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Union Contracts of Health Care Workers Would Inflate Health Care Costs

James Sherk

A government takeover of the health care industry would facilitate widespread union organizing of health care workers. Many studies show that collective bargaining makes health care more expensive. Consequently, health care reform that includes a government-run option would cost more than the Congressional Budget Office (CBO) and other analysts currently estimate.

The Heritage Foundation calculations estimate that greater unionization would raise the cost of hospital coverage by approximately $27 billion in 2013 and by $192 billion in the 2013–2018 period. Widespread unionization of the health care sector would make a government-run "public plan" much more expensive than currently advertised.

Unions Support Government-Run Health Insurance. Unions strongly support a "public plan" that would lead to a government-run single-payer system. In fact, after opponents protested at town hall meetings this summer, the AFL-CIO spent $15 million to stage counter-demonstrations with union members.[1] Behind the scenes, organized labor—and especially the Service Employees International Union (SEIU)—has played a critical role. The SEIU particularly supports the public plan and has emerged as its strongest advocate.[2]

A government-run public plan would lead many workers to the government plan because of an uneven playing field. As private plan participation drops, the public plan would lead to a government-run single payer health care and almost complete federal control of the health care sector. While many union members support a government-run "public plan" because they believe it would advance the common good, the union movement as a whole supports it out of self-interest. The SEIU represents health care workers, and government domination of the health care industry would facilitate unionizing that sector.

Unions Declining—Except in Government. Union membership in the private sector has dropped sharply—from 24 percent to 8 percent—over the past generation.[3] Union membership has fallen because unions put the companies they organize at a competitive disadvantage. Unionized firms have higher costs and less flexibility than non-union firms.[4] Each year, employment in unionized firms shrinks by 3 percent while the number of jobs at non-union firms grows by 3 percent.[5] Polls show that only one in 10 non-union workers want to organize.[6]

This applies to health care as well. None of the unions that represent health care workers, including the SEIU, represent a large portion of employees in this sector. Only 12 percent of health care workers overall and 17 percent of hospital employees work under collective bargaining agreements.[7]

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214 Massachusetts Avenue, NE
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(202) 546-4400 • heritage.org

Health care is a large and growing sector of the economy—and one of the few sectors to gain jobs during the recession—but it remains largely non-union.

Union membership has stayed high in one sector of the economy: the government. Twenty-three percent of public-sector workers belonged to unions in 1974, and 37 percent did in 2008.[8] Union density is five times higher in the public sector than the private sector because the government does not face competition or go bankrupt.[9] So public-sector unions can demand generous concessions without costing their members their jobs, which makes government workers more inclined to unionize.[10]

Government Health Care Facilitates Unionization. Government-dominated health care would transform union organizing. Whether or not the government explicitly nationalizes the health care industry, all health care workers would become quasi-public employees of the public plan. Whatever costs unions increased would be passed on to the taxpayers and patients and not threaten union members' jobs. Health care workers would know this and, as a result, become more likely to unionize. Every step toward government-run health insurance vastly simplifies the process of organizing new union members and keeping existing union members employed.

This is precisely what happened in Canada, a nation culturally and economically similar to the United States but with government-run single payer health care. A full 63 percent of all Canadian health care workers work under collective bargaining agreements, well above the 12 percent in the United States.[11]

Raising Health Care Costs. While an influx of new members would benefit unions that organize health care workers such as the SEIU, collective bargaining makes health care more expensive. Unions attempt to raise the earnings of their members, which directly affects health care costs. Unions also indirectly increase costs by negotiating work rules that reduce productivity. For example, union contracts that require hiring more workers or making it difficult for hospitals to lay off poorly performing staff raise hospitals' total operating costs.

