THE WALKER INDUSTRIAL
OUTLOOK

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Why Labor Unions Are Desperate to Pass EFCA

Demographic Trends Point to Deep Financial Problems

The long slide in private sector union membership is well documented. The decline began in 1953, when 35.7% of the private sector work force was organized. Last year, this figure stood at 7.6%, while public sector membership has held steady around 35-37% since the mid-1980s. As if this downward trend was not alarming enough to union leaders, a deeper dive into union member demographics paints an even grimmer picture of the future of organized labor.

For example, union membership rates have exhibited a steady decline across all major racial/ethnic groups. In 1995, 14.2% of all employed whites were union members, but this figure dropped to 13% in 2000 and now stands at 12.2%. Similar declines are exhibited among blacks and Hispanics. The drop among African Americans is particularly steep, falling from 19.9% to 14.5%.

The most significant trouble sign for organized labor is the changing makeup of the work force as baby boomers approach retirement. As shown on the graph, (Page 2), over the period 1995-2008, there have been minute changes in the share of the work force comprised of workers less than 44 years of age. The number of employed 16-24 year olds has increased 2.7%, while 25-34 and 35-44 year olds fell by 1.6% and 0.3%, respectively.

The loss of union members in these age cohorts has been significant over the same period. Union membership has plunged 9% in the 16-24 year old group, 13.2% among 25-34 year olds, and 24% in the 35-44 year cohort. These groups combined represented over 60% of the work force in 2008, so it is clear organized labor has lost footing among younger workers.

Only among workers 65 or older did labor unions gain ground from 1995-2008, nearly doubling membership on jobs growth of 83%. But this is a hollow victory, as this age group comprises only 3.5% of the employed work force.

Since 2002, unions have also performed poorly across many industry sectors. While employment in the manufacturing and information sectors fell over the period 2002-2008, union membership attrition in these sectors was three to four times the rate of job loss. Even more troubling for organized labor is the loss of membership in industries which experienced job growth: retailing; transportation and warehousing; financial services and professional/business services.

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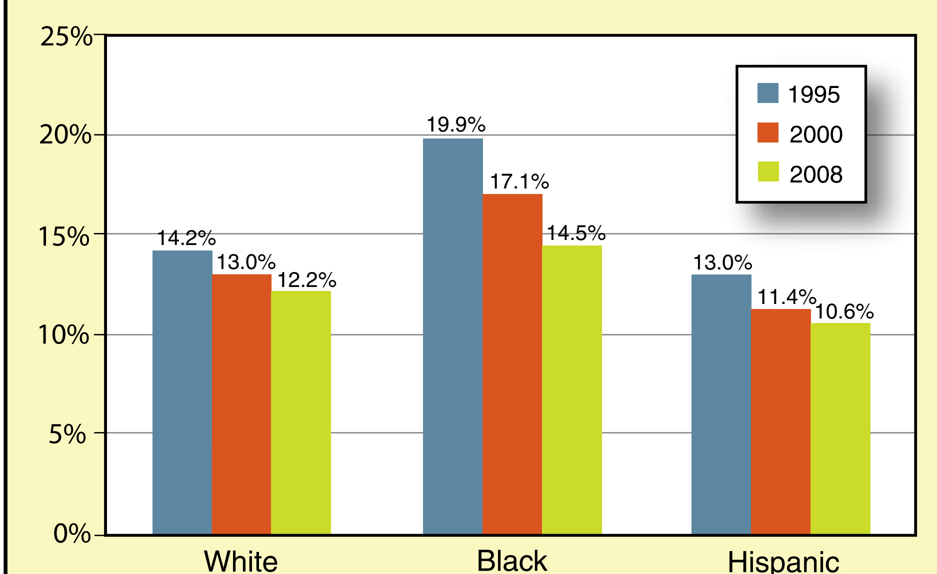
Share of Workers that are Union Members Within Racial/Ethnic Categories



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Why Labor Unions Are Desperate to Pass EFCA

