

Economics of Unions

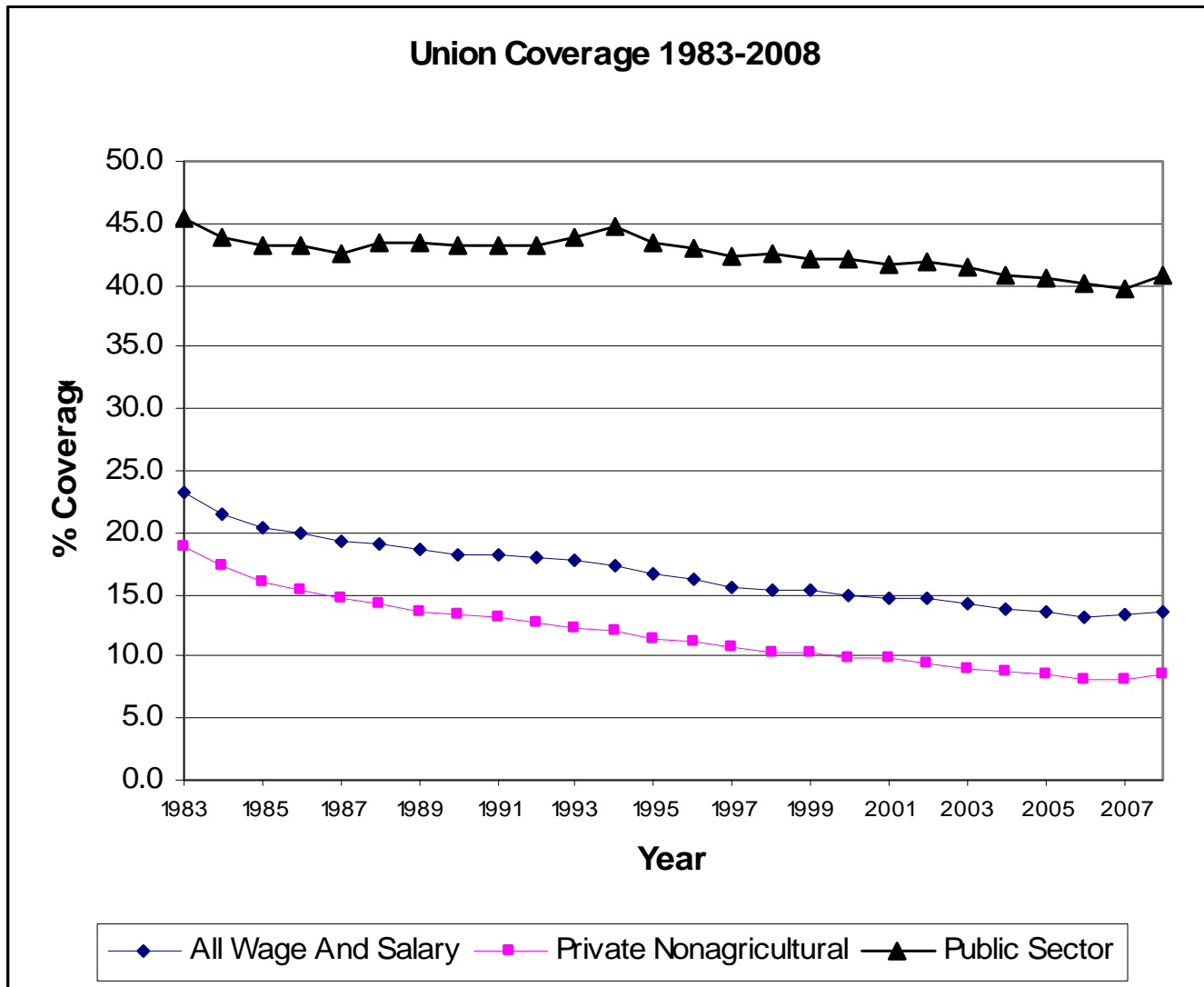
Labor unions are organizations of workers whose primary objectives are to improve the pecuniary and nonpecuniary conditions of employment among their members.

