IAIN MURRAY &
F. VINCENT VERNUCCIO

DECEMBER 14, 2010 12:00 A.M.

'The Enemy Within'

From the December 20, 2010, issue of NR

In the early 1980s, British prime minister Margaret Thatcher emerged victorious from a war with Argentina over the Falkland Islands that propelled her to a landslide victory in the 1983 general election. On July 19, 1984, she gave a speech to the assembled legislators of her Conservative party, in which she said that she had defeated "the enemy without," but that "the enemy within . . . is much more difficult to fight and more dangerous to liberty." She was referring to government-sector unions, and specifically the mineworkers' union, which was then attempting to hold Britain hostage. (In Britain, the mines had been nationalized, hence their workers had a government-sector union.)

The union was able to attempt that because generations of socialist governments — including nominally Conservative ones — had increased the size and scope of the state and allowed the unions to acquire privileges that put them beyond the law. Today, with America's prosperity already hobbled under the weight of bigger and more expansive government, we see that pattern replicating itself here. We must confront this enemy within before it crushes us.

Like their British counterparts then, American government-union members today get paid more than the workers in the private sector, enjoy better benefits, and are increasingly exempt from laws that govern everyone else. These unions are bankrupting states with lavish pay and benefit costs.

Public-sector unionism is a relatively recent phenomenon in the United States. In 1959, Wisconsin became the first state to allow its public employees to unionize, and other states then followed suit. In 1962, Pres. John F. Kennedy issued an executive order allowing federal employees to join unions. Since then, union membership in the public sector has grown by leaps and bounds. In January of this year, for the first time, government-sector union membership was larger than union membership in the private sector. According to the Bureau of Labor Statistics, there are 22.2 million government workers in the U.S. Almost 8 million of them are unionized, compared with only 7.4 million in the private sector. These unions are at the forefront of the movement for more expansive and expensive government. They use forced dues to lobby for greater pay and better benefits.

The Center for Responsive Politics lists the American Federation of State, County & Municipal Employees (AFSCME) as second on its list of top all-time political donors. The *Wall Street Journal* has reported that AFSCME was the largest outside spender of the 2010 election. The 1.6-million-member organization spent almost $90 million — a stunning amount given that the union had only $97.4 million in assets in 2009. AFSCME was forced to use a $16 million emergency account and take out a $2 million loan to pay for its political activities. Before the election, Larry Scanlon, head of AFSCME's political operations, reinforced the weight of the union's political giving, saying: "We're the big dog." AFSCME president Gerald McEntee also commented on the size of the contributions: "We're spending big. And we're damn happy it's big. And our members are damn happy it's big — it's their money."

The National Education Association (NEA) is eighth on the all-time political-donors list, the Service Employees International Union (SEIU) is eleventh, and the American Federation of Teachers (AFT) comes in at 13th. The NEA and AFT spent over $75 million on politics and lobbying in the 2009 fiscal year alone. In short, public-sector unions constitute a permanent, well-funded, self-supporting lobby for bigger government. The teachers' unions' investment paid off in August, when the House of Representatives prematurely reconvened to pass the Education Jobs Fund — which added $10 billion to the $53.5 billion Congress had already approved to bail out unionized teachers.

Both government and private-sector unions were gambling on Democrats' staying in control in Washington. After the election, Scanlon told the *Wall Street Journal* that unions will be "more in a holding pattern than advancing anything. . . . We're very disappointed with the results, certainly in the House." With a Republican-controlled House, the party may end for government-employee unions. Left-leaning lawmakers passed the 2009 stimulus and other legislation, which sent $160 billion in federal tax money to the states. Much of the spending helped prevent government-sector layoffs. Rep. Jason Chaffetz (R., Utah) has already signaled he will introduce a resolution in January to oppose any federal bailout of state and local government-employee pension funds. At the end of November, President Obama, in what can only be described as an acknowledgment of the political winds and public sentiment, even proposed a freeze on federal employee pay. The move falls short of Republican proposals of reducing the size of the federal work force or pay cuts but is a step, although a very small one, toward reducing the pay gap between private and government workers.

Unions, both government and private, demand — and often get — exemptions from the laws and regulations government imposes on the rest of us. Examples abound. For instance, in a show of hypocrisy brazen even by teachers'-union standards, the New York City chapter of the AFT, the United Federation of Teachers (UFT), received an exemption from the mandatory minimum of coverage imposed by Obamacare — a bill that, incidentally, the AFT supported.

The health-care law orders that companies that provide insurance must offer a minimum of $750,000 in coverage to each employee in 2011, $1.25 million in 2012, $2 million in 2013, and an unlimited amount by 2014. The law would adversely affect businesses that offer small health-insurance plans known as mini-meds, mostly to hourly-wage temporary workers. In some cases, premiums for these businesses could double. McDonald's, which employs thousands of hourly workers, has already announced that it will have to cut health-care benefits to workers because of the law. Other employers could well follow suit.

