What Do Unions Do?

Richard B. Freeman and James L. Medoff

CHAPTER 1

A New Portrait of U.S. Unionism

TRADE UNIONS are the principal institution of workers in modern capitalistic societies. For over 200 years, since the days of Adam Smith, economists and other social scientists, labor unionists, and businessmen and women have debated the social effects of unionism. Despite the long debate, however, no agreed-upon answer has emerged to the question: What do unions do?

On the one side, many economists view unions largely as monopolies in the labor market whose primary economic impact is to raise members' wages at the expense of unorganized labor and of the efficient functioning of the economy. These analysts stress the adverse effects of union work rules on productivity, the loss of employment in the organized sector due to union wage effects, and the consequent crowding of the nonunion sector with displaced workers. Consistent with this view, managers frequently complain about inflexible operations and work disruptions due to unions, while many social critics paint unions as socially unresponsive, elitist, non-democratic, and crime-riddled institutions.[1]

On the other side are those who believe unions have beneficial economic and political effects. Industrial relations experts have long stressed the ways in which collective bargaining can induce better management and higher productivity. These specialists note that unions can increase the development and retention of skills, provide information about what occurs on the shop floor, improve morale, and pressure management to be more efficient in its operations.[2] Unionists point out that in addition to increasing wages, unions provide workers both with protection against arbitrary management decisions and with a voice at the work place and in the political arena. Even the managements of some organized companies have cited positive impacts of unions on their business. Consider, for example, this statement by Thomas Murphy, then Chairman of General Motors, on the fiftieth anniversary of the "Battle of the Running Bulls," one of the turning points in the struggle to organize the company by the United Auto Workers:

The UAW may have introduced the sit-down strike to America, but in its relationship with GM management it has also helped introduce. ..mutually beneficial cooperation. ...What comes to my mind is the progress we have made, by working together, in such directions as providing greater safety and health protection, in decreasing alcoholism and drug addiction, in improving the quality of work life.[3]

During the past twenty-five years, however, the negative view of trade unions has become increasingly dominant. While there are notable exceptions, many on both the right and left now doubt the social relevance and value of America's organized labor movement.[4] The widespread, one might say textbook, picture of U.S. unions today is of institutions adept at advancing their own interests at the public's expense. Economists concerned with quantifying the economic effects of collective bargaining have focused almost exclusively on the monopoly wage impact of unions, developing a large and valuable literature on the differences in wages paid to organized and unorganized labor.[5] Because monopolistic wage increases are socially harmful—in that they can be expected to induce both inefficiency and inequality—most economic studies, implicitly or explicitly, have judged unions as being a negative force in society.

When the research for this book was begun ten years ago, there was very little quantitative evidence concerning the impact of U.S. unionism on outcomes other than wages. Whereas adherents to the monopoly view of unions could cite numerous quantitative studies of union wage effects, those stressing the nonwage impact of unions were limited to citing specific cases and personal observation.

It was this shortage of statistical evidence concerning what unions do beyond raising wages that set the stage for our research. The recent availability of computerized data files, which contain vast amounts of information on thousands of individuals, establishments, and companies, offers the opportunity for quantitative analyses of many of the nonwage effects of trade unions to parallel the analyses of the wage effect of unions, and thus for broadening the forum of the debate on unionism. Our quantitative analyses and those of our colleagues elsewhere in the social sciences have, indeed, yielded new findings that, taken in conjunction with case-study evidence and the observations of industrial relations experts, provide a new picture of the impact of unions on the economy and on the broader society.[6]

This newly emergent picture of what unions do has important implications for the assessment of unions by labor and management and by the general public. The average unionized worker will see that unions generally "deliver the goods," by providing higher wages and benefits as well as a voice at the bargaining table and on the shop floor, but that some of "the goods" have a social cost. Many nonunion workers will recognize that, because of the threat of unionization, their wages and working conditions are better than they might have been, although generally not as good as they would be under collective bargaining, while others will find that their economic position is worse as a result of unionism. Employers of unionized workers will see that while unionism is associated with a lower rate of return on capital and less managerial flexibility, the extent to which a union is a liability or an asset depends crucially on how management responds to it. Nonunion employers will learn that while the benefits of being union-free generally exceed the costs of union avoidance, the former are often overstated and the latter are often understated. Finally, the general public will see that in the economic sphere, unions reduce wage inequality, increase industrial democracy, and often raise productivity, while in the political sphere, unions are an important voice for some of our society's weakest and most vulnerable groups, as well as for their own members.

The “Two Faces" Debate

The meaning of the results of our study of U .S. trade unionism can best be understood by recognizing that unions have two faces, each of which leads to a different view of the institution: a *monopoly* face, associated with their monopolistic power to raise wages; and a *collective voice/institutional response* face, associated with their representation of organized workers within enterprises.

The *Monopoly Face*

Most, if not all, unions have monopoly power, which they can use to raise wages above competitive levels. Assuming that the competitive system works perfectly, these wage increases have harmful economic effects, reducing the national output and distorting the distribution of income. The analysis of unions as monopolies focuses on the magnitude of the union markup of wages and traces the ways in which this markup causes firms to lower employment and output, thereby harming economic efficiency and altering the distribution of income.

