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Americans Struggle as President Biden Favors Unions During Supply-Chain Breakdown

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KEY TAKEAWAYS

Union practices play a large role in the nation's supply-chain crisis, and Democrats' reconciliation plan avoids any solutions to the issues at West Coast ports.

The high labor rates paid by cargo carriers and terminal operators are passed on to U.S. businesses large and small, which, in turn, pass them on to customers.

The U.S. cannot allow international commerce, the global supply-chain, and the American economy to exist at the mercy of a handful of labor leaders.

Some in the Biden Administration have used the supply-chain crisis as a talking point to encourage passage of the $3.5 trillion Build Back Better (BBB) plan. According to Transportation Secretary Pete Buttigieg, the supply-chain crisis "is one more reason why we do need to deliver this infrastructure package, so that we can have a more resilient, flexible physical infrastructure to support our supply chain in this country."[1]

This claim is, at a minimum, disingenuous. While the BBB plan is touted as investing $17 billion in port infrastructure, the funding is centered on the Administration's climate-change initiative and targets reduction of air pollution and greenhouse gases.[2] Not only is there no funding for the implementation of productivity enhancements, bowing to union pressure, the plan also expressly prohibits the use of these funds for the purchase of fully automated cargo-handling equipment that is desperately needed to boost port efficiency.[3] Reduction of air pollution is a good thing, but these proposed air-quality improvements will not alleviate the nation's supply-chain issues.

The Los Angeles and Long Beach Ports

Union contracts and labor practices play a large and detrimental role in the nation's supply-chain problem. The ports of Los Angeles and Long Beach (LA/LB) provide a good example. The adjacent ports' location in a large population center explains their rankings as the first and second, respectively, busiest container ports in the U.S.[4] Their West Coast proximity to Asian ports, especially top-importer China, and their ability to handle the largest container ships in the world explains why almost half of total U.S. imports move through these ports and why, combined, they rank as the 10th-busiest container port worldwide, handling an average of more than 330,000 containers per week.[5]

Despite these advantages, the ports of Los Angeles and Long Beach seem to have found a way to squander them. Based on the statistical methodology results from the World Bank's *Container Port Performance Index 2020*, the port of Los Angeles ranked 328th, and the port of Long Beach 333rd, of 351 global ports, placing them in the bottom 10 percent of global container ports evaluated.[6] These two ports were also outpaced by most other U.S. ports, including Philadelphia (83rd), Virginia (85th), New York/New Jersey (89th), and Charleston (95th). Los Angeles and Long Beach posted abysmal scores in both the administrative procedures and the statistical measures that include time in port and other efficiency factors. A look at the contract with the labor union helps to explain why.

Union Influence and Labor Costs

Dock workers at these ports are represented by the International Longshore and Warehouse Union (ILWU). The current contract between the ILWU and the Pacific Maritime Association, the 70-member group of cargo carrier and terminal operator companies, reads like a union wish list. After meeting the baseline 4,000 hours, or just under two years, of industry work experience, members earn $46.23 per hour.[7] Nearly $100,000 per year is a generous salary, but it is only the beginning of the lucrative compensation structure. Second-shift workers earn a 33 percent premium over the regular rate, pushing their hourly pay to $61.64, while third-shift workers'

60 percent wage premium results in a $73.96 hourly pay rate.[8] The compensation package reflects the fact that longshoremen work a difficult and often dangerous job. It also translates to some impressive earnings, such as average dock workers making $171,000 and foremen pulling in $282,000, annually.[9]

Union employees receive free employer-paid health care, full pensions, and 15 paid holidays annually, including United Farm Workers founder Cesar Chavez's birthday, July 5 ("Bloody Thursday") to commemorate the deaths of two union members during a strike in 1934, and the birthday of ILWU founder Harry Bridges.[10] Considering the ability of the ILWU to immediately hamper global commerce, and the large amounts of money being paid to its thousands of members, it is easy to understand the immense power this union wields and the hesitancy many people have in even the slightest criticism of it.

Generous to near extravagant as this package is, union leaders who negotiated this contract are doing what is expected of them: acting in the best interest of their members. Unfortunately, while the interests of ILWU members are clearly being served under the contract, the interests of American businesses and everyday consumers are taking a back seat. The high labor rates paid by cargo carriers and terminal operators are passed along to American manufacturers, retailers, and other firms that, in turn, pass them along to customers in the form of higher prices. Ultimately, the impact of these exorbitant labor rates is borne by American consumers, many of whom are already struggling to pay their bills.

High labor rates can contribute to higher consumer prices, but the impact of these rates can be offset significantly by higher productivity rates. Labor productivity, traditionally defined as output per unit of input, is a widely used measure of efficiency.[11] Improvements to worker productivity can be a powerful tool in high-wage scenarios. When supported by training, capital improvements, and various forms of automation, many high-wage workers can be sufficiently productive to render themselves the low-cost alternative when performance is evaluated on a per-unit basis. For instance, if worker A is paid twice the hourly rate of worker B, this scenario will still be advantageous as long as worker A's output is more than twice that of worker B. This is a critical concept when evaluating U.S. port performance.

