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Will Economic Meltdown Trigger "Cultural Change" in Union Construction Industry?

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By now, most analysts and experts would concur that the building industry in New Jersey and across the nation is mired in its worst slump in generations. Fueled by the housing crisis and the accompanying collapse of financial markets, private development has stalled, giving rise to nearly unprecedented unemployment rates among the State's building trades.

Most of our current economic and financial problems seem to have originated in the over-extension of the housing market in the 1990s when housing prices escalated some 33% while median income rose only 14%. The problems stemmed primarily from a change in banking rules proposed by the Clinton Administration and approved by Congress to restructure "sub-prime" loans as "affordable housing" loans and eliminate most credit and minimum lending requirements.

The Federal Reserve kept interest rates artificially low to prime the economic pump and promote home ownership for those with limited incomes. Many people began borrowing beyond their means and assumed onerous mortgage obligations, believing their employment was secure and housing prices would continue to rise indefinitely, thereby protecting their investments.

Under Congressional prodding, Fannie Mae and Freddie Mac created a secondary market to buy these questionable loans from bankers in order to meet the Administration's affordable housing goals. This in turn encouraged banks to issue even more of them. Later, the Bush Administration would continue this dubious practice as a means of invigorating the post 9/11 economy: The purchase of "sub-prime" loans rose from $81 billion in 2003 to $175 billion in 2004.

And, it did work ... for a while. Between 2000 and 2005, U.S. home prices soared 45% (120% in New Jersey), despite a 3.5% decline in median income. But all the while, the failure to regulate at almost every level of government was taking a silent but disastrous toll. As the Securities Exchange Commission and banks looked the other way, security firms gradually raised their leverage ratios from 12-1 to 33-1, meaning a 3% decline in asset values could wipe out a company.

Jeffrey Otteau, President of Valuation Group, Inc., says low-interest rates, high-risk loans and fewer regulations all combined to keep housing prices in the ascendancy for twice the usual seven-year time frame and prevented what should have been a normal market "correction" around the year 2000.

Simultaneously, the passage of restrictive housing regulations, aimed at controlling suburban sprawl and slowing development in markets like New Jersey, Boston and San Francisco, made it increasingly difficult to build new homes and kept existing home prices in the stratosphere.

The manipulation of basic market principles and restrictions on development so undermined financial institutions and real home values that when the long overdue "correction" did occur in 2007, it had an enormous impact on the entire global economy and created a recession lasting twice as long as normal.

Otteau believes another reason behind America's current economic and employment doldrums was the collapse of the Soviet Union in the mid-1980s. That sea change event in the world order convinced numerous once socialist countries to turn to capitalism. As a result, many companies and jobs left the U.S. for foreign shores, severely weakening our own economy. Where the U.S. used to be one of the least expensive places for firms to locate and for people to live and work, it is now rapidly becoming one of the most expensive regions in the world.

Housing decline = Unemployment rise

The decline in housing and prices began in 2005. The onslaught of foreclosures began in 2007; the stock market collapsed and the recession began in 2008. The fallout was so great that the U.S. was losing 800,000 jobs a month for up to a year, driving the national unemployment rate from under 5% to nearly 10%, where it remains to this day.

Compounding the problem is that banks, despite the influx of Troubled Asset Relief Program monies, remain unable or unwilling to make loans or finance development because they are hoarding their assets to pay off previous "sub-prime" loans they expect will default. The piper is now being paid for our over-spending and leverage abuses.

While unemployment has infiltrated every segment of the private sector, it has been especially pervasive in the building industry, which has lost at least two million jobs since January 2007. Nationwide, construction unemployment has hovered near 25% over the past two years, more than double the overall 10% jobless rate.

February 2010 marked one of the highest unemployment rates in history for the construction industry, 27.1% with 2.4 million craftworkers out of work. While the March, April and May 2010 figures were slightly less drastic, the most recent Bureau of Labor Statistics data measures construction unemployment at 24.9%, affecting 2.25 million workers.

