

Project Labor Agreements: Economic Illiteracy 101

by Steven Greenhut

Perhaps it's the result of a dumbing-down of the American citizenry, but these days economic debates are waged with the most illogical premises.

For instance, in recent weeks news stories have discussed plans by some California cities to use tax dollars to build power plants, rather than to keep buying power from the quasi-private utility companies. The rationale: Cities don't pay taxes and don't need to make profits, so they can generate electricity more cost-effectively than Southern California Edison. No one even thought to question that premise.

Now if that were true, governments ought to be able to provide food, housing, and automobiles more cost-effectively than the private sector. The idea is called socialism. Yet in public-policy debates, this debunked ideology is gaining ground, despite what everyone supposedly has learned since the fall of the Berlin Wall.

"From the very beginnings of the socialist movement and the endeavors to revive the interventionist policies of the precapitalistic ages, both socialism and interventionism were utterly discredited in the eyes of those conversant with economic theory," wrote Ludwig von Mises in his 1956 book, *The Anti-Capitalistic Mentality*. "But the ideas of the immense majority of ignorant people are exclusively driven by the most powerful

human passions of envy and hatred."

In other words, the more economically illiterate the population, the better off the economic interventionists will be. Throw in normal human passions of envy and hatred, and sound economic thinking goes out the window. Grievous examples are all around us.

It's no surprise that organized labor has been on the cusp of economic illiteracy since the early stages of the labor movement, exploiting the passions that Mises describes. Work rules based on seniority rather than achievement, support for government-mandated minimum wages and labor standards to reduce competition from non-organized workers, and the collection of mandatory union dues from anyone who wants to work in a union-dominated industry are among the counterproductive or coercive union policies most Americans take for granted.

But as union membership declines throughout the private sector in the United States, union leaders are looking for new and innovative ways to gin up their dwindling ranks. They are having startling success, thanks to the increased amount of dollars flowing to the public sector. By imposing what are known as project labor agreements (PLA) on municipalities that hand out contracts for airports, roads, or other public-works projects, unions can bypass most of their competitors.

It's quite simple, and strikingly coercive. Organized labor meets with city councils or county boards of supervisors and offers a

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promise they cannot refuse. Sign an agreement that requires all successful bidders on public-works projects to use union-only labor, and unions won't organize picket lines or fund their political opponents.

The typical PLA, according to the nonunion Associated Builders and Contractors (ABC), includes the following elements:

- Workers must join the union or pay union dues even if they have no desire to do so;
- Construction companies with winning bids must lay off their non-union workforce and hire all new employees through the union hiring hall, based on the seniority system;
- Companies must contribute to union health and retirement programs even if the workers are unlikely to join the union and ever see a scrap of those benefits;
- Companies must use union apprentices rather than recognize non-union training programs and adopt restrictive union work rules, job classifications, and arbitration procedures.

Advocates for PLAs argue that these agreements are not unfair because non-union contractors are free to bid on the projects. Indeed they are, but if they offer the accepted low bid, they must conform to the rules above and become de facto union employers.

Where's the Benefit?

This is where Economic Illiteracy 101 comes in. Unions convince local officials that imposing these monopoly agreements on public-works contracts are in the best interest of government budgets and employ the soundest of economic reasoning.

Most of us can understand the dynamics of the situation. In Orange County, California, where I work, the Republican-dominated county Board of Supervisors embraced a PLA for all county public-works projects to win union political support for a now-defunct airport plan. This shows that

unions will use a variety of political pressure points to impose PLAs on taxpayers.

In Orange County, 80 percent of the workforce is non-union, which means that a small number of contractors are likely to bid on any project, although out-of-county contractors are free to bid. A local survey revealed the cost of an ongoing maintenance contract at the county-run airport increased about 20 percent the year after the PLA was signed, mainly due to a lower number of bidders. That figures. Most non-union contractors are unwilling to become de facto union contractors simply to get some public-works dollars, especially when the private economy is booming, which means fewer bidders and higher prices.

In January, the Beacon Hill Institute in Massachusetts completed one of the more extensive looks at the costs imposed by public-works PLAs. (Some private projects use PLAs also, but ultimately private projects must compete in the marketplace.) Their results were stunning.

"In our analysis of 52 school construction projects undertaken in the Greater Boston area since 1995, we find that costs are substantially higher when a school construction project is executed under a PLA. After adjusting the data for inflation . . . and after controlling both for the size of projects and for whether they involve new construction or renovations, we find that the presence of a PLA increases project costs by \$31.74 per square foot (in 2001 prices) relative to non-PLA projects. This price differential represents 17.3 percent of the cost (\$184 per square foot) of the average PLA project and amounts to an average of more than \$4.1 million out of the \$24.2 million cost per school."

What would one expect to happen after reducing competition?