1. Kris Maher and Naftali Bendavid, "Supporters of Health Care Change Prepare Counter Attack," *The Wall Street Journal*, August 14, 2009, at *http://online.wsj.com/article/SB125021125639331005.html?mod=googlenews_wsj* (November 4, 2009).
2. Stephen Greenhouse, "Rivera Leads Labor's Charge for Health Reform," *The New York Times*, August 26, 2009, at *http://www.nytimes.com/2009/08/27/business/27union.html?_r=1* (November 4, 2009).
3. Over 24 percent of private-sector workers belonged to unions in 1974, while 7.6 percent did in 2008. See Barry T. Hirsch and David A. Macpherson, "Union Membership and Coverage Database from the Current Population Survey," Unionstats.com, at *http://www.unionstats.com* (November 4, 2009).
4. Barry T. Hirsch, "Sluggish Institutions in a Dynamic World: Can Unions and Industrial Competition Coexist?," *Journal of Economic Perspectives*, Vol. 22, No. 1 (2008), pp. 153–176.
5. Henry Farber and Bruce Western, "Accounting for the Decline of Unions in the Private Sector, 1973–1998," in *The Future of Private Sector Unionism in the United States*, ed. James Bennett and Bruce Kaufman (Armonk, NY: M. E. Sharpe, 2002), pp. 28–58.
6. Rasmussen Reports, "Just 9% of Non-Union Workers Want to Join a Union," March 16, 2009, at *http://www.rasmussenreports.com/public_content/business/jobs_employment/march_2009/just_9_of_non_union_workers_want_to_join_union* (November 4, 2009).
7. Heritage Foundation calculations based on data from Unionstats.com, Table IV.
8. Hirsch and Macpherson, "Union Membership and Coverage Database from the Current Population Survey."
9. Henry Farber, "Union Membership in the United States: The Divergence between the Public and Private Sectors," Princeton University, September 2005, at *http://www.irs.princeton.edu/pubs/pdfs/503.pdf* (November 4, 2009).
10. Henry Farber and Alan Krueger, "Union Membership in the United States: The Decline Continues," in *Employee Representation: Alternatives and Future Directions*, ed. Bruce Kaufman and Morris Kleiner (Madison, WI: Industrial Relations Research Association, 1993).
11. Statistics Canada, "Perspectives on Labor and Income: Unionization," August 2009, Table 2, at *http://www.statcan.gc.ca/pub/75-001-x/topics-sujets/pdf/topics-sujets/unionization-syndicalisation-2009-eng.pdf* (November 4, 2009).

After Congress amended the National Labor Relations Act to cover health care workers in 1974, unions successfully organized many hospitals. Researchers examining the effects of these organizing drives found that collective bargaining raises hospitals' total costs of treating a patient by 4–9 percent.[12]

The Congressional Budget Office (CBO) estimates that the health care reform bills being debated in Congress will cost more than $1 trillion over 10 years. However, this estimate implicitly assumes that union coverage remains unchanged under a government-run public plan. The experience of the U.S. public sector and the Canadian health care sector demonstrates that this will not happen.

Unionization Would Add Billions to Costs. Union activity would cause a public plan to raise health care costs by more than the CBO has estimated. Estimates show that the magnitude of these cost increases could be quite large. Assuming that the unionization rate in American hospitals would rise to the same level as the overall Canadian health care sector and that collective bargaining increases costs by 6 percent per admitted patient, then greater unionization would raise the cost of treating hospital patients by $27 billion in 2013 and $192 billion in the 2013–2018 period.[13]

These figures are inexact estimates based on assumptions. If current union density in hospitals doubled to 34 percent, then hospital costs would rise by $71 billion over the 2013–2018 period. If union density rises to the 63 percent level of the Canadian public sector, then 2013–2018 costs would rise to $240 billion.[14]

While these figures are approximate estimates, they show that any significant increase in union organizing in the health care industry—which the public plan would lead to—would raise the cost of health care by tens of billions of dollars. These costs would add to either the cost of the premiums for the public plan or to taxpayer costs and thus the deficit. The CBO has not accounted for this probability in their cost estimates. Thus, a public plan will cost much more than Members of Congress have claimed.

Unionized Medicine. Unions will make any health care reform that includes a government-run "public plan" more expensive than the CBO estimates. A public plan would turn health care workers into quasi-public employees, making them more likely to unionize. More unionized health care workers would translate into tens of billions of dollars in higher health care costs. These costs would either raise the cost of health insurance premiums or increase the deficit. Congress should make decisions about health care reform on the basis of its true cost.

—James Sherk is Bradley Fellow in Labor Policy in the Center for Data Analysis at The Heritage Foundation.

12. David Salkever, "Unionizing and the Cost of Producing Hospital Services," *Journal of Labor Research*, Vol. 3, No. 3 (Summer 1982); Frank Sloan and Killard Adamache, "The Role of Unions in Hospital Cost Inflation," *Industrial and Labor Relations Review*, Vol. 37, No. 2, (January 1984); David Salkever, "Cost Implications of Hospital Unionization," *Health Services Research*, Vol. 19, No. 5 (December 1984).
13. Heritage Foundation calculations based on data from the Department of Health and Human Services, Center for Medicare and Medicaid Services, "National Health Expenditures Projections 2008–2018," Table 2, at *http://www.cms.hhs.gov/NationalHealthExpendData/downloads/proj2008.pdf* (November 4, 2009). This figure models the total increase in hospital costs assuming that union density instantaneously rises to the Canadian level of 63 percent in 2013 when the public plan would take effect and assuming unionizing raises the total per-patient cost of treating patients at hospitals by 6 percent. The assumption of an instantaneous increase in union density is, of course, unrealistic. It is nonetheless made to demonstrate the extent to which unions would raise costs after their membership has fully increased rather than reporting the extent they raise costs in the transition period, since this figure would understate the full effect.
14. These figures assume an average increase in costs per patient of 6 percent under collective bargaining.