"While a gradual turnaround appears to be taking hold after years of construction employment declines, growing stimulus activity has been offset by weak private-sector demand and diminished state and local construction budgets," said Ken Simonson, chief economist for the Associated General Contractors of America. "Unfortunately, construction employment is likely to remain both relatively low and unstable until at least early 2011."

Bleak New Jersey job picture

As bad as the economic picture is nationwide, it is even worse in New Jersey. Between 2000 and 2007, New Jersey added only 6,900 private sector jobs (+0.2%) but nearly 56,000 public sector jobs (+9.4%). From 2007 to 2009, New Jersey lost 229,700 private sector jobs (-6.7%) while adding 1,400 public sector jobs (+0.2%), an *overall loss* of 228,300 jobs (-5.6%).

New Jersey businesses are taxed heavily and forced to pay higher wages than those in neighboring states because of the higher cost of living and housing here. As a result, about 50,000 New Jerseyans have been leaving the State each year since 2002, and New Jersey lost approximately $70 billion in personal wealth to other states between 2004 and 2008.

On the construction front, New Jersey lost almost 17,000 jobs in the 12-month period from April 2009 through April 2010, a staggering 12% drop – in addition to the thousands of jobs lost in the two years prior to April 2009. New Jersey union representatives report massive unemployment rates between 40 and 50% in many of the trades.

Since New Jersey has been bleeding private-sector jobs for nearly a decade – even during good times – it's likely we will be one of the last states to start recovering jobs. New Jersey's tax rate, the highest in the nation, and second highest corporate tax in the world (behind only Japan) are further deterrents to growth. An analysis by Wells Fargo Securities' Economic Group concludes that New Jersey's economic recovery will lag about a year behind the nation's as a whole.

One example of New Jersey's slump can be seen in building permits, issued at the same levels as in 1945. Another example: For the first time in more than 30 years, less than 42% of school budgets were approved on April 20, 2010. Both factors portend fewer construction jobs over the short-term.

The decline in construction activity and employment is evident in statistics that reveal nearly 10% of collective bargaining settlements nationwide in 2009 carried no wage increases, causing the average first-year increase in wage and fringe benefits to drop to its lowest point since 1996. The average settlement in 2009 was almost two full percentage points less than that of 2008. The drop is even more noticeable because the 2008 increase had been the highest since 1999.

In New Jersey, building industry representatives are undertaking several short- and long-term labor-management initiatives to revitalize union construction. Several of the State's general building trades, along with their management bargaining partners, are responding to a three-year plunge in construction starts by agreeing to a freeze on wage and benefit increases for the coming year. This unprecedented voluntary action was adopted to stimulate construction and create work opportunities for union members and signatory contractors.

The Carpenters, Building Laborers and Bricklayers Unions, as well as Ironworker Locals 68 (Trenton), 350 (Atlantic City) and 399 (Camden) and Dockbuilders Local 1456, have all agreed to the concessions and certain contract adjustments in an effort to lower labor costs and kick-start building construction.

"In light of the depressed economy, these changes offer a common-sense solution to a serious industry issue – the collapse of the building construction market," said BCANJ CEO Jack Kocsis. "The leadership and rank-and-file of these trades have demonstrated their commitment to sharing in the sacrifice brought on by these unprecedented economic times."

Kocsis added that some trades have also agreed to benefit cuts and revisions and to partially self-fund their health and pension obligations by diverting a portion of their Annuity Fund contributions.

Unions build efficiency and productivity

As part of these market recovery efforts, the building trades are ramping up efficiency and productivity in their workforce by upgrading and expanding their journeyman training and apprenticeship programs. For example, the New Jersey Regional Council of Carpenters will expand its Apprentice Program from four to five years for new apprentices entering the union after September 1, 2010.

"Skilled union carpenters are by far the most productive in the industry, but contractors need to compete and win projects to put those skills into action," noted Michael Capelli, Executive Secretary-Treasurer of the 17,000-member New Jersey Regional Council of Carpenters.