Operating Hours. The ILWU contract specifically recognizes management's right to operate efficiently and use labor-saving devices. While union members use various forms of machinery and equipment in their daily work, the LA/LB's low ranking compared to the nation's other ports suggests that there may be opportunities for efficiency improvements. Hours of operation provide a good example. Large container ports in Europe and Asia have operated on a 24/7 schedule for years, while the ports of Los Angeles and Long Beach have, until very recently, operated on a five-day workweek.[12]

This is no small matter. Los Angeles and Long Beach ports have historically operated two eight-hour shifts plus a partial third shift Monday through Friday totaling 112 hours per week, compared to 168 hours per week at ports that operate 24/7.[13] This variance means that LA/LB ports are only open two-thirds the hours of other major container ports, resulting in a corresponding drop in capacity. Further exacerbating the problem is that this represents only shipping unloading time, but the terminal gates have traditionally been open only 88 hours weekly for trucks to pick up containers.[14] This restriction to the container pickup process adds time and unnecessary expense to the drayage process. Since any hours above the current 112-hour work week must be paid at an overtime rate, the union's agreement to increase to a 24/7 schedule translates to a massive overtime payout for its members.

Low Productivity. The traditional reliance on this high-cost, low-accessibility model tells only part of the story. When the two ports are actually working, their productivity is astonishingly slow compared to ports in China. Volume in container ports is generally measured by 20-foot equivalent unit (TEU) that is based on the size of a standard 20-foot-long shipping container.[15] Since 10-foot and 40-foot shipping containers are also used, albeit less frequently, this metric provides a standard measure for purposes of comparison. Offloading of a typical 6,000 TEU mega-ship takes an average of 24 seconds per container in the ports of Yangshan, Qingdao, and Yantian, but double that time, totaling a full 48 seconds per container, in Los Angeles.[16] Considering that LA/LB offloaded 17.3 million TEUs last year, this 50 percent lower productivity level translates to sharply higher costs.[17] These and other productivity metrics help to explain why LA/LB was ranked aside ports in many undeveloped countries as among the world's worst performers. Moreover, the combination of high wages, abbreviated operating schedule, and anemic productivity levels at these container ports sheds light on the root causes of the current supply-chain crisis.

Recommendations for Replacing the Build Back Better Plan

The BBB plan makes changes to the economy based largely on the President's climate agenda and includes numerous requirements to achieve zero emissions. This is disappointing because the BBB plan neglects the current supply-chain crisis as well as the long-term infrastructure needs of the United States. The BBB plan's inability to resolve short-term and long-term challenges makes clear that the plan is fundamentally flawed. To help mitigate the supply-chain crisis and improve the current issues plaguing the Los Angeles and Long Beach ports, the Biden Administration should abandon the BBB plan and implement the following recommendations.

Capital Improvements. The Biden Administration should propose a new infrastructure bill that would help to implement capital improvements without any requirement that the funds be used to support zero emissions or the climate agenda. Continued pursuit of the Biden policy of substituting climate-inspired action for real solutions will not only fail to resolve the supply-chain problem, but will allow it to become worse.

Automation. Similarly, the Biden Administration should propose new infrastructure legislation that allows ports to use funding for automated cargo-handling equipment and infrastructure. Container-terminal automation represents a wide range of solutions including yard management, port gates, stacking cranes, horizontal transport, and gantry cranes.[18] These approaches to improved automation and productivity are complex systems that do not provide the type of "quick win" that might appeal to politicians and federal government micromanagers. Instead, they are longer-term solutions that are often customized to meet the unique needs of specific locations and configurations.

Automation solutions are largely designed to replace workers in repetitive jobs by substituting capital for labor inputs, often leading to concerns from labor leaders as they attempt to preserve union jobs. While automation leads to the reduction or possible elimination of some jobs, these same workers are often reassigned to other positions where they can use their judgment and experience to complete more interesting and productive tasks. Implementation of automation can also be handled in a more phased approach that allows reassignment of employees to these new tasks and the elimination of positions through attrition. Such efforts therefore need not be cause for distrust and job insecurity; ideally, they would result in a worker–management partnership that strengthens both sides as these changes drive greater capabilities.

Unions. The federal government should not involve itself in purchasing systems to support union activities. Unions should use the dues they collect from their members to fund their initiatives.

Conclusion

Americans should not be held hostage by unions. The situation in Los Angeles and Long Beach, which not only laid the groundwork for, but also exacerbated, the supply-chain crisis did not develop overnight. One need look no further than the ILWU's annual recognition of the tragic "Blood Thursday" labor dispute that occurred nearly a century ago to see evidence of a long and deep-seated animosity. Toxic as labor relations are, the U.S. cannot allow international commerce, the global supply chain, and the American economy to exist at the mercy of a handful of labor leaders.

Rectifying this situation will take years and, more importantly, a currently non-existent level of commitment and cooperation from management and unions at these facilities. Considering that President Joe Biden ran his 2020 election campaign as a self-professed "union guy" whose inauguration speech promised to "unify America," this seems like an ideal time for him to get started on his promise by gaining ILWU cooperation to alleviate avoidable problems for all Americans.

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