

CHAPTER 13 - UNIONS AND THE LABOR MARKET

The major focus of this chapter is on the economic effects of unions, in both the private and public sectors. It begins with some necessary definitions and descriptions of unionism in the United States compared to elsewhere in the world, before turning to elementary coverage of major pieces of labor legislation in the United States.

In seeking their objectives, unions are constrained by the demand for their members' services. Unions facing relatively inelastic demand curves are better able to raise wages without adversely affecting employment levels very much. The simplest model of unions' objectives is the "monopoly union" model, in which the union sets the wage and the employer adjusts by setting the employment level. A more complex model is the "efficient contracts" model, in which the union and firm jointly bargain over wage and employment levels.

In attempting to explain the major activities of unions, we have organized the analysis around the demand for unions by workers and the supply of union services by labor unions. We use this analysis to help understand the major trends in American unionization. No discussion of union behavior would be complete without an analysis of strike activity and (for the public sector) interest arbitration. The section on strikes include an exposition of the Hicks model of bargaining and the Ashenfelter-Johnson political model of strike behavior (including the effects of the Landrum-Griffin Act). The section on arbitration discusses the contract zone in the context of both conventional and final-offer arbitration.

Having analyzed some key characteristics of union behavior, we turn to an analysis of the effects of unions on wages and other workplace outcomes. The measurable effect of unions on wages is the relative wage advantage, found by comparing union wages to wages in the nonunion sector. The true (or absolute) effects of unions on wages are not measurable, and the possible biases inherent in measuring the absolute effects using relative-effect measures are discussed at length. We close the chapter by summarizing empirical evidence on the effects of unions on relative wages, total compensation, employment, productivity, and profit, and discuss both "traditional" and alternative views of union effects on the overall social welfare.

The appendix to Chapter 13 analyzes how the *uncertainty* of arbitrators' decisions affects bargaining outcomes. As in the appendix to Chapter 8, the discussion defines and illustrates the concept of *risk aversion*.

List of Major Concepts

1. Union membership as a fraction of the population in the United States is low relative to the other major industrial countries, and American union activities are relatively decentralized.
2. Unions are constrained in their objectives by the labor demand curve.

3. The monopoly-union model assumes that the union sets the wage and the employer sets the employment level.
4. The "efficient-contracts" model emphasizes that if unions and employers bargain only over wages, the resulting employment/wage outcome will be inferior to another set of outcomes that would improve the welfare of both parties. Under this model, the two parties bargain over both wage and employment levels.
5. The decline in American union membership can be understood, in part, by reference to shifts in the demand and supply curves for union services (caused by the feminization of the work force, a change in industrial composition, regional shifts, competitive pressures, and employer resistance).
6. Unions often take actions designed to shift the demand curve for labor to the right and/or to reduce the elasticity of demand for union labor.
7. Strikes are intended to impose financial costs on employers if they do not agree to union offers, but because they also impose costs on employees, both sides become more willing to make concessions as strike duration increases. The Hicks bargaining model suggests when strikes will end, but it does not explain why strikes occur in the first place.
8. While strikes can occur because one party mistakes the other's true position, they can also occur because, in the context of asymmetric information, one party wants to elicit a signal from the other about its true preferences or constraints.
9. The Ashenfelter-Johnson model of strike activity, which is tripartite in nature, views union leaders and union members as sometimes having conflicting perspectives. Union leaders, who have better information than their members, may pursue the twin goals of maintaining their positions in the union and educating union members by recommending a strike.
10. Unions' propensities to strike vary over the business cycle and have trended down over time, but the increase in union democracy associated with the Landrum-Griffin Act caused a one-time increase in strike activity (as predicted by the Ashenfelter-Johnson model).
11. Interest arbitration is used in the public sector, where strikes are generally not permitted, and interest arbitration can be "conventional" or "final offer."
12. The "contract zone" into which pre-arbitration offers will fall can be widened by both the uncertainty about what an arbitrator might decide and the parties' aversion to the risk of an adverse outcome. However, it is not clear whether a wider contract zone increases or reduces the chances a dispute will go to arbitration.

13. One would like to measure the effects of unions on wages in the absolute (comparing wages in a world with unions to wages in a world without); however, measuring this absolute wage advantage is impossible. We can only measure union wages *relative* to nonunion wages, but this is not a good measure of the *absolute* effect because the presence of unions alters the nonunion wage also.
14. If the nonunion labor market is in equilibrium, the presence of unions should lower the nonunion wage below what it would have been otherwise and cause the relative wage effect to overstate the absolute effect of unions.
15. If employers raise wages in the nonunion sector to keep unions out (thus creating unemployment in that sector), the relative wage effect is smaller than the absolute union wage effect.
16. The presence of *wait unemployment* in the union sector will inhibit the growth in labor supply in the nonunion sector and could even cause the supply curve there to shift left. Whether wait unemployment causes the relative wage effect to be greater or smaller than the absolute wage effect depends on whether the supply curve of labor to the nonunion sector shifts to the right or left.
17. In an overall sense, unions appear to raise the wages of their members above the nonunion wage by something like 10 to 20 percent. These wage effects are larger in the private than the public sector, larger in the United States than elsewhere, and largest among unskilled (and minority) workers.
18. Union effects on employee benefits as a percentage of total compensation tend to be positive; thus, the total compensation effects of unions may be greater than the relative wage effects.
19. The compensation advantages enjoyed by union members; however, may be in part a compensating wage differential for the more structured, more hazardous and less flexible work settings in unionized firms.
20. Empirical evidence tends to suggest that, in the United States, unionization reduces employment or employment growth, has an ambiguous effect on productivity, and a negative effect on profits.
21. The traditional view of union effects stresses the social loss caused by inequality in wages (and marginal productivities) among workers of comparable skill. The traditional view also stresses the losses associated with union staffing requirements, restrictive work practices, and strikes.
22. The alternative view of unions is that they provide a method of collective "voice" that tends to reduce turnover and encourage firms to provide specific training to employees. Improved communications between labor and management may also increase productivity and worker motivation directly, but employer resistance to

unions and the degree to which stock market prices are depressed when union organization drives are initiated suggest a widespread belief that unions reduce profitability.

23. (Appendix) When collective bargaining impasses can be decided by arbitration, the range of possible nonarbitrated settlements is widened by greater uncertainty about how the arbitrator will decide (if an agreement is not reached) and by greater risk aversion on the part of the parties.