What Do Unions Do?

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To Martin Segal, Sylvia Freeman, and Herbert Freeman

To Frances Darman, Syvia Medoff, and Edward Medoff

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CONTENTS

ACKNOWLEDGMENTS ix

1. A New Portrait of U.S. Unionism 3
2. U.S. Industrial Relations: The Figures and the Settings 26
3. The Union Wage Effect 43
4. Fringe Determination Under Trade Unionism 61
5. Labor's Elite: The Effect of Unionism on Wage Inequality 78
6. The Exit-Voice Tradeoff 94
7. Adjustment to Business Cycles 111
8. "Respect Your Elders": The Role of Seniority 122
9. Are They Satisfied? 136
10. What Unionism Does to Nonorganized Labor 150
11. Unionism: Good or Bad for Productivity? 162
12. But Unionism Lowers Profits 181

13. Union Political Power: Myth or Reality? 191

14. Blemishes on the Two Faces 207

15. The Slow Strangulation of Private-Sector Unions 221

16. Conclusion and Implications 246

APPENDIX 253

NOTES 261

INDEX 285

What Do Unions Do?

CHAPTER 1

A New Portrait of U.S. Unionism

TRADE UNIONS are the principal institution of workers in modern capitalistic societies. 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?

On the one side, many economists view unions largely as monopolies in the labor market whose primary economic impact is to raise members' wages at the expense of unorganized labor and of the efficient functioning of the economy. These analysts stress the adverse effects of union work rules on productivity, the loss of employment in the organized sector due to union wage effects, and the consequent crowding of the nonunion sector with displaced workers. Consistent with this view, managers frequently complain about inflexible operations and work disruptions due to unions, while many social critics paint unions as socially unresponsive, elitist, non-democratic, and crime-riddled institutions.[1]

On the other side are those who believe unions have beneficial economic and political effects. Industrial relations experts have long stressed the ways in which collective bargaining can induce better management and higher productivity. These specialists note that unions can increase the development and retention of skills, provide information about what occurs on the shop floor, improve morale, and pressure management to be more efficient in its operations.[2] Unionists point out that in addition to increasing wages, unions provide workers

both with protection against arbitrary management decisions and with a voice at the work place and in the political arena. Even the managements of some organized companies have cited positive impacts of unions on their business. Consider, for example, this statement by Thomas Murphy, then Chairman of General Motors, on the fiftieth anniversary of the "Battle of the Running Bulls," one of the turning points in the struggle to organize the company by the United Auto Workers:

> The UAW may have introduced the sit-down strike to America, but in its relationship with GM management it has also helped introduce . . . mutually beneficial cooperation. . . . What comes to my mind is the progress we have made, by working together, in such directions as providing greater safety and health protection, in decreasing alcoholism and drug addiction, in improving the quality of work life.[3]

During the past twenty-five years, however, the negative view of trade unions has become increasingly dominant. While there are notable exceptions, many on both the right and left now doubt the social relevance and value of America's organized labor movement.[4] The widespread, one might say textbook, picture of U.S. unions today is of institutions adept at advancing their own interests at the public's expense. Economists concerned with quantifying the economic effects of collective bargaining have focused almost exclusively on the monopoly wage impact of unions, developing a large and valuable literature on the differences in wages paid to organized and unorganized labor.[5] Because monopolistic wage increases are socially harmful—in that they can be expected to induce both inefficiency and inequality—most economic studies, implicitly or explicitly, have judged unions as being a negative force in society.

When the research for this book was begun ten years ago, there was very little quantitative evidence concerning the impact of U.S. unionism on outcomes other than wages. Whereas adherents to the monopoly view of unions could cite numerous quantitative studies of union wage effects, those stressing the nonwage impact of unions were limited to citing specific cases and personal observation.

It was this shortage of statistical evidence concerning what unions do beyond raising wages that set the stage for our research. The recent availability of computerized data files, which contain vast amounts of

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information on thousands of individuals, establishments, and companies, offers the opportunity for quantitative analyses of many of the nonwage effects of trade unions to parallel the analyses of the wage effect of unions, and thus for broadening the forum of the debate on unionism. Our quantitative analyses and those of our colleagues elsewhere in the social sciences have, indeed, yielded new findings that, taken in conjunction with case-study evidence and the observations of industrial relations experts, provide a new picture of the impact of unions on the economy and on the broader society.[6]

This newly emergent picture of what unions do has important implications for the assessment of unions by labor and management and by the general public. The average unionized worker will see that unions generally "deliver the goods," by providing higher wages and benefits as well as a voice at the bargaining table and on the shop floor, but that some of "the goods" have a social cost. Many nonunion workers will recognize that, because of the threat of unionization, their wages and working conditions are better than they might have been, although generally not as good as they would be under collective bargaining, while others will find that their economic position is worse as a result of unionism. Employers of unionized workers will see that while unionism is associated with a lower rate of return on capital and less managerial flexibility, the extent to which a union is a liability or an asset depends crucially on how management responds to it. Nonunion employers will learn that while the benefits of being union-free generally exceed the costs of union avoidance, the former are often overstated and the latter are often understated. Finally, the general public will see that in the economic sphere, unions reduce wage inequality, increase industrial democracy, and often raise productivity, while in the political sphere, unions are an important voice for some of our society's weakest and most vulnerable groups, as well as for their own members.