Two types:

- Industrial – represents most or all of the workers in an industry or firm regardless of occupation – UAW, coal miners, Service Employees International
- Craft – represents workers in a single occupational group – dockworkers, American Federation of Teachers, California Nurses Association.

A labor union bargains on behalf of its members over the terms and conditions of employment and will strike the employer to achieve its objectives

An employee association has functioned more as a lobbying organization and professional society. During the 1970s associates began to take on more and more of the activities of unions until in 1980 the BLS concluded the difference was blurred and began calling both labor organizations.



Source: Current Population Survey, Monthly Outgoing Rotation Group 1983-2008

Union membership peaked sometime in the mid 1950s (near 35%) and declined since.

Some of the union decline is structural, owing to employment shifts out of heavily unionized industries into less unionized ones. Yet one sees a sizable decline *within* industries as well.

In Texas in 2008 private sector union coverage was about 3.2 percent. Public Sector coverage was about 18.4 percent.

International Perspective:

Country	Percentage of Workers Covered by a Collective Bargaining Agreement
Austria	98
France	95
Germany	92
Italy	82
Netherlands	81
Sweden	89
Switzerland	50
Australia	80
UK	47
Canada	36
Japan	21
US	14

Source: OECD, Employment Outlook

A Little Background

1. The Divorce of Labor and Capital

- Preindustrial economy – most workers are self-employed as independent farmers, craftsmen or artisans. The individual worker is a “mini-business”. The function of management and labor are combined.
- Industrialization brought complex, specialized and large-scale forms of production. This created the wage labor force that hires itself out to the owners of capital.
- There is now a split in the functions of management and labor.
- This brings the potential for an adversarial relationship between the two groups.
 - Modern day example of this – doctors who were employees of HMOs

2. Employers vs. Workers

- Primary concern of the employer is profits and the survival and growth of the firm.
- Workers enter the employment relationship for two reasons
 - As wage or salary as possible
 - Psychological gratification
- Gives rise to opportunity for both conflict and cooperation

3. Individual vs. Collective Action

- Workers in “high-standards” firms (well run, good management progressive personnel policies, generous wages and benefits, etc) generally feel satisfied.
- Workers in “low standards” firms (poorly run with adversarial management styles, poor working conditions, etc) generally feel dissatisfied and taken advantage of by the employer
- Two avenues of action
 - Individual action – quitting, talking one-on-one
 - Collective action – working through a group or organization to achieve a particular goal or objective. Unions give the workers a “voice”

Determinants of Union Membership: Demand and Supply

Why is it some workers join unions, while other workers do not?

1. The benefits of union membership

- Greater bargaining power
- More equitable pay structure
- Job and income security
- Protection from unilateral authority of management
- Provision of public goods (improved working conditions)
- Unions tend to attract “average” workers – most able are better off going out on their own, while lowest skilled are unable to obtain employment

2. The costs of union membership

- Loss of wages during a strike
- Loss of the job due to layoffs or plant closing
- Possible management retribution
- Loss of individualism and flexibility
- Loss in social status (blue collar vs. white collar)

These factors make up the “demand curve” for unionization

Union membership requires not only that workers desire union representation but that a union be able and willing to supply union services

- Providing a union hall
- Negotiating collective bargaining agreements
- Representing workers in grievance hearings
- Organizing new members
- Conducting strikes

The willingness and ability of a union to supply these services depends on

- The organizational goals of unions
- The price unions can get for providing their services
- The costs of organizing and representing workers
- Institutional and legal framework of collective bargaining

Right to work laws – Under Taft Hartley, individual states were given the right to ban the union shop. Under a union shop a new worker hired in a unionized firm is required as a condition of employment to join the union (usually within 30 days).