In response — and probably because, for political reasons, it did not want a million minimum-wage workers kicked off their health-care plans weeks before an election — the Obama administration granted 30 waivers in the beginning of October; by mid-November that number grew to over 111. The waivers are good for one year and cover about 1 million people. The largest waiver went not to a corporate giant like McDonald's, but to the UFT. It requested a waiver for 351,000 members in its welfare fund. These teachers are not necessarily on the breadline and wanting for medical help: The UFT welfare fund covers up to $100,000 for their prescriptions, while New York City covers hospital and primary-care-physician treatments for them and their families. Without the waiver, though, the union would need either to pay drastically increased premiums or cut the prescription-drug benefit.

The UFT lobbied heavily for the very health-care bill that its president, Michael Mulgrew, now claims may cost too much. Mere months ago he was singing a different tune. The New York State UFT website even featured a "myth vs. fact" advocacy piece promoting the health-care bill. Here's a sample:

> Myth: Health care reform will force you out of your current insurance plan or force you to change doctors.
>
> Fact: You can keep your existing insurance; reform will expand your medical options, not eliminate them.

It seems Mulgrew's staff got the myth and fact mixed up; without the waiver, the teachers could not have kept their existing insurance.

And this isn't the first time unions have received special treatment under Obamacare. The president's "compromise" with Big Labor earlier this year exempted union health plans from the excise tax on high-end "Cadillac" plans until 2018.

As bad as they are, such federal exemptions and carve-outs are only the tip of the iceberg. As Heritage Foundation labor analyst James Sherk has found, federal workers earn a nominal 22 percent more per hour than their private-sector counterparts — and when benefits are included, the difference rises to 40 percent. Moreover, federal employees enjoy much greater job security (their employment has risen even during the recession). Small wonder federal workers quit their jobs at a rate only a third of that in the private sector. Many of the public-sector unions' greatest privileges are found at the state and local level, where they have used their political muscle to gain extremely generous compensation packages at taxpayers' expense.

Such outlandish public-employee compensation is economic folly and bad policy — so why has it gone on for so long on such a massive scale? Quite simply, because government employees have, for years, cared more about their compensation than most taxpayers have. As public-choice theory shows, organized constituencies that stand to gain concentrated benefits have a great incentive to agitate politically for those benefits. Meanwhile, the large, unorganized general population that has to pay the taxes to support those benefits has much less of an incentive to oppose them, because the costs are diffused among a much larger number of individuals, each of whom bears only a small fraction of the total.

This results in a vicious circle. Politicians kowtow to government-employees' unions, who in turn support their election campaigns. Once those pro-union candidates are elected, they can provide more pay and benefits to the unionized government employees. The union then collects dues from its members, which enables it to give more political support to the politicians, and the cycle goes on.

But politics can only trump economic reality for so long. Ultimately, such an arrangement is not sustainable. And the American people are now waking up to the fact that they're getting a very bad deal. A *Washington Post* poll in early October found that over half the population believes federal workers are overpaid; 49 percent believe they do not work as hard as their private-sector counterparts.

With state- and local-government budgets under increasing financial strain, the dangers of legally entrenched benefits to an overpaid special interest have become impossible to ignore. Cities around the country are feeling the pinch. Vallejo, Calif., was forced into bankruptcy in 2008 after all other efforts to control costs proved futile. The city spent two years trying to negotiate pay and benefit cuts with its police and firefighter unions. Those two departments made up 74 percent of the city's $80 million budget. The unions refused to contemplate any changes, arguing that cuts would compromise public safety. And their generous compensation packages came with a built-in political defense mechanism: Vallejo's 100 firefighters were paying $230 in dues a month, and its 140 police officers $254 a month — which means that the city was paying almost three-quarters of a million dollars each year to fund the war chest with which the unions fought budget cuts.

While Vallejo is an extreme example, many cities face similar problems, and are careening toward a similar fate. And to make things worse, the salaries and benefits that states and cities must pay today are not the only obligations threatening to bankrupt them. While there is a limit — however high — to how much governments can spend at any time, there is no limit to what pro-union politicians can promise their public-employee-union supporters. As a result, many state and local governments face enormous liabilities in the form of severely underfunded public-employee pensions.

In early October, Northwestern University's Kellogg School of Management showed that America's 50 largest cities have combined pension underfunding of $574 billion. This is in addition to the liabilities already owed by the states, estimated at between $1 trillion and $3 trillion by various analysts (in our opinion, the former figure is too conservative). The taxpayers, of course, have to pay for it all. And when the bill comes due, the politicians who promised those lavish pensions are long out of office, and the pension promises are somebody else's problem.

This cannot go on. We are now at a point similar to the one at which the U.K. found itself in the early 1980s. Fortunately, we can learn something from that example. When Margaret Thatcher went to battle with the public-sector unions, she pursued a two-pronged strategy: First she removed the unions' privileges; then she undermined their power base by privatizing functions wherever possible, fragmenting the unions' bargaining monopolies. If America is to shake off the burdens imposed by the public-sector-union behemoth, both of these remedies will need to be deployed, in that order.

— Iain Murray is vice president for strategy and F. Vincent Vernuccio is labor-policy counsel at the Competitive Enterprise Institute in Washington, D.C. CEI editorial director Ivan Osorio also contributed to this article, which originally appeared in the December 20, 2010, issue of NATIONAL REVIEW.