The "Two Faces" Debate

The meaning of the results of our study of U.S. trade unionism can best be understood by recognizing that unions have two faces, each of which

leads to a different view of the institution: a *monopoly* face, associated with their monopolistic power to raise wages; and a *collective voice/institutional response* face, associated with their representation of organized workers within enterprises.

The Monopoly Face

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. The analysis of unions as monopolies focuses on the magnitude of the union markup of wages and traces the ways in which this markup causes firms to lower employment and output, thereby harming economic efficiency and altering the distribution of income.

Despite the attention economists give to the monopoly face of unionism, analysis of union monopoly behavior is much less fully developed than is the analysis of monopolistic enterprises. The principal reason is that unions are not the simple monopolies of economics textbooks but rather collective organizations of workers with diverse interests. Unlike the monopoly firm that sets prices to maximize profits, unions rarely set wages; they bargain over wages with employers. Unless one believes that the process of collective bargaining is a sham, the wages obtained by unions must be viewed as the joint responsibility of management and labor: the stronger management resistance to union wage goals is, the smaller union wage gains will be. Moreover, unions' ability to raise wages is limited by the fact that, all else the same, higher union wages will induce employers to reduce employment. Some members gain when wages are very high; others lose. Despite decades in which unions have been part of the economic scene, economists lack an accepted maximizing theory of union behavior that would predict the results of bargaining within the union over wage goals. Under some circumstances a union may seek a high wage at the cost of employment; under others, it may be more moderate in its wage demands to preserve jobs. This union concern is quite distinct from the worries of a monopolist, whose sole goal is to maximize profits, regardless of what happens to the number of units sold.[7]

Analysis of the monopoly face of unionism must confront the important issue of the source of union monopoly power. If unions operated

in perfectly competitive markets, and if *all* they did were to raise wages above competitive levels, unions would have a very difficult time surviving, for organized firms would necessarily have higher costs of production than other firms. One way unions could survive in such markets would be by organizing the entire industry or sector. If production costs are higher for all establishments in a sector, output and employment will be lower than they would be in the absence of unionism, but the sector will survive. Alternatively, if unions operate in markets where firms have different cost structures (for reasons unassociated with unionism), unions could survive by organizing firms with the lowest costs of production, raising wages at the expense of above-normal profits or "rent."[8] Perhaps most importantly, union monopoly power is likely to be closely related to the market power of the sector it organizes. When unions organize noncompetitive firms, they are able to raise wages without endangering the life of the firm. In sum, from the monopoly perspective, unions are likely to exist in industries where new firms have difficulty entering and/or where some enterprises have cost advantages over their competitors.

The fact that union monopoly power is likely to be important only when unionized firms either completely dominate a market or operate in a non-competitive market has created an interesting intellectual anomaly. Some economists of a strong free-enterprise bent, who one might expect to be strongly opposed to unions, are in fact rather indifferent. They believe that markets are competitive enough to give unions little or no power to extract monopoly wage gains.

The Collective Voice/Institutional Response Face

As Hirschman pointed out in his important book *Exit, Voice, and Loyalty,* societies have two basic mechanisms for dealing with social or economic problems.[9] The first is the classic market mechanism of exit-and-entry, in which individuals respond to a divergence between desired and actual social conditions by exercising freedom of choice or mobility: the dissatisfied consumer switches products; the diner whose soup is too salty seeks another restaurant; the unhappy couple divorces. In the labor market, exit is synonymous with quitting, while entry consists of new hires by the firm. By leaving less desirable for more desirable jobs, or by refusing bad jobs, individuals penalize the bad employer and reward the good, leading to an overall improvement in

the efficiency of the economic system. The basic theorem of neoclassical economics is that, under well-specified conditions, the exit and entry of persons (the hallmark of the free-market system) produces a situation in which no individual can be made better off without making someone worse off. Much economic analysis can be viewed as a detailed study of the implications of this kind of adjustment and of the extent to which it works out in real economies. As long as the exit-entry market mechanism is viewed as the *only* adjustment mechanism, institutions like unions are invariably seen as impediments to the optimal operation of the economy.