Demographic Trends Point to Deep Financial Problems

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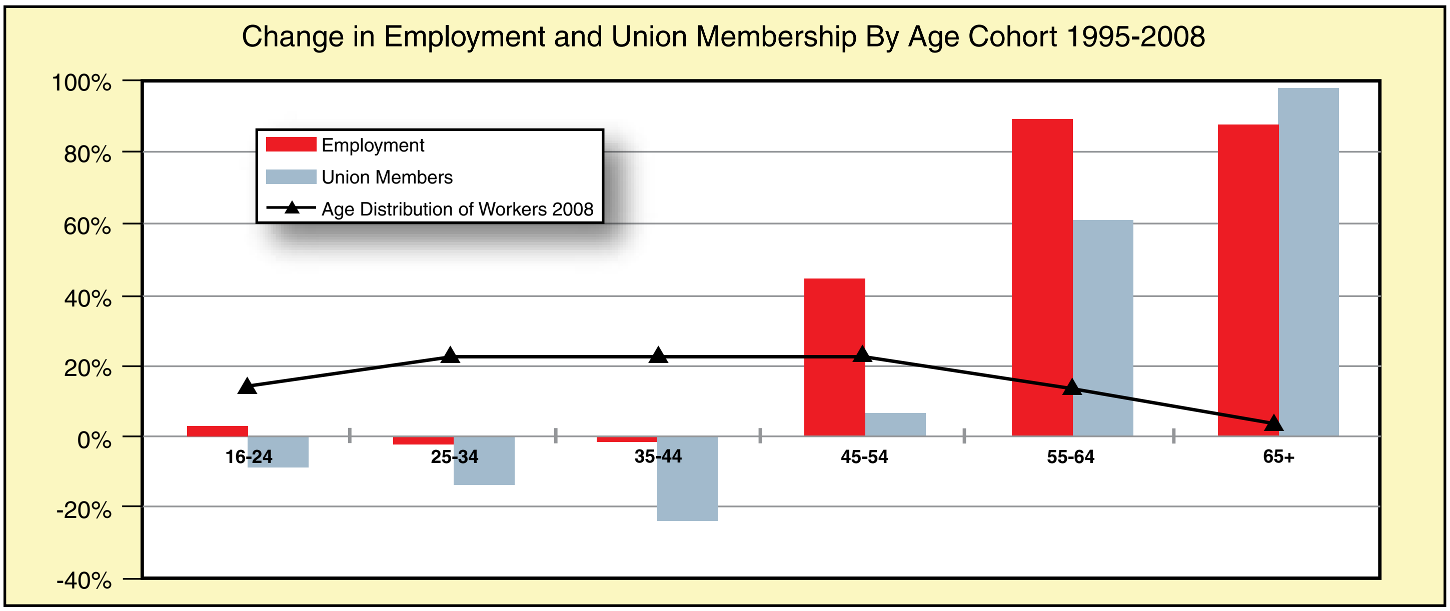
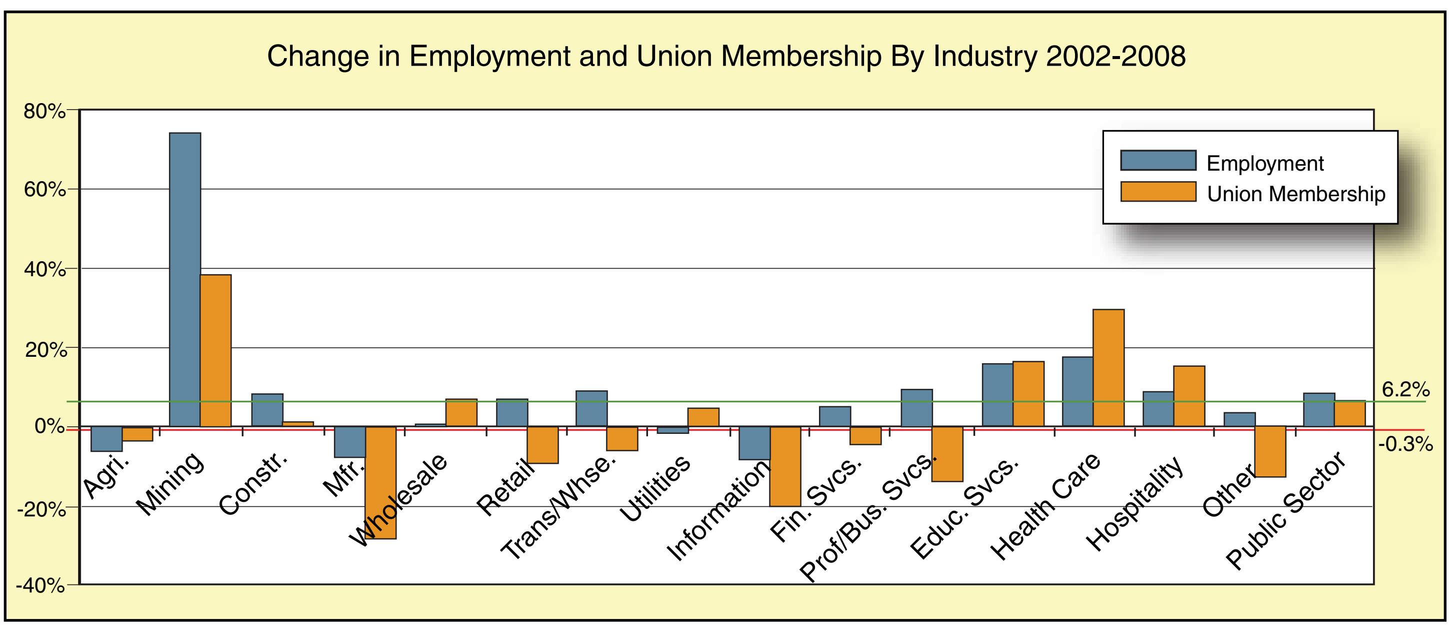
Only in the educational services, health care and leisure/hospitality sectors did union membership gains outstrip job growth. It's no coincidence these are sectors targeted by the very aggressive and successful Service Employees International Union (SEIU).