Despite the attention economists give to the monopoly face of unionism, analysis of union monopoly behavior is much less fully developed than is the analysis of monopolistic enterprises. The principal reason is that unions are not the simple monopolies of economics textbooks but rather collective organizations of workers with diverse interests. Unlike the monopoly firm that sets prices to maximize profits, unions rarely set wages; they bargain over wages with employers. Unless one believes that the process of collective bargaining is a sham, the wages obtained by unions must be viewed as the joint responsibility of management and labor: the stronger management resistance to union wage goals is, the smaller union wage gains will be. Moreover, unions' ability to raise wages is limited by the fact that, all else the same, higher union wages will induce employers to reduce employment. Some members gain when wages are very high; others lose. Despite decades in which unions have been part of the economic scene, economists lack an accepted maximizing theory of union behavior that would predict the results of bargaining within the union over wage goals. Under some circumstances a union may seek a high wage at the cost of employment; under others, it may be more moderate in its wage demands to preserve jobs. This union concern is quite distinct from the worries of a monopolist, whose sole goal is to maximize profits, regardless of what happens to the number of units sold.[7]

Analysis of the monopoly face of unionism must confront the important issue of the source of union monopoly power. 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, for organized firms would necessarily have higher costs of production than other firms. One way unions could survive in such markets would be by organizing the entire industry or sector. If production costs are higher for all establishments in a sector, output and employment will be lower than they would be in the absence of unionism, but the sector will survive. Alternatively, if unions operate in markets where firms have different cost structures (for reasons unassociated with unionism), unions could survive by organizing firms with the lowest costs of production, raising wages at the expense of above-normal profits or "rent."[8] Perhaps most importantly, union monopoly power is likely to be closely related to the market power of the sector it organizes. When unions organize noncompetitive firms, they are able to raise wages without endangering the life of the firm. In sum, from the monopoly perspective, unions are likely to exist in industries where new firms have difficulty entering and/or where some enterprises have cost advantages over their competitors.

The fact that union monopoly power is likely to be important only when unionized firms either completely dominate a market or operate in a non-competitive market has created an interesting intellectual anomaly. Some economists of a strong free-enterprise bent, who one might expect to be strongly opposed to unions, are in fact rather indifferent. They believe that markets are competitive enough to give unions little or no power to extract monopoly wage gains.

The *Collective Voice/Institutional Response Face*

As Hirschman pointed out in his important book *Exit, Voice, and Loyalty,* societies have two basic mechanisms for dealing with social or economic problems.[9] The first is the classic market mechanism of exit-and-entry, in which individuals respond to a divergence between desired and actual social conditions by exercising freedom of choice or mobility: the dissatisfied consumer switches products; the diner whose soup is too salty seeks another restaurant; the unhappy couple divorces. In the labor market, exit is synonymous with quitting, while entry consists of new hires by the firm. By leaving less desirable for more desirable jobs, or by refusing bad jobs, individuals penalize the bad employer and reward the good, leading to an overall improvement in the efficiency of the economic system. The basic theorem of neoclassical economics is that, under well-specified conditions, the exit and entry of persons (the hallmark of the free-market system) produces a situation in which no individual can be made better off without making someone worse off. Much economic analysis can be viewed as a detailed study of the implications of this kind of adjustment and of the extent to which it works out in real economies. As long as the exit-entry market mechanism is viewed as the *only* adjustment mechanism, institutions like unions are invariably seen as impediments to the optimal operation of the economy.

The second mode of adjustment is the political mechanism that Hirschman termed "voice." "Voice" refers to the use of direct communication to bring actual and desired conditions closer together. It means talking about problems: complaining to the store about a poor product rather than taking business elsewhere; telling the chef that the soup had too much salt; discussing marital problems rather than going directly to the divorce court. In a political context, "voice" refers to participation in the democratic process, through voting, discussion, bargaining, and the like.

The distinction between the two mechanisms is best illustrated by a specific situation—for instance, concern about the quality of schools in a given locality. The exit solution to poor schools would be to move to a different community or to enroll one's children in a private school, thereby "taking one's business elsewhere." The voice solution would involve political action to improve the school system through schoolboard elections, Parent Teacher Association meetings, and other channels of communication.

In the job market, voice means discussing with an employer conditions that ought to be changed, rather than quitting the job. In modern industrial economies, and particularly in large enterprises, a trade union is the vehicle for collective voice—that is, for providing workers as a group with a means of communicating with management.

Collective rather than individual bargaining with an employer is necessary for effective voice at the workplace for two reasons. First, many important aspects of an industrial setting are "public goods," that is, goods which will affect the well-being (negatively or positively) of every employee in such away that one individual's partaking of the good does not preclude someone else from doing so. Safety conditions, lighting, heating, the speed of the production line, the firm's formal grievance procedure, pension plan, and policies on matters such as layoffs, work-sharing, cyclical wage adjustment, and promotion all obviously affect the entire workforce in the same way that defense, sanitation, and fire protection affect the community at large. One of the most important economic theorems is that competitive markets will not provide enough of such goods; some form of collective decision making is needed. Without a collective organization, the incentive for the individual to take into account the effects of his or her actions on others, or to express his or her preferences, or to invest time and money in changing conditions, is likely to be too small to spur action. Why not "let Harry do it" and enjoy the benefits at no cost? This classic "free-rider" problem lies at the heart of the so-called "union-security" versus "right-to-work" debate.

A second reason why collective action is necessary is that workers who are tied to a firm are unlikely to reveal their true preferences to an employer, for fear the employer may fire them. In a world in which workers could find employment at the same wages immediately, the market would offer adequate protection for the individual, but that is not the world we live in. The danger of job loss makes expression of voice by an individual risky. Collective voice, by contrast, is protected both by the support of all workers and by the country's labor law: "It shall be an unfair labor practice for an employer by discrimination in regard to hire or tenure or employment or any term or condition of employment to encourage or discourage membership in any labor organization" (National Labor Relations Act, Section 7a of the 1935 law). Court interpretation of U .S. labor law makes a sharp distinction between collective and individual actions at the workplace: even nonunion workers acting in a concerted fashion are protected from managerial retaliation.[10] However, the nonunion protester acting alone and not seeking a union is "terminable at will" and must speak very carefully.

