What Do Unions Do?: A Twenty-Year Perspective

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I. *Introduction*

Labor unions are at least as old as industrial economies and have been the subject of debate and controversy for just as long. All sides agree that the objective of unions is to advance the interests of their worker members, and toward this end they exert pressure on employers and governments for improved terms and conditions of employment. Controversy quickly flares, however, once the discussion moves beyond this point. Two issues, in particular, occupy center stage. The first is one of fact, and concerns the effects of unions. Central questions include: how do unions affect wages?, firm performance?, labor market efficiency?, workers' welfare?, and the political process? The second issue involves evaluation and judgment: Are unions good or bad for workers, firms, and the economy? Are the methods unions use to achieve their objectives consistent or inconsistent with widely shared ethical and legal principles? And, would social welfare be advanced by encouraging or discouraging additional unionism?

Twenty years ago this debate was taken to a new level with the publication of *What Do Unions Do?* by Richard Freeman and James Medoff. In the first paragraph of their book, they observe, "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?"

In the remainder of the book they attempt to fill in the gaps and holes in our knowledge of "what unions do." Their comprehensive approach brought to the subject new theory, an impressive collection of data sets, and sophisticated statistical tools. Not only did Freeman and Medoff (F&M) cover oft-considered subjects, such as the union effect on wages, but also a variety of new or seldom-treated topics, such as how unions affect employee benefits, turnover, productivity, and firm profitability. Going further, they also gave attention to a variety of noneconomic dimensions not often addressed by economists, such as democracy in unions and the union role in dispute resolution and work force governance.

II. *Theory*

F&M contend that economists and the general public hold two quite different conceptions of unions, one is negative and the other is positive. The negative view they call the "monopoly face" of unions, the positive they call the "collective voice/institutional response" face.

They introduce the monopoly face with the statement (p. 6), "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." F&M do not analytically elaborate the monopoly face of unions, but use the concept as a convenient metaphor for the general idea that unions — like monopolistic firms — possess market power and use it to raise the price of labor above the market level. The artificially high price of labor, in conjunction with restrictive work rules and strikes, leads to a number of undesirable outcomes: resource misallocation, inefficiency in production, a bias toward cost-push inflation, and lower capital investment and productivity growth. Unions thus appear in their monopoly guise as a special interest group that uses economic and political "muscle" to gain more income for their members (and leaders) at the expense of the welfare of the larger community.

In constructing the voice/response face of unions, F&M draw on ideas from the public choice area of economics and Hirschman's influential book, *Exit, Voice, and Loyalty* (1970). They contend workers have two ways of dealing with workplace problems: the "exit" option of quitting and the "voice" option of speaking up to management. As F&M note, in a perfectly competitive labor market worker exit and entry among firms produces a situation in which no individual can be made better off without making someone else worse off. Firms are also operating on their efficiency frontiers, so no organizational slack exists. If, however, markets have significant imperfections, such as limited/asymmetric information or mobility costs, the exit option of turnover suffers from two drawbacks: Turnover imposes positive cost on workers and firms and fails to achieve the optimal configuration of working conditions and production methods. Firms may also not minimize costs. Efficiency, therefore, may be promoted by relying on voice as a way to solve workplace problems.

But, argue F&M, voice is also likely to be undersupplied relative to the social optimum if it only takes the form of individual communication between workers and managers due to public good (free-rider) problems and workers' fear of being fired. Effective voice, therefore, has to be *collective* voice, such as a labor union, since only then will workers have the incentive to express their true preferences and the assurance that they will not suffer for it. Typically, F&M conceptualize union voice in the relatively narrow sense of a form of communication and information flow and assume it is largely separable from the exercise of union bargaining power. In places (e.g., p. 11), however, the concept is broadened to subsume a political process of rule making, workplace governance, and rights enforcement and couched as a limitation on the employer's power.

According to F&M, the traditional view of unions is largely negative because the assumption of "perfect markets" leaves no room for union voice to play a beneficial role. Illustratively, they state (p. 12), "The greater the imperfection of markets, and the further the 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." In the presence of market imperfections, however, union voice can promote efficiency in a number of ways, they claim, such as by reducing turnover cost, improving working conditions and production methods, enhancing specific on-the-job training, improving decision making, and by fostering a greater sense of cooperation and trust. Union voice, suggest F&M, can also promote efficiency by inducing/helping management to improve coordination, reduce slack, and implement human resource policies more fairly and professionally.