As successful as the SEIU has been in growing membership, the union's political spending is creating financial stress on the organization that may typify the situation across the labor movement in general. SEIU debt grew from $120 million in 2007 to more than $156 million last year, a 30% increase. Campaign and lobbying expenses doubled in 2008, reaching $67 million. The demographic trends described above indicate this sort of debt and spending cannot be sustained without substantial increases in membership.

Enter the beneficiary of this union largess…the Democratic party. With passage of the Employee Free Choice Act (EFCA) unions can count on government to do what the unions have not been able to do for themselves…lay the ground work for increased membership by enabling organizers to coerce workers to join.





Rotten to the (Job) Corps

Is preparing disadvantaged youth for the workplace worth the $1.5 billion annual price tag to taxpayers?

Even in this bleak economic recession, employers still scramble to find qualified workers for certain positions.

Manpower, the international employment agency, recently released (May 2009) the findings of its fourth annual survey, *The 10 Hardest Jobs to Fill.* Nearly 39,000 employers in 33 countries were queried to determine the impact of talent shortages on global labor markets. In the U.S., **Skilled Trades** ranked third in the top ten job categories experiencing a measurable talent deficit for two consecutive years--2008 and 2009. (See chart below for the complete list.)

10 Hardest Jobs to Fill in the U.S.

	2008	2009
1	Engineers	Engineers
2	Machinists/Machine Operators	Nurses
3	Skilled Trades*	Skilled Trades*
4	Technicians	Teachers
5	Sales Representatives	Sales Representatives
6	Accounting & Finance Staff	Technicians
7	Mechanics	Drivers
8	Laborers	Information Technology Staff
9	Information Technology Staff	Laborers
10	Production Operators	Machinists/Machine Operators

Source: Manpower

* Manpower defines Skilled Trades as a broad range of job titles requiring specialized skills, traditionally learned over a period of time as an apprentice, such as electricians, bricklayers, carpenters, plumbers, welders, etc.

Could Job Corps emerge as one solution to this recent shortage of U.S. skilled labor?

Administered by the Department of Labor (DOL), Job Corps is the nation's largest federally funded, residential, educational and career training program for economically disadvantaged youth ages 16-24. Many of the more than 100 technical industry occupations where Job Corps has traditionally focused its vocational training directly parallel the U.S. labor markets that now need skilled trades' workers.

On the surface, it seems a perfect pairing of supply and demand, but not at a perfect price.

Since its inception in 1964, two million youths have enrolled in Job Corps. In 2007, approximately 44,000 students were enrolled at 122 Job Corps centers across the U.S. Students typically participate an average of eight months. The curriculum consists of extensive classroom instruction and vocational skills training. Students who did not graduate from high school may earn a diploma or GED.

With an annual budget of $1.5 billion, the cost to house, educate and train each Job Corps participant for the job market during program year 2007 was a staggering $34,000! Remember, that's for a course of study that averages eight months. That would pay two years of room, board and tuition at many state universities.

Job Corps states its typical student is an 18-year-old reading at a seventh-grade level. Seventy-five percent are high school dropouts, and more than 30% are from families on public assistance.

From the get-go, an entering Job Corps student's chance of success is hindered by his/her socio-economic background and low educational attainment. One might hope a young disadvantaged adult would jump at a "second chance" opportunity for free vocational training in a high-demand career providing a good income for the rest of his/her life. Apparently the value of the nation's most expensive, taxpayer-funded, youth training program escapes an overwhelming number of its participants.

In its June 2009 Job Corps report to Congress covering the 2007 program year, the U.S. Government Accountability Office (GAO) stated that slightly more than 50% of students left the program before completion for either violating program policies such as zero-drug tolerance, or for exceeding the number of authorized absences. Only about 36% completed program requirements and graduated as scheduled.

It comes as no surprise that there are strong partisan viewpoints on the Job Corps. Conservatives and Republicans are calling for cutbacks; Democrats and labor leaders are staunch

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Rotten to the (Job) Corps

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supporters. The GAO also reported that few evaluative studies have been conducted over the years to determine whether Job Corps is cost effective, and for the ones that have been done, the results have been inconclusive.

However, a recent evaluation published by the *American Economic Review* (December 2008) assessed the impact of Job Corps on participants compared to individuals not enrolled in the program, but with demographics similar to students. For $34,000 per participant, here's the taxpayer's return on investment:

- Job Corps participants were less likely to earn a high school diploma than non-particpants (5.3% versus 7.5%).
- Job Corps participants were no more likely to attend or complete college.
- Four years after participating in the program, the average weekly earnings of the Job Corps group was only $22 more than the average weekly earnings of the control group, or 55 cents per hour over a 40-hour week.

