Organizing in Decline

Tracing the (diminishing) role of unions in today's labor market

BY RENEE HALTOM

Labor unions had a moment in the spotlight in the first half of 2011. They sparked heated protests — involving up to 100,000 people across all 50 states — after Wisconsin governor Scott Walker tried to reign in the bargaining power of state and local government workers. Lawmakers in several other states followed suit. The backlash in support of collective bargaining rights echoed massive protests against government spending cuts in several European countries.

For unions to dominate the headlines is increasingly rare. Labor unions have been on the decline in the United States since the late 1970s. This has come despite a meteoric rise after the Great Depression, with membership leaping from about one-tenth of private sector workers before the 1930s to more than a third of them by the 1950s. By the end of the 20th century, however, the numbers were right where they started.

Even union rates for blue-collar workers — the prototypical model for organized labor — have fallen. Almost 40 percent of private manufacturing workers were unionized in the early 1970s, compared to fewer than 11 percent in 2010. The numbers for construction during that period went from 40 percent to 13 percent.

Among both private and public sector workers, 11.9 percent were union members in 2010 — about 14.7 million workers. Union declines have been concentrated almost entirely in the private sector. Data are available from the Census Bureau's Current Population Survey starting in 1973 — the year private sector union membership peaked by that measure at just under a quarter of workers. Private sector membership is at a low of 6.9 percent, representing 7.1 million members.

The public sector experience has been quite the opposite: Membership rates also started at about a quarter of workers in 1973, jumping to more than 35 percent by the late 1970s and staying in that territory since. Public sector workers constitute 17 percent of employment but 52 percent of union members.

Despite declines, unions manage to make their voices heard. The 11 major strikes and lockouts last year added up to the second-lowest amount on record since the data were first collected by the Bureau of Labor Statistics in 1947. Still, they idled 45,000 workers for 302,000 lost work days.

What Unions Do

Picket lines may be the caricature of collective bargaining, but the vast majority of union efforts come in less visible forms.

"Everyone 'knows' that unions raise wages. The questions are how much, under what conditions, and with what effects on the overall performance of the economy," write economists Richard Freeman and James Medoff of Harvard University in *What Do Unions Do?*, a seminal 1984 book on the economic effects of unions. Quantifying those effects is difficult. Unions can have both positive and negative effects on workers and businesses that vary across industries and even firms, so magnitudes are empirical questions that economists have not answered with certainty.

Unions give employees monopoly power within a firm, inducing employers to raise wages and benefits above competitive levels. Labor economists call this the "monopoly face" of unions. According to Georgia State University economist Barry Hirsch, the evidence is fairly clear that unions boost private sector wages on the order of 10 percent to 20 percent, and probably more if one includes retirement and health benefits. The union wage premium probably is a bit lower for public sector workers, he says, but they receive a greater proportion of total compensation in the form of benefits (more later on the difference between public and private sector unions).

The monopoly face sometimes makes economists squeamish. In a competitive labor market, successful collective bargaining efforts by definition distort input prices from what the market would achieve on its own. All else equal, those distortions will make production more expensive, thereby reducing output and employment, and causing some degree of welfare loss. (If, in contrast, the employer is a monopsony — that is, it faces little competition for workers and thus has power to pay lower wages — the monopoly power of unions can actually encourage the market to function more like a competitive one.) Through the monopoly face, unions redistribute firms' profits toward employees.

But that is not the end of the story. Freeman and Medoff also emphasized the "voice face" of unions. Unions can aggregate the preferences of workers to air issues that employers may not otherwise know are driving the best workers away. This has the potential to increase productivity by reducing unnecessary quits, providing management with the information to adopt more efficient practices, improving communication, and helping employers better match compensation with employee preferences. Unions are associated with a more formalized governance structure within a workplace, such as established grievance processes and codified policies. Of course, more onerous procedural requirements for management can hurt productivity.

Economists have spilled much ink analyzing the net productivity effects of unions by industry, location, and time. The evidence is far from conclusive; some studies show positive effects while some show the opposite. The relationship between management and the union is a crucial determinant, as is the economic environment in which the firm operates. "From what we know in the United States, productivity effects tend to be positive on average but very small," Hirsch says, "but are certainly not sufficient to offset the higher wage cost."

