealth for those who can exchange their services with willing customers. But, to do so, American workers and the enterprises that employ them must be empowered to act quickly to meet market demands. That means eliminating the laws and regulations that destroy jobs and make workers a burden rather than an asset to employers. The outmoded perceptions of the 1930s should not be allowed to shackle the American economy of the 21st century.

Suggested Readings

- Baird, Charles W. "Are Quality Circles Illegal? Global Competition Meets the New Deal." Cato Institute Briefing Paper no. 18, February 10, 1993.
- _____. "Outlawing Cooperation: Chapter Two." *Regulation*, no. 3 (1993).
- _____. "The Permissible Uses of Forced Union Dues: From *Hanson* to *Beck*." Cato Institute Policy Analysis no. 174, June 30, 1992.
- _____. "Right to Work before and after 14(b)." *Journal of Labor Research* 19, no. 3 (Summer 1998).
- _____. "Salt without Savor." *Freeman*, May 1998.
- Bernstein, David. "The Davis-Bacon Act: Let's Bring Jim Crow to an End." Cato Institute Briefing Paper no. 17, January 18, 1993.
- Deavers, Ken, Anita Hattiangadi, and Max Lyons. *The American Workplace 1998*. Washington: Employment Policy Foundation, 1998.
- Moore, Cassandra Chrones. "Blocking Beck." *Regulation* 21, no. 2 (Spring 1998).
- Nelson, Daniel. "The Company Union Movement, 1900–1937: A Reexamination." *Business History Review* 56 (Autumn 1982).
- Reynolds, Morgan O. *Making America Poorer: The Cost of Labor Law*. Washington: Cato Institute, 1987.
- Summers, Robert S. *Collective Bargaining and Public Benefit Conferral: A Jurisprudential Critique*. Ithaca, N.Y.: Cornell University, Institute of Public Employment, 1976.
- Thieblot, Armand J., Thomas R. Haggard, and Herbert R. Northrup. *Union Violence: The Record and the Response by Courts, Legislatures, and the NLRB*. Fairfax, Va.: George Mason University Press, 1999.
- Vedder, Richard. *Michigan's Prevailing Wage Law and Its Effects on Government Spending and Construction Employment*. Midland, Mich.: Mackinac Center for Public Policy, 1999.

—Prepared by Charles W. Baird