Testimony
House of Representatives
Subcommittee on Health, Employment, Labor, and Pensions
"Strengthening America's Middle Class Through the Employee Free Choice Act"

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February 8, 2007

Americans are confronting a troubling paradox. Polls tell us a record 58 percent of eligible workers would join a union if they could (Peter D. Hart Research Associates, 2007) while the Bureau of Labor statistics informs us that union membership in the private sector has slid to 7.4 percent in 2006, a record low (BLS, 2007).[1]

What causes this growing gap between employee preference and workplace reality? It reflects the fact that for many Americans joining a union has become a risk rather than a right. According to the 2005 National Labor Relations Board (NLRB) annual report,[2] 31,358 people—or one worker every 17 minutes—were disciplined or even fired for union activity. The result is a big chill on union organizing and a "democracy deficit" for the entire society.

Shrinking union membership impacts all Americans. Unions paved the way to the middle class for millions, pioneering benefits such as paid pensions and health care. Now labor's plummeting numbers contribute to a squeeze on the middle class, rising inequality, and an erosion of democratic values.

In 1935, during the dark days of the Great Depression, Congress passed the National Labor Relations Act (NLRA), often called the Wagner Act, guaranteeing workers the right to organize and bargain collectively. It was immediately hailed as labor's "Magna Carta." Since then, amendments, court rulings, and administrative decisions have turned the Act on its head. Congress never voted to repeal this legislation yet many workers have seen their fundamental right to organize eroded in the way the Act is now implemented.

Today, if workers seek to organize, the NLRB generally sets a secret-ballot election a month or two following the formal request. (Although in some cases legal procedures delay the election up to several years.) During the period between the request and the

1 Even if you include government workers, the numbers inch up to only 12 percent.

2 According to 1993–2003 NLRB Annual Reports, an average of 22,633 workers per year received backpay from their employer. The NLRB orders employers to award back pay to workers they illegally fired, demoted, laid off, suspended without pay, or denied work as a result of their union activity (American Rights at Work, 2007).

election, the company retains overwhelming power to influence the outcome of the vote. According to *Fortune* magazine, "workers are routinely fired or discriminated against for supporting unions, most employers hire anti-union consultants to block organizing drives and some go so far as to close down work sites when employees vote for a union" (Gunther, 2006). Penalties are virtually nonexistent for violating workers' diminished rights by, for example, firing individuals for union activity. It's not just that the playing field is tilted against organizing; unions are barred from the stadium.

Nonetheless, you might say, "What's undemocratic about a secret-ballot election?" The secret-ballot is appropriately considered sacred in a democracy, but it requires a democratic context to be meaningful. Today, NLRB-supervised elections often take place in highly coercive environments. As a result, they approximate plebiscites in a dictatorship rather than a functioning democracy. The votes may be counted honestly, but the outcome ratifies the inequitable atmosphere in which the vote occurs.

The Employee Free Choice Act (EFCA) seeks to provide a more democratic context. What the Act does is simple: it allows workers to form a union if a majority of employees in a workplace sign up for one. In addition, it provides meaningful penalties for violating workers' rights and insures that collective bargaining results if workers choose a union. The Act restores balance to a system that currently is driven by aggressive employers, anti-union consultants, coercion, and fear.

Two broad themes run through this testimony: first, declining unions fuel "the Great Disconnect"-rising productivity decoupled from wages and, second, more robust unions contribute to a "High Road Competitiveness" a more broadly shared prosperity that benefits working families as well as consumers and shareholders.

The Great Disconnect

These are tough times for America's working families. During a period of robust economic growth, record profits, and the fastest sustained productivity increases since the 1950s, only a thin slice at the top of the economic heap is enjoying higher living standards.

