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The Southern California Grocery Dispute and the State of Labor Unionism

By John Pencavel

Why was the labor dispute in Southern California of the workers at three major supermarket chains so protracted, and what does it suggest about the state of unionism in the United States?

The dispute was prompted by the attempt by three supermarkets (Ralphs, Albertsons, and Vons/Pavilion, which is owned by Safeway) to reduce their labor costs. In particular, the employers sought to cut their contributions to their employees' medical benefits and they proposed a lower wage scale for all employees hired in the future. So this was not a dispute over the size of the increase in each employee's nominal compensation, but over the size of the decrease. At least at the level of a single firm, it is well known that money wages and benefits are very sticky downward; that is, attempts by a firm to reduce the compensation of its workers generates much more resistance from workers than attempts to moderate the size of the increase. So the militant response from the United Food and Commercial Workers (UFCW) union was not at all surprising.

The Immediate Issues

Both parties viewed the dispute as an investment, as something that involved the loss of current income in return for greater benefits in the future. On one side, the union believed that losing this dispute would result in losses in compensation and benefits for workers in the industry in other parts of the country. Safeway's collective bargaining contracts in central California come up for renegotiation this coming summer, and there are other contracts involving the UFCW throughout the country. The union feared that a reduction in medical benefits and pay in Southern California would presage similar reductions in future contracts in other parts of the country. The union was willing to invest so much in this dispute in Southern California because a loss there would augur losses in the future elsewhere. Indeed, other unions have the same fear and this is why many other unions watched this contest keenly and contributed in different degrees to the UFCW's struggle.

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As for the employers, they also saw this dispute as an investment. Their concern was the threat of non-union supermarkets (such as Wal-Mart and Target) opening up in their area in the near future with much lower costs. Indeed, the pressure from non-union competition is not a threat but a reality already in many other areas. Unless their costs are soon reduced, the future profits of Ralphs, Albertsons, and Vons/Pavilion are in jeopardy. Given what is at stake for the companies, the current loss of net revenues from this dispute looks relatively small for them. The use of replacement workers kept the Southern California stores in operation, and most of their outlets in the other parts of the country were unaffected.

The terms on which the dispute ended suggest that the supermarkets achieved much of what they sought. Although the companies will contribute more to the cost of health insurance than they proposed at the outset of the dispute in October, there is to be a lower wage scale for new employees, who will contribute to the costs of their medical benefits to a greater extent than current employees. New employees also will enjoy a less generous pension plan.

Were there any public policy issues involved in this dispute that might have called for some sort of government intervention? State Attorney General Bill Lockyer seemed to think so, because he said he would sue the supermarket companies on the grounds that a financial mutual aid pact reached by their Southern California chains violates anti-trust laws and has raised prices above what they would otherwise be. The allegation that the supermarkets' tactics are harming consumers is an interesting argument, because it might also be used against any union-induced wage increase that is passed on by firms to consumers in the form of higher prices. Putting aside this curious position, it is difficult to see the public policy stake in this dispute. For the most part, the costs of the dispute have fallen on the firms and on the workers involved — consumers have ample opportunities to shop elsewhere — so the workers and the supermarkets ought to have been (and were) left alone to settle it. It was hardly in the interests of the state to adopt a partisan stance and adopt one side's or the other side's position. This would have been a recipe to encourage the parties to future disputes to expect state intervention and, perhaps, to adopt more intransigent postures.

The Larger Issues

The broad features of this dispute have been seen many times in the past. If a union cannot organize an entire industry or cannot apply its wage and benefit scales throughout an industry, then the unionized firms tend to shrink and the non-union firms expand. Safeway and the other supermarkets are trying to prevent this from happening by cutting their labor expenses and, thereby, reducing the union-nonunion gap in labor costs. If they fail, one should expect the market shares of these three supermarkets to shrink over time and, ultimately, they will go out of business.

