The Role of Unions in the 21^{st} Century: Some Thoughts

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Introduction

- Disclaimer: I know much more about labor unions in the United States than elsewhere, but I will try to put at least some of what I am doing in an international context.
- Core Facts:
    1. Low-skill labor markets have not thrived in the last several decades.
        - Workers' wages have stagnated or declined.
        - Labor's share of income has declined.
        - Inequality has increased.
    2. Union density has declined and labor unions have been weakened more generally.
- My focus today is on the connection between the low-skill labor market weakness and the decline of labor unions.
- I turn next to a brief illustration of some of the (well-known) core facts.

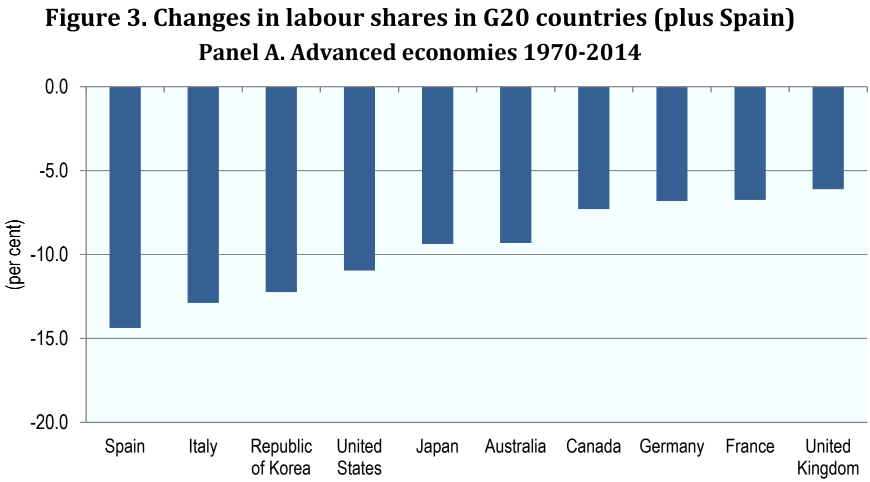
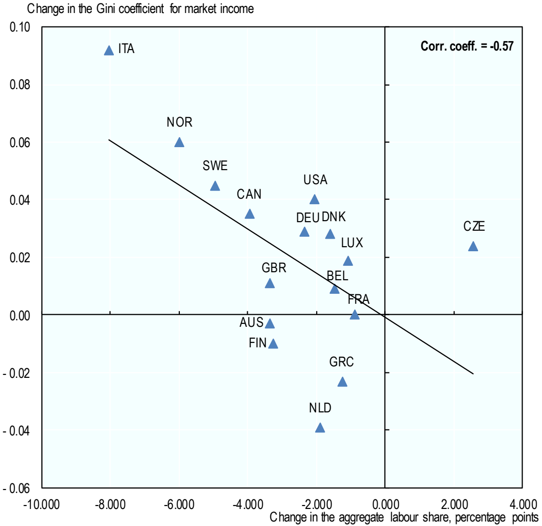


Figure 3. Changes in labour shares in G20 countries (plus Spain)
Panel A. Advanced economies 1970-2014
0.0
-5.0
-10.0
-15.0
-20.0
(per cent)
Spain
Italy
Republic of Korea
United States
Japan
Australia
Canada
Germany
France
United Kingdom