We are living through a period that might best be termed the "Great Disconnect" since the economy is growing and wages are flattening. The good news is that productivity expanded by a healthy 20 percent between 2000 and 2006 (Mishel, 2006 :2); the bad news is that most of this has bypassed workers. Real wages, Larry Mishel tells us, whether we're talking about a median worker or a college graduate, will have edged up about 2 percent as a spillover from the late 1990s (Ibid).[3] Between 1966 and 2001 only the top 10 percent of taxpayers scored increases in real labor income per hour that kept up with productivity growth, according to economists Ian Dew-Becker and Robert J. Gordon. "The bottom 90 percent of the income distribution fell behind or even were left

3 Productivity rose 33.4 percent during the 1995–2005 period, making the economic pie substantially larger. Most of this growth, however, did not find its way into paychecks. The typical worker saw health and pension benefits rise by about half the rate of productivity growth and wages increase only one-third that rate between 1995–2005 (Mishel 2007: 112-113).

out of the productivity gains entirely" (2005: 78). While life has been good at the top, more recently it has become absolutely regal at the very top. Dew-Becker and Gordon found that "the top one-tenth of one percent of the income distribution earned as much of the real 1997–2001 gain in wage and salary income *as the bottom 50 percent"* (2005: 59). This income distribution is so extreme that even the top 1 percent feel they are among the dispossessed. It's hardly a surprise that *The Economist* magazine noted in summer 2006 that "Growth is fast, unemployment is low and profits are fat… [Yet] only one in four Americans believes the economy is in good shape. While firms' profits have soared, wages for the typical worker have barely budged" (2006).

During the first five years of the Bush administration, U.S. firms expanded their share of the economy more rapidly than during any period since World War II. Profits stemming from current production as a share of national income have jumped from 7 percent in mid-2001 to 12.2 percent at the beginning of 2006, the highest increase since data collection began in 1947 (Swan & Guerrera, 2006).

Business analysts across the political spectrum now widely acknowledge that the link between a strong economy and middle class hopes is broken. Henry Paulson, President Bush's Treasury Secretary, admitted in August 2006 that "amid this country's strong economic expansion, many Americans simply aren't feeling the benefits" (Paulson). Paul Krugman concurred, stating "all indicators of the economic status of ordinary Americans—poverty rates, family incomes, the number of people without health insurance—show that most of us were worse off in 2005 than we were in 2000, and there's little reason to think that 2006 was much better" (Krugman, 2006[a]: 48).

Even President Bush has commented on the situation recently. "I know some of our citizens worry about the fact that our dynamic economy is leaving working people behind," the President stated. "We have an obligation to help ensure that every citizen shares in this country's future. The fact is that income inequality is real; it's been rising for more than 25 years" (January 31, 2007).

Compare today's Great Disconnect to the period spanning the Great Depression and World War II, a period Goldin and Margo referred to as the "Great Compression." This earlier period was characterized by wages that rose with productivity growth and declining inequality. One major difference between the Great Compression and the Great Disconnect is the trend in union membership. As Paul Krugman points out "government policies and organized labor combined to create a broad and solid middle class" (Krugman 2006[b]: 46). Needless to say, the bargaining clout of unions when they represent almost one out of every three workers—as they did soon after World War II—is far greater than when they represent fewer than one out of every eight workers. As a result, Krugman tell us, "we're seeing the rise of a narrow oligarchy: income and wealth are becoming increasingly concentrated in the hands of a small, privileged elite" (Krugman, 2006).

The decline of the labor movement exacerbates income inequality not only directly but also because it diminishes the role of unions in shaping public policy. For example, partly as a result of labor's diminished clout, an increase in the minimum wage has been blocked in recent years. Tax policy, to take a second example, has favored the rich, leading to smaller revenues to invest in health care, education, and other public programs that benefit the middle class. A stronger labor movement would have produced different tax and spending policies.

Alan Greenspan, in testimony before Congress on July 21, 2005 noted that growing inequality of income and wealth are "very disturbing." He added that "…a free market democratic society is ill-served by an economy in which the rewards of that economy [are] distributed in a way which too many of our population do not feel is appropriate…I think it is a major issue in this country." For those who don't remember the 1920s, we are bringing back that decade's income distribution.

Unions—The Folks that Brought You the Middle Class

"Unions," the bumper sticker goes, "the folks that brought you the weekend." In fact, unions brought America its first broad middle class. Even today, union wages are higher and benefits more extensive than in comparable nonunion workplaces. Union members enjoy higher compensation directly, but the far larger nonunion sector benefits as well. Unions' influence on wages is felt most strongly by workers at the bottom and middle of the wage scale, where it also narrows the historic gaps associated with race and ethnicity. As union membership slides, however, both unions' ability to raise wages for their members and spin-off benefits for nonunion workers erode, wiping out the middle class dreams of many Americans.