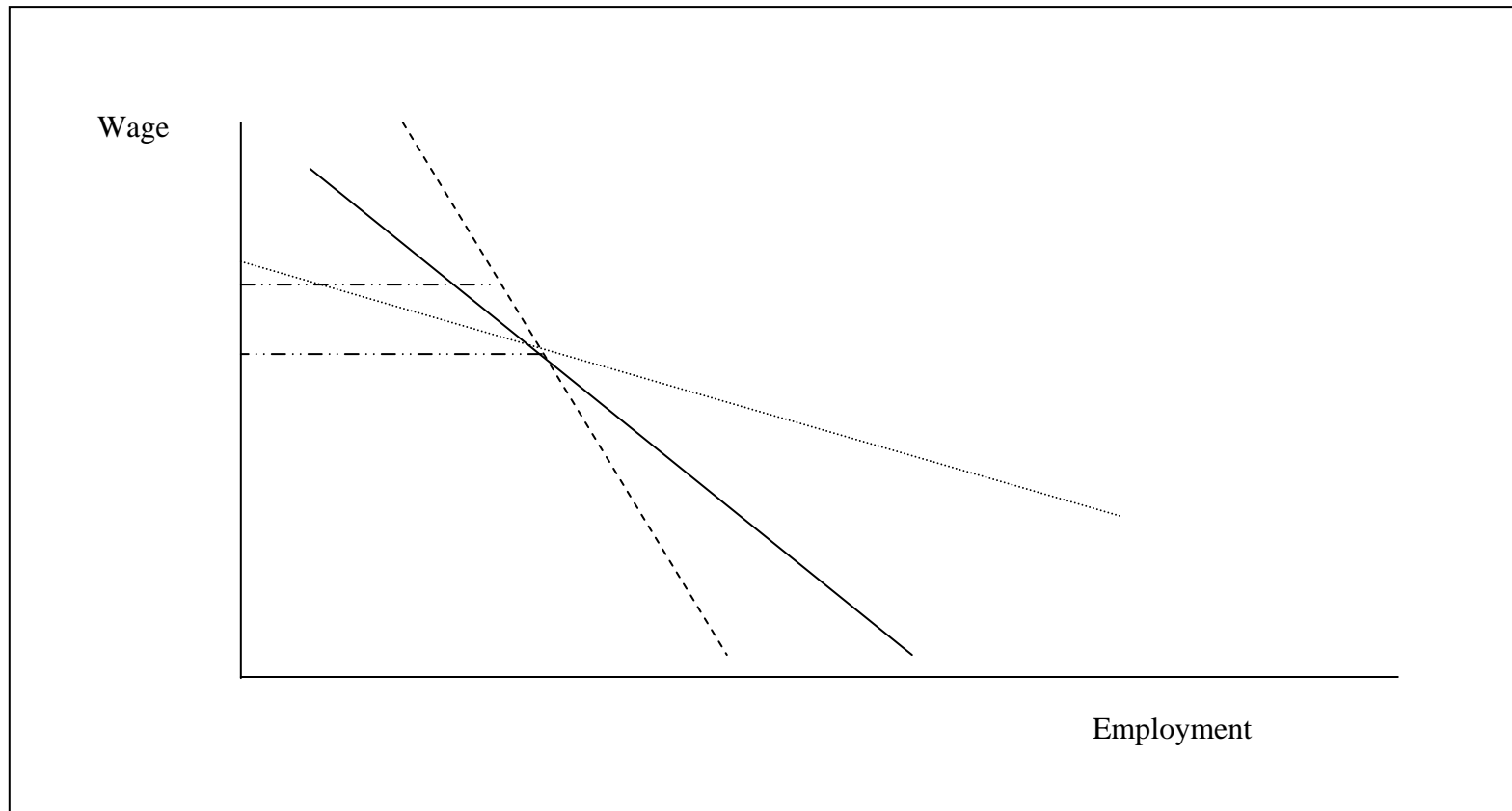
A right-to-work state allows workers in unionized firms to remain nonmembers – enjoying the benefits of union membership without paying the costs of dues and initiation fees. Southern states, Plains, and Mountain regions.

These factors make up the “supply curve” for unionization.

Union Bargaining and Strikes

Samuel Gompers – the founder of the American Federation of Labor – was once asked what unions wanted. His response: “More”

But unions have to deal with the downward sloping demand for labor. Thus both the position and elasticity of the labor demand curve are constraints on the ability of unions to accomplish their objectives



There are formal models of this process (the monopoly-union model, efficient contracts model) but essentially there is a tradeoff between compensation and employment (and therefore membership). So the union has to weigh higher compensation for its members over increased membership.