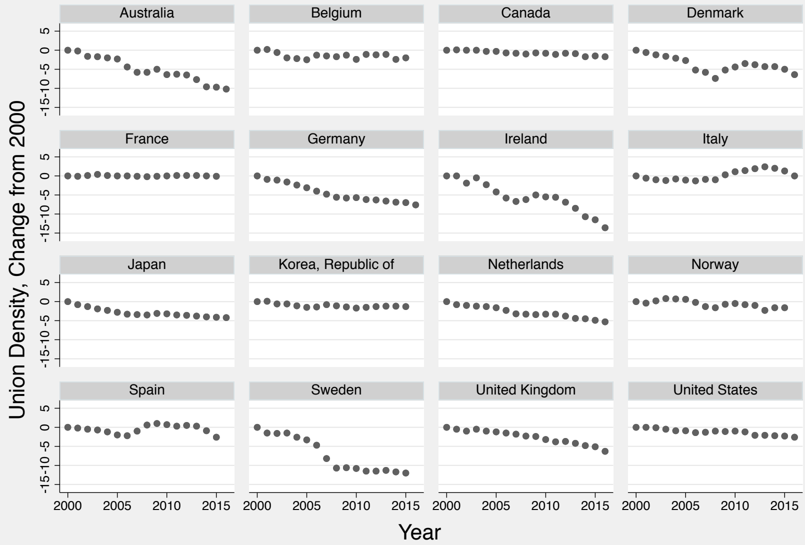
Δ Inequality, 1985-2012 – Almost All Countries Show Growth in Gini

Change in Labor Share and Gini Negatively correlated

Figure 6. Changes in the labour share and in income inequality in OECD countries, 1990s to mid-2000s[a]



Change in Union Density Since 2000 in 16 Countries



Source: ILO

Why Have Workers Not Fared Well?

- An Underlying Explanation is based on Market Forces
  - Globalization
  - Technical Change (SBTC, RBTC)
  - e.g., Katz and Murphy (1992), Goldin and Katz (2008), Autor and Dorn (2013).
- An important enabling factor is **the rise of neo-liberalism** that gave intellectual and political currency to the idea that the sole goal of business should be to maximize return on capital.
  - This forced out earlier views that firms should have broader objectives that considered a range of stakeholders that included workers and the public.
  - Neo-liberalism goes hand-in-hand with the idea that capital should be completely mobile and go where returns are highest => any attempt to pursue broader goals would fail.
- The weakening of labor unions removed an important counterweight to the neo-liberalism.

Where are Unions in All of This?

- Unions can play an important role as a counterweight to capital and neo-liberalism.
- The combination of market forces and the weight of neo-liberalism helped lead to institutional weakness
  - Erosion of the minumum wage (at least in U.S.)
  - Decline of labor unions
    - Especially pronounced in U.S. since 1970s.
- Labor unions were seen as organizations that prevented capital from getting its highest return by siphoning off some profits in the form of higher wages.
  - I will discuss this further in a bit.
- Unions lost much of the political support needed to strengthen themselves.
  - e.g., the abandonment of the effort for labor law reform in the U.S. in 2008 (EFCA).
  - EFCA would have made it easier to organize and to come to agreement on first contracts.

Unions' Role in the Economy and Society

Unions in different countries have taken different approaches to collective bargaining and the relationship to government.

- Corporatist – Tripartate organization around labor (unions), business groups, and government.
  - Unions are integral to the political process and actively engaged with business and government setting overall priorities and policies.
  - Negotiation often at a national/industry level and guided by broad policy goals.
  - Common in Scandanavian countries and elsewhere in Europe.
- Business Unionism – Unions negotiate with individual firms over the terms and conditions of employment.
  - No direct role in government or consideration of public policy issues.
  - This is the mode in the U.S. and in the U.K. at least in part.

These are polar types, and the reality in different countries can be a mixture.

How Labor Unions Act to Improve Outcomes

- There is a tension between labor unions and competitive product markets.
- If product markets are competitive and a union organizes employees at existing firms => higher wages, other firms can enter paying lower wages and out-compete the union firm.
- **Solution – "Take labor out of competition"**:
  1. Identify places where employers have product market power (limited entry of new firms), organize the workers, and raise wages to extract rents from the product market.
  2. Organize enough (all?) of the firms in a product market and credibly threaten to organize new entrants. This allows the higher wages negotiated by unions to be passed through to the product market.
  3. Bargain at the national-industry level (corporatist) so that higher wages are enjoyed by workers in all firms in an industry, whether unionized or not.