Bureau of Labor Statistics data indicate a union wage advantage of 28.1 percent for wages and 43.7 percent for total compensation—wages and benefits (Mishel et al., 2007: 181). Another analysis that controls for factors such as experience, industry, education, and region shows a smaller but still significant 14.7 percent union premium (Ibid.) This second study records a higher union premium for African Americans (20.3 percent), Hispanics (21.9 percent), and Asians (16.7 percent) (Ibid.).

Union gains flow to nonunion workers, particularly in industries with high union density. Simply put, employers match what unions win to avoid unionization. Farber (2002, 2003) found that the overall impact on nonunion wages—the combined extra gains that all nonunion workers receive—approaches the total gains for union members, a major boost for consumer demand throughout the economy (Mishel and Walters, 2003: 10). The corollary is that as unions decline so does this payout. According to Farber (2002: 1), "more than half of the decline in the average wage paid to workers with a high school education or less can be accounted for by the decline in union density."

The story is similar for employee benefits, an area in which unions played a pioneering role. Two features characterize the union advantage for benefits: a higher percentage of unionized workers are covered, and they receive richer benefits than in the nonunion sector. Take health care: 28.2 percent more unionized workers are covered, and they receive 15.6 percent higher coverage for families (Mishel et al., 2007:184). The story for pensions is similar: 53.9 percent more union workers are covered, and their employers spend 36.1 percent more on the generally preferred defined-benefit plans[4] (Ibid). As union density slips, so do worker benefits. Over the period 1983–97 the proportion of workers receiving employer-provided health insurance slid by 8.3 percentage points to 62.8 percent, and the drop in union density explains about 20 percent of this decline (Buchmueller et al., 1999: 8).

Unions are particularly important for those stuck at the bottom of the wage scale. "Because unions boost workers' bargaining power and help them win a greater share of productivity gains," according to *Business Week,* "any resurgence would give low-wage workers more clout to deal with the effects of factors such as globalization, immigration, and technology" (Conlin and Bernstein, 2004). Blanchflower and Bryson (2003: 30) underscored this claim, finding in their research that "unions are particularly good at protecting the wages of the most vulnerable workers."

Beyond the benefits that show up on a pay stub, unions have helped to weave a broader social safety net that provides security for the middle class. Labor has championed state-level programs such as Workers' Compensation and Unemployment Insurance. These programs tend to be stronger and more inclusive for all workers—union and nonunion alike—in states where unions are stronger, reflecting the political strength of the labor movement. And research underscores the fact that unionized workers have better access to social safety net programs such as these (Weil, 2003: 15).[5]

High Road Competitiveness

Few dispute that the union advantage results in organized workers earning more than their nonunion counterparts. Some, however, argue that we can no longer afford this premium in a fiercely competitive domestic and global economy. Competitiveness, however, is linked to productivity, quality, and innovation as well as labor costs. And, when it comes to labor costs, low unit costs are critical, not simply low wages. For example, a worker producing 10 widgets an hour who earns $20 has a unit labor cost of $2 a widget; a worker producing 1 widget an hour who earns $5 has a unit labor cost of $5 a widget. In this case, higher wages lower labor costs. In fact, higher wages can serve to enhance productivity, quality, and innovation, as well as reducing turnover. The result is a high road path to competitive success that benefits workers and communities as well as shareholders.

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4 Another study that controls for factors such as sector and establishment size finds that union workers are 18.3 percent more likely to have health insurance and 22.5 percent more likely to enjoy pensions, still a significant premium (Ibid).

5 In the case of unemployment insurance, Budd and McCall (1997) estimate that unionized unemployed workers in blue-collar occupations are 23 percent more likely to receive these benefits than their nonunion counterparts (Mishel and Walters, 2003: 12). A similar situation exists for workers' compensation benefits. "Union workers are far more likely than nonunion workers," Hirsch et al. (1997) write, "to receive benefits from workers' compensation, and the likelihood of a claim is more responsive to differences in benefit levels among union than nonunion workers."

