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Labor Watch

The Ultimate Payoff: Andy Stern's Plans for the Future of Big Labor

By Ivan Osorio

***Summary**: The December issue of Labor Watch looked at the growing influence of the 2.1-million member Service Employees International Union (SEIU) and its savvy president, Andrew Stern. This article examines Stern's controversial attempts to restructure organized labor in the image of SEIU, the conflicts this has provoked with other union leaders, and Stern's newest organizing initiatives.*

In 1973 Andrew Stern, a 23 year-old graduate of the University of Pennsylvania, became a social worker at the Pennsylvania state welfare department. The department's social-service workers had just been unionized, and the bright and energetic Stern rose quickly in the ranks of SEIU Local 668. Eventually, he joined SEIU's national executive board, became SEIU director of organizing, and, in 1995, ran then-SEIU president John Sweeney's successful insurgent campaign to replace incumbent AFL-CIO president Lane Kirkland. Sweeney then left a lieutenant in charge of SEIU who fired Stern. Stern then led a successful insurgent campaign on his own behalf and in 1996 he became SEIU's youngest-ever president, at age 45.

Since taking over SEIU, Stern has been a lightning rod for controversy as he has worked tirelessly to advance two closely related priorities: to grow the overall labor movement under SEIU leadership while consolidating his own power within SEIU. Stern initially proposed that the more than 50 national and international unions in the AFL-CIO federation consolidate into a small number of mega-unions organized around entire industries or large geographical areas. Stern proposed this restructuring idea

Stern

to the AFL-CIO leadership following Sen. John Kerry's presidential election defeat in November 2004. Naturally, this would require many union chiefs to relinquish their fiefdoms, so Stern's proposal encountered considerable resistance within the AFL-CIO. In June 2005, Stern and Teamsters president James P. Hoffa (who had presented similar proposals) responded by announcing that their unions were leaving the AFL-CIO and forming a new federation, the Change to Win coalition, along with five other unions.

Within SEIU, Stern was already working to centralize his own authority. In 2000, SEIU had adopted a reorganization scheme, dubbed the "New Strength Unity Plan," to give its national headquarters greater authority over local SEIU unions. Many SEIU rank-and-file members and local union leaders protested the plan, and some locals disaffiliated, but Stern pressed on. As the New York Times's Matt Bai wrote in 2005, "When Stern came into power, the SEIU represented a disparate coalition of local unions that identified themselves by different names and maintained separate identities." To create a strong national identity for the union, "Stern hired a corporate consulting firm versed in the jargon of the new economy and undertook a campaign to 'rebrand' the union. He used financial incentives to get all the local branches of the union to begin using the SEIU name, its new logo and, of course, its new color"— purple.

California Scheming

Stern has encountered persistent resistance to his centralizing efforts. The most notorious episode concerns one SEIU local in California. A bitter and protracted struggle over the local's fate has seriously embarrassed SEIU's national leadership, especially because it involved a forced merger with a local deeply enmeshed in corruption.

In August 2008, the Los Angeles Times reported on suspicious dealings at a Los Angeles area-based SEIU local, which at the time was California's largest local union. The union represents 160,000 low-wage home health care workers, most of whom earn around $9 an hour taking care of ill and disabled people in private homes under government-funded programs. According to U.S. Department of Labor documents acquired by the Times, SEIU's Los Angeles local, called United Long Term Care Workers, and a related nonprofit paid more than $400,000 to businesses owned by the wife and mother-in-law of the local's president, Tyrone Freeman.

Freeman denied wrongdoing, and claimed

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that union members benefited from the money spent on video production and day-care companies that his wife and mother-in-law ran out of their homes, "because of what he termed the high quality of the services," reported Times writer Paul Pringle. According to the paper, the union and the charity paid those companies at least $405,700 between January 2006 and December 2007. The union also spent nearly $300,000 on a Four Seasons Resorts golf tournament, a Beverly Hills cigar club, expensive restaurants (including Morton's steak house), and a consulting contract with a Hollywood talent agency.

