ECONOMIC POLICY INSTITUTE
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UNIONS AND THE ECONOMY

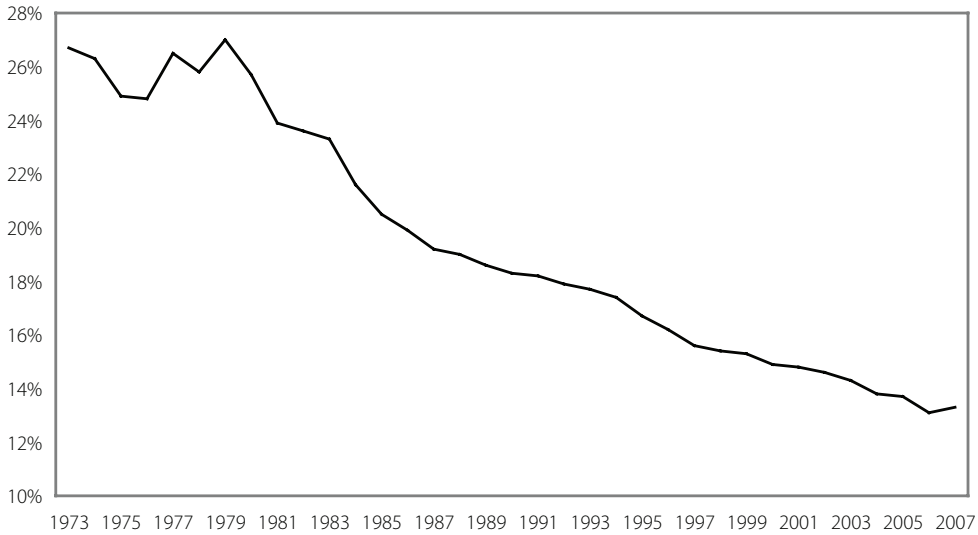
[Excerpted from *The State of Working America 2008/2009*, Chapters 3 and 8]

The union dimension

The percentage of the workforce represented by unions was stable in the 1970s but fell rapidly in the 1980s and continued to fall in the 1990s and the early 2000s, as shown in **Figure 3Z**. This falling rate of unionization has lowered wages, not only because some workers no longer receive the higher union wage, but also because there is less pressure on non-union employers to raise wages (a "spill over" or "threat effect" of unionism). The possibility that union bargaining power has weakened adds a qualitative shift to the quantitative decline. This erosion of bargaining power is partially related to a harsher economic context for unions because of trade pressures, the shift to services, and ongoing technological change. However, analysts have also pointed to other factors, such as employer militancy and changes in the application and administration of labor law that have helped to weaken unions and their ability to raise wages.

Table 3.32 presents estimates of the union wage premium computed to reflect differences in hourly wages between union and non-union workers who are otherwise comparable in experience, education, region, industry, occupation,

FIGURE 3Z Union coverage rate in the United States, 1973-2007



Source: Hirsch and Macpherson (2003) and authors' analysis of BLS data.

and marital status. The union premium is presented as the extra dollars per hour and the percentage higher wage earned by those covered by a collective bargaining contract. This methodology yields a union premium of 14.1% overall—17.1% for men and 10.7% for women.

Sizable differences exist in union wage premiums across demographic groups, with blacks and Hispanics having union premiums of 18.3% and 21.9%, respectively, far higher than the 12.4% union premium for whites. Consequently, unions raise the wages of minorities more than of whites (the wage effect of unionism on a group is calculated as the unionism rate times the union premium), helping to close racial/ethnic wage gaps. Hispanic and black men tend to reap the greatest wage advantage from unionism, though minority women have substantially higher union premiums than their white counterparts enjoy. Unionized Asians have a wage premium somewhat higher than that of whites, with Asian men obtaining a premium on par with that of other minority men.

Unionized immigrant workers obtain a premium comparable to other workers, whether they have immigrated relatively recently (within 10 years) or further back in time.