Consider the role of productivity. When Henry Ford introduced the assembly line in 1913 in his Highland Park plant near Detroit, productivity shot up. So did costly turnover. In response Ford doubled the prevailing wage in the auto industry in January 1914 to what became the legendary five-dollar day. Many observers, including his competitors, predicted Ford's ruin. Instead, he was able to cut the price of the Model T, pay his workers substantially more, and increase his profits significantly. "A low wage business is always insecure," Ford commented. The five-dollar day "was one of the finest cost cutting moves we ever made" (Raff and Summers, 1986: 3). Ford pioneered the high road to competitive success, but many factors caused American industry to seek exit ramps. It took the rapid rise of unions later in the century to link rising productivity to worker wages more permanently. The result was competitive firms and a growing middle class.

The economics literature indicates that unionization and high productivity often go hand-in-hand. Fairness on the job and wages that reflect marketplace success contribute to more motivated workers. Belman points out that unions "provide opportunities for firms to better their performance by eliciting greater commitment and information-sharing effort from their employees" (Belman, 2003: 3). Without unions, day-to-day competitive pressures leave workers with quitting as the only option to address serious problems, a costly solution for all concerned. Given the pressures of globalization and competitiveness today, unions have been responsive to increasing productivity and embracing new methods. "If we don't make a profit, we don't have a plant," according to James Kaster, president of UAW Local 1714, representing the famed General Motor's plant in Lordstown, Ohio (Terlip, 2007).

Freeman and Medoff (1984) examined why unionized firms are more productive in *What Do Unions Do*? They found that about one-fifth of the union productivity effect came from reduced turnover. Unions improve communication channels giving workers the ability to improve their conditions short of "exiting." Lower turnover means lower training costs, and the experience of more seasoned workers translates into higher productivity and quality. Moreover, higher compensation focuses the managerial mind: employers need to plan more effectively and focus on better methods.

The real productivity story is best understood in the workplace where the rubber truly hits the road. An innovative employer working with a progressive union can achieve high levels of productivity and quality, pay high wages, and be competitive. Consider four examples from very different industries: auto, retail, telecommunications, and hotels.

The New United Motor Manufacturing (NUMMI) plant—a joint partnership of General Motors and Toyota organized by the United Auto Workers—achieves strong results in a unionized environment (Appelbaum et al, 2000, 7). The plant produces high quality cars and trucks and pays among the highest wages in the domestic auto industry. NUMMI ranked third in 2005 for productivity among small truck assembly plants in North America (Harbour Consulting, 2006). In fact, among car manufacturers overall, two of the top three assembly plants in North America were UAW in 2005 (they ranked one and two), and six of the top ten were represented by the union (Ibid.) The Detroit Three have more than their share of problems right now, but labor productivity has made major strides.

In retailing, the high-road, partially unionized Costco outperforms the low-road Sam's Club, a Wal-Mart affiliate. Costco's labor costs are 40 percent higher than Wal-Mart's, but nonetheless Costco produced $21,805 in operating profit per hourly employee in the U.S. in 2005, almost double the $11,615 generated at Sam's Club (Cascio, 2006: 28, 35). And, Costco sells $866 per square foot compared to $525 at Sam's Club. How does Costco do it? "It absolutely makes good business sense," CEO James Sinegal maintains. "Most people agree that we're the lowest-cost provider. Yet we pay the highest wages. So it must mean we get better productivity." Echoing Henry Ford, he points out "that's not just altruism; it's good business" (Cascio 2006: 28). Costco, as Freeman and Medoff (1984) found in unionized firms, has lower turnover—6 percent annually compared to 21 percent for Sam's Club" (Holmes and Zellner, 2004).

Cingular, the largest wireless carrier in the nation, accepted a "neutrality agreement" with the Communications Workers of America (CWA). Both sides agreed not to attack each other, and the company agreed to majority sign up for its workers, a preview of how the Employee Free Choice Act might work. To date, 39,000 workers have joined the union, about 85 percent of Cingular customer service reps, technicians, and retail sales workers in 35 states. How have things worked out? Lew Walker, vice president for human resources, says that the union provides a competitive advantage for the company. "They very much recognize that we are in a competitive environment," he states. Disagreements occur, but a mechanism is in place to work them out cooperatively (Gunther, 2006).

