

# Unions

## EC 350: Labor Economics

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# 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?

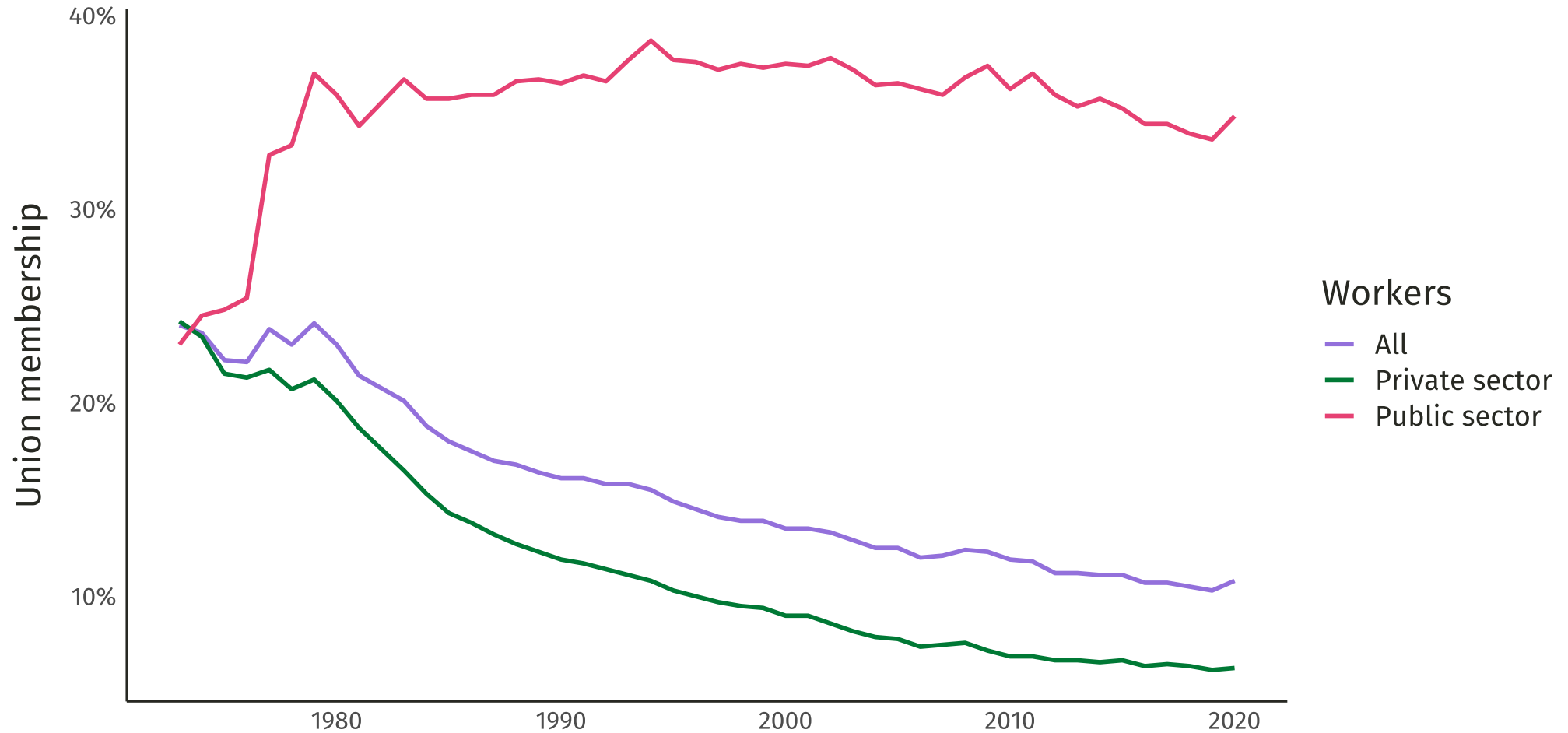
The result of negotiations between a union and an employer? A legally binding contract, known as a **collective bargaining agreement**.

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.<sup>†</sup>

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

<sup>†</sup> 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.<sup>†</sup>

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.