TABLE 3.32 Union wage premium by demographic group, 2007

		Union premium**	
Demographic group	**Percent union***	***Dollars***	***Percent***
Total	13.3%	$1.50	14.1%
Men	14.1	2.22	17.1
Women	12.4	1.06	10.7
Whites	13.5%	$1.19	12.4%
Men	14.6	1.86	15.0
Women	12.3	0.81	9.1
Blacks	15.8%	$2.44	18.3%
Men	17.3	3.29	22.7
Women	14.5	1.82	14.5
Hispanics	10.8%	$3.07	21.9%
Men	10.8	3.53	23.4
Women	10.7	2.38	18.7
Asians	11.9%	$2.51	17.4%
Men	10.9	3.75	23.2
Women	13.0	1.69	12.6
New immigrants (less than 10 years)			
Men	--	$2.05	16.5%
Women	--	2.29	16.2
Other immigrants (more than 10 years)			
Men	--	$2.10	16.4%
Women	--	0.98	10.3

* Union member or covered by a collective bargaining agreement.
** Regression-adjusted union premium advantage controlling for experience, education, region, industry, occupation, and marital status.

Source: Authors' analysis of CPS ORG data.

TABLE 3.33 Union premiums for health, retirement, and paid leave

Benefit	Union	Nonunion	Difference		Union premium
			Unadjusted	*Adjusted**	
Health insurance					
Percent covered	83.5%	62.0%	21.5%	17.5%	28.2%
Employer share (%)					
Single	88.3%	81.8%	6.5%	9.1%	11.1%
Family	76.3	64.9	11.4	10.1	15.6
Deductible ($)	$200	$300	-$100	-$54	-18.0
Retiree health coverage	76.6	59.8	16.7	14.6	24.4
Pension					
Percent covered	71.9%	43.8%	28.1%	23.6%	53.9%
Employer costs (per hour)					
Defined benefit	-	-	-	$0.39	36.1%
Defined contribution	-	-	-	-0.11	-17.7
Time off					
Vacation weeks	2.98	2.35	0.63	-	26.6%
Paid holiday/vacation (hours)	-	-	-	22.2	14.3

* Adjusted for establishment size, occupation, industry, and other factors.

Source: Buchmueller, DiNardo, and Valletta (2001) and Mishel and Walters (2003).

Table 3.33 provides information on the union premium for various non-wage dimensions of compensation related to health insurance, pensions, and paid time off. The first two columns present the characteristics of compensation in union and non-union settings. The difference between the union and non-union compensation packages are presented in two ways, unadjusted (simply the difference between the first two columns) and adjusted (for differences in characteristics other than union status such as industry, occupation, and establishment size). The last column presents the union premium, the percentage difference between union and non-union compensation, calculated using the "adjusted" difference.

These data show that a union premium exists in every dimension of the compensation package. Unionized workers are 28.2% more likely to be covered by employer-provided health insurance. Unionized employers also provide better health insurance, paying an 11.1% higher share of single-worker coverage and a 15.6% higher share of family coverage. Moreover, deductibles are $54, or 18.0%, less for union workers. Finally, union workers are 24.4% more likely to receive health insurance coverage in their retirement.

Similarly, 71.9% of union workers have employer-provided pensions, compared to only 43.8% of non-union workers. Thus, union workers are 53.9% more likely to have pension coverage. Union employers spend 36.1% more on defined-benefit plans but 17.7% less on defined-contribution plans. As defined-benefit plans are preferable, as discussed earlier, these data indicate that union workers are more likely to have the better form of pension plans.

Union workers also get more paid time off. Their three weeks of vacation amount to about three days (0.63 weeks) more than non-union workers receive. Including both vacations and holidays, union workers enjoy 14.3% more paid time off.

TABLE 3.34 Union impact on paid leave, pension, and health benefits

Benefit	Paidleave	Pension and retirement	Health insurance
Union impact on benefit incidence	3.2%	22.5%	18.3%
Union impact on benefit cost per hour			
Total impact	11.4%	56.0%	77.4%
From greater incidence	3.4	28.4	24.7
From better benefit	8.0	27.7	52.7

Source: Pierce (1999) and Mishel and Walters (2003).