The collective nature of trade unionism fundamentally alters the operation of a labor market and, hence, the nature of the labor contract. In a nonunion setting, where exit-and-entry is the predominant form of adjustment, the signals and incentives to firms depend on the preferences of the "marginal" worker, the one who might leave because of (or be attracted by) small changes in the conditions of employment. The firm responds primarily to the needs of this marginal worker, who is generally young and marketable; the firm can to a considerable extent ignore the preferences of typically older, less marketable workers, who—for reasons of skill, knowledge, rights that cannot be readily transferred to other enterprises, as well as because of other costs associated with changing firms—are effectively immobile. In a unionized setting, by contrast, the union takes account of *all* workers in determining its demands at the bargaining table, so that the desires of workers who are highly unlikely to leave the enterprise are also represented. With respect to public goods at the workplace, the union can add up members' preferences in much the same manner as a government can add up voters' preferences for defense, police protection, and the like to determine social demand for them. In sum, because unions are political institutions with elected leaders, they are likely to respond to a different set of preferences from those that prevail in a competitive labor market.

In a modern economy, where workers tend to be attached to firms for many years, younger and older workers are likely to have different preferences (for instance, regarding pension or health insurance plans versus take-home pay, or layoffs ordered inversely to seniority versus cuts in wage growth or work sharing). The change from an approach that focuses only on workers at the coming-or-going margin to one that considers all employees is likely to lead to a very different labor contract. Under some conditions, the union contract—by taking account of all workers and by appropriately considering the sum of preferences for work conditions that are common to all workers—can be economically more efficient than the contract that would result in the absence of unions.

Finally, as a collective voice unions also fundamentally alter the social relations of the workplace. The essence of the employment relationship under capitalism—as stressed by such diverse analysts as Karl Marx, Herbert Simon, and Ronald Coase—is the payment of money by the employer to the employee in return for the employer's control over a certain amount of the employee's time. The employer seeks to use his employee's time in away that maximizes the profitability of the enterprise. Even in the case of piece rates, employers monitor employee activity to assure the quality of output, prevent the wastage of materials, and protect the stock of capital. As a result, the way in which the time purchased is utilized must be determined by some interaction between workers and their employer. In the absence of unionism, the worker has limited responses to orders that he feels are unfair: the worker can quit, or he can perhaps engage in quiet sabotage or shirking, neither of which is likely to alter the employer's actions. In the union setting, by contrast, the union constitutes a source of worker power, diluting managerial authority and offering members protection through both the "industrial jurisprudence" system, under which many workplace decisions are based on rules (such as seniority) instead of supervisory judgment or whim, and the grievance and arbitration system, under which disputes over proper managerial decision making on work issues can be resolved. As a result, management power within enterprises is curtailed by unionism, so that workers' rights are likely to be better enforced. Consider, for example, a firm that decides to fire senior workers immediately before they become eligible for pension rights. In the nonunion setting, a firm may be able to get away with such a maneuver; in the union setting, it is unlikely to have such power. Economic theorists of all persuasions have increasingly recognized that unions' ability to enforce labor agreements, particularly those with deferred claims, creates the possibility for improved labor contracts and arrangements and higher economic efficiency.[11]

Management's Role in What Unions Do

The two views of unionism lead to fundamentally different analyses of what management does in response to the existence of a union. In the most basic monopoly analysis, in which unions can simply raise wages, management's responses are limited. It can reduce employment, substitute capital for labor, or hire more skilled workers to raise labor's productivity. Since management is assumed to be doing everything just right in the absence of unions, these adjustments are socially harmful.

By contrast, the voice/response face directs attention to the possibility that, because of incomplete information, lack of coordination in an enterprise, and organizational slack, management can respond to unionism in more creative ways, which may be socially beneficial. This view is consistent with modern theories of the firm, in which management is taken to be not a simple all-knowing profit-maximizer, but rather a mediator of the interests of relatively permanent employees, stockholders, and consumers.[12] The greater the imperfection of markets, and the further real-world management is from a computer programmed by the Invisible Hand, the greater are the possibilities for management's response to unions to improve the operation of the economy, and thus the greater the validity of voice/response insights into what unions (and unionized managements) do.

If management uses the collective bargaining process to learn about and improve the operation of the workplace and the production process, unionism can be a significant plus to enterprise efficiency. On the other hand, if management responds negatively to collective bargaining (or is prevented by unions from reacting positively), unionism can significantly harm the performance of the firm. If management acquiesces to exorbitant union wage demands, the organized sector may suffer serious economic decline. If it reaches sensible agreements with labor, all parties may benefit. At the worst, if management cooperates with racketeers who suppress union democracy and offer "sweetheart" contracts, the organized sector will be a sorry place indeed.[13] The important point is that just as there are two sides to all markets, demand and supply, there are also two sides to all collective bargaining arrangements, management. and unions. Industrial relations practices and economic outcomes depend on the policies and actions of both management and labor. The reader who believes that the industrial relations and personnel policies of management can affect the outcome of the economic system will find our results more believable than the reader who believes that all enterprises are *always* operating with perfect information in away that makes profits as large as possible.

The Issues in Question

Table 1-1 provides a capsule summary of the differences in how the monopoly and voice/response faces of unionism affect three major economic outcomes: the level and composition of national output (efficiency); the distribution of income; and the extent of economic equality and political freedom. On each of the issues, the monopoly face implies social losses while the voice/response face offers potential social gains. And on each of the issues, as illustrated in the quotations that follow, there has been considerable debate over which face is dominant.