Some union members alleged that the SEIU national leadership knew about the corruption problem and failed to address it. The Times reported that a "source close to the union" said SEIU spokesman Steve Trossman was informed six years earlier about the allegations against Freeman. The Times's Pringle reported:

> The source, who asked not to be identified because he feared retribution, said Trossman helped develop a strategy in 2002 to keep the allegations from embarrassing the SEIU at a time of epic membership growth.
>
> Trossman's efforts succeeded, the source said. Freeman's local continued to expand as part of SEIU President Andy Stern's much-celebrated campaign to organize entire industries state by state. The local and an affiliate ended up representing about 190,000 workers, most of them in the field of home healthcare.

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At first, this might seem like a case of typical union graft. However, the scandal grew in importance when Stern tried to force another SEIU healthcare workers local, United Healthcare Workers-West (UHW), based in Oakland, California, to merge with Freeman's corrupt L.A. union. Worse, Stern authorized Freeman, the corrupt L.A. union boss, to act on his behalf in carrying out the merger. In a June 11, 2006 memo to the affected California locals, Stern called Tyrone Freeman one of his "Personal Representatives…charged with overseeing the process of creating the new entities" outlined in the memo.

Some union staffers said Freeman's lieutenants pressured them to sign a petition supporting him. "Let it be clear that we...proudly and firmly stand with President Freeman and the work of our local," the petitions said. Those who resisted said they faced reprisals. Some were "transferred to positions far from their homes," reported the Times's Pringle, and about ten workers had their union-provided cell phone service cut off. "It's essentially a loyalty oath," one worker told Pringle. The worker described conditions at the union as "very tense," and said, "There's a lot of intimidation."

SEIU responded by announcing that former California Attorney General John Van de Kamp would investigate events at the Los Angeles local and that former California Supreme Court Justice Joseph Grodin would preside over an internal hearing on the inquiry. However, in its statement Stern's office also went on to accuse the Oakland leaders of United Healthcare Workers-West of "engag[ing] in a pattern of financial malpractice and fraud." The allegations against the 150,000-member Oakland local (whose 65,000 healthcare members Stern wanted to transfer to the statewide SEIU mega-local) included diverting $3 mllion in members' dues for the UHW leadership's personal and political use, misappropriating an internal database, and retaliating against UHW members who criticized the leadership. Thus, SEIU was placing UHW in trusteeship. UHW president Sal Rosselli denounced the trusteeship as "an act of desperation by Stern" to deflect public attention from the Los Angeles scandal and another in Michigan. Rosselli said Stern was trying to punish him for fighting the transfer of his members to the Los Angeles local.

Freeman stepped down as the L.A. local president on August 20, 2008 and on January 9, 2009 SEIU announced that its national executive board voted to approve the merger. Then on January 27, SEIU placed UHW in trusteeship for alleged "financial wrongdoing." The next day, Rosselli and other dissident local leaders announced the creation of a new union, National Union of Healthcare Workers (NUHW), which, according to its website (nuhw.org), "was formed after a two-year struggle to expose and reverse SEIU President Andy Stern's drive to centralize power among a small clique of Washington-based officers and staff at the expense of rank-and-file workers' voices with their employers and in their own union."

Rosselli opposed Stern's efforts to centralize not only SEIU's institutional structure, but also its contract negotiations. Consistent with Stern's goal of organizing entire industry sectors in large geographic areas, the SEIU national headquarters has aimed to control large-scale contract negotiations with major employers. Rosselli charges that Stern intends to shut local union leaders out of the process. For instance, Rosselli says SEIU barged in as UHW was entering negotiations with the hospital chain Tenet. "We were about to go into bargaining and then the International started bargaining with Tenet by themselves," Rosselli told the pro-union newsletter Labor Notes in a February 2008 interview. "The International excluded our members from bargaining with their employers. They reached tentative agreements without the input of our elected bargaining team."

Stern's plan to create mega-locals makes this scenario not only more likely, but also more difficult to resist, as union leaders become more removed from the workers they are supposed to represent.