Table 3.34 provides a more refined analysis of the union wage premium by comparing the employer costs in unionized settings to non-union settings in comparable occupations and establishments (factories or offices). Specifically, the estimated union premium controls for the sector (public or private) in which the establishment is located, the establishment's size, full-time or part-time status of its employees, and its detailed industry and region. Unionized workers are 18.3% more likely to have health insurance, 22.5% more likely to have pension coverage, and 3.2% more likely to have paid leave. Unionized employers pay more for these benefits because the benefits they provide are better than those offered by non-union employers and because unionized employers are more likely to provide these benefits. For instance, unionized employers pay 77.4% more in health insurance costs per hour, 24.7% more because of the greater incidence and 52.7% because of the better benefit.

This analysis also shows that unionized employers pay 56.0% more per hour for pension plans, 28.4% from a greater incidence of providing pensions, and 27.7% from providing better pensions. Similarly, unionized workers have 11.4% greater costs for their paid leave, mostly because of the more extensive paid leave (the 8.0% "better benefit" effect).

The effect of the erosion of unionization on the wages of a segment of the workforce depends on the degree to which deunionization has taken place and the degree to which the union wage premium among that segment of the workforce has declined. **Table 3.35** shows both the degree to which unionization and the union wage premium have declined by occupation and education level over the 1978-2005 period (1979 data were not available). These data, which are for men only, are used to calculate the effect of weakened unions (less representation and a weaker wage effect) over the period on the wages of particular groups and the effect of deunionization on occupation and education/wage differentials.

Union representation fell dramatically among blue-collar and high-school-educated male workers from 1978 to 2005. Among the high-school-graduate workforce, unionization fell from 37.9% in 1978 to 19.0% in 2005, or by about half. This decline obviously weakened the effect of unions on the wages of both union and non-union high-school-educated workers. Because unionized high school graduates earned about 17% more than equivalent non-union workers (a premium that declined from roughly 22% in 1978, not shown in table), unionization raised the wage of the average high school graduate by 8.2% in 1978 (the "union effect"). Unions had a 0.9% impact on male college graduate wages in 1978, meaning that unions had the net effect of narrowing the college/high school gap by 7.3 percentage points in that year. The decline in union representation from 1978 to 2005, however, reduced the union effect for high school male workers to just 3.3% in 2005 while hardly affecting college graduates. Thus, unions closed the college/high school wage gap by only 2.8 percentage points in 2005. The lessened ability of unions to narrow this wage gap (from a 7.3% to a 2.8% narrowing effect) contributed to a 4.4 percentage-point rise in the college/high school wage differential from 1978 to 2005, an amount equal to 20.1% of the total rise in this wage gap. In other words, deunionization can explain a fifth of the growth in the college/high school wage gap among men between 1978 and 2005.

TABLE 3.35 Effect of declining union power on male wage differentials, 1978-2005

A. Effect of union decline on wages

	Percent union				Union effect*			
	1978	*1989*	*2000*	*2005*	*1978*	*1989*	*2000*	*2005*
By occupation								
White collar	14.7%	12.1%	11.2%	10.7%	0.2%	0.0%	-0.2%	-0.2%
Blue collar	43.1	28.9	23.1	19.2	11.5	6.7	4.3	3.8
Difference	-28.4	-16.7	-11.9	-8.5	-11.3	-6.8	-4.5	-4.1
By education								
College	14.3%	11.9%	13.1%	11.0%	0.9%	0.5%	0.9%	0.4%
High school	37.9	25.5	20.4	19.0	8.2	5.5	3.1	3.3
Difference	-23.6	-13.6	-7.4	-8.0	-7.3	-5.0	-2.3	-2.8

B. Contribution of union decline on wage differentials

	Change in wage differential**				Change in union effect				Deunionization contribution			
	1978-89	1989-2000	2000-05	1978-2005	1978-89	1989-2000	2000-05	1978-2005	1978-89	1989-2000	2000-05	1978-2005
White collar/blue collar	5.0%	4.2%	1.9%	11.1%	-4.6%	-2.3%	-0.5%	-7.3%	-90.5%	-54.3%	-23.5%	-65.3%
College/high school	13.0	8.1	1.1	22.1	-2.3	-2.7	0.6	-4.4	-17.8	-33.5	53.6	-20.1

* Premium estimated with simple human capital model plus industry and occupational controls. Union effect is premium times union coverage.
** Estimated with a simple human capital model.

