Unions

EC 350: Labor Economics

Kyle Raze

Spring 2021

Agan and Starr (2017)

Discussion

Q$_1$: What is the motivation for the research question?

Q$_2$: How does the study address the research question?

Q$_3$: What are the main findings?

Q$_4$: How does the study advance our understanding of racial discrimination in the labor market?

Q$_5$: What are the policy implications?

Q$_6$: What did *you* find most interesting?

Unions

Unions

What are they?

Labor unions are **institutions** that bargain with employers over wages and working conditions.

- Instead of having individual workers bargain with the employer, unions bargain with the employer **collectively** on behalf of those workers.

Why do they matter?

1. Unions pose important consequences for economic **inequality** and **efficiency**.

2. Unions may or may not be making a comeback in the United States.

Unions

What's in a contract?

The result of negotiations between a union and an employer? A legally binding contract, known as a **collective bargaining agreement**.

Collective bargaining agreements cover a lot of ground!

- **Wages** (*e.g.,* minimum salaries, overtime pay, bonuses, performance pay, *etc.*)
- **Fringe benefits** (*e.g.,* health insurance, pensions, paid vacation, sick days, parking, *etc.*)
- **Workload** (*e.g.,* minimum and maximum hours, holidays, scheduling, *etc.*)
- **Working conditions** (*e.g.,* break schedules, health and safety regulations, grievance procedures, *etc.*)
- **Training** (*e.g.,* in-service, mandatory workplace safety meetings, *etc.*)
- **Discipline** (*e.g.,* grounds for dismissal, performance standards, *etc.*)

Solidarity *forever?*

Union density in the United States, 1973–2020
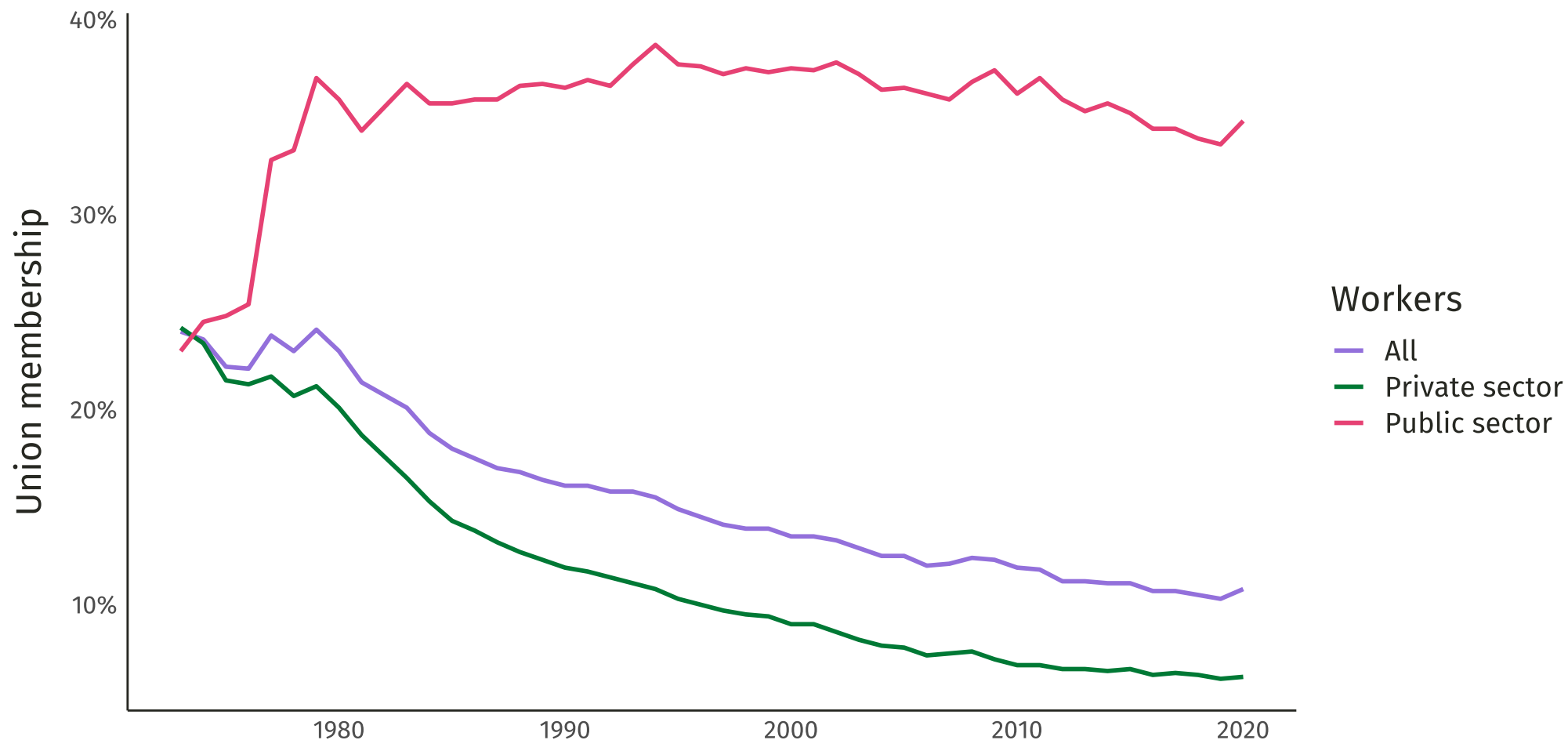
Source: Barry T. Hirsch and David A. Macpherson (2003), Union Membership and Coverage Database from the Current Population Survey: Note, *Industrial and Labor Relations Review*, updated annually at unionstats.com.