Unions therefore will attempt to do things to alter both the elasticity and position of the labor demand curve:

- Shifting product demand – import quotas, against NAFTA, “Buy American” “Look for the Union Label”
- Restricting Substitution: Legislation – higher minimum wages, immigration policy
- Restricting substitution: Bargaining – guarantees of minimum crew sizes, staffing requirements, restrict functions that members of each craft can perform

Note that these things generally will lead to lower firm profits, so how can the union persuade firms to agree?

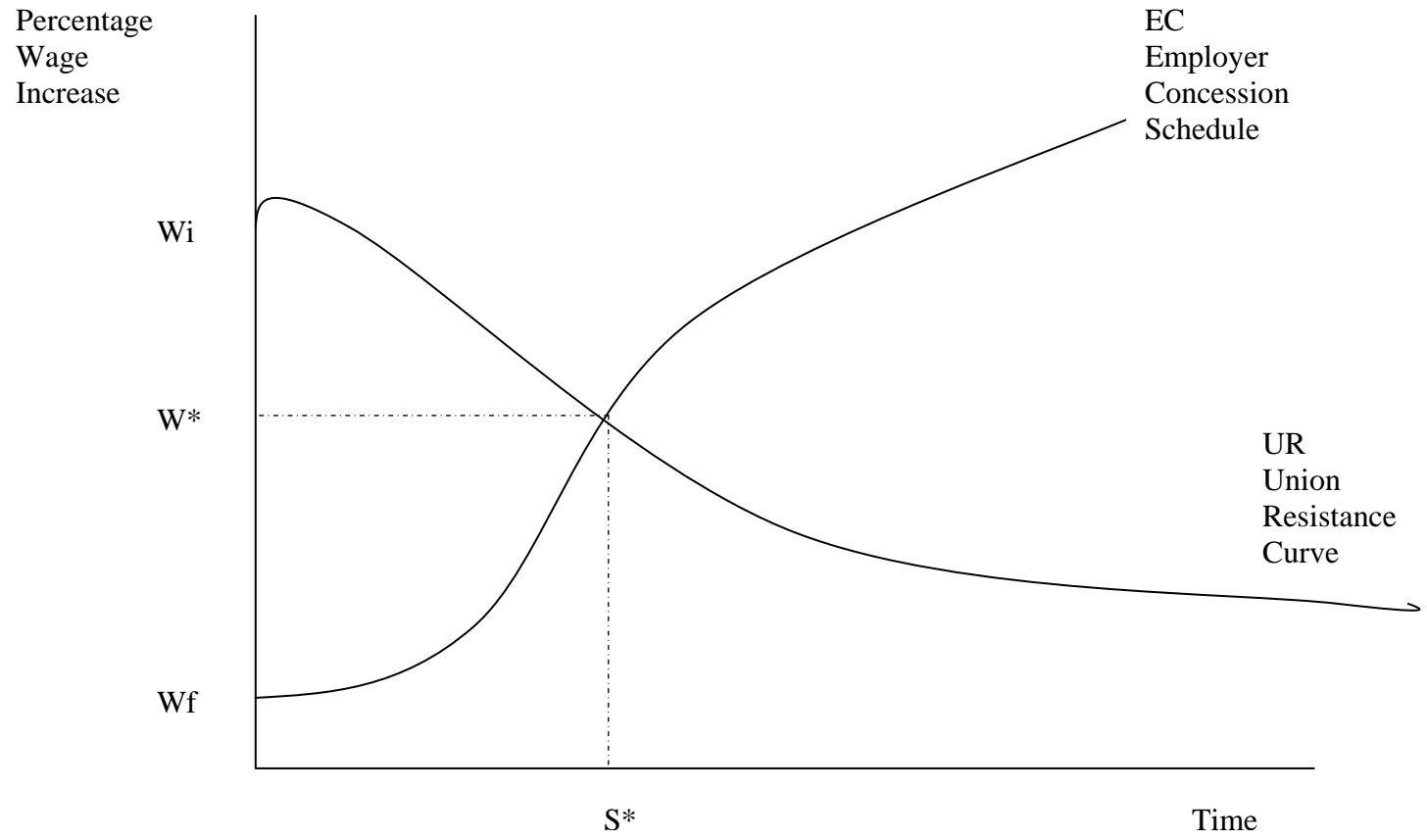
By imposing costs on management

Strikes are very rare – in 1997 there were 29 strikes involving 1,000 or more workers, and caused a one-hundredth of one percent loss of overall work hours.

But the *threat* of strike is very real

Simple model of strikes and bargaining

Suppose labor and management are bargaining only over the size of the wage increase



Suppose the firm's highest prestrike offer is W_f .

If that is rejected and a strike ensues, the employer may be able to service its customers for a relatively short period of time (accumulated inventories, nonstriking employees including managers).