Source: Freeman (1991) and authors' analysis of CPS ORG data.

The weakening of unionism's wage impact had an even larger effect on blue-collar workers and on the wage gap between blue-collar and white-collar workers. The 43.1% unionization rate among blue-collar workers in 1978 and their 26.6% union wage premium boosted blue-collar wages by 11.5%, thereby closing the blue-collar/white-collar wage gap by 11.3 percentage points in that year. The union impact on this differential declined as unionization and the union wage premium declined, such that unionism reduced the blue-collar/white-collar differential by 4.1 rather than 11.3 percentage points in 2005, a 7.2 percentage-point weakening. This lessened effect of unionism can account for 65% of the 11.1 percentage-point growth of the blue-collar/white-collar wage gap over the 1978-2005 period. It was primarily driven by the enormous decline of unionism among blue-collar men, from 43.1% in 1978 to just 19.2% in 2005. In that nearly 30-year period unionism among blue-collar workers lost much of its ability to set wage patterns.

Unions reduce wage inequalities because they raise wages more at the bottom and in the middle of the wage scale than at the top. Lower-wage, middle-wage, blue-collar, and high-school-educated workers are also more likely than high-wage, white-collar, and college-educated workers to be represented by unions. These two factors—the greater union representation and the larger union wage impact for low- and mid-wage workers—are key to unionization's role in reducing wage inequalities.

The larger union wage premium for those with low wages, in lower-paid occupations, and with less education is shown in **Table 3.36**. For instance, the union wage premium for blue-collar workers in 1997, 23.3%, was far larger than the 2.2% union wage premium for white-collar workers. Likewise, the 1997 union wage premium for high school graduates, 20.8%, was much higher than the 5.1% premium for college graduates. The union wage premium for those with a high school degree or less, at 35.5%, is significantly greater than the 24.5% premium for all workers.

Table 3.36 presents a comprehensive picture of the impact of unions on wage inequality by drawing on the estimated union wage premiums for the different fifths of the wage distribution. The table presents the results of three

TABLE 3.36 Union wage premium for subgroups

Benefit	Union wage premiums	Percent union
Occupation		
White collar (1997)	2.2%	11.6%
Blue collar (1997)	23.3	20.8
Education		
College (1997)	5.1%	10.4%
High school (1997)	20.8	23.6
All (1992, 1993, 1996)	24.5	n.a.
High school or less	35.5	n.a.

	Wage premium estimates			Percent union
Wage distribution (1989)	***1***	***2***	***3***	
Lowest fifth	17.2%	20.6%	24.2%	4.9%
Second fifth	21.8	16.8	34.6	8.9
Middle fifth	20.6	13.7	30.8	14.0
Fourth fifth	15.5	10.7	24.5	20.3
Top fifth	12.4	6.1	6.1	19.1
Average effect	19.0%	11.9%	n.a.	--
Percent bottom 40% to top 40%	140	223	193%	35%

Source: Mishel and Walters (2003), Gunderson (2003), Gittleman and Pierce (2007), Schmitt (2008) and Card, Lemieux and Riddle (2002).

different studies, and each demonstrates that the union premium is higher among lower-wage workers than among the highest-wage workers. This wage premium can be seen in the line that shows the percent by which the premium of the bottom 40% exceeds that of the top 40% of earners; the results range from 140% to 223%. These numbers illustrate that unions generate a less unequal distribution of wages in the unionized sector by being able to raise the wages of low- and middle-wage workers more than those of higher-wage workers. That is, lower-wage workers benefit more than higher-wage workers from coverage by a collective bargaining agreement. The countervailing factor, however, is that unionization rates are lower for low-wage workers than other workers.