In addition to these less-than-impressive stats on Job Corps' ROI, the program has drawn criticism for such internal problems as gang and drug activity; centers operating below capacity; poor recruitment efforts and retention of female students; and failure of Job Corps to detail performance outcomes in compliance with legislative reporting requirements by the DOL.

In May 2009, President Obama announced that 121 federal programs would receive cuts, amounting to $17 billion, or only 1/2 of 1% of the $3.4 trillion budget. You guessed it: Job Corps survived.

RAISE the Bar for Union Employees

How to Increase Wealth for Union Workers the Old-fashioned Way: Earn it!

Top labor leaders continue to hype the perceived benefits of the widely publicized, union-strengthening Employee Free Choice Act (EFCA), aka "Card Check," that the Senate failed to pass in the 110th congressional session.

But another, relatively obscure bill in the 111th Congress has greater potential to significantly advance the earning power of all unionized employees. However, unlike EFCA, this one is vehemently opposed by labor unions.

Introduced by Senator David Vitter (R-La.) and Rep. Tom McClintock (R-Calif.) on June 4, 2009, the Rewarding Achievement and Incentivizing Successful Employees Act (RAISE Act) would amend the National Labor Relations Act (NLRA) of 1935 to allow employers to pay higher wages to their employees through merit pay systems, bonuses or other incentive awards based on increased productivity or stellar performance. Current federal law caps the wages of unionized workers through collective bargaining agreements (CBAs) that establish both a wage floor and a wage ceiling.

It doesn't seem logical that an act of Congress would be required for a company to monetarily reward its most productive workers, but for union members, it actually does. Without the passage of the bill, employers who pay union employees incentive wages are committing an unfair labor practice under the NLRA or violating the terms of a CBA.

A Heritage Foundation study estimates the RAISE Act would give a union worker the opportunity to earn an annual increase of $2,600 to $4,300, money that would be pumped back into the nation's recession-strapped economy.

Ironically, the Center for Individual Freedom (CFIF), a non-partisan U.S. policy advocacy organization, points out

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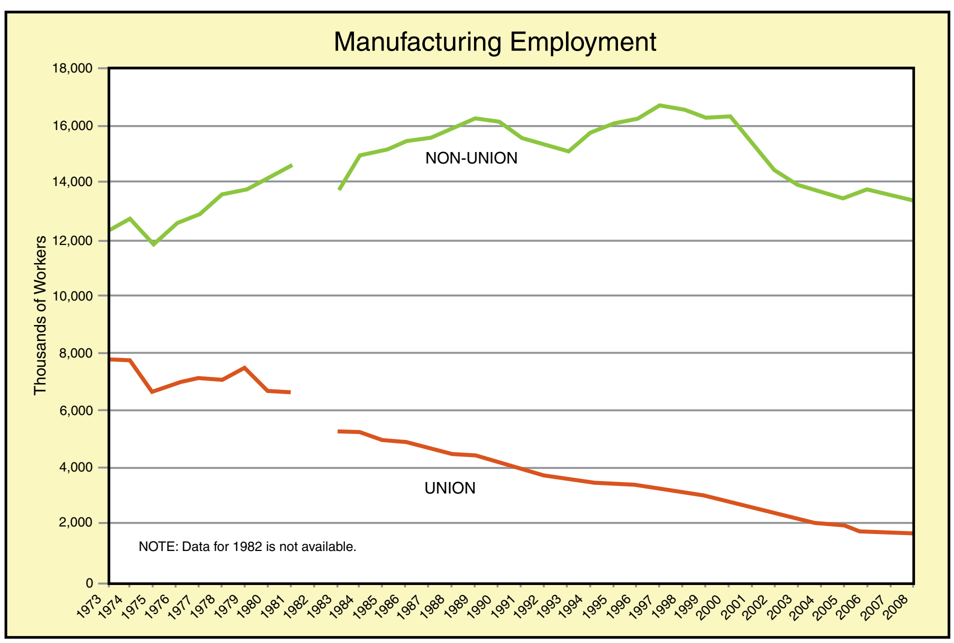


Workers' Compensation Has a Drug Problem

And You Thought Hospitalization Was Expensive

Prescription drugs account for over 19% of the medical cost of workers' compensation claims, the single largest cost item in a recent study of claims published by the National Council on Compensation Insurance. The analysis evaluated claims from 2001-2003 at 36 months of maturity, ranging from under $1,000 to more than $1 million for medical and indemnity combined.

The research confirms what has been intuitively obvious…small claims have a different cost makeup from large ones, but the finding that prescription drugs comprise such a large share of medical costs is somewhat surprising.