As the strike progresses, the costs of lost business mounts

This progression is represented by the Employer Concession Schedule (EC)

The union is assumed to be willing initially to accept W_i without a strike. But after a strike worker attitudes may harden and they may actually increase demands initially. But at some point lost income and other factors suggest the union will begin to reduce its demands. This progression is represented by the Union Resistance Curve (UR)

Implications:

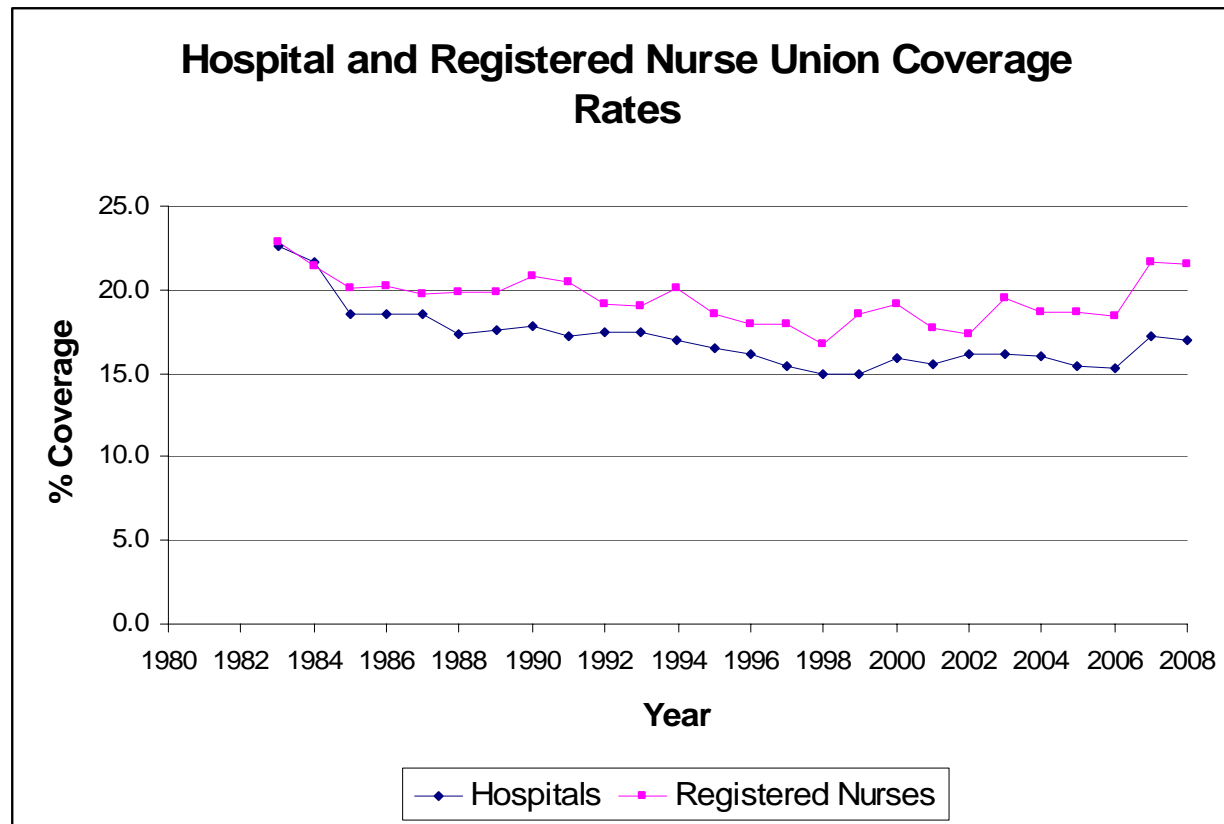
- Anything that shifts UR up (increases union resistance) will lengthen the expected strike duration and raise the wage increase
 - Low unemployment – nursing shortage?
 - If strikers collect some form of unemployment benefits
- Anything strengthening resistance of employers will lower EC curve – lengthening expected strike duration and reducing expected settlement
 - Less profitable firms
 - Face elastic product demand
 - Large inventory
 - Easily hire replacement workers
- Strikes are irrational