In Las Vegas, Culinary Local 226, organizes 90 percent of the hotel workers on the Strip. As a result, unionized housekeepers earn 50 percent more than their nonunion counterparts in Reno and enjoy fully paid health care. The union and the hospitality industry jointly put a heavy emphasis on training and operate the Las Vegas Culinary Training Academy, one of the most comprehensive training centers of its kind in the country. "Our union's goal and the training center's goal is you can come in as a non-English-speaking worker, come in as a low-level kitchen worker, and if you have the desire, you can leave as a gourmet food server, sous-chef or master sommelier," according to D. Taylor, the secretary-treasurer of the local (Greenhouse, 2004, A22). The Las Vegas hospitality case is one of a growing number of regional industries in which labor has been the driving force behind the formation of multi-company labor–management high-road training partnerships.[6] These cases hark back to the central role of craft unions in the building industry in apprenticeship training, helping workers find new jobs, and administering portable benefit plans. In today's skill-based and post-industrial economy, a renewal of labor's capacity to give middle- and low-income workers access to training, career counseling, job placement, and portable benefits is essential to broadly

6 Working for America Institute, The High Road Partnerships Report, available online at: http://www.workingforamerica.org/documents/HighRoadReport/highroadreport.htm. For a more recent set of case examples in a single state, see Keystone Research Center, The Pennsylvania High Road Partnerships Report, online at www.keystoneresearch.org.

shared prosperity. This renewal is equally pivotal to enabling more businesses to compete through skills, high productivity, and quality service. The high wages and extensive training are a successful combination in the service industry, according to management officials such as J. Terrence Lanni, chairman of MGM Mirage (Greenhouse, 2004[a]: A22). The companies benefit and so do the union members, in this case, a group that is 70 percent female and 65 percent nonwhite.

While it is true that short-sighted management can lead a unionized firm into the ground and a recalcitrant union can put a brake on productivity, the literature and case studies confirm that unionization can foster higher productivity.

TIME FOR A CHANGE

In “a healthy workplace,” George Schultz tells us, “it is very important that there be some system of checks and balances” (Silk 1991). Today the system of checks and balances that he extols has broken down for over 90 percent of private-sector employees.

When unions decline wages lag, inequality grows, workers at the bottom of the pay ladder suffer, and an important part of the democratic fabric of society unravels. Today unions exist in a context of fierce global pressures and bruising domestic competition. This context alone would be daunting, but an important part of labor’s decline is rooted in the fact that employees have lost the right to freely choose whether or not they want to be represented by a union. Labor historian David Brody (2004: 1) points out that “the law serves today as a bulwark of the ‘union-free environment’ that describes nine-tenths of our private sector economy.” Ironically, rather than being labor’s Magna Carta, the Wagner Act has been twisted into a vehicle to thwart unionization through delay and intimidation. Steven Pearlstein, the *Washington Post* columnist, did not mince words when he wrote that “over the years, [the right to form unions and bargain collectively] has been whittled away by legislation, poked with holes by appeals courts and reduced to irrelevancy by a well meaning bureaucracy that has let itself be intimidated by political and legal thuggery” (Pearlstein, 2004: E01). And for those workers who happen to win a union, he continued, “any company willing to use intimidation and delaying tactics will never have to sign a first contract with a union, even if employees really want one” (Pearlstein, 2004: E01).

At issue is the right to make a choice free of coercion for “representatives of ones own choosing.” To restore this right to millions of American workers, one has to go back to the future: reform the current dysfunctional labor relations system to achieve the spirit of the Wagner Act in a 21st century setting. The Employee Free Choice Act represents an important approach to redressing the lack of balance today through three main provisions: restoring the union recognition procedure that the Wagner Act initially provided; stiffening penalties to deter employer misconduct; and instituting first contract mediation/ arbitration to thwart bad faith bargaining.

The EFCA restores needed balance to a process that has become increasingly dysfunctional. As we have seen, denying workers the right to form a union has important consequences for the economy and the political process. Workers' freedom to form unions is, and should be considered, a fundamental human right. All Americans lose—in fact, democracy itself is weakened—if the right to unionize is formally recognized but undermined in practice. Strengthening free choice in the workplace lays the basis for insuring a more prosperous economy and a healthier society. As Studs Terkel put it, "Respect on the job and a voice at the workplace shouldn't be something Americans have to work overtime to achieve" (2006).

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