I. Presidential Address

The Role of Unions in Creating Wealth in the Early Twenty-First Century

Stephen R. Sleigh
International Association of Machinists and Aerospace Workers

Introduction

Thank you, David Lipsky, for the introduction, and good luck in the year ahead as LERA president. Your work on the Development Committee is a great contribution to this organization, and I look forward to assisting you in any way to push this initiative along.

This past year as LERA president has been a busy one for me. My day job at the Machinists Union has been filled with mergers, negotiations, strikes, bankruptcies, and the breakup of the AFL-CIO. For LERA I feel a little like I've been living the Johnny Cash song, "I've been everywhere." Over the past year I have spoke at LERA chapters in St. Louis, Atlanta, Chicago, Seattle, Detroit, Portland, Oregon, Alabama, Tennessee, Florida, New Jersey, the Carolinas, central New York, and my home chapter in Washington, D.C. My speeches have generally focused on the common interests of labor and management in addressing the crisis in health care access, affordability, and quality. My theme today is a little more one-sided: how can organized labor in the United States survive and thrive in the coming years?

The system of labor and employment relations in the United States that arose from the ashes of World War II was an important element in the establishment of democracy throughout the world. In turning back fascism and containing communism, the United States laid the groundwork for one of the greatest periods of economic growth and the expansion of freedom for peoples of all nations. At the dawn of that era one of the great statesmen from the United States who had helped shape labor relations policy prior to, during, and after World War II said "Labor and management can pay an installment on the price of freedom by striving to understand each other's point of view, by making collective bargaining work, and by learning to live together and conducting their relations in the best interests of the country" (Ching 1953, 204).

Today, sixty years after the end of World War II, making collective bargaining work in the United States is at a critical juncture. As a union activist and participant in a wide variety of negotiations, I can tell you that the idea of making collective bargaining work for the good of the country is far from my field of experience. Our challenge today in the labor movement is to remain viable as a force for social good. Since our relationship is a multilateral one—that is to say, our success or failure in the labor movement impacts business and public policy—the viability of the labor movement in the United States is important for everyone who works for a living or who worked and is now either retired or out of the workforce.

In my view unions provide the best mechanism for representing employee interests at the workplace. This should not be a controversial view in an era where Republicans are championing the democratic rights of peoples a world away. An employee's right to have a union here in the United States is a cornerstone to our democratic society, but it has been severely eroded over the past thirty years. The slow but steady decline of union density, particularly the precipitous decline of union density in the private sector, threatens the ability of unions to adequately address employees' concerns about fairness and equity in the workplace. The split within the labor movement, which occurred this past summer, between the unions that have remained in the AFL-CIO and those that left to form the Change to Win coalition has exacerbated the challenge we face in stopping the decline and developing strategies and implementing actions that address the fundamental problem of providing workers a voice independent of management. To be clear, I belong to one of the unions that has remained in the AFL-CIO and that believes that addition is not accomplished through subtraction or multiplication by division. Still, the issues raised by the Change to Win coalition are critical and deserve respectful analysis. In my view, the split within the house of labor is over personalities, timing, and tactics, not fundamental differences between the unions or the leaders who make up the two camps. Agreement exists on the need to do more organizing, to find new ways to represent workers, and to mobilize public support for issues of concern to working people.

My focus today, consistent with the theme of our conference, is how labor can more fully utilize all aspects of capital to further our members' interests, the interests of working people generally, and the country as a whole.

Challenging Times for Unions

Another way to look at the problems that organized labor faces in the United States in the early twenty-first century is to ask the question, What do unions do to create wealth? I think that answering that question is central to rejuvenating organized labor's role in society. The collective bargaining system that emerged from World War II created a framework for unions and employers, first in the private sector and then later in the public sector, to distribute the economic gains—the wealth—created by an ever-expanding economy. While unions and the workers they represented were essential to the growth of the U.S. economy, the process of collective bargaining tended to take place in industries sheltered from competition and allowed for an ever-expanding array of employee benefits and perks. All the boats were being lifted by a rising tide, and both labor and management became accustomed to generous settlements in collective bargaining.

