Belabored Unions – The Crux of Inequality

Labor unions have historically been the mainstay against the distortions of economic inequality. Princeton economists discovered this much, finding ten to twenty percent higher wages in union households since the 1930s (Farber et al. 2018). While we are grappling with stagnating wages and intense concentrations of wealth among the highest income earners of today, this study serves as a powerful insight into the potential of labor unions – of what once was and what can be made again.

*To ‘Right-to-Work’ or Not?*

Right-to-work (RTW) laws, found today in 27 states, permit workers to forgo paying union dues despite receiving the fruits of union negotiations. Unions have been weakened as a result of these measures, dropping from a 34% share of the labor force in 1973 to just over 10% today. But what have been the effects on wages ever since?

To quantify the significance of labor unions today, Gould and Shierholz (2011) set out to examine annual wage differences between RTW and non-RTW states. After formulating a rigorous regression model accounting for state economic characteristics, demographics, and worker characteristics, they deduced that RTW states suffer 3.2% in lost wages annually. This deprives workers in RTW states of approximately $1,500 compared to similar workers in non-RTW states. What’s more, their data uncovered a disparaging 4.8% and 2.6% reduction in the rate of employer-sponsored pensions and employer-sponsored health insurance within RTW states, respectively.

Our assemblage of data features the additional assertion that unions bolster the pay of nonunion and union workers jointly. Industries outside the direct purview of unions raise wages and benefits to stymie initiatives of their own workers to unionize or vacate their work in exchange for a union job. By practice, businesses disregard these incentives when unions no longer pose a sufficiently competitive threat. Thus, strong rates of unionization reduce inequality across the spectrum; receding unionization emboldens inequality.

Beyond strengthening wages and benefits, labor unions have proven to be levers of negotiation to restrict excessive executive compensation. As Huang, Jiang, Lie, and Que (2017) documented, there exists a convincing inverse relationship between the degree of unionization and executive compensation. And this makes sense: unions leverage CEO compensation in negotiations to contend for a relative increase. Likewise, firms have been documented to alter CEO pay to improve their bargaining position. Non-RTW states exhibit a more pronounced inverse relationship than do RTW, adding further evidence to the detrimental inequality effects RTW initiatives generate.

The corrosion of collective bargaining has been described as “the single largest factor suppressing wage growth for middle-wage workers” (Mishel et al. 2012). This is no surprise because as we have seen, collective bargaining, made possible by robust labor unions, dips into the three founts of economic inequality simultaneously: wages, benefits, and executive compensation. Boosting wages and benefits while restraining exorbitant salaries provide labor unions the key distinction of being the trifecta – the crux of inequality.

*Policy Prescriptions*

From our analysis, we have come to the conclusion that labor unions are an indispensable tool to combat inequality and improve the plight of the middle class. To complete this discussion, we can apply our understanding to engineer several positive policy prescriptions.

First, rollback right-to-work legislation where it exists. Policymakers need to enact the modus operandi of following established economic fact. Gould and Shierholz (2011) forcefully proved the legitimacy of their study through its rigorous and timely regression models. RTW laws sap the compensation of both nonunion and union workers in one broad stroke. Legislators should restore sound economic policy by repealing RTW laws and impede further economic distress wrought by inequality.

Second, collective bargaining rights should be expanded to encompass public sector employees. States have engaged in undermining this after the onset of the financial crisis. These states, among them Wisconsin and Michigan, have suffered from a weakening middle class and swelling income disparity. Reasserting collective bargaining here is imperative to repair the inequality divide because unionization positively affects workers beyond its own direct scope. Reforming public sector collective bargaining rights, perhaps a more politically palatable option, diffuses benefits implicitly to other industries by way of wage and benefit competition, as we’ve seen.

Finally, fortify the National Labor Relations Board (NLRB). The NLRB is the labor union’s guardian through its work of preserving collective bargaining rights and contesting unfair labor practices. In recent years, Congress has attempted to defund new rules that would protect unions from employers encroaching upon their sovereignty. A resilient NLRB is a powerful ally in guaranteeing that unions can be afforded the security to do what they do best – protecting the American worker.

Collective bargaining, made possible by labor unions, has been an opposing instrument to economic inequality from the dawn of modernity to present day. Notwithstanding political opposition and economic transformations over time, labor unions have consistently delivered comparatively superior livelihoods. Right-to-work laws have demonstrated negatively to this effect. Thus, policymakers should be encouraged to make labor unions the priority, once again.

Works Cited

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