Another consequence of collective voice, note F&M, is that it leads to a fundamentally different labor contract between the firm and employees. In a regime of individual bargaining, the employer's attention is on keeping/hiring the "marginal" worker — the one just on the margin of going to another firm, while it may ignore or take for granted the preferences of the inframarginal workers who are locked into their jobs by seniority, fringe benefits, or other such factors. Since the marginal worker is more likely to be young, single, and mobile, while the inframarginal workers are more likely to be older, have families, and tied to the community, the preferences of the two groups regarding the mix of wages, benefits, and working conditions may be substantially different. With individual bargaining, the employment package will be structured to appeal to the marginal worker; with collective bargaining the union through a median voter process will articulate the preferences of the "average" employee. Again, the outcome under collective bargaining, by moving the labor contract toward what is desired by a majority of the work force, may promote greater efficiency and employee satisfaction in the labor market.

The bulk of F&M's arguments focus on the efficiency effects of unionism. At points, however, they broaden the analysis to include the effect of unions on other social outcomes, such as income inequality, democracy in the workplace, and representation of workers in the nation's political process. F&M claim that the conventional (monopoly) view of unions also leads to a negative assessment of the contribution of unions in these areas. When unions raise wages, for example, they (allegedly) widen income inequality among workers, while it is claimed that unions themselves are often nondemocratic or corrupt and distort the political process through sizable lobbying and campaign contributions. Acknowledging that all of these criticisms have an element of truth, F&M also claim that a voice/response theory of unions leads to a much more positive picture and one more consistent with the overall performance of unions. The democratic nature of unions, for example, leads to wage-leveling policies that reduce income inequality. Unions also protect employees' rights in the workplace and counterbalance corporate power in the political arena.

The final component of F&M's theory is management's role. The negative monopoly effects of unions, they argue, are real but also potentially more than offset by the positive effects of the voice/response face. The latter, however, are only realized when management takes a constructive approach to collective bargaining, and the parties deal with each other in a spirit of cooperation and mutual gain. The paradox, say F&M, is that while unionism is on net neutral-to-positive for productivity, efficiency, and social outcomes, it nonetheless reduces profits and thus engenders strong employer resistance.

The picture they paint, therefore, is one of missed opportunities — many workers without unions want representation, unions on net are good for the economy and society, and yet management's resistance to unions — coupled with weak labor laws — has been the central force behind a steady erosion in private sector union density from more than one-third in the 1960s to less than one-tenth four decades later. In contrast, union density in the public sector has remained steady at roughly forty percent for several decades, which they hold up as a model for what private sector density might resemble were it not for management resistance.

III. *Empirical Evidence*

The two contrasting views of unions give markedly different pictures of unionism's economic and social repercussions — the monopoly face predicts social loss, the voice/response face social gain. The critical issue, then, is which model better describes the effects of labor unions.

On a conceptual level, Freeman and Medoff state (p. 19) that both models are relevant: "Since, in fact, unions have both a monopoly and a voice/response face, the key question for understanding the impact of private sector unionism in the United States relates to the relative importance of each." F&M are thus saying that theory alone cannot decide the issue, since both models describe a portion of reality, so the ultimate determination has to come from a weighing and sifting of the empirical evidence. As F&M put it (p. 246), "The central question is not, 'Who in principle is right?' but rather, 'Which face is quantitatively more important in particular economic outcomes?'"

Having proposed the crucial test, F&M devote the remainder of *What Do Unions Do?* to a chapter-by-chapter empirical examination of the effects of unions on a wide variety of economic and social processes and outcomes. Topics included are: wages, fringe benefits, wage inequality, employee turnover and job tenure, employment adjustment to business cycles, the role of seniority, employee job satisfaction, impact on nonorganized workers, productivity, profits, political power, union governance, and union organizing.

What do they find? F&M provide this summary statement (pp. 19–20),

> 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. . . . On balance, unionization appears to improve rather than 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 . . . 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.