Yet at a recent board meeting of a Santa Ana, California, community-college district that's looking to spend \$332 million from a recently passed facilities bond, the majority of board members asked the chancellor to begin negotiating a PLA with local trades unions. They insisted that it will save costs for hard-pressed taxpayers by reducing the

possibility of strikes and ensuring on-time completion. More localities nationwide are taking similar actions.

But since when do non-union contractors get hit by strikes? How can encouraging more unionization lead to fewer strikes?

“PLAs are rationalized on the basis that they buy labor peace and lead to on-time and on-budget projects,” a *Wall Street Journal* editorial stated in 2001. “But the largest PLA ever granted, the rebuilding of San Francisco International Airport, belies that. It is now \$259 million over budget, six months late and has already suffered strikes by electricians and carpenters.”

What about non-economic arguments, such as those dealing with “fair wages” and quality-of-life issues?

“Project Labor Agreements bring order out of chaos on construction jobs by setting wages, establishing work rules, and methods of settling grievances,” said one union official, quoted in a recent International Brotherhood of Electrical Workers press release. “They provide safe, fair working environments for crafts people, and they level the playing field for all competing contractors, union and non-union.”

Nearly all government-funded projects must pay union wages, so the wage issue is bogus. Non-union workplaces have better safety records than union workplaces, according to federal records. The state imposes all sorts of safety rules and, last time I checked, most states still have a legal system available for settling most types of grievances. I’m not arguing that government rules are a good thing—the private sector does a better job setting wages and fixing most workplace problems without regulators. But the existence of these rules undermines the non-economic portion of the PLA argument.

It’s really about coercion, plain and simple. It’s about building union power and cutting out competition by force of law.

Based on Coercion

The most appalling part of PLAs is that they force employers to become union com-

panies, and workers to become union members, if they wish to work on public-works projects. Here’s a typical clause from a PLA: “All employees who are employed by employers to work on the project will be required seven (7) days after their date of employment to become members and maintain membership in the appropriate union for the duration of their work on the project.”

You can’t get much more coercive than that. Join the union and pay dues to an organization that you despise and that might use the dues for political causes you oppose, or you can’t work. Many of these projects, perhaps most, shouldn’t even be done in the public sector. But until we succeed in separating school and state, or roads and state, it’s unfair to limit all such work to those who are part of a coercive, but politically powerful movement.

Ironically, as the Associated Builders and Contractors points out, PLAs discriminate against women and minorities, two groups that government officials often claim to be protecting. “Most minority and women-owned construction companies in California are subcontractors, and most of them—like the construction industry at large—are not signatory to a union,” according to the ABC. “In addition, the majority of minority construction workers in California have exercised their right not to belong to a union. Pre-hire PLAs, in effect, benefit a few minorities and women at the expense of the majority by limiting bids to companies signatory to a union.”

It’s yet another example of government rules working to undermine stated government objectives.

President George W. Bush won’t win any awards from libertarians for promoting a free society, but he at least recognized the evils of PLAs when in April 2001 he signed Executive Order 13202. His goal, the order said, was to “promote and ensure open competition of federal and federally funded or assisted construction projects . . . maintain government neutrality towards government contractors’ labor relations . . . reduce construction costs to the federal government

and taxpayers . . . expand job opportunities . . . prevent discrimination against government contractors or their employees based upon labor affiliation or lack thereof . . . [and] prevent the inefficiency that may result from the disruption of a previously established contractual relationship.”

Noble goals, even if one might raise legitimate objections to the use of executive orders in general. Specifically, the order forbids PLAs for federally funded projects, although it was later amended to exempt existing projects that already have adopted PLAs. The U.S. Supreme Court has turned back AFL-CIO challenges to the order.

But it doesn't do anything to stop PLAs for nonfederally funded projects, which means concerned taxpayers need to pay careful attention to how state transportation officials, school districts, and city councils bid local construction projects.

The Right Debates

Foes of PLAs need to understand that the economic arguments in favor of them are thoroughly bogus. They need to recognize that forcing a worker or company to support a union is coercive, and that approving a

PLA is tantamount to throwing away potentially millions of taxpayer dollars.

It's a tough chore these days. One chief of staff of a local Republican official argued to me recently that more projects should be done in the public rather than private sector because the public sector is more fair and less susceptible to the sort of unethical behavior that has accompanied the Enron and Arthur Andersen scandals.

It's hard to know where to begin. But the PLA is a prime example of what's wrong with that argument. The more projects the government finances, the more susceptible tax money is to political machinations.

Imagine if schools and roads were privately funded and paid for by parents and drivers in a market system. Sure, private companies could impose PLAs, just as many private companies negotiate with unions, but ultimately market forces would punish those companies for foolish decisions. Overpay on a contract and a competitor could come along and offer its services for less money.

This sounds simple, but too few people understand how markets work. Until they do, PLAs and other forms of socialism will flourish. □

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