UNITE-HERE Disunites

Not long after Rosselli and his allies parted with SEIU, another union found itself in serious conflict within its own ranks—and Stern and SEIU played a major role in that conflict. In February, 2009, Bruce Raynor, then-president of UNITE-HERE, a 450,000-member textile and hospitality union, said his union was embroiled in a "civil war" and was about to break into pieces. Created in 2004 through an odd-couple merger of a textile manufacturing union, the United Needletrades, Industrial & Textile Employees (UNITE), and a hospitality service workers union, the Hotel Employees and Restaurant Employees (HERE), UNITE-HERE was institutionally unstable from the start. It spanned two unrelated industries and had a dual leadership structure: Raynor, who headed UNITE before the merger, became general president, while former HERE chief John Wilhelm became president of the hospitality division. Still, each union had something the other needed. As the New York Times's Steven Greenhouse explained:

> On paper, the marriage made sense, besides making for the catchy Unite Here name. Unite — the descendant of two illustrious New York unions, the International Ladies' Garment Workers Union and the Amalgamated Clothing and Textile Workers Union — had lots of money to organize workers, but few workers left to unionize because so many apparel jobs had moved overseas. At the same time, Here was starved for cash, but saw an ocean of hotel and restaurant workers to unionize.
>
> The idea was that once the unions merged, Unite's ample treasury — it owns Amalgamated Bank, the only union-owned bank in the nation — would underwrite a surge in organizing

The marriage was soon on the rocks. Raynor filed a suit in federal court accusing Wilhelm of wasting what had been UNITE's resources and trying to take over the union. "We're not going to allow them to hijack the resources that were put aside by generations of ladies' and men's garment workers. We'll do whatever we have to do to show that we can't be held captive by a bunch of thugs." Wilhelm retorted: "The notion that the merger should be disbanded because Bruce Raynor can't be a dictator is a proposition that may make sense for Bruce Raynor, but it doesn't make sense for the workers in our industries."

The two factions couldn't even agree on whether the union should split into its previous component parts. Then on January 30, 2009, Stern wrote to Raynor and Wilhelm suggesting that if UNITE-HERE was unable to split into its original component parts it should merge into SEIU.

The bitter row soon became something of a proxy war between the AFL-CIO and SEIU. In 2005 UNITE-HERE had joined with SEIU, the Teamsters and other unions in creating Change to Win, the labor federation Stern proposed to rival the AFL-CIO. In March 2009, Wilhelm's hospitality industry segment claimed leadership of UNITE-HERE and voted to rejoin the AFL-CIO. On April 21, the Wilhelm-led rump voted to suspend Raynor as general president.

Raynor's textile industry segment voted to disaffiliate from UNITE-HERE. Now known as Workers United, the Raynor-led faction opted to join SEIU as a "conference" of the larger union. SEIU, for its part, accused UNITE-HERE of suppressing dissent and trying "to raid Workers United and SEIU" for new members. As union activist Steve Early wrote in the left-wing online journal Counterpunch, "With family jewels up for grabs (in the form of UNITE-HERE's $4.5 billion Amalgamated Bank), guess which Purple Knight stood ready to unite with either or both of the estranged partners, as long the bank was part of the deal."

Even before their merger Stern had his eye on the money and members of UNITE and HERE. In 2004, he invited Raynor and Wilhelm to have their individual unions join SEIU, but they declined and created UNITE-HERE instead. In a May 2009 interview, Stern recounted the events and told the Las Vegas Sun about his original plan:

> This reorganization should have happened five years ago. Unite and Here should have joined with SEIU because we both represented workers with the same employers. We were already representing janitors and security guards in some of the same properties where they had members too.
>
> We said it was nuts to have three unions overlapping in the same industries. We even proposed different ways for Unite and Here to join with SEIU but still operate their own organizations. Their leaders decided differently. These workers should all be in the same union.

In the end, Stern did get much, though not all, of what he wanted, when Raynor's union joined SEIU.

The Company You Keep

Andrew Stern's aggressive style has gained him both public notoriety and access to powerful political players, with often embarrassing results. Stern's dealings with former Illinois governor Rob Blagojevich and the "community organizing" group ACORN resulted in what could most charitably be described as public relations disasters.

Rod Blagojevich. On December 9, 2008, Illinois governor Rod Blagojevich and his chief of staff John Harris were arrested for trying to sell an appointment to the Senate seat being vacated by Barack Obama. The federal complaint stated that on November 7, 2008 Harris, Blagojevich, and an individual identified as "Advisor B, a Washington, D.C.-based consultant," held a three-way call in which they discussed how a "SEIU Official" might name Blagojevich head of the Change to Win labor federation in return for a Senate appointment favorable to the union agenda:

> HARRIS noted that ROD BLAGOJEVICH is interested in taking a high-paying position with an organization called "Change to Win," which is connected to the Service Employees International Union ("SEIU"). HARRIS suggested that SEIU Official make ROD BLAGOJEVICH the head of Change to Win and, in exchange, the President-elect could help Change to Win with its legislative agenda on a national level.