That is, unions almost always make a firm less profitable. This result has been standard in the literature on unions regardless of profit measure and whether studies look at the industry or firm level, Hirsch writes in a 2004 review of studies on unions and firm performance. Where economists disagree is how union wage gains squeeze firms' profits. Some say they extract monopoly rents from the firm, while others argue they act as a tax on returns to capital and other forms of innovation. Economists tend to find the latter more troubling. In that scenario, firms expect that unions will down the road extract some of the returns to capital, causing them to invest less today, hurting their longer-term prospects. Unions are also associated with slower employment growth, although the data don't indicate that unions have an obvious effect on firm "births" and "deaths."

But by taking a bigger slice of the pie, unions may also reduce the pie's overall size. "So that's the tension," Freeman says today. "You have something that does good for workers, may do some good for the firm, but the firm is paying more than whatever good it is doing." That's why employers often resist unionization, even improving wages or working conditions under the possible threat of unionization.

Where Unions Thrive

Union gains will be harder to achieve when there are fewer rents to be found. That's why unions are less likely to thrive in highly competitive industries. "If unions operated in perfectly competitive markets, and if *all* they did were to raise wages above competitive levels, unions would have a very difficult time surviving," Freeman and Medoff wrote in 1984.

Union membership rates are higher in oligopolistic industries and those that have a history of strong regulation or government involvement. The highest union membership rates in the country are found in sectors such as rail transportation (70 percent of workers), the U.S. Postal Service (69 percent), and air transportation (39 percent).

Increasing competitiveness, aided in part by globalization, is the primary reason for the long-term decline of unions, Hirsch and many other labor economists argue. "If you're in a relatively noncompetitive market, such as the old automobile industry after World War II, where the whole industry was unionized, those price increases could be passed on to consumers fairly easily because car buyers didn't have anywhere else to go. Over time, of course, it has become much more competitive and easier for buyers to go elsewhere."

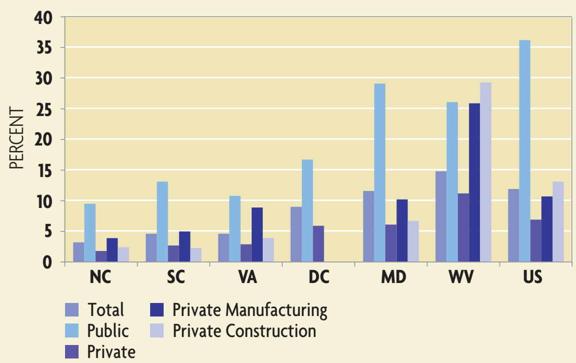
The union decline has also occurred as the American economy has shifted toward services and away from goods production. Manufacturing and other industrialized job functions are a smaller share of total employment, having moved from about one third of jobs in the 1950s and 1960s to less than 15 percent today. All the private sector union decline since the 1970s is concentrated in three historically high-union sectors, Hirsch found in 2008: Outside of manufacturing, construction, and the sector comprised of transportation, communications, and utilities, private union membership has remained more or less constant at 3.5 million workers despite growing enormously in employment.

Competitiveness is one of several reasons that private and public sector unions are different animals. At first glance, it is not obvious whether unions would be more powerful in the public or private sector. Public employers face much less competition since the government functions more or less as a monopoly in many of its activities. They also lack a profit motive, may be subject to unions' political influence, and tend to provide essential services that make strikes conspicuous and costly — all of which might be expected to boost union influence. On the other hand, public sector employers answer to the public and tend to operate primarily in white-collar industries — for which the union premium tends to be lower — which might be expected to mute public sector union outcomes.

Public sector workers tend to earn more than private workers by crude measures — that is, ones that don't adjust for educational attainment and job experience. This makes them an easy target for those concerned about the budget deficits that currently afflict most U.S. states and have led to painful layoffs and budget cuts. Many states' public sector pensions, in particular, face severe funding shortfalls and reports of retirement plan abuse that some blame on union power. Government employees have retained defined-benefit pensions at a time when defined-contribution plans, such as 401(k)s, dominate the private sector. The shortfalls are partly a result of the recession, partly a result of the benefit levels that governments and unions have negotiated, and partly a result of the pension funding decisions that plan managers have made during both good and bad times in

Fifth District Unions: Most states less unionized than national average

Percent of workers who are union members, 2010



NOTE: Membership rates were zero for D.C.'s private manufacturing and private construction sectors.
SOURCE: Compiled by Barry Hirsch, Georgia State University, and David Macpherson, Trinity University, from Current Population Survey data. Available at http://www.unionstats.com

recent years. (For more on this topic, see "Fuzzy Math: Public pensions are underfunded — how bad is it?" *Region Focus*, Third Quarter 2010.)