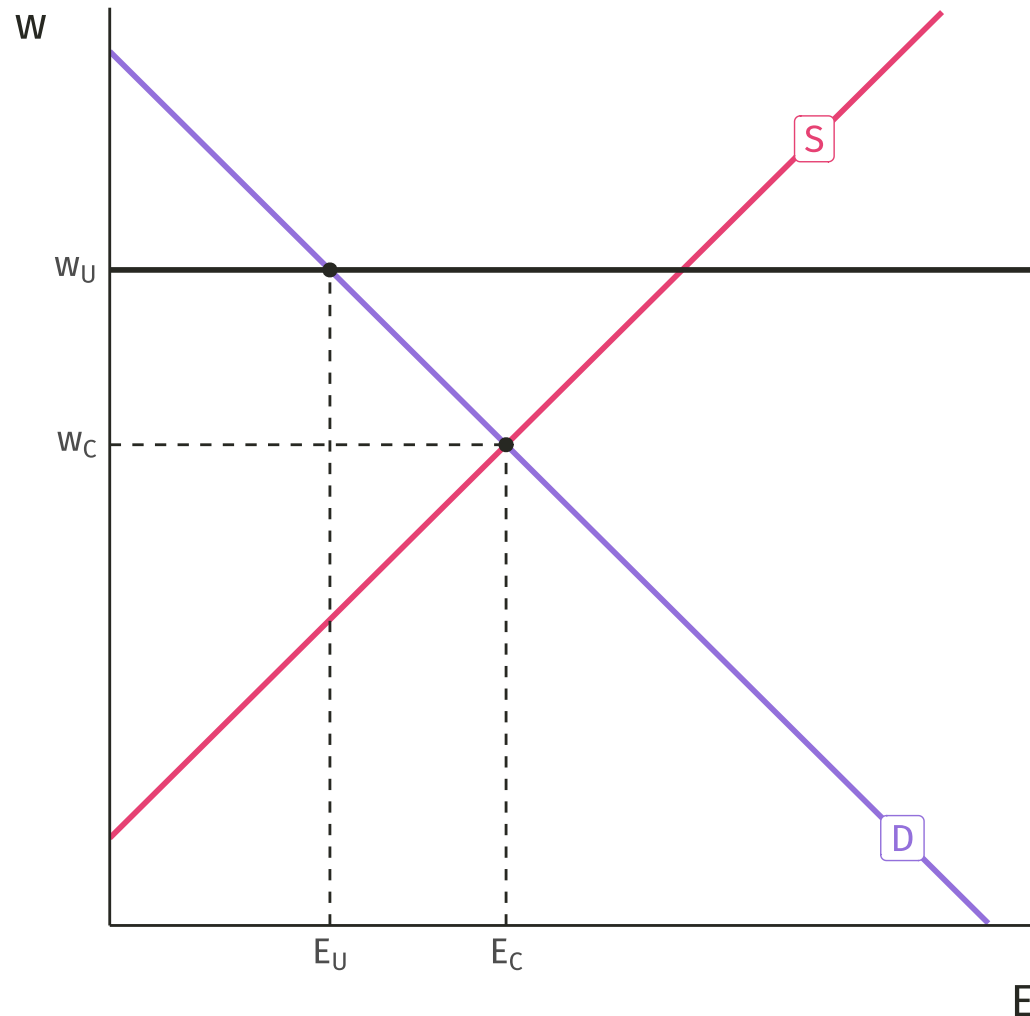
## The union's objective?

More.

— Samuel Gompers, founder of the American Federation of Labor

<sup>†</sup> *Janus v. AFSCME* eliminated the ability of public employee unions to collect "fair share" dues from non-members.

