

# OPEN SHOP GAZETTE

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In the September 11, 2008 *Orange County Register*, columnist George Will wrote the following column titled the *Price of Appeasing Unions*. This really puts the Vallejo problem in prospective.

“Mayor Osby Davis, who lived in this waterfront city across San Pablo Bay from San Francisco for 60 of his 62 years, says: “If you have a can that’s leaking two ounces a minute, and you put an ounce a minute in it, it’s going to get empty.” He is describing his city’s coffers.

Joseph Tanner, who became city manager after this municipality of 120,000 souls was mismanaged to the brink of bankruptcy, stands at a white board to explain the simple arithmetic that has pushed Vallejo over the brink. Its crisis – a cash flow insufficient to cover contractual obligations – came about because (to use figures from the 2007 fiscal year) each of the 100 firemen paid \$230 a month in union dues and each of the 140 police officers paid \$254 a month, giving their respective unions enormous sums to purchase a compliant City Council.

So a police captain receives \$306,000 a year in pay and benefits, a police lieutenant receives \$247,644 and the average for firefighters – 21 of them earn more than \$200,000 including overtime – is \$171,000. Furthermore, police and firefighters can store up unused vacation and leave time over their *careers* and walk away, as one of the more than 20 who recently retired did, with a \$370,000 check. Last year, 292 city employees made more than \$100,000. And after just five years, all police and firefighters are guaranteed *lifetime* health benefits.

Even the City Council at last has faced facts and voted 7 – 0 for bankruptcy. “The day after they voted,” Davis says, “I didn’t go out of the house – I was that embarrassed.”

In other states, municipalities can pay for improvident labor contracts by increasing property taxes. But Vallejo’s promises were made in the context of Proposition 13, which 30

years ago wisely restricted California politicians’ reach for property taxes. In 1996, the Navy base in Vallejo closed, which probably pleased some local liberals who share the anti-military mentality of San Francisco, to which some Vallejo residents commute by ferry. Liberals who, Tanner says dryly, “want Vallejo to look a certain way,” were pleased when Wal-Mart moved to an adjacent town, which now reaps the sales tax revenue.

Vallejo is an ominous portent for the other cities, and some states, few of which are accumulating financial resources sufficient to fulfill pension promises they have made to their employees. Are you weary of worrying about the crisis du jour – subprime mortgages and all that? Get a head start on worrying about the next debacle by reading Roger Lowenstein’s new book, “While America Aged: How Pension Debts Ruined General Motors, Stopped the NYC Subways, Bankrupted San Diego and Loom as the Next Financial Crisis”.

“Next”? It has already arrived in Jefferson County, Ala., which includes Birmingham. Like Orange County in the 1990’s, Jefferson County made risky investments in a desperate attempt to achieve a growth of assets commensurate with the cost of an infrastructure project. When San Diego was in the process of earning the sobriquet “Enron by the sea,” firemen could retire at age 50 with 90 percent of their pensions – almost full pay for not working during half of their expected adult lives.

Credit Suisse estimates that state and local governments have a cumulative \$1.5 trillion shortfall in commitments for retiree health care. But it is the pension crisis that most dramatically illustrates Lowenstein’s thesis about the slow accretion of power by unions. Pensions “are a perfect vehicle for procrastination; in the financial world, they are the most long-enduring promises that exist.” Human nature – the propensity to delay the unpleasant – rears its ugly head: When pension benefits come due, the people who promised them, thereby buying labor peace, and win-

ning elections, are long gone.

Vallejo's unions contend that the city is solvent enough to meet its obligations. But a court disagreed, holding that the city is eligible for bankruptcy protection. A lawyer for Vallejo says the unions will have to negotiate a "plan adjustment." Other cities are watching, perhaps including the one across the bay.

San Francisco recently reported that 184 of its employees made at least \$30,000 apiece in overtime in the first half of this year. A nurse at the county jail made \$128,000 in overtime, putting him on track to top his total 2007 compensation of about \$350,000. Nice work if you can get it, and you can get it many places."

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On September 2, 2008, the following editorial appeared in the *Orange County Register* editorial section. This was written by Dan Walters (one of my favorites) who is a columnist for the Sacramento Bee. This editorial is titled *Not your grandpa's unions*.

"Labor Day 2008 found California labor unions enjoying political hegemony in a largely Democratic state and looking forward to Democratic gains in the legislature this year, even if the economy is hurting.

After years of losses, unions are also seeing a surge in membership, having gained a full percentage point of the workforce from 2006-07. But it certainly isn't your grandparents' labor movement.

World War II rapidly transformed California's economy from one based on extracting natural resources from the land and sea into one based on manufacturing products, first for war and later for both civilian and military customers.

Auto-assembly plants, aircraft factories, shipyards, steel mills, refineries, canneries, lumber mills, tire factories and other manufacturing facilities dotted the landscape, providing employment to millions and fueling a massive expansion of labor-union membership to nearly a quarter of the workforce.

The deindustrialization of California happened just as quickly beginning in the 1970's. Corporate consolidation, competition from other nations, as well as California's high business and living costs and ever-tightening regulatory atmosphere, resulted in countless factory closures. In the early 1990's,

the state's last remaining major industrial sector, aerospace, collapsed with the end of the Cold War.

California did not, thankfully, become another Rust Belt state. Its economy made another rapid transition to a post-industrial mélange of technology, communications, services and trade, the latter driven by a surge in Pacific Rim commerce. But the new economy, as many termed it, was largely nonunion for a variety of reasons. Union membership stalled.

In 1983, California had 2.1 million union members, nearly 22 percent of its labor force. Today, union membership is only a bit higher at 2.5 million, according to the U.S. Department of Labor, less than 17 percent of the state's workforce. And the decline would have been much steeper had it not been for 1970's legislation, signed by then Gov. Jerry Brown, that installed collective bargaining for public workers. Only about 10 percent of private employment is unionized.

A significant effect has been a reorientation of labor's political involvement. When private-sector unions were dominant, they were often virtual political partners with business, promoting public works and resisting regulation.

Jack Henning, for many years the head of California Labor Federation, once complained that Brown's administration contained "Mad Hatters...who will, if they have their own way, drive all significant industry out of California."

As public-worker unions became dominant, however, they – quite logically – viewed politics as a means to enhance salaries and benefits for their members. They became, for all intents, the dominant segment of the state's Democratic Party, spending many millions of dollars in each election cycle to hold that position."

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Tom Brickley, Open Shop Chair, requests that you please attend a hosted Open Shop Luncheon on Wednesday, October 15, 2008, 12:00 noon, at the Hyatt Grand Champions Resort and Spa, Hibiscus B, 44-600 Indian Wells Lane, Indian Wells.

Michael Cable, Atkinson, Andelson, Loya, Ruud & Romo, will provide a Wage/Hour Case Law Report.

Please confirm your attendance to Bill Hamilton at (909) 885-7519 or [hamiltonw@agc-ca.org](mailto:hamiltonw@agc-ca.org).