TABLE 1–1
The Two Faces of Trade Unionism

	Union Effects on Economic Efficiency	*Union Effects on Distribution of Income*	*Social Nature of Union Organization*
Monopoly Face	Unions raise wages above competitive levels, leading to too little labor relative to capital in unionized firms. Union work rules decrease productivity.	Unions increase income inequality by raising the wages of highly skilled workers. Unions create horizontal inequities by creating differentials among comparable workers.	Unions discriminate in rationing positions. Unions (individually or collectively) fight for their own interests in the political arena. Union monopoly power breeds corrupt and nondemocratic elements.
Collective Voice/Institutional Response Face	Unions have some positive effects on productivity—reducing quit rates, inducing management to alter methods of production and adopt more efficient policies, and improving morale and cooperation among workers. Unions collect information about the preferences of all workers, leading the firm to choose a better mix of employee compensation and a better set of personnel policies.	Unions' standard-rate policies reduce inequality among organized workers in a given company or a given industry. Union rules limit the scope for arbitrary actions in the promotion, layoff, and recall of individuals. Unionism fundamentally alters the distribution of power between marginal (generally junior) and more permanent (generally senior) employees, causing union firms to select different compensation packages and personnel practices from those of nonunion firms.	Unions are political institutions that represent the will of their members. Unions represent the political interests of lower-income and disadvantaged persons.

SOURCE: Based on R. B. Freeman and J. L. Medoff, "The Two Faces of Unionism," *The Public Interest* 57 (Fall 1979): 75.

Efliciency

...their activities necessarily reduce the productivity of labor all around and therefore also the general level of real wages; because, if union action succeeds in reducing the number of workers in the highly-paid jobs and in increasing the number of those who have to stay in the less remunerative ones, the result may be that the over-all average will be lower. It is, in fact, more than likely that, in countries where unions are very strong, the general level of real wages is lower than it would otherwise be. This is certainly true. ..where union policy is strengthened by the general use of restrictive practices of a 'makework' character.[14]

...a strong union, guided by farseeing men who have a grave sense of responsibility, is found to enable a few minutes' quiet conversation to settle innumerable petty disputes that in old times would have caused much delay and worry and loss of mutual feeling. ...In such trades we may conclude confidently that Trade Unions on the whole facilitate business.[15]

As monopoly institutions, unions reduce society's output in three ways. First, union-won wage increases cause a misallocation of resources by inducing organized firms to hire fewer workers, to use more capital per worker, and to hire workers of higher quality than is socially optimal. Second, strikes called to force management to accept union demands reduce gross national product. Third, union contract provisions—such as limits on the loads that can be handled by workers, restrictions on tasks performed, and featherbedding—lower the productivity of labor and capital.

By contrast, the voice/response face of unionism suggests important ways in which unionism can raise productivity .First of all, voice at a workplace should reduce the rate of quitting. Since lower quit rates imply lower hiring and training costs and less disruption in the functioning of work groups, they should raise productivity. In addition, the likelihood that workers and firms will remain together for long periods of time should increase the incentive for investment in skills specific to an enterprise, which also raises productivity.

The fact that senior workers are likely to be relatively more powerful in unionized firms points to another way in which unions can raise productivity. Under unionism, promotions and other rewards tend to depend less on individual performance and more on length of service. As a result, feelings of rivalry among individuals are likely to be less pronounced in union plants than in nonunion plants, and the amount of informal training and assistance that workers are willing to provide one another is greater. On the other hand, however, a greater reliance on seniority in determining who gets jobs can reduce productivity by placing individuals in jobs for which they are less qualified than other workers. Which of these effects dominates is an empirical question.

Unionism can also improve efficiency by putting pressure on management to tighten job-production standards and accountability in order to preserve profits in the face of higher wages. Because unionized management can be challenged by the union, moreover, it will tend to discard vague paternalistic, authoritarian personnel policies in favor of practices in which explicit rules govern behavior. After making comprehensive case studies of management in over one hundred unionized firms, Slichter, Healy, and Livernash concluded: "The challenge that unions presented to management has, if viewed broadly, created superior and better-balanced management, even though some exceptions must be recognized."[16] Management's ability to do a better job can be greatly helped by the union, which can perform helpful roles, such as explaining changes in day-to-day routine.

Finally, through the voice/response mechanism, the collective bargaining apparatus opens an important communication channel between workers and management, one likely to increase the flow of information between the two and possibly improve the productivity of the enterprise. As Reynolds (Yale) has observed, "Unions can do valuable work by pointing out improvements that perhaps should have been obvious to management but were not, and that, once discovered, can be installed with a net gain to the company as well as the workers."[17] Union impacts on the composition of compensation packages—on the balance between working conditions or fringes and wages, for example—have often been cited as reflecting, at least in part, the greater flow of information about worker desires. If, for a given dollar of labor cost, workers are better off because the division of the dollar between wages, fringes, and work conditions is more nearly optimal, social productivity, broadly defined, is higher as a result of union activity.

Distribution of Income

If unions raise wage rates in a particular occupation or industry, they necessarily make the amount of employment available in the occupation or industry less than it otherwise would be—just as any higher price cuts down the amount purchased. The effect is an increased number of persons seeking other jobs, which forces down wages in other occupations. Since unions have generally been strongest among groups that would have been high-paid anyway, their effect has been to make high-paid workers higher paid at the expense of lower-paid workers. Unions have therefore not only harmed the public at large and workers as a whole by distorting the use of labor; they have also made the incomes of the working class more unequal by reducing the opportunities available to the most disadvantaged workers.[18]

Summing up these diverse consequences of collective bargaining, one can make a strong case that unionism has at any rate not worsened the wage structure. We are inclined to be even more venturesome than this, and to say that its net effect has been beneficial.[19]

One of the most striking implications of the analysis of the monopoly face of unions, greatly stressed by opponents of unionism, is that union wage gains increase inequality in the labor market. According to the monopoly argument, the workers displaced from unionized firms as a result of union wage gains raise the supply of labor to nonunion firms, which can therefore be expected to reduce wages. Thus, unionized workers are likely to be made better off at the expense of nonunion workers. The fact that organized blue-collar workers who are more skilled would be higher paid than other blue-collar workers even in the absence of unionism implies further that unionism benefits "labor's elite" at the expense of those with less skill and earning power. Since many people have supported unions in the belief that they reduce economic inequality, evidence that unions have the opposite effect would be a strong argument against the union movement.