The second mode of adjustment is the political mechanism that Hirschman termed "voice." "Voice" refers to the use of direct communication to bring actual and desired conditions closer together. It means talking about problems: complaining to the store about a poor product rather than taking business elsewhere; telling the chef that the soup had too much salt; discussing marital problems rather than going directly to the divorce court. In a political context, "voice" refers to participation in the democratic process, through voting, discussion, bargaining, and the like.

The distinction between the two mechanisms is best illustrated by a specific situation—for instance, concern about the quality of schools in a given locality. The exit solution to poor schools would be to move to a different community or to enroll one's children in a private school, thereby "taking one's business elsewhere." The voice solution would involve political action to improve the school system through school-board elections, Parent Teacher Association meetings, and other channels of communication.

In the job market, voice means discussing with an employer conditions that ought to be changed, rather than quitting the job. In modern industrial economies, and particularly in large enterprises, a trade union is the vehicle for collective voice—that is, for providing workers as a group with a means of communicating with management.

Collective rather than individual bargaining with an employer is necessary for effective voice at the workplace for two reasons. First, many important aspects of an industrial setting are "public goods," that is, goods which will affect the well-being (negatively or positively) of every employee in such a way that one individual's partaking of the good does not preclude someone else from doing so. Safety conditions,

lighting, heating, the speed of the production line, the firm's formal grievance procedure, pension plan, and policies on matters such as layoffs, work-sharing, cyclical wage adjustment, and promotion all obviously affect the entire workforce in the same way that defense, sanitation, and fire protection affect the community at large. One of the most important economic theorems is that competitive markets will not provide enough of such goods; some form of collective decision making is needed. Without a collective organization, the incentive for the individual to take into account the effects of his or her actions on others, or to express his or her preferences, or to invest time and money in changing conditions, is likely to be too small to spur action. Why not "let Harry do it" and enjoy the benefits at no cost? This classic "free-rider" problem lies at the heart of the so-called "union-security" versus "right-to-work" debate.

A second reason why collective action is necessary is that workers who are tied to a firm are unlikely to reveal their true preferences to an employer, for fear the employer may fire them. In a world in which workers could find employment at the same wages immediately, the market would offer adequate protection for the individual, but that is not the world we live in. The danger of job loss makes expression of voice by an individual risky. Collective voice, by contrast, is protected both by the support of all workers and by the country's labor law: "It shall be an unfair labor practice for an employer by discrimination in regard to hire or tenure or employment or any term or condition of employment to encourage or discourage membership in any labor organization" (National Labor Relations Act, Section 7a of the 1935 law). Court interpretation of U.S. labor law makes a sharp distinction between collective and individual actions at the workplace: even nonunion workers acting in a concerted fashion are protected from managerial retaliation.[10] However, the nonunion protester acting alone and not seeking a union is "terminable at will" and must speak very carefully.

The collective nature of trade unionism fundamentally alters the operation of a labor market and, hence, the nature of the labor contract. In a nonunion setting, where exit-and-entry is the predominant form of adjustment, the signals and incentives to firms depend on the preferences of the "marginal" worker, the one who might leave because of (or be attracted by) small changes in the conditions of em-

ployment. The firm responds primarily to the needs of this marginal worker, who is generally young and marketable; the firm can to a considerable extent ignore the preferences of typically older, less marketable workers, who—for reasons of skill, knowledge, rights that cannot be readily transferred to other enterprises, as well as because of other costs associated with changing firms—are effectively immobile. In a unionized setting, by contrast, the union takes account of *all* workers in determining its demands at the bargaining table, so that the desires of workers who are highly unlikely to leave the enterprise are also represented. With respect to public goods at the workplace, the union can add up members' preferences in much the same manner as a government can add up voters' preferences for defense, police protection, and the like to determine social demand for them. In sum, because unions are political institutions with elected leaders, they are likely to respond to a different set of preferences from those that prevail in a competitive labor market.

In a modern economy, where workers tend to be attached to firms for many years, younger and older workers are likely to have different preferences (for instance, regarding pension or health insurance plans versus take-home pay, or layoffs ordered inversely to seniority versus cuts in wage growth or work sharing). The change from an approach that focuses only on workers at the coming-or-going margin to one that considers all employees is likely to lead to a very different labor contract. Under some conditions, the union contract—by taking account of all workers and by appropriately considering the sum of preferences for work conditions that are common to all workers—can be economically more efficient than the contract that would result in the absence of unions.

Finally, as a collective voice unions also fundamentally alter the social relations of the workplace. The essence of the employment relationship under capitalism—as stressed by such diverse analysts as Karl Marx, Herbert Simon, and Ronald Coase—is the payment of money by the employer to the employee in return for the employer's control over a certain amount of the employee's time. The employer seeks to use his employee's time in a way that maximizes the profitability of the enterprise. Even in the case of piece rates, employers monitor employee activity to assure the quality of output, prevent the wastage of materials, and protect the stock of capital. As a result, the way in

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