# Monopoly unions

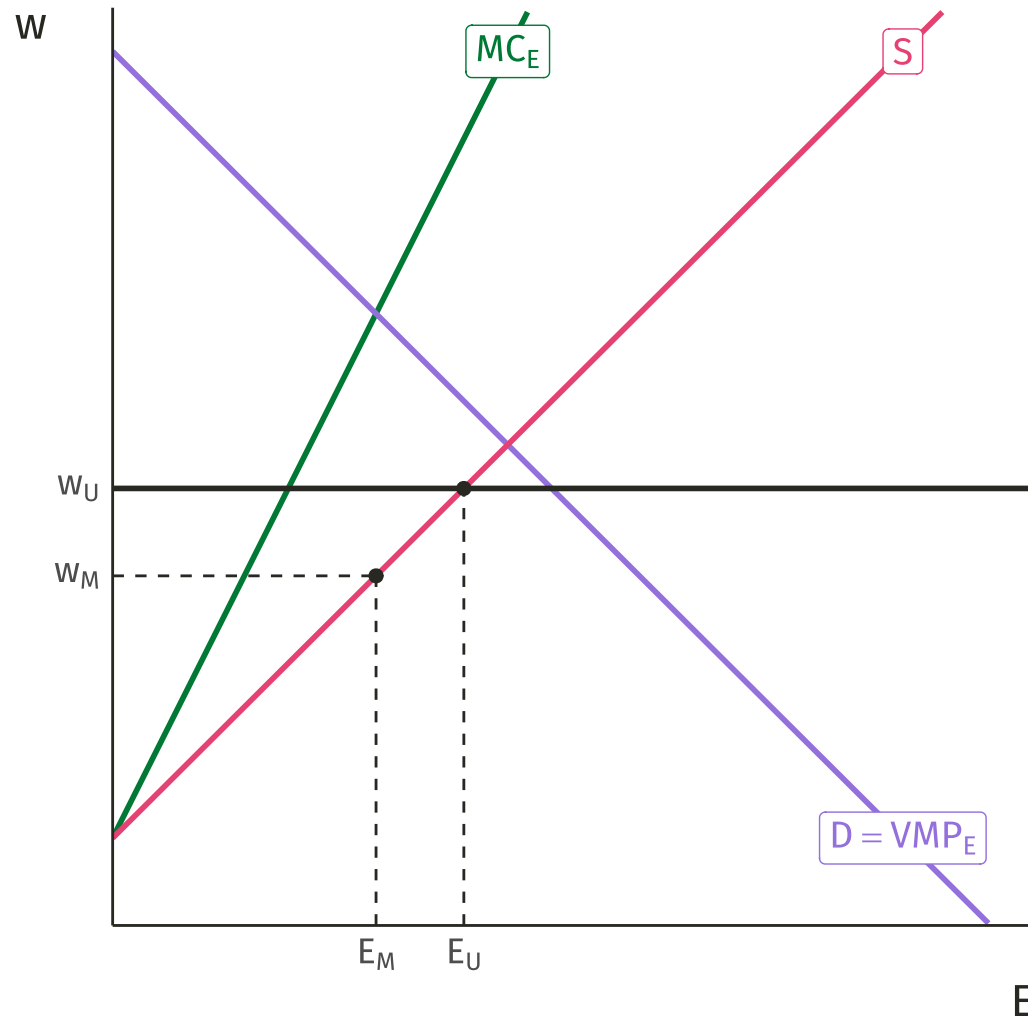


## Competitive employers

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 → inefficient.

# Monopoly unions



## 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.<sup>1</sup>
- Teacher unionization can decrease students' earnings in the long run.<sup>2</sup>
- Police unionization can increase the frequency of violent misconduct among officers.<sup>3</sup>

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!

<sup>1</sup> Caroline M. Hoxby (1996), [How Teachers' Unions Affect Education Production](#), *The Quarterly Journal of Economics*.

<sup>2</sup> Michael F. Lovenheim and Alexander Willén (2019), [The Long-Run Effects of Teacher Collective Bargaining](#), *American Economic Journal: Economic Policy*.

<sup>3</sup> Dharmapala et al. (2020), [Collective Bargaining Rights and Police Misconduct: Evidence from Florida](#), *The Journal of Law, Economics, and Organization*.

# Which side are you on?

## Discussion

**Q:** Should we embrace unionization efforts?

- What tradeoffs should we consider?

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

- Possible for unions to increase equity and efficiency! (e.g., in monopsonistic markets)
- Also possible for unions to decrease equity and efficiency!

# Housekeeping

**Problem Set 4** is due by **Friday, March 11th at 11:59pm**.

**Final Exam** is scheduled for **Tuesday, March 15th at 2:45pm** in MCK 229.

- In-person, closed-note, closed book
- Cumulative, but with more weight on post-midterm material
- Extra office hours:
  - Saturday from 12 to 2pm on Zoom
  - Monday from 11am to 1:30pm in PLC 522
- Study materials (all on Canvas)
  - **Problem Sets** (keys available)
  - **Midterm** (key available)
  - **Midterm Practice Problems** (key available)
  - **Final Exam Review Guide**