Strategic Planning for Labor

Union Jobs Used to be 100% Union, But Non-Competitive Union Wage Pressures Are Changing the Entire Landscape of Labor Relations

The union monopoly has been the driving force in the construction industry for years, controlling the market by limiting access only to union contractors. The construction unions abused their monopoly power, though, and pushed for unstabilizing cost increases. Now, economic competition is the driving force causing dramatic shifts away from the union to open shop construction.

The reasons for the shift to open shop stem from four forces: the non-competitive union labor costs, which have resulted from unstable wage levels; the dramatic rise of open shop competitors; the customers (general contractors and owners) have a bias toward open shop; changes in the Davis-Bacon Act have shifted much of governmental construction from union to open shop.

Noncompetitive Wages . . .

Until the 1970’s the construction unions had been able to maintain a monopolistic pricing structure. Starting in 1968 the unions began abusing their monopoly power with unstable wage increases. By 1971, the average union construction wages were 119% above average manufacturing wages. Then the federal government put the construction unions under a cartel manager, with the establishment of the Construction Industry Stabilization Committee to provide for the prior approval of all construction wage increases. This committee stopped the increase in union construction wages as compared to manufacturing wages, but the construction unions have continued to maintain the unstable wage rates. In 1982, average union construction wages were 116% above average manufacturing wages. This 116% ratio is so unstable that the union construction market is in fact collapsing. Given the present construction labor costs, it is difficult to project how union contractors can continue to compete against unorganized employers.

The chart shows the disparity in average wages between manufacturing and construction wage rates. The trend is that total construction wages have been going down in relation to manufacturing wages, while union construction wages have been going up in relation to manufacturing wages.

One logical solution is for construction unions to adjust wages and compete, but studies have shown that unions do not react to open shop penetration until it is too late.

A bigger problem is that the union construction monopoly can only have one price for wages and that price has to be the skilled wage. Therefore, the unions force union contractors to pay skilled wages, often for unskilled work.

The political problem at the local union is simply insoluble. As the open shop makes inroads, the union members have taken the short-range position: “Get all you can now, and we will ride this thing as long as we can. If it goes open shop, we will then work for the open shop.”

A union job used to be 100% union, but the non-competitive union wage pressures which have built up across the U.S. will virtually wipe out the construction unions, territory by territory. The construction unions will continue to hold on to a monopolistic pricing structure and will not adjust to be competitive with open shop market
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wages. The open shop contractors will become more and more competitive and will rapidly accelerate their market share. Union contractors will hold some of their work only because of their competitiveness. But maintaining that competitiveness will become more and more difficult. As the open shop movement increases, it will cause a drop in the union market share available to union contractors and union contractors will bid more competitively for that remaining share which will eventually squeeze them out of the market entirely.

Direct Competition . . .

Small contractors and contractors just starting out are shifting to nonunions. The nonunion competition is bidding with a dramatically reduced labor cost and is free of union wages, union work rules and union attitudes. Nonunion companies also take a more flexible approach to management. Most of the large general and specialty contractors have set up double-breasted operations, since studies show the increased labor costs of unions as opposed to nonunions.

Industrial owners were once afraid of using nonunion construction contractors for fear that internal labor
unions would object. Normally there are no problems from internal labor unions when an open shop contractor is in a plant. A few industries, such as automotive, have restrictions where industrial unions must approve any subcontracting and therefore unions do not generally approve subcontracting to open shop.

The attitude of favoring union construction is now shifting with owner concerns over cost effectiveness. Owners are making the decision to support open shop.

Large design contractors have established open shop subsidiaries. General contractors’ attitudes are now shifting from a totally union job to a “right-to-contract-with-anyone” attitude. Union and nonunion subcontracting is being mixed on the same job.

**New Regulations . . .**

The 1982 Davis-Bacon regulations are now being implemented by the Department of Labor and will have a profound effect on future federal construction projects.

Over the years, the Davis-Bacon Act has been criticized for its inflationary effect, because the prevailing rates chosen for federal projects were normally union rates, which were always higher than average rates on private projects. The new Davis-Bacon regulations are listed in “Update on Davis-Bacon Regulations”, February 1984, *Preventive Legal Management*. These regulations will have the effect of giving less weight to union wages.

These new Davis-Bacon rules will be a driving force in shifting public contracting to nonunion. In the future the Davis-Bacon regulations will mandate open shop rates instead of union rates. Prior to the new regulation, the union rate was mandated if the union could show that its union workers worked 30% of the hours in the area. The new regulations state that the union will have to be able to show 50% of the hours worked as union to force the union rate. Urban wage rates will not be accepted in rural areas, and Federal jobs will be excluded from consideration in making a wage determination.

Most union agreements have only a journeyman’s rate with a small ratio of indentured apprentices permitted to work at a lower rate (80% of the journeyman’s rate). Helpers are used commonly in open shop construction. If helpers are a part of the prevailing practice in the area, then the new Davis-Bacon regulations will allow a ratio of two helpers for every three journeymen. Since typical union agreements prohibit the use of helpers, this will weigh as a competitive disadvantage for the union contractors.

In the final analysis, union construction monopoly wages are no longer going to be protected on federal jobs, and there will be a sharp reduction in the cost of government construction. The mission of union contractors, therefore, must be to maximize opportunities in the future by expanding its open shop capabilities in order to compete and preserve market share.