After this statement, F&M list thirteen specific empirical findings from their analysis. Put briefly, they are:

- Unions have a substantial monopoly wage impact, although the exact size of the union-nonunion differential varies considerably over time and across industries and demographic groups. The social cost of union monopoly wage gains is modest — about 0.3 percent of gross domestic product.
- Unions also increase the share of compensation going to employee benefits and shift the composition of the benefits package toward deferred benefits, such as pensions and health insurance.
- Unions reduce the overall level of wage inequality among workers.
- Unionized workers are less likely to quit their jobs and have longer job tenure than similar nonunion workers.
- During recessions unionized firms make more use of temporary layoffs, rather than wage cuts. On cyclical upswings unionized firms recall relatively more workers, and nonunion firms tend to hire new employees. Unions sometimes agree to wage cuts, but generally only in the face of a substantial threat to employment.
- Unionized workplaces operate under different and more explicit rules than nonunion workplaces. Seniority is more important, dispute resolution more formal, job security protections greater, and management discretion and flexibility restricted.
- The "threat effect" of unions causes nonunion firms, on net, to modestly improve wages and employment conditions of production workers in order to avoid becoming unionized.
- Union workers report greater dissatisfaction with their jobs, particularly with respect to working conditions and relations with supervisors.
- In most cases unionized establishments have higher productivity than nonunion ones.
- Unionized firms earn a lower return on capital and reduced profits. The reduction in profitability is concentrated, however, among firms in con-

centrated and otherwise highly profitable sectors of the economy (implying union wage gains largely take the form of a redistribution of monopoly rents from firms to workers).

- The political power of unions has contributed to the enactment of numerous pieces of legislation that promote the general social/employment interests of workers. With respect to labor laws that directly impact union power, unions have been able to preserve existing favorable legislation but not expand on it.
- The popular image of unions as boss-run, corrupt institutions is a caricature. Most unions are highly democratic and corruption problems are concentrated in only a few industries.
- The percent of private sector workers belonging to unions has declined sharply since 1950. The decline is due largely to a dramatic increase in the amount and sophistication of legal and illegal company actions designed to forestall union organizing.

IV. *National Labor Policy*

With these empirical findings in hand, F&M in the last chapter of *What Do Unions Do*? turn to consideration of the implications for national labor policy, particularly as it bears on union organizing and collective bargaining.

Based on their empirical work, they conclude (p. 247) "in most settings the positive elements of the voice/response face of unions offset or dominate the negative elements of the monopoly face. . . . In an economy where governments, business, and unions work imperfectly — sometimes for, sometimes against the general welfare — there is a place for unions to improve the well-being not only of their members but of the entire society." F&M then ask (p. 248), "Should someone who favors, as we do, a thriving market economy, also favor a strong union movement and be concerned with the ongoing decline in private sector unionism?" The answer they give is: "According to our research findings, yes."

This answer leads F&M to the "bottom line" regarding the existing level of unionism. They assert (p. 248), "The paradox of American unionism is that it is at one and the same time a plus on the overall social balance sheet . . . and a minus on the corporate balance sheet." Because unionism hurts profits and employer control of the workplace, companies expend great time and resources in resisting unions — even though seen from a social point of view the nation would benefit from greater unionization. Thus, F&M conclude (p. 250): "While we are not sure what the optimal degree of unionization is in this country, we are convinced that current trends have brought the union density below the optimal level." In a later study, Freeman (1992) suggests that the optimal level of union density in the United States is somewhere between the 25 percent level existing at the time *What Do Unions Do?* was written and the 60 to 80 percent level in Scandinavia, yielding a figure (if conservatively estimated) in the range of 35 to 45 percent. This figure, as earlier noted, approximates the level of public sector union density.

These conclusions lead F&M to suggest, in very broad terms, three directions for change in the American collective bargaining system and national labor policy.

The first is to revise the legal framework to encourage greater unionization, with the purpose of bringing union density closer to the "optimal" level (or range). The principal method they recommend is making the organizing process for workers easier and less costly. Given their conclusion that management resistance is the largest hindrance to greater organizing, F&M advocate that penalties on employers for unfair labor practices be substantially increased and the time taken for representation elections be reduced to no more than 15 days (from an average of 6–8 weeks).

Their second recommended change is to strengthen the voice/response face of unions, thus increasing their positive contribution to firms and society. They do not detail how this should be accomplished, however, other than to suggest that experiments aimed at fostering greater labor-management cooperation in unionized firms should be encouraged and expanded.

Their third recommendation is to weaken the monopoly face of unions, thus reducing the negative effects of unions on firms and society. The principal policy they propose toward this end is promoting greater competition in product markets (thus making it more difficult for unions to raise wages) and avoiding trade barriers that protect high-cost (possibly unionized) firms. They also counsel union leaders to give greater recognition to the negative trade-off between wages and employment and thus (p. 250) "use their economic power more judiciously."