Unions and inequality

Union density and income inequality are negatively correlated.

- The rise of union membership during the 1930s coincided with a significant decrease in income inequality.
- Conversely, the decline in union membership since the 1970s coincided with a significant increase in income inequality.

Q: Does this correlation reflect a causal relationship or something else?

A: While part of the raw correlation can be explained by other factors, it appears that unions do have a negative causal effect on income inequality.[†]

- **How?** Unions increase compensation for lower-skill workers and compress wages within firms.

[†] *Source:* Farber et al. (2021), Unions and Inequality Over the Twentieth Century: New Evidence from Survey Data, *NBER Working Paper 24587.*

Monopoly unions

Unions bargain on the behalf of all workers within a "bargaining unit," regardless of whether those workers are union members.

- The GTFF bargains on behalf of all GEs at the University of Oregon, even those who choose not to pay union dues.**†**

The **exclusive** right to bargain within a workplace gives unions **monopoly power** over wages.

- With unionization, workers are no longer "wage takers"—they now have the ability to influence market wages.
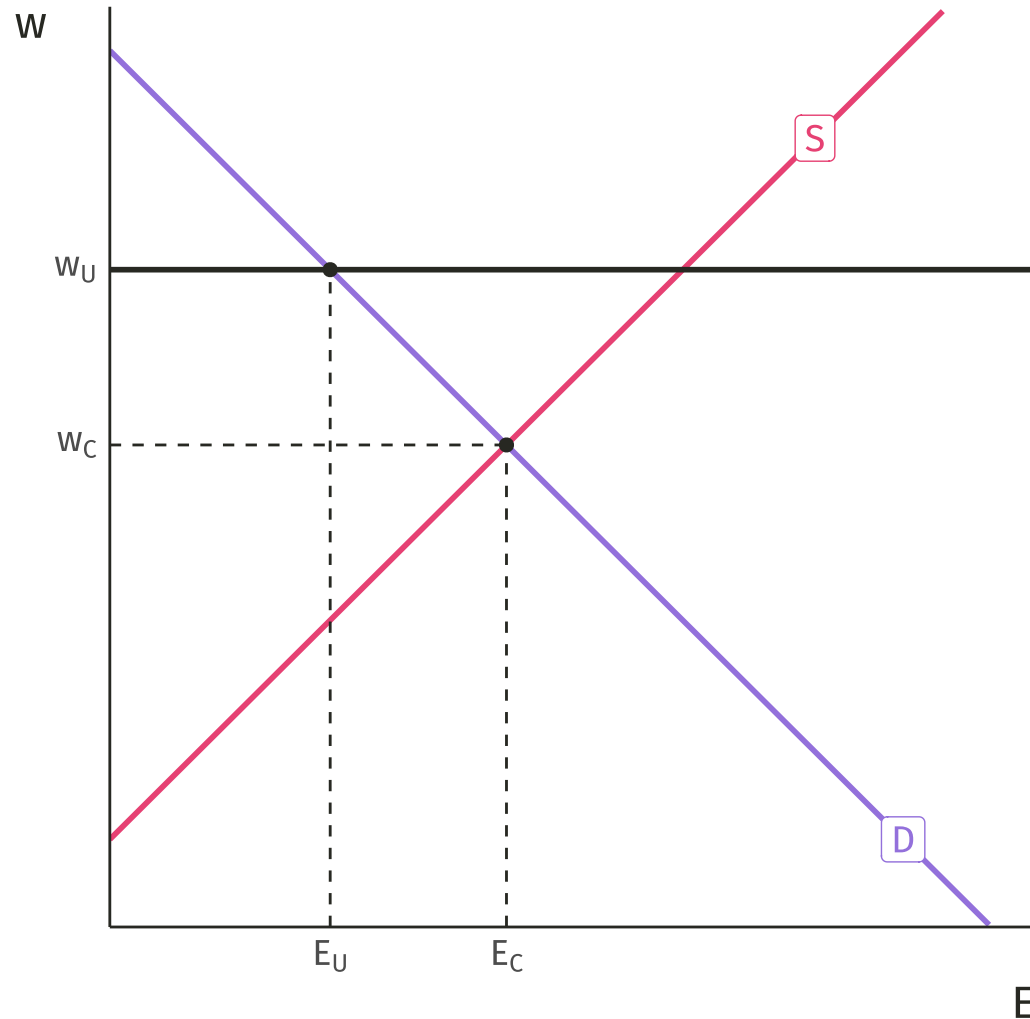
The union's objective?

> More.
> — Samuel Gompers, founder of the American Federation of Labor

† *Janus v. AFSCME* eliminated the ability of public employee unions to collect "fair share" dues from non-members.
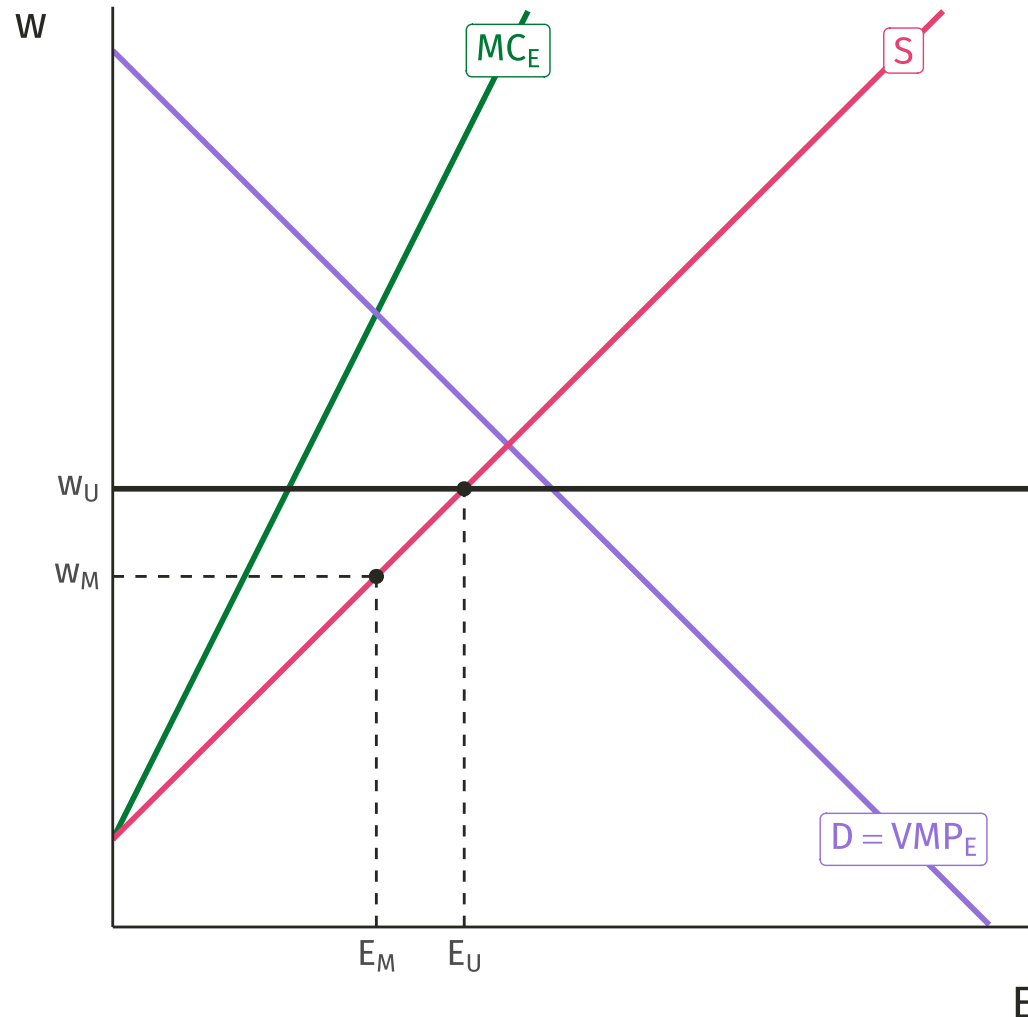
Competitive employers