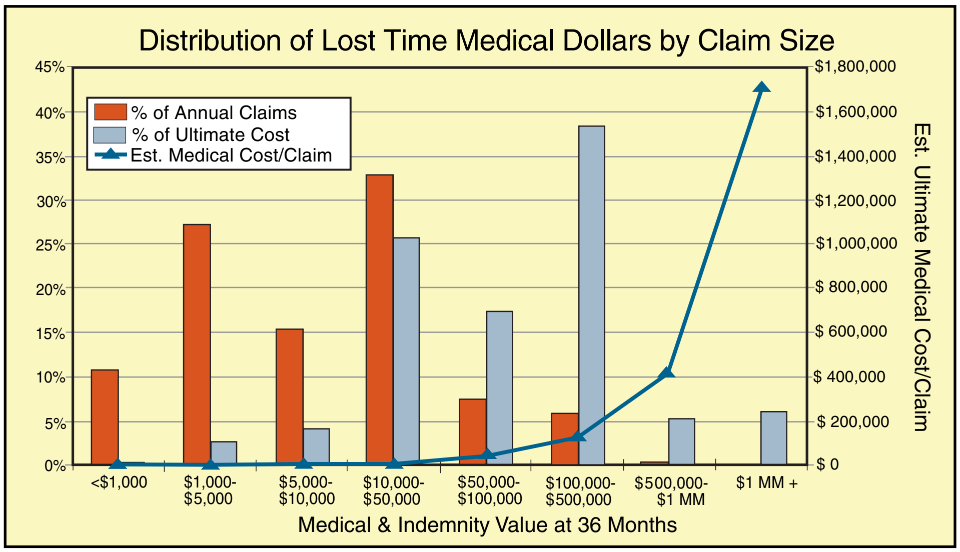
The nearby graph compares the annual claim count versus the dollar size for medical and indemnity combined, and the average medical claim within each cost category. Nearly 55% of all claims are under $10,000 for medical and indemnity combined, with an average medical claim size of $2,300. However, these claims represent only 6.9% of the total dollar value of claims filed for accidents which occurred 2001-2003.

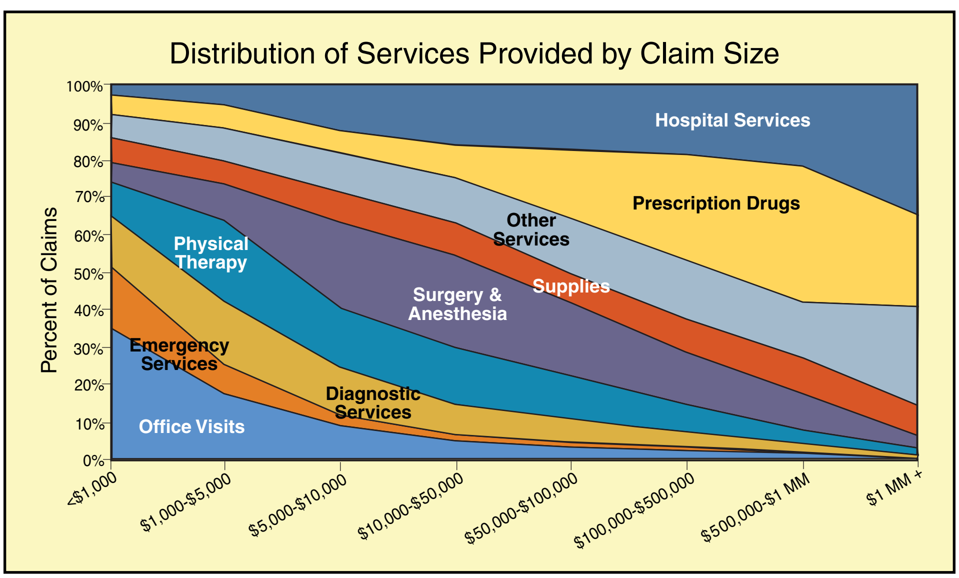
While claims in excess of $100,000 (medical plus indemnity) comprise only 6% of the number filed, they account for 40% of the cost, and for large claims, the average size of the medical portion is huge. Medical costs typically comprise 60% of the total cost of workers' compensation claims.

The major impact of pharmaceuticals on the total medical cost burden is clearly evidenced in the nearby graph. For claims with an aggregate value of $50,000-$100,000, prescription drug costs account for 19.1% of total medical expenses, and this share of total costs increases sharply as the size of the claim increases. Drugs account for 28.9% of total medical costs when claims are $100,000-$500,000, and 36.7% of claims $500,000-$1 million.