The voice/response face suggests very different effects. Given that union decisions are based on a political process in which the majority rules, and given that the majority of workers are likely to have earnings below average in any workplace, unions can be expected to seek to reduce wage inequality within firms. Furthermore, union members are also likely to favor a less-dispersed distribution of earnings for reasons of ideology and organizational solidarity. Finally, to reduce managerial discretion in the wage-setting process, unions seek equal pay for workers in the same job rather than pay according to the manager's perception of individual merit.

Social Organization

I do hold that large and powerful labor unions are integral elements in a total institutional complex whose development is everywhere antithetical to economic freedom, to political liberty, and to world peace.[20]

In the last analysis the major thrust of labor's activities has been to increase the political participation of poorer segments of society and to provide a coordinated and coherent political voice to workers who would otherwise be largely disorganized. Whatever one may think of the political platform that results from this activity, it is hard to deny the value of these endeavors in a democratic society. It is precisely because issues of policy are so often controversial that the nation has based its system of government on the vote of all interested members. Under these circumstances, one can hardly disapprove of the efforts of any organization to broaden the participation of all interested groups in the political process.[21]

The monopoly critique of unions as social organizations is harsh. It holds that much of union monopoly power arises from the coercive and potentially violent acts of union activists to disrupt production through strikes and related activity. Some claim that the essence of union monopoly power is the power of forcefully preventing nonunion workers from obtaining jobs at organized plants and of coercing workers to join in strikes.[22] Monopoly power is also said to foster corruption and undemocratic behavior and to lead to high dues or entry fees, so that the dominant faction in the union reaps the rewards of the union's market power. In addition, it is believed that unions use their control over the supply of labor to extort funds from firms—especially small, weak ones. The archetypical union in this view is a gangster-ridden Teamsters local. In the political sphere, unions reveal their monopoly face through efforts to obtain special-interest legislation that strengthens union power to extract monopoly gains. The prime lobbying activity of unions, often in alliance with business, is to obtain governmental regulations that restrict competition and raise prices and wages for the sector, at the expense of consumers.

The voice/response view is that unions are democratic institutions operating on behalf of their members and that their political activities are part-and-parcel of modern democratic states. Unions are expected to be democratic because they require the approval of a majority of workers, who elect the leadership and determine policy through conventions, referenda, or change of leadership. In the United States, both union constitutions and the law, particularly the Landrum-Griffin Act {1959), require unions to operate under democratic rules. The union is often said to represent its "median" member, since in apolitical organization the views of the median person will, under some circumstances, dominate. Within the political sphere, unions are viewed as representing the general working population, devoting much political muscle to promoting legislation that would be of no more material gain to unionized workers than to other workers. For instance, organized labor was active in pushing for the passage of the Public Accommodation Act of 1964, the Voting Rights Act of 1965, equal-employment-opportunity legislation, anti-poverty legislation, and the Occupational Safety and Health Act of 1971. It is argued that though unions fight for self-interest legislation—as do other groups in our pluralistic society—they have scored their greatest political victories on more general social legislation and thus are more effective as a voice of the whole working population and the disadvantaged than as a vehicle for increasing the power of a monopoly institution.

The Debate

Social analysts who focus on only one of unionism's two faces have strikingly different pictures of the institution. According to those who see only the monopoly face, unions are undesirable impediments to the social good; according to those who see only the voice/response face, unions make many valuable contributions to the functioning of the economy. Those in the first camp hail the decline, from the 1950s through the 1980s, in the percentage of wage and salary workers unionized in the private sector in the United States as a desirable development that will increase productivity and reduce inequality. Those in the second camp view the dwindling of private-sector unionization as an undesirable development with serious negative economic and social consequences.

Since, in fact, unions have both a monopoly and a voice/response face, the key questions for understanding the impact of private-sector unionism in the United States relate to the relative importance of each. Are unions primarily monopolistic institutions, or are they primarily voice institutions that induce socially beneficial responses? What emphasis should be given to these two disparate faces to obtain a realistic portrait of the role trade unionism plays in society?

The Study and Its Findings

To answer these questions, we have studied a wide variety of data that distinguish between union and nonunion establishments and between union and nonunion workers, and we have interviewed representatives of management, labor officials, and industrial-relations experts. Although additional study will certainly alter some of the specifics, we believe that the results of our analysis provide a reasonably clear and accurate picture of what unions do—a picture that stands in sharp contrast to the negative view that unions do little more than win monopoly wage gains for their members.

Our most far-reaching conclusion is that, in addition to well-advertised effects on wages, unions alter nearly every other measurable aspect of the operation of workplaces and enterprises, from turnover to productivity to profitability to the composition of pay packages. The behavior of workers and firms and the outcomes of their interactions differ substantially between the organized and unorganized sectors. On balance, unionization appears to improve rather than to harm the social and economic system. In terms of the three outcomes in table 1-1, our analysis shows that unions are associated with greater efficiency in most settings, reduce overall earnings inequality, and contribute to, rather than detract from, economic and political freedom. This is not to deny the negative monopoly effects of unions. They exist. They are undesirable. But they are not the only ways in which unions affect the society. Our analysis indicates that, in fact, focusing on them leads to an exceedingly inaccurate representation of what unions do. In the United States in the period we have studied, the voice/response face of unions dominates the monopoly face, though we stress that an accurate portrait must show both faces.