There are several ways that unionization's impact on wages goes beyond the workers covered by collective bargaining agreements and extends to non-union wages and labor practices. For example, in industries and occupations in which a strong core of workplaces are unionized, non-union employers will frequently meet union standards or at least improve their compensation and labor practices beyond what they would have provided in the absence of a union presence. As noted above, this dynamic is sometimes called the union threat effect, the degree to which non-union workers get paid more because their employers are trying to forestall unionization.

A more general mechanism (without any specific "threat") through which unions have affected non-union pay and practices is the institution of norms and established practices that become more generalized throughout the economy, thereby improving pay and working conditions for the entire workforce. These norms and practices have particularly benefited the 70% of workers who are not college educated. Many fringe benefits, such as pensions and health insurance, were first provided in the union sector and then became more generalized. Union grievance procedures, which provide due process in the workplace, have been adapted to many non-union workplaces. Union wage-setting, which has gained

exposure through media coverage, has frequently established standards for what workers expect from their employers. Until the mid-1980s, in fact, many sectors of the economy followed the patterns set in collective bargaining agreements. As unions have weakened, especially in the manufacturing sector, their ability to set broader patterns has diminished. However, unions remain a source of innovation in work practices (e.g., training, worker participation) and in benefits (e.g., child care, work-time flexibility, sick leave).

The impact of unions on wage dynamics and the overall wage structure is not easily measurable. The only dimension that has been subject to quantification is the threat effect. The union effect on total non-union wages is nearly comparable to the effect of unions on total union wages. **Table 3.37** illustrates the union impact on union, non-union, and average wages among workers with a high school education. Assuming that unions have raised the wages of union workers by 20%, the average high school wage would be raised by 5.0% (25% of 20%). The total effect of unions on the average high school wage in this example is an 8.8% wage increase, 3.8 percentage points of which are due to the higher wages earned by non-union workers and 5.0 percentage points to the union wage premium enjoyed by unionized workers.

Two conclusions can be reached based on these studies. First, unions have a positive impact on the wages of non-union workers in industries and markets in which unions have a strong presence. Second, because the non-union sector is large, the union effect on the overall aggregate wage comes almost as much from the impact of unions on non-union workers as on union workers.

The decline of union coverage and power affects men more than women and adversely affects middle-wage men more than lower-wage men. Consequently, deunionization has its greatest impact on the growth of the 90/50 wage gap among men. In this light, it is not surprising that the period of rapid decline of union coverage from 1979 to 1984 (during a deep recession, and at a time when the manufacturing sector was battered by the trade deficit) was also one where the male 90/50 wage gap grew the most. Recall from Table 3.35 that male blue-collar unionization fell from 43.1% in 1978 to just 28.9% in 1989, contributing to the rapid growth of male wage inequality in the 1980s. The decline of unionization in the 1990s and 2000s put continued downward pressure on middle-wage men and contributed to the continued growth of the 90/50 wage gap between middle- and high-wage men.

Unions, productivity, and inequality: international evidence

It is instructive to look at the economic performance of other advanced nations and the relation, if any, to the strength of unions and collective bargaining. Although some claim that union strength hurt economic efficiency, it turns out