A union can leverage its market power over employers by setting a binding minimum wage.

- Wages increase, but employers respond by decreasing employment or cutting hours.
- Creates deadweight loss $\longrightarrow$ inefficient.

Monopsonist employer

The union can bargain for a binding minimum wage that increases both wages and employment.

- Possibly less inefficient than the unregulated monopsony equilibrium.

Bargaining

Richer models of bargaining **predict** that unions and competitive employers will reach **agreement off the demand curve**, increasing both wages and employment beyond the unregulated market equilibrium.

- Efficient in the sense that negotiations exhaust mutual benefits between the union and the employer.
- Inefficient in the sense that collective bargaining agreements can **misallocate** workers within and across firms.
- Having excess workers forces the employer and union to negotiate **featherbedding** practices.

Bargaining

The **consequences** of collective bargaining **extend beyond wages and employment**—there are also meaningful consequences for effort and productivity.

Examples

- Teacher unionization increases school funding, but worsens student performance.[1]
- Teacher unionization can decrease students' earnings in the long run.[2]
- Police unionization can increase the frequency of violent misconduct among officers.[3]

In each example, the increase in job security comes with a **social cost!**

- Unions can decrease income inequality, but they can also increase other forms of inequality!

[1] Caroline M. Hoxby (1996), How Teachers' Unions Affect Education Production, *The Quarterly Journal of Economics*.
[2] Michael F. Lovenheim and Alexander Willén (2019), The Long-Run Effects of Teacher Collective Bargaining, *American Economic Journal: Economic Policy*.
[3] Dharmapala et al. (2020), Collective Bargaining Rights and Police Misconduct: Evidence from Florida, *The Journal of Law, Economics, and Organization*.

The tradeoffs of unionization

Discussion

Q: Should we embrace unionization efforts?

- What tradeoffs should we consider?

The takeaway? Unions can pose an equity-efficiency tradeoff, but the nature/existance of this tradeoff depends on the local context!

- Possible for unions to increase equity and efficiency!
- Also possible for unions to decrease equity and efficiency!

Housekeeping

Problem Set 4 is also due by **Sunday, June 6th at 23:59**.

Final Exam scheduled for **Wednesday, June 9th from 14:45 to 16:45** on Canvas.

- Same format as the midterm
- Cumulative, but with more weight on post-midterm material

Extra office hours

- Saturday, June 5th from 14:00 to 15:00
- Monday, June 7th from 10:00 to 11:00