Holding worker characteristics constant, public sector unions have produced a faster-growing wage premium over time, but it is still smaller than the union premium in the private sector, argue economists David Blanchflower of Dartmouth College and Alex Bryson of the National Institute of Economic and Social Research in a 2004 paper. They found that private sector union members earned 17 percent higher wages than nonunionized counterparts, while public sector union members earned 14.5 percent more than theirs. (It's hard to say how benefits data would alter the comparison since those data are hard to come by. Government workers earn a greater proportion of their total compensation in the form of benefits.) Public sector unions tend to increase wages most for local government workers, followed by staff at state and then federal agencies.

But some aspects of the public sector union premium may show up in places other than wages. Government jobs tend to have lower retirement ages and more vacation. They also tend to offer more job security; data from the Bureau of Labor Statistics show that public sector layoffs and discharges occur at one-third the rate of those in the private sector on average, possibly because government employers face far less product competition and the demand for public services is less elastic. Some may have less job stress and work fewer hours. These job features may exist partially because of the heavy union presence in the public sector.

The Unorganized South

The southeastern United States is known for its paucity of union membership. But not for the unions' lack of trying. In 1946, the Congress of Industrial Organizations — today one half of the AFL-CIO union federation — launched a major effort to organize the Southeast. Operation Dixie had a budget of $1 million and a staff of 250 charged with organizing every major industry — textiles, lumber, coal, and iron and steel — across a dozen states. The goal seems ambitious in retrospect considering how spectacularly it failed.

There were reasons for initial optimism. Unions experienced large membership gains and wage concessions during World War II. The post-war strike wave — 3 million workers in 1945 and 5 million in 1946 — was the largest the United States had ever seen.

Not helping matters was the Taft-Hartley Act, passed just as Operation Dixie was launched. It allowed states to pass right-to-work (RTW) laws, which say workers cannot be required to join the union at their workplace. Employees in RTW states can benefit from the results of collective bargaining without the associated dues or membership, making it potentially harder for unions to organize and attract new members.

Taft-Hartley was a marked shift in the political climate toward unions. Previous union legislation leaned heavily in favor of workers, while the more moderate Taft-Hartley was aimed at balancing union power with the interests of the general public and employers. It reduced the amount of government protections that unions received, and allowed employers to voice their opinions on unionization on the eve of elections.

Operation Dixie was a failure almost from the beginning. Culture may have been its biggest impediment. The South was relatively undeveloped economically, especially in manufacturing; most workers simply never knew anyone who had been part of a union, and that made it a harder sell.

Race was probably an even bigger factor. Many white workers preferred a distinction between "white jobs" and "black jobs," supported by the segregation that Jim Crow laws created, writes historian William Jones at the University of Wisconsin-Madison. Rather than address the race issue, the CIO's Operation Dixie set aside the race question entirely. Union heads "believed that the question, 'You want your pay raised, don't you?' is a more effective gambit than a long talk about human equality and human rights," Jones quotes the *Saturday Evening Post* as stating at the time. The union's equivocal attitude toward race made it more difficult for organizers to motivate black southern workers without isolating white ones.

The CIO officially ended Operation Dixie in 1953 having won just 64 out of 232 elections, and losing most of the larger plants that were its initial target. RTW laws would appear on the surface to have hurt Operation Dixie's success. The 22 RTW states, most of them southern, do tend to be relatively less unionized (see map). In the Federal Reserve's Fifth District, Virginia and the Carolinas are RTW states. North Carolina has the lowest union membership rate in the nation at 3.2 percent of workers, while South Carolina and Virginia are tied for the sixth-lowest union membership rates at 4.6 percent. The other Fifth District territories — Washington, D.C.; Maryland; and West Virginia — are non-RTW states and place 22nd, 30th, and 38th, respectively. New York is the most unionized state in the nation at nearly a quarter of all employees.