After Blagojevich's arrest, SEIU issued a statement, "In keeping with the U.S. Attorney's request, we are not sharing information with the media at this time." But the Politico's Ben Smith credited an unnamed "Democratic source" with confirming that Andy Stern was the "SEIU official" mentioned.

> There's no allegation that the SEIU official did anything wrong, and what appears to be a wiretap transcript has the official reacting non-commitally to Blagojevich's offer of a quid pro quo. Another Democratic source tells me that Stern was . . .in Chicago November 3 meeting with Blagojevich, a discussion thought to have included talk about the

> Senate seat—though that meeting isn't mentioned in the complaint.

Blagojevich's pending trial may clarify what really happened.

ACORN. No left-wing advocacy organization has reached a level of sordid public notoriety to compare with the Association of Community Organizations for Reform Now—ACORN. On September 10, 2009, the website Biggovernment.com, founded by journalist Andrew Breitbart, published a hidden camera video that showed two young investigative journalists asking ACORN employees in Baltimore for advice on how to set up a brothel so they could employ underage girls from Central America as prostitutes. The video showed ACORN workers offering advice to that purpose.

The Fox News Channel picked up the story, which led to a wave of public outrage against ACORN. Initially, ACORN dismissed the scandal as the actions of a couple of rogue employees. But over the next few weeks, Biggovernment.com released more videos of ACORN staff in other cities advising the two undercover journalists how to hide money gained from prostitution and ways to avoid detection. The furor led the Internal Revenue Service and U.S. Census Bureau to cut off service contracts with ACORN, and Congress suspended funds destined for ACORN social service programs.

The continuing scandal should have destroyed ACORN. But the group survives thanks in part to allies like SEIU. ACORN has been heavily involved in SEIU Locals 100 (Arkansas, Louisiana, Texas) and 880 (Illinois, Indiana). The latter, which merged with locals 4 and 20 in 2008, has become a mega-local of the sort Stern favors and is now known as SEIU Healthcare Illinois Indiana. At a September hearing of the House Financial Services Committee SEIU treasurer Anna Burger testified that SEIU had cut its ties to ACORN. (Burger is also chairwoman of Change to Win.) But Rep. Patrick McHenry (R-N.C.) noted that SEIU had given more than $4 million to ACORN and its affiliates since 2006. Moreover, ACORN founder Wade Rathke remains on the board of SEIU Local 100 according to the local's website (http://www.seiu100.org/index.php?id=517).

What's Next for SEIU?

Go after Private Equity. The unintended consequences from the 2002 Sarbanes-Oxley Act (known as Sarbox), enacted in the wake of the Enron and WorldCom scandals, have attracted Stern's attention. To avoid Sarbox regulations, some companies now list their shares on stock exchanges outside the United States and others have been bought by private equity firms. Because they do not trade publicly, private equity firms are not directly exposed to the kind of shareholder pressure that publicly traded companies face. Therefore, they do not face the prospect of activist shareholder resolutions, which are a favored tactic of unions engaged in corporate campaigns against companies they are trying to organize.

Organized labor is not about to sit idly by and let this development go on unchecked. Andrew Stern has responded to the rise of private equity by meeting with the heads of some of the largest buyout firms, including David Rubenstein of the Carlyle Group, Stephen Schwarzman of Blackstone and David Bonderman of TPG (formerly Texas Pacific Group), according to Wall Street Journal columnist Alan Murray. "I've been incredibly impressed," Stern told Murray. "Compared to most of my meetings with company CEOs, these men are much more business-like, and have much more understanding of what we are trying to accomplish." Stern's complimentary tone may indicate that private equity CEOs are more willing to play ball with his union than the CEOs of publicly traded companies—given enough pressure. Murray notes that Stern operates like Jesse Jackson: "Attack first, then engage—with a hand out for the ultimate payoff."