The tide, however, began to recede in the early 1980s for these same industries, and it has taken on a strong reverse current for many of us. I remember talking with a colleague at the Steel Workers Union in the mid-1990s, during a time of robust economic growth overall, and I felt the pain he was experiencing as one steel company after another downsized, filed for bankruptcy, reorganized, or liquidated. More recently, after the terrorist attacks of September 11, one of our core industries in the Machinists Union, the airline industry, has undergone the same kind of cataclysmic restructuring. The auto industry is similarly entering into a period of painful realignment. The front cover of the Sunday *New York Times* on October 30, 2005, poignantly captured the pain that has come from this restructuring as thousands of workers have lost the retirement income they were expecting from their employer. Far from working on ensuring freedom, we are fighting to keep a modicum of dignity and economic self-reliance against forces far larger than what collective bargaining for one in ten workers can handle. And yet, for many people, outside of those directly affected, the restructuring of whole industries, even ones as essential to the economy as steel, air transportation, and auto production, has barely caused a ripple of outrage. It is as if by isolating the problem to the excesses of the industry ("bad management," "greedy unions") the public at large in the United States believes that it cannot or will not happen to them.

The challenge for unions is to engage our members and the public in a highly visible discussion about what the future looks like without unions and collective bargaining: no pensions, limited health care, stagnant or declining wages—a race to the bottom where only the strong survive. Sounds a lot like the Wal-Martization of America to me. The labor movement, progressive business, and political leaders in the United States cannot allow that model to triumph. That inequality exists both within the United States and throughout the world is clear; what that inequality does to society, and our ability to live full and free lives, is not. The recent publication of the United Nations report on the World Social Situation 2005, titled *The Inequality Predicament,* paints a bleak picture and underscores the need for a global compact to spur economic development and raise the income of workers (United Nations 2005). While the global economy expands, extreme poverty remains the reality for over half of the world's population. The imbalance between rich and poor globally, with 80 percent of the world's gross domestic product belonging to the 1 billion people living in the developed world while the remaining 20 percent is shared by the 5 billion people in developing countries, is not sustainable (United Nations 2005, 1). The doubling of the world's workforce engaged in global economic activity over the past sixteen years, with the addition of extremely low-wage labor in India, China, and the Soviet Bloc, has fundamentally altered the terms of employment for all workers. My cochair for this year's LERA program, Richard Freeman, has written a provocative piece on this that I recommend to you (Freeman 2005).

Creating Wealth in the Twenty-First Century

The challenge for American unions is to move beyond the structure of collective bargaining that evolved just before, during, and after World War II. The creation of wealth through labor and employment relations, and the union role in that process, hinges on the successful application of capital in various forms: financial, human, and social. Moving beyond collective bargaining does not mean giving up on it; far from it. What I am suggesting is a strategy that brings our goals together at the bargaining table to deliver immediate benefits to our members, with a longer-term focus on creating wealth. The following are some examples of current activities of wealth creation that may serve as models organized labor should adopt more aggressively.

Financial Capital

Money is what makes the modern market economy go, and access to financial assets is the key to success in capitalist economies. The greatest store of financial assets exists within the pension funds of large institutional investors. Many sources of leverage exist for unions in this regard: multiemployer pensions, single-employer pensions in union-represented companies, public pension funds, and defined contribution funds where union members participate. Taken together the assets in these pension and saving funds total over $6 trillion, or 60 percent of the total capitalization of the U.S. financial markets. To be clear, trustees responsible for these assets must first assure that the plan participants' interests come first and that collateral benefits only accrue without sacrificing those interests.

Developing a coherent strategy around harnessing these assets has been a work in progress greatly aided by the work of the AFL-CIO and the Council of Institutional Investors (CII). In 1996, shortly after taking the reins of the AFL-CIO, John Sweeney charged secretary-treasurer Richard Trumka with the task of creating an aggressive response to harnessing workers' capital. The results have been impressive with the creation of the Office of Investment. Together with the CII, the AFL-CIO and individual unions have pursued issues of critical concern to shareholders and stakeholders alike. Improving corporate performance, holding senior executives accountable, and making corporate decision making more transparent are outcomes that may not seem like big deals, but they have laid the foundation for further work. The stakeholder approach to corporate governance, with unions providing a mechanism for both employee voice and shareholder voice through our position as investors, has the potential to greatly democratize today's imperial corporations (Evan and Freeman 1988).