What Do Unions Do? ends with this summation (p. 251):

> All told, if our research findings are correct, the ongoing decline in private sector unionism — a development unique to the United States among developed countries — deserves serious public attention as being socially undesirable. We believe the time has come for the nation to reassess its implicit and explicit policies toward unionism, such as it has done several times in the past. And we hope that such a reassessment would lead to a new public posture toward the key worker institution under capitalism — a posture based on what unions actually do in the society and on what, under the best circumstances, they can do to improve the well-being of the free enterprise system, and of all of us.

V. *The Symposium: Purpose and Plan*

When *What Do Unions Do?* was published two decades ago, it deservedly received great attention and commentary in both academic and public circles. Not only did the book provide the most comprehensive quantitative portrait available of the impact of trade unionism on the economy and society, but it also put forward a new conceptual framework for thinking about these issues. Also noteworthy was the fact F&M went against the current of prevailing thinking — certainly in the economics profession — and concluded that on net unionism serves the social interest and the nation should restructure labor law to promote it.

Twenty years have now passed. The book continues to be frequently cited. And one of its authors, Richard Freeman, continues to produce a steady stream of research on trade unions and worker voice that amplifies and extends the pioneering work in *What Do Unions Do?* In other respects, however, the situation has changed in some striking ways.

A major development is the remarkable outpouring of additional theoretical and empirical research on unionism since *What Do Unions Do?* In part stimulated by F&M's research, and in part made possible by new research methods and data sets, economists and other social scientists have produced over the last two decades hundreds of new books and journal articles that extend our knowledge on unions and their impact on workers, firms, and labor markets. A portion of this new literature extends and develops theoretical models of unions, including the exit/voice model of F&M, while an even larger part pushes forward the empirical exploration of the full range of union effects. The latter covers not only the wage effect of unions, long an object of economic research, but also the numerous other dimensions popularized by F&M.

Given this new literature, an obvious and, we think, critical question waits to be answered: As a positive account of what unions do, how well does F&M's book hold up in light of subsequent research and experience? In particular, did they capture the important economic and social effects of unions? Also, does their conclusion that unionism is a net plus on both the economic and social balance sheets still bear the weight of evidence 20 years later? One purpose of this symposium is to subject these questions to detailed, in-depth investigation by leading experts in the field.

A second striking development that has taken place over the two decades since the publication of *What Do Unions Do?* is the continued downward trend in union density in the United States. From 1900 to mid-century union density slowly and irregularly moved on an upward trend, starting at 7 percent in 1900 and reaching a peak of 33 percent in 1953. Since then density has retraced much of its path, moving steadily downward decade-to-decade until in 2002 it stood at 14 percent. More remarkable is the path of union density in the private sector. Private sector density peaked in the United States in the early 1950s at 36 percent and then fell steadily and sharply until in 2002 it stood at only 9 percent — close to the overall level of union density in 1900! Much the opposite trend occurred in the public sector, by way of contrast. Public sector density rose more than threefold between 1960 and 1980, and then remained roughly constant at approximately 40 percent from the mid–1980s to the present time.

Writing in the early 1980s, F&M concluded that the actual level of union density was below the socially optimal level. They therefore advocated a change in national labor policy to encourage greater unionization. In a more recent book, Freeman and Rodgers (1999) advance the same proposition. Based on a nationwide survey done for the Clinton-appointed Commission for the Future of Worker-Management Relations, they conclude that roughly three times as many workers (about 45 percent) want union representation as currently have it. The shortfall in union representation is, in turn, only one dimension of a larger and more general undersupply of voice and representation at the workplace. According to Freeman and Rogers (F&R), over 50 percent of American workers report they have less influence at work than they desire — a shortfall they call a "representation/participation gap." Paralleling the conclusions of *What Do Unions Do?*, F&R also find that the single most important reason for the gap in voice and influence at work is management resistance, particularly when workers' desire for more voice takes the form of union representation. With regard to the latter point, for example, F&R state (p. 89), "the main reason these [unorganized] workers are not unionized is that the managements of their firms do not want them to be represented by a union." They conclude, therefore, that outmoded American labor law needs to be revised to provide more of all types of employee voice at work, including a substantial increase in union representation. As they state in the book's last sentence (p. 155), "the right choice for private action and public policy would be to help workers gain the voice and representation in workplace decisions that they so clearly want."