But according to some economists, it is a misconception that RTW laws have a big effect on union density in the South or anywhere else. A state that has passed a RTW law probably has a pre-existing pro-business attitude that is more important to union membership rates than the RTW law itself. In a 1975 study published in the *Journal of Political Economy*, economists Keith Lumsden and Craig Petersen ran regressions on states' union membership rates both before and after Taft-Hartley was passed. They included a variable representing the presence of a RTW law — and it showed roughly the same significant and large effect both before and after RTW laws existed. While not the final word on the subject, it does imply that RTW laws are to some degree a proxy for a state's business environment. "Think about it," Hirsch says. "In which states are you going to be likely to get majority support to pass a RTW law? It wouldn't be New York or Michigan."

Even if they can, most workers choose not to free-ride on the benefits of collective bargaining. About 81.5 percent of private workers who are covered by union contracts are actually union members themselves. Even in non-RTW states, just 8 percent of covered workers are not actually members of a union, since new workers don't always have to join the union right away, and may never be required to join at all (though some of the gap may be due to reporting error).

Therefore, Hirsch says, the maximum amount of free-riding that takes place due to RTW laws — the difference between coverage rates in RTW and non-RTW states — is just 11 percent, not a substantial number in his view. Nonetheless, union supporters devote considerable resources to opposing RTW laws, implying the statutes must have some effect on unions' abilities to organize and bargain.

Not Winning Any Popularity Contests

By some measures, unions are less popular among the general public than they have ever been. The number of Americans saying in Gallup polls that they approve of unions dropped from 59 percent in 2008 to 48 percent in 2009. It was the first time in the poll's more than 70-year history that approval rates fell below half, though the numbers inched back above that threshold in 2010.

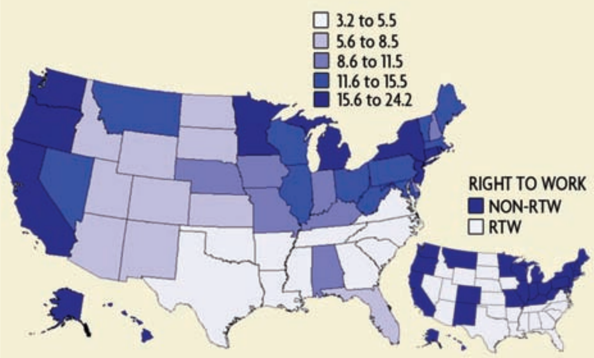
The bailout of the U.S. auto industry probably didn't do unions any favors. Many Americans blamed the unions for the companies' troubles. There also seems to be a cyclical effect: When the average household is more likely to be unemployed, unions' demands seem less reasonable, Gallup speculated with the release of the latest poll numbers. Concerns over state budget deficits and underfunded public pensions also aren't helping the union cause.

Declining public support won't necessarily show up in union membership rates, which don't vary dramatically from year to year. Where it could hit home is in legislation relating to unions. For example, union supporters have been trying to pass the Employee Free Choice Act for a few years. The EFCA would make the election process easier and more visible, and, critics say, may intimidate workers into voting in favor of unionization by eliminating secret-ballot voting over union representation.

The laws surrounding unions potentially make a difference in how effective they are. The National Labor Relations Act (NLRA) governs organizing for private unions (with the exception of state RTW laws); the Federal Labor Relations Act governs federal employee unions; and state laws govern state and local public employee unions. While states must allow employee unions, they can pass laws that make it difficult for them to bargain. The Carolinas and Virginia are among five states that explicitly ban collective bargaining entirely for public sector employees.

The Unorganized South

Percent of Workers Who Are Union Members, 2010



SOURCE: Hirsch and Macpherson, www.unionstats.com

Considering waning public support after the recent economic slump, it is ironic that unions got their liftoff in the United States after the Great Depression. Unemployment dragged out and the crash forced employers to renege on wage and other agreements. "The public turned against employers and big business, and they became very pro union," Freeman says. Masses of fed-up workers and policymakers led to the 1935 passage of the NLRA, which codified workers' right to organize. Within a decade, the National Labor Relations Board, the governing agency for unions, had supervised 24,000 union elections leading to the unionization of 5 million workers.

Before the recession hit, Freeman says he was amazed by the high degree of public support that unions received on polls. "But people didn't react to this recession the same way as they did in the Depression." How workers fare as the recovery continues to unfold may partly determine where organized labor goes from here. **RF**

Readings

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