Stern's union is likely to keep up the pressure on prospective private equity buyers of unionized companies. His interest in private equity intensified during the summer of 2006, when HCA, a hospital corporation that is one of the largest employers of SEIU members, agreed to go private. Stern also was jolted early in 2007, when Blackstone bought out Equity Office Properties, a large employer of janitorial services that employ SEIU members.

Stern realizes that SEIU can gain particular leverage over these companies, because private equity firms rely on large amounts of capital, which union-dominated pension funds can provide when they invest. However, this strategy comes at a cost. As former Labor Department chief economist Diana Furchtgott-Roth shows in a Hudson Institute study, pension funds underperform when their assets are used for goals other than profit maximization—such as pressuring private equity firms to recognize union representation for their portfolio companies' employees. She notes that three SEIU pension funds were in what the Labor Department calls "endangered" status in 2008, and in 2009 the SEIU National Pension Fund and the pension fund of SEIU's giant Local 1199 were reported to be in "critical" status. (The study is available online at: http://www.hudson.org/files/publications/Comparing_%20Union_Sponsored_and_Private_Pension_Plans.pdf. See also "Union Pension Funds Go Green," September 2008 *Labor Watch*.)

Unions can also exert pressure on private equity firms through public policy advocacy and protest. A good example is the tax treatment of private equity buyouts, which came under criticism before the financial crisis. "Therein may lie the makings of a deal," noted the Journal's Alan Murray. "Mr. Stern has suggested the buyout firms could help his cause by, for instance, adopting standards that would encourage the use of unionized janitorial services in buildings. He hasn't said what he wants in return. But one possibility: He eases up on his criticism of their favorable tax treatment."

For instance, in 2008 SEIU filed a citizens' initiative to the Washington state legislature to limit state pension fund investments in private equity firms and requiring state pension fund administrators to consider "social criteria" when making investment decisions, reported the Wall Street Journal. SEIU called for the state Investment Board to require firms to release data on revenues, taxes, and executive pay, pay "living wages," recognize a "collective bargaining representative" at each portfolio company, and work to mitigate global warming. The Board would also have to "support changes to tax laws that eliminate unfair advantages" to private equity. Noted the Journal, in an editorial:

> Washington state pension funds would for all practical purposes be barred from investing in private equity. State Invest-

ment Board Executive Director Joe Dear concluded as much when he told a local newspaper that "No private equity firm that we want to do business with will do business with us under these terms." He predicted this would "cost taxpayers and beneficiaries millions in higher taxes and contributions."

And he has the data to prove it. Nearly $14 billion of Washington's investments are in private equity, which has provided returns of 12.6% over the past decade, compared to 7.9% for pension holdings as a whole. Barring private equity would "destroy our ability to invest in our highest-returning asset class," said Mr. Dear. The losers would be union pensioners who depend on those returns for retirement income.

Mr. Stern's real agenda here is to coerce private equity firms into giving his union a free hand in organizing workers at their portfolio companies. Having failed to organize those workers in elections, or to negotiate unionization deals with private equity management, Mr. Stern is now seeking political retribution. His strategy is to demonize the industry in public and promote damaging legislation until the companies give in.

As for protest demonstrations, consider SEIU's campaign against the Carlyle Group over its bid to buy Manor Care, a Toledo, Ohio-based nursing home operator that SEIU sought to unionize. SEIU's campaign featured strong-arm tactics. The campaign began on September 18, 2007, when four busloads of healthcare union workers marched into the lobby of Carlyle's Washington, D.C., headquarters. The same day, reports W magazine, ACORN interrupted a presentation by Carlyle co-founder David Rubinstein. SEIU also ran radio ads that gave out Rubinstein's phone number and asked people to call him to ask him not to cut Manor staff, reported the Washington Post. And in January 2008, reports W, SEIU protesters disrupted a speech by Rubinstein at the University of Pennsylvania's Wharton School.

Think Globally. Under Stern, SEIU has met the challenge of globalization by going global itself. In April 2005, Stern invited leaders from a dozen unions in Europe and Australia to a London meeting to discuss international coalition-building by unions. Globalized unions could collaborate and strategize on ways to target and pressure foreign-based companies. In 2004, for example, SEIU took out ads in French newspapers attacking the French catering giant Sodexho for discouraging union organizing among its North American employees. And in 2006 SEIU partnered with Great Britain's, Transportation and General Workers Union (TGWU, since merged into a union called Unite—no relation to the U.S. union) in an effort to organize janitors in London. In exchange, TGWU promised to pressure a British bus company which Stern "feels has been slow to recognize unions in its American operations," according to CNNMoney.com writer Rik Kirkland.