Following is a capsule summary of the more specific findings that underlie this broad conclusion:

1. On the wage side, unions have a substantial monopoly wage impact, but there is no single union/nonunion wage differential. The union wage effect is greater for less educated than more educated workers, for younger than for prime-age workers and for junior than for senior workers, and it is greater in heavily organized industries and in regulated industries than in others. It increased in the 1970s as unionized workers won wage gains exceeding those of their

nonunion peers. Most importantly, the social costs of the monopoly wage gains of unionism appear to be relatively modest, on the order of. 3 percent of gross national product, or less.

2. In addition to raising wages, unions alter the entire package of compensation, substantially increasing the proportion of compensation allotted to fringe benefits, particularly to deferred benefits such as pensions and life, accident and health insurance, which are favored by older workers. These changes are, on balance, to be viewed as asocial plus.

3. The claim that unions increase wage inequality is not true. It is true that unions raise the wages of organized blue-collar workers relative to the wages of unorganized blue-collar workers, and thus increase that aspect of inequality. But they also raise blue-collar earnings relative to the higher white-collar earnings, thus reducing inequality between those groups. Moreover, by adopting pay policies that limit managerial discretion in wage-setting, they reduce inequality among workers in the same establishments and among different establishments. Quantitatively, the inequality-reducing effects of unionism outweigh the inequality-increasing effects, so that on balance unions are a force for equality in the distribution of wages among individual workers.

4. By providing workers with a voice in determining rules and conditions of work, by instituting grievance and arbitration procedures for appealing supervisors' decisions, and by negotiating seniority clauses desired by workers, unionism greatly reduces the probability that workers will quit their jobs. As a result, unionized work forces are more stable than nonunion workforces paid the same compensation.

5. Unionism alters the way in which firms respond to swings in the economy. In cyclical downturns, unionized firms make more use of temporary layoffs and less use of cuts in wage growth than do nonunion firms, while in cyclical upturns, unionized firms recall relatively more workers and nonunion firms tend to hire new employees. In a decline that threatens the jobs of senior employees, unions negotiate wage and work-rule concessions of substantial magnitudes.

6. Union workplaces operate under rules that are both different from and more explicit than nonunion workplaces. Seniority is more important in union settings, with unionized senior workers obtaining relatively greater protection against job loss and relatively greater chance of promotion than nonunion senior workers. In addition, management in union companies generally operates more "by the book," with less subjectivity and also less flexibility, than does management in nonunion companies, and in more professional, less paternalistic or authoritarian ways.

7. Some nonunion workers, namely those in large nonunion firms that are trying to avoid unions through "positive labor relations," obtain higher wages and better working conditions as a result of the existence of trade unions. The average employed nonunion blue-collar worker may enjoy a slight increase in well-being because the threat of unionism forces his or her firm to offer better wages and work conditions, but the average white-collar worker appears essentially unaffected by the existence of blue-collar unionization. Some workers, however, may suffer from greater joblessness as a result of higher union wages in their city or their industry.

8. Paradoxically, while unionized workers are less willing to leave their employers than nonunion workers, unionized workers often report themselves less satisfied with their jobs than

nonunion workers. Unionists are especially dissatisfied with their work conditions and their relations with supervisors. One explanation is that unions galvanize worker discontent in order to make a strong case in negotiations with management. To be effective, voice must be heard.

9. The view of unions as a major deterrent to productivity is erroneous. In many sectors, unionized establishments are more productive than nonunion establishments, while in only a few are they less productive. The higher productivity is due in part to the lower rate of turnover under unionism, improved managerial performance in response to the union challenge, and generally cooperative labor-management relations at the plant level. When labor-management relations are bad, so too is productivity in organized plants.

10. Unionized employers tend to earn a lower rate of return per dollar of capital than do nonunion employers. The return is lower under unionism because the increase in wages and the greater amount of capital used per worker are not compensated for by the higher productivity of labor associated with unionism. The reduction in profitability, however, is centered in highly concentrated and otherwise historically highly profitable sectors of the economy.

11. Unions have had mixed success in the political arena. Legislators representing highly unionized districts or receiving considerable union campaign support tend to support unions' political goals in the Congress, but legislators representing less unionized districts or receiving more support from business and other interest groups often oppose union political goals. In the important area of major labor legislation, bills opposed by unions have been enacted while bills favored by unions have been voted down. In general unions have managed to *preserve* laws augmenting monopoly powers in specific sectors but have not been able to use the law to *expand* their monopoly power. Most union political successes have come in the areas of general labor and social goals that benefit workers as a whole rather than unionists alone.

12. The picture of unions as nondemocratic institutions run by corrupt labor bosses is a myth. Most unions are highly democratic, with members having access to union decision-making machinery, especially at the local level. While corruption exists in some unions, its occurrence seems to be highly concentrated in a few industries.

13. The percentage of the U.S. private-sector work force that is in trade unions has declined precipitously since the mid 1950s. The decline is due largely to a dramatic increase in the amount and sophistication of both legal and illegal company actions designed to forestall the organization of workers, and reduced union organizing activity per nonunion worker.

Some of our findings are controversial. They challenge the prevailing negative assessment of the economic and political impact of unions. Not surprisingly, they have engendered considerable critical comment. It is therefore important to understand the strengths and weaknesses of the evidence on which they are based.

The distinctive feature of the evidence presented in this book is that it is derived largely from quantitative analyses of data from many sources. Some of this information is from samples of thousands of individuals or establishments, some from companies, and some from industries.[23] While labor economists have been using similar data for over a decade to estimate the effect of unions on wages, it is only in the past few years that we and others have used this sort of information to examine the effects of unions on the nonwage outcomes central to the voice/response face of unionism.

Quantitative analysis of computer data files of the type we have undertaken has the advantage of providing numerical estimates of the magnitude of union effects and of covering a sufficiently large number of workers and firms to permit generalizations about overall economic effects. Analysis of this sort also has problems, however, and we believe the problems should not be concealed by the quantity of the output.