Then why do we see strikes?

- To keep threat credible
- Internal solidarity of a union (marketing)
- Asymmetric Information
 - Firms will have better information about profit than will the union
 - A firm may have incentive to understate profit in order to lower wage demands.
 - Union may try to illicit a signal from management about its true level of profit
 - Greater uncertainty about an employer's willingness and ability to pay should increase both probability and duration of strikes. Strikes are more likely when profit is more variable over time, and when the relationship is new.

An alternative to strikes is *Arbitration* – often used in the public sector.

Unions in Healthcare



In 1989 the NLRB established eight bargaining units in the health care industry: physicians, registered nurses, professionals except physicians and registered nurses, technical employees, skilled maintenance employees, business office clerical employees, guards, and other nonprofessional employees (NLRB 1988)

This was a change from previous definitions that tended to be broader making it more difficult to establish common interest. Once this was affirmed by the Supreme Court in 1991 it was expected that this would result in a large increase in union activity in healthcare.

Mean Real Wages, Union Density, and the Unadjusted Union Wage Gap by Occupation

	W_U	W_N	Density	$\ln W_U - \ln W_N$	N
Health Care Workers:					
Registered Nurses	18.00	16.43	0.157	0.096	38,555
Health Technicians	13.11	12.18	0.106	0.090	29,594
Health Service Occupations	9.73	7.88	0.141	0.223	45,044

Wage Change Regression Results

	Registered Nurses		Comparison Group		
	lnW	Δ lnW	School \geq 16	lnW	Δ lnW
Union	0.032 (0.009)	--	0.064 (0.008)	--	
Δ Union	--	0.011 (0.010)	--	0.071 (0.019)	
Sample size	7,583		33,624		

	Health Technicians		Comparison Group	
	lnW	Δ lnW	lnW	Δ lnW
Union	0.042 (0.015)	--	0.174 (0.006)	--
Δ Union	--	0.014 (0.014)	--	0.108 (0.016)
Sample size	4,743		36,268	

	Health Service Occs		Comparison Group School \leq 12	
	lnW	Δ lnW	lnW	Δ lnW
Union	0.108 (0.012)	--	0.228 (0.004)	--
Δ Union	--	0.033 (0.012)	--	0.098 (0.011)
	Sample size		5,856	69,792

Table 3
Union Threat Effects

	Union	U*Den	N*Den	p-value
Registered Nurses	0.044 (0.012)	0.068 (0.046)	0.127 (0.030)	0.233
Health Technicians	0.049 (0.017)	0.198 (0.067)	0.250 (0.036)	0.441
Health Service Occupations	0.124 (0.014)	0.204 (0.051)	0.297 (0.029)	0.073
Non-Health Workers in Health Care Industry	0.074 (0.013)	0.327 (0.049)	0.252 (0.024)	0.130

A unionized RN in a labor market with 25 percent union density will have wages .014 log points higher than a unionized RN in a market with 5 percent union density (a density effect of .068 times .20). Wages for nonunion RNs will be an estimated .025 higher in the more unionized labor market.