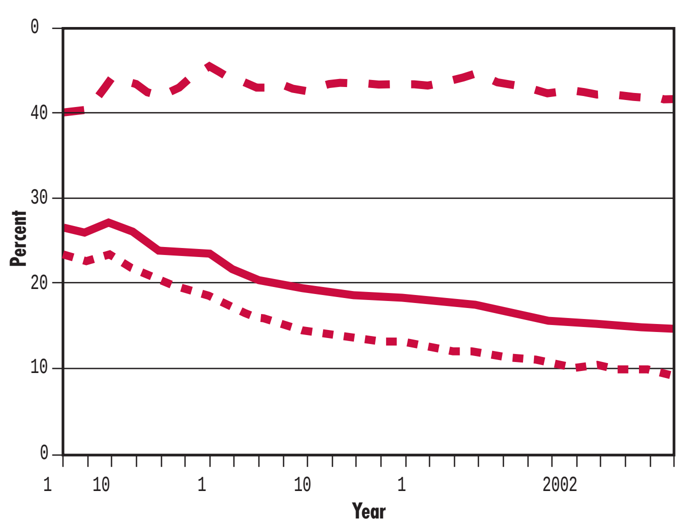
This is why the workers at these three supermarkets would have lost in the long run if they had succeeded in the short run in their efforts in resisting the cuts in compensation that their employers were trying to impose on them. A more discerning strategy on the part of the union would have avoided spending so much of its resources on a dispute with its unionized employers but to have redirected these resources to a struggle to organize Wal-Mart. Organizing Wal-Mart would be very difficult, but it is a better long-term tactic for the union than depleting the resources of its own employers. Wal-Mart must be very pleased at seeing its competitors being injured by this dispute.

This dispute illustrates a fundamental dilemma for unions in a decentralized market economy. If unions negotiate higher wages for workers and increase the costs of firms they organize, they place these firms at a competitive disadvantage. This disadvantage is severe when the products of non-union firms compete closely with the products of unionized firms. In these circumstances, the tendency is for unionized firms to lose market share to the non-union firms. The more "successful" the union in pushing up wages, other things being equal, the faster this process. Hence, when the locus of collective bargaining is at the individual workplace (as distinct from the entire industry), as it is for most contracts in the United States, unions must constantly recruit new members and organize new firms simply to maintain the same level of unionism. To extend their reach, unions have to run even faster, something that has not happened in the United States.

To see this, examine Figure 1, which shows that the fraction of wage and salary workers in the United States covered by collective bargaining agreements has fallen from almost 27 percent in 1977 to 15 percent in 2002. In the private sector of the economy, the drop has been greater — from more than 23 percent to below 10 percent. There have been a number of reasons for this, including the greater readiness in recent decades for firms to exploit features of the administration of the law to frustrate union-organizing activity. However, the most important explanation derives from the innate character of decentralized markets, where new firms are constantly born and old firms die. Insofar as unionized firms die more frequently or more rapidly, unions must continually organize new firms to forestall their contraction in the economy. This process

Figure 1

Percent of Wage & Salary Workers Covered by Collective Bargaining Contracts: All Workers, Private Sector Workers, and Public Sector Workers, 1977-2002



operates to much less effect in the public sector, where competitive forces are muted and, indeed, as indicated by Figure 1, the percentage of public sector workers covered by collective bargaining contracts is little different today from what it was more than 25 years ago.

All this reasoning suggests that, in the absence of a change in the law governing union organization in this country and a radical change in attitudes toward the market as a mechanism for allocating resources, the prospects for increases in union organization in this country are discouraging for unions. Instead of fighting their own organized companies, they would be better advised to try to organize the non-union competitors that put market pressure on their union-organized companies. The dispute in Southern California shows that unions are not doing this.

However, in this and other countries, it seems to be in the nature of unionism that its cycles of growth and decline are often unexpected. Perhaps a period of union growth is just around the corner. What would induce this? Suppose Americans become disenchanted with the way in which the market is distributing incomes. After all, the real wages of low-skill workers have fallen for at least 30 years in the United States while the real compensation of those at the top end of the earnings distribution has risen and, for many, risen substantially. There is increasing rhetoric about the link between trade and American jobs. Will a point come when the American people elect someone to resort to non-market means to redistribute incomes in favor of the less well-off and will unions be a part of this process? This has happened before in this country.

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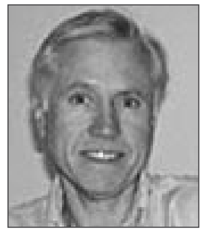
About the Author



Notwithstanding an adolescence that stressed football and chess, **John Pencavel** gained admission to University College, University of London, where he earned an undergraduate and a Master's degree in Economics. He moved to Princeton University where he secured a Ph.D. He assumed a faculty position in the Department of Economics at Stanford University where he is now the Levin Professor of Economics at Stanford University. He has always been interested in questions of labor supply, labor turnover, wage differentials, unionism, and worker-owned and managed firms. He has served as a consultant to the World Bank and to various government bodies on labor market issues.

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