The disconnect between executives of today's large enterprises and the people who actually make the organizations work is enormous. Executive compensation gets the most attention, and for good reason. As we have seen at companies operating in bankruptcy, such as United Airlines and Delphi, where workers either have or are being asked to make huge economic sacrifices while executives heap bonuses upon themselves, unions have stood up and helped organize other stakeholders to say "Enough!" It simply is not sustainable to have an ever-increasing gulf between what the average employee in an organization makes and what its leadership makes. This is a question of fairness, but also of fiduciary responsibility, that unions must take on headfirst on both accounts. Through aggressive proxy voting, allocating significant sums to private equity sources that are committed to high road investments that recognize basic human rights, and the positive role unions can play in giving workers a voice, unions can become a major force for promoting economic growth that is based on fairness and competitiveness.

Human Capital

Unions can also play an increasing role in the development of the skills of the workforce. When workers fear for their jobs, when they do not have the security that comes from a union contract that protects them from the arbitrary decisions of management, they are less likely to spend their time learning new skills that could help the organization. We have a looming skills crisis on the near horizon in the United States. A recent report by the National Academy of Sciences concluded with this sobering observation: "The scientific and technical building blocks of our economic leadership [in the United States] are eroding at a time when many other nations are gathering strength. . . . We fear the abruptness with which a lead in science and technology can be lost—and the difficulty of recovering a lead once lost, if indeed it can be regained at all" (National Academy of Sciences 2005).

Today, companies are seriously underinvesting in the skills of the workforce. Of the 168 contracts the International Association of Machinists (IAM) has with aerospace companies, a technologically sophisticated industry, only 2 have apprenticeship programs with active participants. While we have been sounding the alarm on this issue for years, employers have been slow to understand that the long-term success of the firm depends on having a well-trained and informed workforce. For labor, developing an aggressive training program that borrows from the successes of the building trades and applying it across all sectors is a key way that we can create wealth for our members, the organizations they work for, and society as a whole.

Social Capital

The third leg of our capital strategy should be to focus more attention on what happens at the workplace itself. A well-funded company, with a skilled workforce, may still fail if all the employees in an organization do not work together well. Management has tried many different ways to overcome this hurdle: quality circles, team concepts, the Toyota production system, lean production, Six Sigma. For workers, these have become the flavor of the month as managers quickly lose interest if results are not seen immediately; if positive results are seen, then the managers get promoted and a new team comes in to try a new set of ideas. A true partnership between labor and management on workplace organization takes time and effort, and the payoff in enhanced production is more likely to follow a J-curve. True partnerships, what we in the IAM call High Performance Work Organization partnerships, require the independent voice that only a union can bring. Once realized, as in the case of Harley-Davidson and the IAM and the Paper, Allied-Industrial, Chemical, and Energy Workers International Union (PACE), true partnerships can lead to enhanced production, reduced absenteeism, more job security, and better performing bottom lines.

Conclusion

Despite the daily crises we face in the labor movement—some of our own making, some passed down to us by the external forces of globalization and technological change—I am optimistic that organized labor in the United States will play a central role in developing a response to a world that is increasingly split between the haves, the have nots, and the haves way too much! By developing a strategy to harness our capital resources, our money, our skills, and our ability to get people to work together, and by leveraging all of these assets for the betterment of our members, working people will come to see unions once again as their best source of protection in a world where individuals are at an extreme disadvantage to defend themselves. Mobilizing our capital assets, for the good of the country, will be the fight of our lives in the labor movement over the next period of time. I hope all of the constituents within the Labor and Employment Relations Association will join me in this fight as we search for the means to promote a world that is committed to human dignity, equity, freedom from need, and a fair distribution of the wealth we create.

Thank you.

References

Ching, Cyrus. 1953. *Review and Reflection.* New York: B.C. Forbes and Sons Press.

Evan, William, and R. Edward Freeman. 1988. "A Stakeholder Theory of the Modern Corporation: Kantian Capitalism." In Tom L. Beauchamp and Norm Bowie, eds., *Ethical Theory and Business.* Englewood Cliffs, NJ: Prentice Hall.

Freeman, Richard. 2005. "The Great Doubling: America in the New Global Economy." Paper delivered at the W. J. Usery Lecture Series on the American Workplace, April 8.

National Academy of Sciences, Committee on Prospering in the Global Economy of the Twenty-First Century. 2005. *Rising Above the Gathering Storm: Energizing and Employing America for a Brighter Economic Future.* Washington, DC: National Academies Press.

United Nations. 2005. *The Inequality Predicament: Report on the World Social Situation 2005.* New York: United Nations.