Certainly the presumption would have to be that if the level of union density when *What Do Unions Do?* was published in 1984 was significantly below the socially optimal level, then today the shortfall must be that much greater, given the trends outlined above. The flip side of this argument is that the case for reform of the nation's labor law to promote more unionization (and other forms of worker voice) is presumably even more compelling than when F&M advanced it two decades ago. These considerations directly lead to the second major question that motivates this symposium: Does the weight of the evidence support F&M's contention that the economic and social interests of the nation would be advanced by greater unionization? More particularly, in light of all the research evidence accumulated to date, can it be reasonably concluded that unions on net enhance economic efficiency, as F&M claim? If the scope of analysis is broadened to include social goals beyond efficiency, does the evidence then show unionism to be a net plus? Finally, is it possible or desirable to simultaneously accomplish an overall increase in union density, a reduction in the monopoly power of unions, and expansion of the voice face of unions, as F&M advocate?

This symposium contains nearly two dozen papers, written by some of the field's more recognized and respected scholars, that together seek to answer these questions. The symposium is at once a twentieth anniversary tribute to Freeman and Medoff's pioneering book *What Do Unions Do?*, an in-depth and comprehensive reexamination and reassessment of the theoretical and empirical arguments advanced in *What Do Unions Do?*, and a more wide-ranging state-of-the-art review of the research literature on trade unions.

Several features of this symposium deserve brief mention. First, the emphasis is on the economic features and impacts of trade unions, as evidenced by the economic orientation of many of the chapter topics and the large representation of economists among the authors. But we also endeavor to round out the volume with topics and authors representing other dimensions of the trade union experience, such as management, industrial relations, law, and politics. Likewise, several of the topics in this symposium were only briefly examined by F&M in *What Do Unions Do?*, but for sake of inclusiveness and comprehensiveness we have given them more emphasis here.

Another way we have tried to broaden the symposium is by including a significant international component. *What Do Unions Do?* is written almost exclusively from the vantage point of the American system of collective bargaining and labor law. In later writings, however, Freeman and co-authors have extended the analysis in various respects to other countries. We have attempted to go even further in this direction, believing that the experiences of other countries yield additional valuable "data points" that can help identify the causes and consequences of trade unionism. Also, the union decline that began in America in the mid–1950s has spread in more recent years to many other industrial countries, making the social welfare and public policy issues raised in *What Do Unions Do?* of greater relevance to an international audience. Thus, we have asked the authors to incorporate, where possible, international evidence into their analyses. A separate paper on the international dimension of unions is also included. We note, however, that the symposium does not pretend to cover the entire international experience with regard to unions, and includes evidence drawn largely from countries where trade unions and collective bargaining are well institutionalized and used principally to win workplace-centered concessions from employers.

Also distinctive is our effort to promote balance, fairness, and multiple viewpoints in this symposium. The fact that we publish this symposium in honor of the twentieth anniversary of *What Do Unions Do?* reflects our judgment that the book is a pioneering scholarly achievement. We do not publish this symposium, however, to either promote or criticize the point of view taken by F&M; our only goal is to advance the state of knowledge about labor unions and better inform public policy debates on the benefits and costs of unionism. With this objective in mind, we have chosen authors who have a reputation for high-quality, nonpartisan scholarship. Some have taken positions in past research that support F&M, while others have taken the opposite side. The mandate given to everyone was to be scrupulously fair and balanced. To further promote fairness and balance, we have also deliberately broadened the discussion to include both economic and noneconomic effects of unions, recognizing that while concerns with economic efficiency are of great importance so too are other considerations, such as social justice and democracy in industry. Finally, another element of balance is achieved by including chapters written, respectively, by a representative of management and organized labor.

A few words should also be said about the structure of the symposium. Papers 2–17 are devoted to individual topics related to trade unionism and its effects, such as wage differentials, fringe benefits, macroeconomic performance, and workers' rights. The next four papers (18–21) then provide a synthesis and summation. Each author, using the preceding papers as input, builds a composite portrait of "what unions do" and contrasts and compares this portrait with the one developed by F&M. These four papers also reconsider the economic and social case advanced by F&M in favor of greater unionization and the public policy measures they propose to achieve this.

One of these four summary papers is authored by Richard Freeman. It provides him an opportunity to review and critique all the preceding chapters and to offer his own assessment of how the evidence and arguments presented in *What Do Unions Do?*

looks from today's vantage point. Freeman writes this chapter representing both the joint work done with Medoff, as well as the numerous other studies on unions he has published individually or with other co-authors. Although *What Do Unions Do?* is the focal point of the chapters in this volume, Freeman's other union-related research is also woven into various chapters, partly for purposes of inclusiveness and partly because his views and positions have in certain respects evolved over time since *What Do Unions Do?* was published 20 years ago.

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