The cumulative change in the consumer price index for medical care from January 1999 to January 2009 was 50%, compared to only 28% for all items. Corporations are advised to understand the workers' compensation environment before picking a location for a new manufacturing plant or distribution center. Not only do companies pay dearly after a claim is filed, but the cost of the insurance is high, and varies considerably from state to state. Within the 48 contiguous states, Montana and Ohio have the highest average workers' compensation premiums at $3.50 and $3.32 per hundred dollars of payroll, respectively. North Dakota at $1.08 per hundred, and Indiana at $1.23 per hundred, have the lowest average premiums.

The fact two adjacent states, Ohio and Indiana, are at opposite ends of the cost continuum on this important business expense underscores the significant geographic variability of selected costs, even between locations that are very close to one another.





High Corporate Tax Rates Kill U.S. Competitiveness

Falling Behind by Standing in Place

Well over 90% of U.S. exports are manufactured products. After several years of improvement in the cost structure of U.S. manufacturing, domestic producers are bracing for significant erosion in U.S. competitiveness due to cost increases largely outside their control. Not surprisingly, the federal government is a major influence on these external costs, either directly or indirectly.

A recent study published jointly by the Manufacturing Institute and Manufacturers Alliance/MAPI examines the impact of corporate taxes, employee benefits, pollution abatement, energy costs and tort liability on the cost competitiveness of U.S. producers versus those in nine major industrial trading partners.

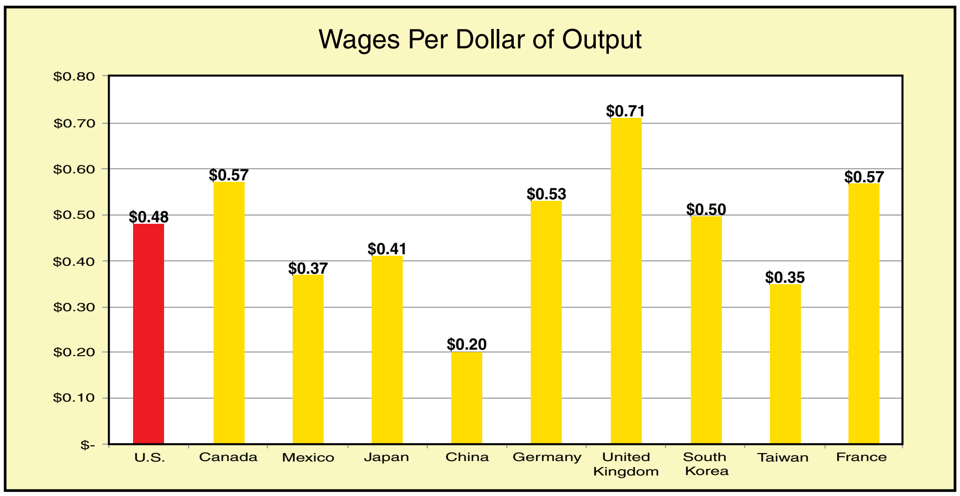
U.S. wages per dollar of output, a measure which reflects not only wages but productivity, are $0.48, which compares favorably with five of the nine industrialized trading partners profiled in the research. Only Mexico, Japan, China and Taiwan had lower wages per dollar of output.

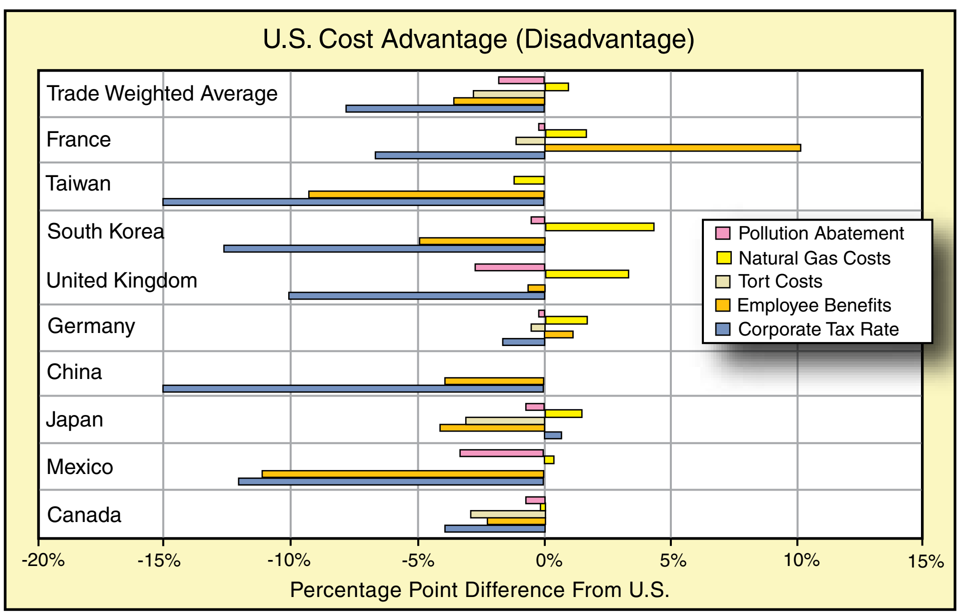
But this strong showing by U.S. producers does not reflect the added costs of taxes, energy and other factors outside their control. The disadvantage imposed on U.S. manufacturers is illustrated in the nearby table, which quantifies the penalty to domestic producers in five areas: corporate taxes; employee benefits; tort costs; natural gas costs; and pollution abatement.