TABLE 3.37 Impact of unions on average wages of high school graduates

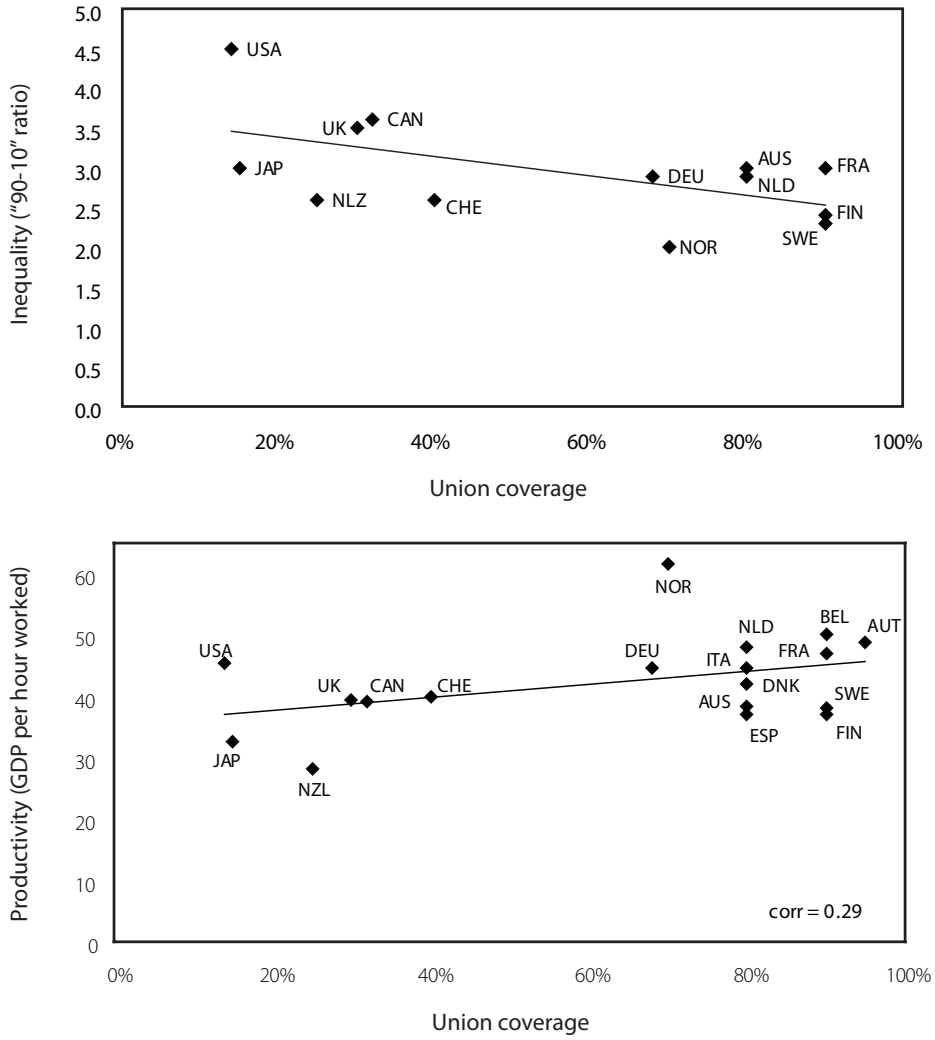
	Share of workforce	Union wage impact	Union contribution to higher average wage
Nonunion	75.0%	5.0%	3.8%
Union	25.0	20.0	5.0
Total	100.0	8.8	8.8

Source: Mishel and Walters (2003).

that nations with more extensive collective bargaining have higher productivity, meaning they produce more goods and services per hour worked. Nations with higher union density (in terms of the extent to which employment is covered by collective bargaining agreements) also have less income inequality. These data suggest that greater union density, higher productivity, and lesser income inequality reinforce each other or, at the least, coexist.

The top of **Figure 8C** shows union coverage (the percent of workers covered by union contracts) for 2000 plotted against an inequality measure. The measure of inequality used in this plot is the "90-10" ratio, which measures how many times more income a household in the 90th income percentile has compared to a household in the 10th income percentile (this and other inequality measures are discussed in depth below). The United States stands out as the country with the highest level of inequality and, at 14%, the lowest level of union coverage. Apparent in this figure is the strong correlation between union coverage and low levels of inequality. The bottom half of Figure 8C goes on to plot union coverage against productivity, demonstrating that countries with higher levels of unionization also tend to have higher levels of productivity. The correlation here is not as strong, but it clearly shows that productivity is not at all suffering in countries where a high percentage of the workforce is covered by union contracts. While there is much discussion in policy making circles about the potential costs of protective labor market institutions, Figure 8C should remind readers that these institutions also carry potential benefits, both to individual workers and to the wider economy, and that these benefits should be as prominent in discussions about them as any potential costs.

FIGURE 8C Collective bargaining coverage in relation to inequality and productivity, 2000



Note: See figure note to Figure 7M for a guide to the country abbreviations.

Source: Authors' analysis of OECD (2004, 2005) data and The Conference Board and Groningen Growth and Development Centre (2008) data.