The chief difficulty with our (and other social scientists') quantitative analysis is that the data we study are not generated by an "ideal" experiment in which we have altered one factor while holding all else of relevance fixed. (In the case of unionism, such an ideal experiment would involve unionizing a randomly chosen individual, establishment, or industry while allowing no other relevant changes to occur, and observing the resultant outcomes.) Rather than coming from such a controlled experiment, our data are based on either comparisons of union/nonunion individuals or firms at a moment in time (cross-sectional analyses) or comparisons of the persons or firms as they change union status over time (before/after, or longitudinal, analyses). Both comparisons are imperfect, for several reasons. First, despite our statistical efforts not *all* other relevant factors are held fixed. Second, our variables invariably suffer from measurement error because of faulty responses, coding mistakes, key punch mistakes, and the like. And third, individuals or firms with similar measured characteristics are unlikely to be unionized on a random basis. If individual or firm X gets organized and individual or firm Y does not, there is probably some difference between them that explains their different unionization history .This uncaptured "pre-union difference" may explain part of the outcome difference that we attribute to unionism.

The problem of controlling for all relevant factors except the one under investigation is particularly severe when we try to estimate the voice/response effects of unionism, because these effects are presumed to operate on top of, or in addition to, the monopoly effects. When the two effects operate in the same direction, failure to control adequately for the monopoly impact of unionism can lead to an erroneous conclusion that union-nonunion differences are due to voice/response rather than to monopoly behavior. For instance, we expect the higher wages that unions win for workers to reduce quits, and we also expect the greater voice that unions win for workers to reduce quits. To isolate the reduction in quits due to voice/response, we must accurately measure the reduction in quits due to monopoly wage gains. If we do not, estimates of the union voice-induced reduction in quits may be illusory, the result of poor statistical experiments rather than the reflection of true behavior.

How did we deal with these problems?

First, we based our conclusions on comparisons of persons or establishments that are as similar as possible. We did this by performing multivariate statistical analyses in which we controlled for a wide variety of other factors ranging from the demographic characteristics of workers to the industry-occupation-regional locus of jobs. In particular, when studying voice/response effects, we always tried to control for the union wage effect and all reactions to it.

Second, we used as many different data sets and types of data as possible. If one survey lacked a certain control, we sought others which contained it. While we could not replicate experiments as natural scientists do, we could perform the same basic analysis on several different data sets, obtained from different samples, by different sampling procedures, and with different survey instruments.

Third, we performed various statistical checks on our findings, which allowed us to estimate how much results might vary if some variables were, say, better measured, or if one had information on factors not available in a particular data set.

Fourth, we conducted special small surveys designed to obtain answers to specific questions which could not be addressed with existing information.

Finally, we discussed our results with labor, management, and neutral participants in industrial relations and compared our statistical findings with their perceptions and with the findings of case studies. These efforts to prune our statistical results of potential biases do not, of course, guarantee that all our findings are correct: some certainly are, while others unfortunately may not be. The most we hope is that our overall assessment of unionism as an institution with important voice/ response as well as monopoly wage effects is close to the mark.

In the remainder of this book, after briefly setting out in chapter 2 the institutional background of the American industrial relations system, we present the detailed results of our new empirical analysis of unions. Chapters 3-5 focus on what unions do to the level, composition, and distribution of compensation. Chapters 6-10 turn to what unions do to various nonwage outcomes: labor turnover and the attachment of workers to firms, cyclical work force adjustments, work rules, and job satisfaction, and examines the potential spillover of union gains to nonunion workers. Chapters 11-14 analyze what unions do to the "bottom line" economic outcomes of productivity and profitability, and to the "bottom line" social outcomes of internal union affairs and national economic legislation. Chapter 15 examines the ongoing decline in unionism in the United States. Finally, chapter 16 seeks to construct a whole from the preceding parts. It contrasts the voice/response and monopoly effects of unionism to reach an overall quantitative assessment of the benefits and costs of what unions do.

NOTES

Chapter 1

1. For examples of economists with generally negative views of labor unions, see Henry C. Simons, *Economic Policy for a Free Society* (Chicago: University of Chicago Press, 1948); Gottfried Haberler, "Wage Policy and Inflation," in P. D. Bradley, ed., The *Public Stake in Union Power* (Charlottesville, Va.. University of Virginia Press, 1959), 63–85; Milton Friedman and Rose Friedman, *Capitalism and Freedom* (Chicago. University of Chicago Press, 1962), 123–25, and *Free to Choose* (New York: Harcourt Brace Jovanovich, 1980), 228–47; W. H. Hutt, The *Theory of Collective Bargaining* (London: P. S. King,1930); Fritz Machlup, The *Political Economy of Monopoly* (Baltimore. Johns Hopkins University Press, 1952).

2. For examples of economists with generally positive outlooks on labor unions, see Lloyd G. Reynolds and Cynthia H. Taft, The *Evolution of Wage Structure* (New Haven: Yale University Press, 1956); Sumner H. Slichter, James J. Healy, and E. Robert Livernash, The *Impact of Collective Bargaining on Management* (Washington, D.C.: The Brookings Institution, 1900); and Derek C. Bok and John T. Dunlop, *Labor and the American Community* (New York. Simon and Schuster, 1970).

3. Mr. Murphy's statement was made at the GM-UAW Contract Anniversary Dinner, in Detroit, Michigan, on February 11, 1977. The text of his comments was provided by the General Motors Corporation Public Relations Library.

4. The results of a recent Gallup poll illustrate the growing ambivalence about unions. In August, 1978, only 59 percent of people polled approved of unions. By contrast, in January, 1957, 76 percent of people polled approved of unions. See The *Gallup Index,* August 1978, Report Number 157.