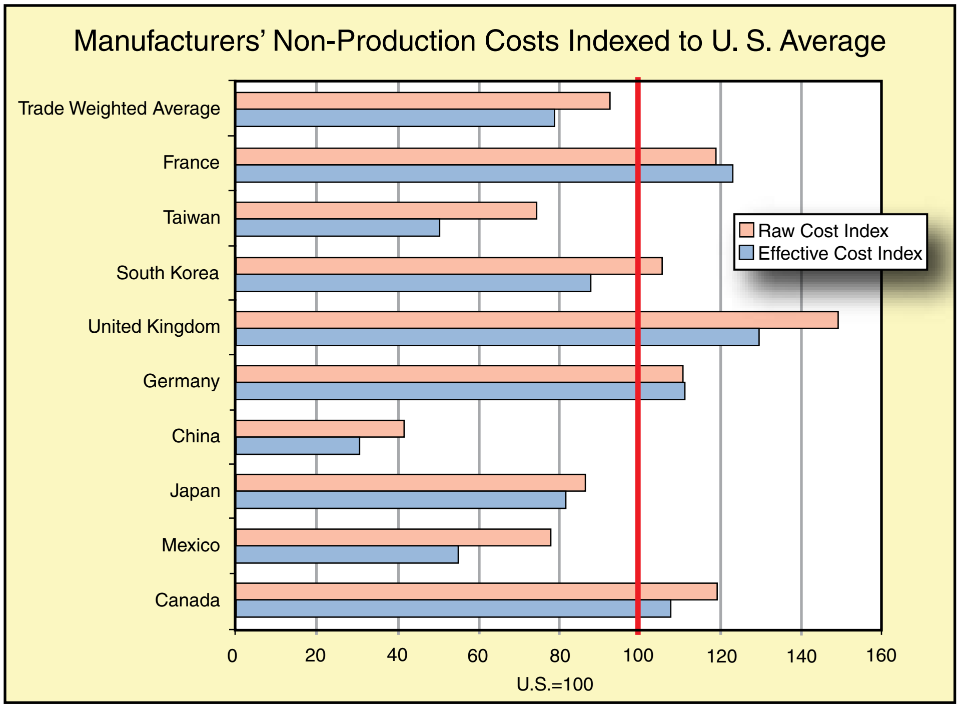
The biggest single cost disadvantage of U.S. manufacturers is in corporate tax liability. Only Japan has higher corporate tax rates, and most of the countries examined have rates far below the U.S. Aggregating all nine countries on a trade volume-weighted basis, the study estimates the penalty against U.S. producers is 7.8 percentage points.

Countries without abundant natural gas resources suffer cost penalties versus the U.S., with South Korea, the United Kingdom, Germany, France and Japan experiencing the greatest penalty.

The net impact of these five costs is seen in the chart on page 7. The Raw Cost Index reflects only labor costs per dollar of output indexed to the U.S. (denoted by the red vertical line). The Effective Cost Index adjusts the labor cost to







reflect the cost impact of taxes, pollution controls, tort liability costs, natural gas costs and employee benefits. Again, this adjusted figure is indexed to the U.S. The mature economies of France, the United Kingdom, Germany and Canada have higher cost structures than the U.S., while the developing markets of Taiwan, South Korea, China and Mexico are significantly more cost competitive.

Logic would say this is the expected outcome, but don't forget that based on wages per dollar of output, the U.S. is pretty competitive with Mexico, Japan and Taiwan, and actually below South Korea. The competitive disadvantage is an imposed cost, most notably corporate taxes, over which manufacturers have little control.

The political winds blow ill for U.S. producers in the international arena today, so expect the cost disadvantages to be magnified.

- The federal government has stymied attempts to develop domestic natural gas resources, and the mandates for expensive renewable energy and cap-and-trade will increase energy costs further.
- Neither President Obama nor the Congress seems to have an appetite for reducing corporate taxes. Given the spending orgy that has seized Washington, taxes are more likely to increase than go down.
- After some headway on tort reform under the Bush administration, expect the trial bar to flex its political muscles and get some return on its campaign spending. Democrats received 76% of the $236 million contributed by lawyers in the 2008 election cycle.
- Health care costs are ever increasing, but the Obama administration is not content with a market-driven solution. When the federal government gets involved, expect even higher costs.