"We're partners in this industry and a big part of the State's overall economy. A voluntary wage and benefit freeze shows that union families are sacrificing to help our contractor employers get more projects moving and more people back to work."

Recently, the Bricklayers & Allied Craftworkers, Local Union Nos. 2, 4 & 5 expanded their Apprentice Program from three to four years.

Richard Tolson, Director of the Bricklayers & Allied Craftworkers of NJ, said that maintaining excellent training programs is just as important during an economic crisis as it is when jobs are plentiful. "Like all the unions involved, the BAC is committed to training our apprentices and offering upgrade and cross-training to our journeyworkers so when opportunity becomes available, we are properly prepared," Tolson stated.

Although the unions were not obligated or required to make the wage and benefit concessions and contract adjustments, Jose Colon, Business Manager of the New Jersey Building Laborers District Council, believes they are needed to move projects from the planning to the building phase.

"If our wage and benefit freeze can create job opportunities for our employers by making them more competitive, then it is a success," Colon remarked. "If it can get men and women off unemployment and into jobs they are trained for, then it is a success. If construction can be a catalyst for economic growth in New Jersey, then our sacrifices will be worth it."

Bill Mullen, President of the NJ State Building & Construction Trades Council, said it is neither productive nor realistic to place blame or put the responsibility on others to resolve our employment and budgetary problems. "In difficult economic times such as these, it is incumbent upon labor and management in both the public and private sectors to cooperate in every way possible to help relieve the great financial pressures now confronting all of us," Mullen stated.

Likewise, Michael McGuinness, CEO of the New Jersey Chapter of NAIOP, a commercial real estate development association, added: "Adapting to the new economic reality requires self-sacrifice and concessions, a fact our property owners know all too well, so the fact that union contractors and workers are lowering labor costs is a real promising sign."

Determining a future for union construction

Over the long term, the way unions and their employers respond to external forces and competition from the non-union sector will determine whether they wither or continue to grow and thrive. According to some observers, the 70% loss in market share since the 1950s makes it clear that major changes are needed in the union construction industry.

Under normal conditions, construction cycles occur every six to seven years. But the spread this time was 15 years of relatively good times, which means, as Jeff Otteau points out, the current bottoming-out will also be prolonged. Bad economic times are considered a prime time of growth for non-union contractors, who can take better advantage of their wage and benefit differentials to make new market inroads.

Mark Breslin, a union construction labor-management consultant and motivational speaker who presented a seminar along with Jeff Otteau in April for BCANJ members and building trade partners, said it has been easy to be a union leader for the past 15 years because of the construction boom. Even with overall union market share dropping to between 13 and 15%, and 75% of union craftworkers congregated in only 13 states, many were resistant to change because most union halls were still experiencing near-full employment, "so we must be doing something right," Breslin chimed mockingly. "Back in the day we always did it this way. Why rock the boat by messing with tradition?"

Breslin told the group it is precisely this refusal to recognize and adapt to changing times that has caused unions and their contractors to lose opportunities in the residential and commercial building markets and allowed non-union contractors the time and space to grow and thrive.

But the luxury of being able to get by with only "marginal" leadership in union construction has come and gone, driven into history by an economic collapse of historic proportions. Leadership in the union construction industry is now involved in a tug-of-war between those who would maintain the status quo and wait upon developments, and those who want to refocus and make adjustments while people are in a "change mode" brought on by the bad economic times.

Breslin said pointedly that neither labor nor management truly understands the political, economic and competitive realities of the other, and that rank-and-file workers have a poor understanding of the business and its challenges.

"The truth is neither labor nor management has any real connection to the rank-and-file who are not engaged and don't have a 'why' for what they do," exhorted Breslin. "They don't know where they fit in the scheme of things. Few industries have been less successful at informing their people in the field, and these misunderstandings have led to 25 years of inertia."