5. This work has been reviewed in several places. See H. Gregg Lewis, *Unionism and Relative Wages in the United States,* (Chicago: University of Chicago Press, 1963) for a discussion of pre-1960s studies. See George E. Johnson, "Economic Analysis of Trade Unionism," *American Economic Review,* 65 (May 1975): 23–38, for a brief description of many Post-1960s studies. H. Gregg Lewis, *Union Relative Wage Effects: A Survey* (Forthcoming) and R. B. Freeman and J. L. Medoff, "The Impact of Collective Bargaining. Illusion or Reality?" in J. Steiber, R. B. McKersie and D. Q. Mills, *U.S. Industrial Relations* 1950–1980: *A Critical Assessment* (Madison, Wis.. Industrial Relations Research Association, 1981),47–97, also provide summaries of recent work.

6. The empirical investigations referred to are summarized in R. B. Freeman and J. L. Medoff, "The Impact of Collective Bargaining. Can the New Facts be Explained by Monopoly Unionism?" in Joseph D. Reid, Jr., ed., *Research in Labor Economics: New Approaches to Labor Unions,* supp. 2 (Greenwich, Conn.: JAI Press, 1983).

7. For a discussion of possible union maximands see John T. Dunlop, *Wage Determination Under Trade Unionism* (New York. Augustus M. Kelley, 1950), 28–44; and Wallace N. Atherton, The *Theory of Union Bargaining Goals* (Princeton, N.J.: Princeton University Press, 1973).

8. The concept of economic rent refers to the returns to a relatively fixed factor. A union can raise wages and therefore lower returns of a firm with economic rent without putting the enterprise out of business.

9. See Albert 0. Hirschman, *Exit, Voice, and Loyalty* (Cambridge, Mass.. Harvard University Press, 1971).

10. Protection for collective action without union status is found in section 7 as well, which guarantees "the right to engage in other concerted activities for the purpose of collective bargaining or other mutual aid or protection...." Individuals acting alone are not protected by law. For a more detailed discussion, see Archibald Cox and Derek Bok, *Labor Law Cases and Materials* (Mineola, N.Y.: The Foundation Press, 1969),858–904. A text of the NLRA is contained in A. Cox and D.C. Bok, *1966 Statutory Supplement, Labor Law Cases and Materials* (Brooklyn, N. Y.: The Foundation Press, 1966), 38–59.

11. Among the studies that make this point are Peter Kuhn, "Malfeasance in Long Term Employment Contracts: A New General Model With An Application to Unionism" (National Bureau of Economic Research Working Paper No.1045, December 1982); Edward P. Lazear, "Why Is There Mandatory Retirement," *Journal of Political Economy* 87 (December 1979): 1261–84; Benjamin Eden, "Competitive Price Setting, Labor Contracts and Trade Unions" (University of Iowa, mimeographed 1983); James M. Malcomson, "Trade Unions and

Economic Efficiency," *Economic Journal,* supp. (March 1983): 51–65. Melvin W. Reder, "Unionism, Wages and Contract Enforcement," in Joseph D. Reid, Jr., ed., *Research in Labor Economics: New Approaches to Labor Unions,* supp. 2 (Greenwich, Conn.: JAI Press, 1983).

I2. The idea that human resources management involves the mediation between various groups within the firm is central in the literature of organizational behavior. See, for example, Michael Beer, Paul R. Lawrence, D. Quinn Mills, and Richard Walton, *Human Resources Management* (Free Press, forthcoming). This point is also important in the work of a number of economists who focus on the internal operations of firms. See, for example, Harvey Leibenstein, *Beyond Economic Man* (Cambridge, Mass.. Harvard University Press, 1976); Oliver E. Williamson, "Efficient Labor Organization," University of Pennsylvania Discussion Paper No. 123 (Revised) (Philadelphia: Center for the Study of Organizational Innovation, April 1982), 21–22; and Herbert Simon, "Rational Decision Making in Business Organizations," *American Economic Review* 69 (September 1979): 493–513.

13. The response of management is a decisive determinant of whether unions have positive or negative effects on the operation of enterprises, a point most strongly stressed by Harvard's Slichter, Healy, and Livernash in their classic study, The *Impact of Collective Bargaining on Management.* On the potential role of any form of external pressure on management, see H. Leibenstein, " Allocative vs. X-Efficiency," *American Economic Review* 56 (June 1966): 392–415.

14. F. A. Hayek, *A Tiger by the Tail* (London: Institute of Economic Affairs, 1972), 72.

15. Alfred T. Marshall, *Elements of Economics,* 3rd ed. (London: Macmillan, 1899), I: 381–82.

16. Slichter, Healy, and Livernash, *Impact of Collective Bargaining,* 951.

17. Lloyd G. Reynolds, *Labor Economics and Labor Relations,* 8th ed., (Englewood Cliffs, N.J.: Prentice-Hall, 1982), 474.

18. Friedman and Friedman, *Capitalism and Freedom,* 124.

19. Reynolds and Taft, *Evolution of Wage Structure,* 194.

20. Henry C. Simons, "Some Reflections on Syndicalism," *Journal of Political Economy* 52 (March 1944): 23.

21. Bok and Dunlop, *Labor and the American Community,* 425–26.

22. The view of unions as coercive forces was expressed at an early date. See Henry George, The *Condition of Labor: An Open Letter to Pope Leo Xlll* (New York: United States Book Co., 1891), 86. For a later version of this opinion, see Mancur Olson, The *Logic of Collective Action* (Cambridge, Mass.: Harvard University Press, 1971), 71.

23. For a description of the data sets, see appendix.

Printed in the United States of America
Designed by Vincent Torre
92 93 94 95 96 HC 9 8 7 6