There is also some risk U.S. productivity gains will be eroded if the Employee Free Choice Act (EFCA) is passed, even in some watered-down form. Any legislation that leads to increased unionization or mandatory federal arbitration of labor contracts will ultimately raise costs and reduce productivity. ■

RAISE the Bar for Union Employees

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that the additional earnings would be three to five times higher than the tax cuts President Obama promised to the middle class.

Economic research shows that the average worker's earnings rise by 6% to 10% when wages are performance driven. This type of legislative incentive would potentially provide 8.6 million union members covered by the NLRA the ultimate economic stimulus by creating wealth (not redistributing it) through their own hard work.

This compelling data begs the question: Why would labor unions oppose this no-brainer legislation to reward workers for initiative and productivity? The answer is simple… workers earning more than their contract wage rates understand it is their individual effort—not the union—that enabled them to prosper, and this weakens a union's attraction to its members.

While the NRLA may have been necessary legislation for the assembly-line manufacturing economy of the 1930s, it no longer benefits the workers in today's fastest-growing, highly skilled professions—executive, technical, sales and professional-specialty occupations. The simplicity of the RAISE Act–maintaining the wage floor, but lifting the wage ceiling–embodies President Obama's vision for American workers to succeed through performance and productivity. ■

As The Industrial Outlook goes to press, both the House and Senate versions of the RAISE Act have been referred to the House Committee on Education and Labor, and the Senate Committee on Health, Education, Labor and Pensions, respectively.

THE WALKER INDUSTRIAL
OUTLOOK

"U6" Unemployment Stats Might Make "U Sick"

The Figures the Media Report Don't Tell the Whole Story

The official rate of unemployment recognized by the U.S. Department of Labor is on course to reach double digits by Summer 2009. This comes as no surprise, with corporate giants like General Motors filing for bankruptcy and cutting tens of thousands of jobs. However, an alternative, more comprehensive measure of unemployment suggests the current situation is much worse than the commonly reported numbers indicate.

In 1994 the Bureau of Labor Statistics revised its methodology for measuring employment in the U.S. to include both unemployed workers, as well as all other forms of labor underutilization. The government now compiles unemployment figures in six different categories (U1-U6). U3 is accepted as the official rate, and includes the unemployment measures widely reported in the media familiar to everyone, but the numbers tend to downplay the bad news.

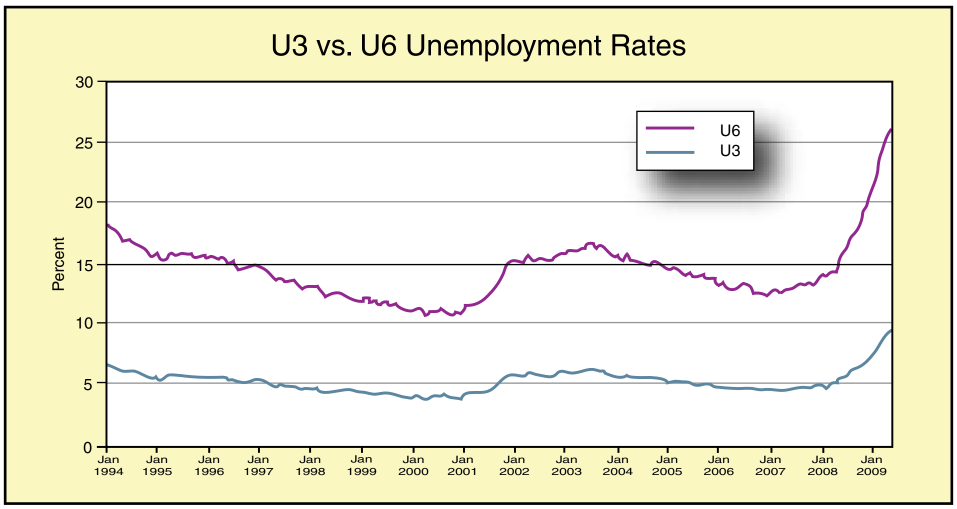
U6 encompasses the broadest range of labor underutilization. It includes workers in the U3 calculation plus those employed part time due to the economy. Someone who wants full-time employment but settles for a part-time position falls into this category.

But the U6 figure also includes "discouraged" and "marginally attached" workers. Marginally attached workers want and are available for work, but have not actively searched in the past month. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not looking for work recently. These people are unemployed, but excluded from the data set used to compile U3.

When the recession began in December 2007, U3 and U6 were at 4.9% and 8.7%, respectively. Fast forward to May 2009. U3 was 9.4% and U6 reached an all-time high of 16.4%.

The numbers are highly correlated, which demonstrates that as the unemployment rate increases, so too does the portion of the population suffering from other types of work deficits.

The inclusion of the U6 measure in unemployment statistics provides greater visibility into the state of the economy. Whether unemployed or underutilized, many out-of-work Americans are excluded from the official U3 measure, dramatically understating the number of workers who have been or are currently looking for jobs.



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