Globalization Makes it Harder to Take Labor Out of Competition (at least for tradeable goods)

- Perhaps the biggest change of the last half century has been the globalization of markets and the growth of trade.
- This makes it nearly impossible to "take labor out of competition" since capital is mobile and production can move "overseas" to places that are not unionizable (to local standards).
- A union cannot promise employers that all their competitors will face the same wage.
    - Example (within U.S.): In the early 20th century, U.S. garment manufacturers in the Northeast were organized by unions that covered the industry. These firms found they could operate non-union in the Southern States, and the industry disappeared from the Northeast.
    - The key was that, while the unions could credibly threaten to organize new entrants in the Northeast, they could not do so in the south.

Technical Change Makes it Harder to Take Labor Out of Competition

- Much technical change is about substituting capital for labor.
- This means that when/if unions negotiate higher pay for their members, employers can substitute modern "labor saving" technology.
- Essentially, the technical change increased the elasticity of demand for labor.
- One (difficult) way to take labor out of competition with technology is with work rules that specify the production technology or the output-labor ratio.
    - There are many examples of this, e.g.
        - Rules to continue with "firemen" on railroad locomotives even after the shift from coal to diesel/electric.
        - Rules to require "stripping-and-stuffing" of containerized cargo on the docks.
    - Ultimately, these kinds of inefficient rules hurt unions.

An Example from the United States

- After the passage of the National Labor Relations Act (NLRA, 1935) and the Second World War, unions and firms in large newly-organized manufacturing industries entered into an implicit arrangement.
- In return for labor peace and granting the firms the "right to manage," firms would share the product market rents derived from the fact that the markets were protected (by consumer preferences and other factors) from significant foreign competition. The results were higher wages for workers and perhaps lower profits.
- Unions and firms were effectively in a partnership to share the broader goals of workers and firms.
- This arrangement broke down in the last quarter of the 20th century with globalization and the rise of neo-liberalism.

The Parable of the U.S. Automobile Industry

- The U.S. auto industry was dominated by a handful of firms.
- U.S. consumers generally demanded only automobiles manufactured in the U.S.
- => A strong oligopoly that extracted rents from consumers.
- This prosperity was shared with workers through their unions.
- Following the first OPEC oil embargo in 1974, consumer demand for automobiles shifted to smaller vehicles that were readily available from other countries.
- The U.S. manufacturers and the unions were unable to recognize and respond to this shift.
- => Dramatic shift in the organization of the industry (e.g., rise of imports, outsourcing of work that used to be done "in house", adoption of new technology, production shift to nonunion states).
- => Much less high-wage union labor employed.

Non-tradeable and Non-Offshoreable Goods

- Unions could have more success in organizing and raising wages of workers in non-tradeable / non-offshoreable goods sectors.
- In these cases workers are not subject to direct competition with lower-paid workers elsewhere.
- However, even in these cases wages and jobs can be vulnerable.
  - Capital substitutability through technical change is still a concern.
  - Firms can outsource "non-core" functions to low-wage nonunion firms. (Goldschmidt and Schmieder, 2017)
    - High-wage firms contract with out custodial firms to clean offices.
    - Call centers located in foreign countries.

Employer Market Power – Monopsony

- There is a burgeoning literature on monopsony and employer power in labor markets.
- One source of this market power is structural and based on employer concentration in local labor markets. (e.g., Azar, et al. 2017; Benmelech et al. 2018).
  - There are cases of firms colluding to hold down the pay of workers in particular jobs (e.g., nurses).
  - Adam Smith recognizes the ease with which employers can collude on wages in *The Wealth of Nations*.
- Another source is the "new monopsony" approach based on search and mobility costs that give employers power to lower wages below the opportunity wage of workers.
  - You will hear more about this directly from Alan Manning later today.
- Unions are the key institution for providing workers with the countervailing power (Galbraith's term) necessary to offset monopsony poower.

Despite All of This — Unions tend to Reduce Inequality

When the economic and political environment allows unions to prosper, unions tend to reduce inequality.