Breslin's "scold" was followed by concrete solutions. "We must create a cultural change in the workplace," he explained, "and reshape the rank-and-file's perception of their jobs and the business challenges contractors face. And it must be done while we're at the 'bottom' of the construction cycle, because the more work you have the less incentive there is for cultural change.

"Instead of just a concentration on labor-management issues, the new business model must include the rank-and-file as a third and equal partner in the construction process," continued Breslin. "If we begin the educational and engagement process with incoming apprentices, we could change the culture from one of entitlement and disinterest to one of accountability and productivity within seven years."

Action plan for industry salvation

Any action plan undertaken by labor and management to effectively deal with economic challenges and non-union competition must distinguish between industry factors and issues that can and can't be controlled. For example, labor costs, quality, attitude, margins and training can be controlled, but the economy, materials cost, illegal labor practices and certain government regulations by-and-large cannot be controlled.

Action plans should also strive to: a) maximize union member knowledge of and engagement in the entire building process, b) maximize contractor contact and involvement with the rank-and-file, c) maximize the culture of change and competition, d) secure the markets we have, and e) attack the markets we're losing.

At the April meeting, Breslin charged union leadership with the task of instilling a strong work ethic and sense of responsibility in their membership and for turning their apprenticeship programs into leadership training programs for foremen and shop stewards. An experienced foreman, for instance, may manage as much as $300 million in projects over a 30-year career. It stands to reason that the more innovative, involved and informed he is, the better it is for labor, management and ownership.

It's the responsibility of contractors to place individuals in positions of leadership within their firms who can quickly adapt and intelligently respond to changing cultural and market conditions so they can secure existing markets and pursue a foothold in those they are not active in and keep updated about the on-the-job performance of apprentices and journeyworkers.

Information and education about the building industry must be disseminated to apprentices and journeyworkers both at the training center and in the field. The audience of contractors and union leaders at Breslin's April seminar suggested a list of topics and messages that should be conveyed to union members as part of any educational campaign:

- The importance of gaining and maintaining market share
- The nature, source and extent of non-union competition
- The value of setting and attaining productivity and time line goals
- The real cost of labor in the construction process
- Where work comes from and who provides it
- Reasonable margin expectations
- The liability and risks encountered by contractors
- The gap between wage rates and real hours worked
- What makes a craftworker "marketable"
- Safety procedures and how they apply to construction jobs
- A contractor's fund liabilities and the future of pension and health care benefits

Once the content of the "cultural change" message has been established, the next decision will be how best to deliver it to apprentices. Industry representatives are considering several delivery methods:

- Include as part of new-member orientation
- Peer-to-peer mentoring
- Regular jobsite sessions
- Engage spouses and other family members in the informational process
- Involve contractors in the educational process at the union hall, training centers, and on the job
- Institute "Survival of the Fittest" training for apprentices to establish high performance and productivity standards and encourage a strong work ethic
- Make educational/informational sessions a part of regular membership meetings
- Provide a consistent, coordinated message from both labor and management
- Whenever possible, use the latest technology to deliver the message
- Improve public perception of union activities

The time for change is *now*

Although union representatives have held preliminary talks on the need for cultural change, the pace will intensify in October when Mark Breslin is scheduled to present a pair of "Survival of the Fittest" orientations for apprentices from the specialty and general construction trades.

To be held October 22, 2010 at Montclair State University and October 23, 2010 at Burlington County College, Breslin's "Survival of the Fittest" course will be sponsored by the labor-management members of the union construction industry who staged the Construction Industry Career Day

(CICD) for high school students for the past eight years.

BCANJ CEO Jack Kocsis says the time is right to start engaging apprentices in the whole construction process and to bring about a cultural change in workplace attitudes. "This may be the first time in a generation that union craftworkers and their contractors are open to change," Kocsis noted. "As bad as the suffering has been, this recession may hold the seeds of opportunity and renewal for union construction. The non-union sector is actively seeking our work. If we in the union sector don't respond now, we may never be able to recoup the loss in market share that will surely follow."