Conclusion

Under Andrew Stern, the Service Employees International Union has not only stemmed the membership decline affecting most private sector unions but it has experienced dramatic growth. SEIU focuses on parts of the work force most private sector unions previously ignored—unskilled, low-wage, and immigrant workers—and it also organizes workers in the public sector. Stern believes SEIU is organized labor's best hope for revival, and he is positioning the union to stay on the offensive.

To date, Stern's tactics have yielded mixed results. In some ways, SEIU works as a supercharged version of old-style unionism, with some of its worst characteristics—from heavy-handed union bosses to lax prosecution of internal corruption. Despite SEIU's claims to greater sophistication in union-management relations, Stern's centralizing efforts betray an authoritarian management style that has alienated some of the union's own members and offices. And some of his associations with unsavory characters like Rod Blagojevich and ACORN have been public relations disasters.

On the other hand, Stern has managed to grow SEIU's membership; he has stolen headlines away from the AFL-CIO; and he has access to the highest levels of power, including the White House—which he has visited 22 times since Barack Obama's inauguration, according to White House records. SEIU's political clout is great, but Stern's high public profile exposes the union to potential embarrassments. And there lies the balancing act Stern needs to negotiate.

Two things are undeniable. Andrew Stern is the most bold and politically influential labor leader in America today. And he is unpredictable. He is willing to make enemies of other union leaders while meeting with adversaries—he once invited Club for Growth founder Stephen Moore to address a SEIU audience. The only predictable thing about Andrew Stern is his ability to shake things up. His story is still unfolding.

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Many thanks,

Terrence Scanlon
President

LaborNotes

In November, **Nick Balzano**, head of the **SEIU** local in Allentown, Pennsylvania, threatened to file a grievance with the city council. His complaint was that 17-year-old Boy Scout **Kevin Anderson** had volunteered 200 hours clearing a walkway in a city park to earn a public service badge and become an Eagle Scout. “We’ll be looking into the Cub Scout or Boy Scout who did the trails,” Balzano threatened. Outrage commenced. **Fox News** host **Glenn Beck** took up the cause of the Boy Scout and the city council. Balzano and six of his deputies were forced to resign after all the bad press.

Democratic Wisconsin Governor **Jim Doyle** signed a bill in December that would require the state’s schools to teach students about the history of labor unions and collective bargaining. School boards were against it, complaining of micromanagement by the state. Teachers unions were OK with it.

Good news on the jobs front? According to the **Bureau of Labor Statistics**, only 11,000 net jobs were lost in November in the U.S. labor market. That, combined with a revision of the job losses of the last two months, worked to push the unemployment rate down, from 10.2 to 10 percent. It was a nice Christmas present for American workers.

However, forecasts of an economic recovery that picks up the slack in the labor market may be wishful thinking. **Joseph Lawler,** writing about jobless recoveries in the December American Spectator, points out that in the recessions of 1991 and 2001 employment took several years to rebound. “Assuming that the turnaround is for real and we’ve escaped the worst of the recession,” writes Lawler – and he doesn’t think it’s a safe assumption – “the question isn’t whether we’ll have another jobless recovery, but whether it will be even worse than the previous two episodes.”

In a **Heritage Foundation** white paper released December 9, **James Sherk** disputes the conventional wisdom that high U.S. unemployment is driven by layoffs. Sherk says there are indeed a large number of layoffs in the U.S. economy “but they are not large enough to explain why the unemployment rate has *doubled*.” The real reason is that “job *creation* [has] fall[en] while the labor force continues to grow, and new jobs are more difficult to find.” Sherk argues that any government policy that doesn’t address private sector job creation is at best a distraction.

Speaking of distractions, on December 14, the **Boston Herald** reported that Boston’s police and fire departments keep 11 union officers on the payroll “in full-time taxpayer funded jobs,” to the tune of more than $1 million a year.

On the same day, the **Boston Globe** reported that the city’s attempt to give teachers bonuses when their students do well on AP exams “violates the city’s teacher union contract, according to an arbitrator’s ruling.”