- Unions historically have reduced dispersion across workers by attaching wages to jobs rather than to individuals (the standard rate). (Sidney and Beatrice Webb, 1897)
- Unions in the U.S. (at least in the private sector) have tended to organize lower-skilled workers.
- Raising the wage of these lower-skilled workers relative to higher-skilled nonunion workers reduces inequality.
- A caveat on what I am about to report is that the causal argument for unions reducing inequality is not air-tight.

Simple Facts From U.S. Cross-Sectional Earnings Functions

- Estimation of separate earnings functions in the union and nonunion sectors using CPS data with the "usual suspects" as controls over the period 2000-2019.
    - Lower R-squared in union sector (0.22) than in the nonunion sector (0.34)
    - Somewhat lower RMSE of log-wage in union sector than in non-union sector.
    - Lower return to education in the union sector. College/HS differential is 47 log points in the nonunion sector and 32 log points in the union sector.
- Consistent with union wages being attached to jobs while non-union wages are attached to individuals.
- Within-job variation across workers in ability not fully compensated (+ or -) in union sector.
- => Lower dispersion of earnings in the union sector.

Going a Bit Further: Union Effects by Skill Level

- Again use CPS from 2000-2019.
- Following Card (1996, 2001), use predicted wage from non-union earnings function as index of skill.
- Divide workers into quartiles using this skill index.
- Now estimate earnings functions with separate union differential by quartile. => Union-nonunion wage differential by quartile
  - First and Second Quartile: 18 log point.
  - Third Quartile: 13.5 log points.
  - Fourth Quartile: -1 log point.
- Unions have larger wage effects lower in the skill distribution.
- Suggests again that unions reduce inequality.

The Literature on Unions and Inequality in the United States

There is a strong literature on unions and inequality in the United States that suggests unions reduce inequality. Some Examples:

- Card (1996) and Card (2001) uses some of the ideas I summarized on the previous slide to examine selection into unions and variation in the effect of unions on wages across the skill distribution.
- DiNardo, Fortin, and Lemieux (1996) develop a reweighting technique (DFL) to characterize a counterfactual distribution of earnings with hypothetical levels of unionization.
- Fortin, Lemieux, and Lloyd (2018) extend the earlier DFL work for further investigation of the same question.
- Farber, Herbst, Kuziemko, and Naidu (2020) use data from Gallup Polls and other sources going back to the 1930s to investigate the effects of unions on inequality.

The Causal Claim is a bit weaker

- A criticism of this literature is that the same forces that have caused unions to decline have also tended to increase inequality.
- This might be the case with globalization and technical change, but unions likely remain important mediating institutions that temper the effects of these factors.
- Focusing on an earlier time period, Farber, et. al. (2020) use plausibly exogenous variation in union density due to the passage of the National Labor Relations Act (NLRA) and Defense spending in the run-up to U.S. involvement in World War II to identify the effects of unions on inequality at the state-year level.
- The clear finding is that the increase in union density associated with these instruments was long-lived and led to a decrease in inequality.

Defining the Role of Unions More Broadly

- Unions main mode of operation is to bargain with employers (or groups of employers) over the terms and conditions of employment.
- The result is generally higher wages, more generous fringe benefits, and some control over the workplace (e.g., work rules, grievance settlement mechanisms).
- Beyond this unions play a broader role through the political process in setting the regulatory environment in which the labor market operates.
    - This is more the norm in corporatist settings.
    - Specific examples: Minimum wages, hours regulation, workplace health and safety, pension regulation.
- Regulation of international trade (beyond tariffs): e.g., Agreements on international labor standards that are part of some free-trade agreements.

So Where Does This Leave Us?

- Accept the argument that unions reduce inequality, so that the current high levels of inequality could potentially be reduced with a strengthening of the union sector.
- Some of the increase in inequality is due to globalization and technical change, and these are forces that are difficult to counter.
- But labor unions are an important institution that can play a direct role in improving outcomes for their members as well as a broader role in the regulation and operation of the labor market and the economy.
- Unions are a particularly important institution for resetting the skewed balance across stake-holders that has resulted from the ascendance of neo-liberalism.