
Wages

The Union Dimension

from Chapter 3 of *The State of Working America 2006/2007*

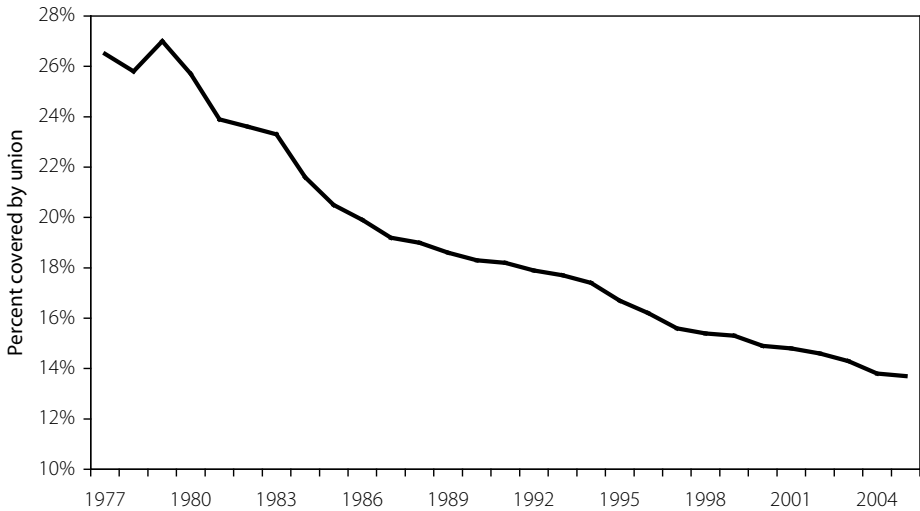
The percentage of the workforce represented by unions was stable in the 1970s but fell rapidly in the 1980s and continued to fall in the 1990s and the early 2000s, as shown in **Figure 3W**. This falling rate of unionization has lowered wages, not only because some workers no longer receive the higher union wage but also because there is less pressure on non-union employers to raise wages (a “spillover” or “threat effect” of unionism). There are also reasons to believe that union bargaining power has weakened, adding a qualitative shift to the quantitative decline. This erosion of bargaining power is partially related to a harsher economic context for unions because of trade pressures, the shift to services, and ongoing technological change. However, analysts have also pointed to other factors, such as employer militancy and changes in the application and administration of labor law, that have helped to weaken unions and their ability to raise wages.

Table 3.33 shows the union wage premium—the degree to which union wages exceed non-union wages—by type of pay (benefits or wages) for all workers (useful occupational breakdowns are no longer available) in 2005. The union premium is larger for total compensation (43.7%) than for wages alone (28.1%), reflecting the fact that unionized workers are provided insurance and pension benefits that are more than double those of non-union workers.

Table 3.34, using a different data source and methodology, presents another set of estimates of the union wage premium. Specifically, the premium is computed so as to reflect differences in hourly wages between union and non-union workers who are otherwise comparable in experience, education, region, industry, occupation, and marital status. The union premium is presented as the extra dollars per hour and the percentage higher wage earned by those covered by a collective bargaining contract. This methodology yields a lower but still sizable union premium of 14.7% overall—18.4% for men and 10.5% for women.

There are sizable differences in union wage premiums across demographic groups, with blacks and Hispanics having union premiums of 20.3% and 21.9%, respectively, far higher than the 13.1% union premium for whites. Consequently, unions raise the wages

FIGURE 3W Union coverage rate in the United States, 1977-2005*



* Covered by a collective bargaining agreement.
 Source: Hirsch and Macpherson (1997) and BLS.

TABLE 3.33 Union wage and benefit premium, March 2005 (2005 dollars)

	Hourly pay			
	Wages	Insurance	Pension	Compensation
All workers				
Union	\$24.10	\$3.63	\$2.39	\$33.17
Non-union	18.81	1.54	0.72	23.09
<i>Union premium</i>				
Dollars	\$5.29	\$2.09	\$1.67	\$10.08
Percent	28.1%	135.7%	231.9%	43.7%

Source: Authors' analysis of BLS data.

of minorities more than of whites (the wage effect of unionism on a group is calculated as the unionism rate times the union premium), helping to close racial/ethnic wage gaps. Hispanic and black men tend to reap the greatest wage advantage from unionism, though minority women have roughly double the union premiums that their white counterparts enjoy. Unionized Asians have a wage premium somewhat higher than that of whites, with Asian women obtaining a premium on par with that of other minority women.

TABLE 3.34 Union wage premium by demographic group, 2005 (2005 dollars)

Demographic group	Percent union*	Union premium**	
		Dollars	Percent
Total	14.3%	\$1.52	14.7%
Men	15.6	2.32	18.4
Women	12.9	0.97	10.5
Whites	14.2%	\$1.27	13.1%
Men	15.9	2.14	17.0
Women	12.4	0.61	8.2
Blacks	18.2%	\$2.31	20.3%
Men	19.9	2.46	22.0
Women	16.8	2.24	18.6
Hispanics	11.9%	\$3.02	21.9%
Men	12.1	4.16	26.8
Women	11.6	1.75	15.9
Asians	12.8%	\$2.02	16.7%
Men	12.6	1.72	16.0
Women	13.1	2.53	17.5
New immigrants (less than 10 years)			
Men		\$1.28	14.6%
Women		1.74	14.6
Other immigrants (more than 10 years)			
Men		\$2.25	17.8%
Women		0.91	10.2

* Union member or covered by a collective bargaining agreement.

** Regression-adjusted union premium advantage controlling for experience, education, region, industry, occupation, and marital status.

Source: Authors' analysis of CPS ORG.

Unionized immigrant workers obtain a premium comparable to other workers, whether they have immigrated relatively recently (within 10 years) or further back in time.

Table 3.35 provides information on the union premium for various non-wage dimensions of compensation related to health insurance, pensions, and paid time off. The second and third columns present the characteristics of compensation in union and non-union settings. The difference between the union and non-union compensation packages are presented in two ways, unadjusted (simply the difference between columns two and three) and adjusted (for differences in characteristics other than union status such as industry, occupation, and

TABLE 3.35 Union premiums for health, retirement, and paid leave

Benefit	Union	Non-union	Difference		Union premium
			Unadjusted	Adjusted*	
Health insurance					
Percent covered	83.5%	62.0%	21.5%	17.5%	28.2%
<i>Employer share (%)</i>					
Single	88.3%	81.8%	6.5%	9.1%	11.1%
Family	76.3%	64.9%	11.4%	10.1%	15.6%
Deductible (\$)	\$200	\$300	-\$100	-\$54	-18.0%
Retiree health coverage	76.6%	59.8%	16.7%	14.6%	24.4%
Pension					
Percent covered	71.9%	43.8%	28.1%	23.6%	53.9%
<i>Employer costs (per hour)</i>					
Defined benefit	—	—	—	\$0.39	36.1%
Defined contribution	—	—	—	-0.11	-17.7
Time off					
Vacation weeks	2.98	2.35	0.63	—	26.6%
Paid holiday/vacation (hours)	—	—	—	22.2	14.3

* Adjusted for establishment size, occupation, industry, and other factors.

Source: Buchmueller, DiNardo, and Valletta (2001) and Mishel et al. (2003).

establishment size). The last column presents the union premium, the percentage difference between union and non-union compensation, calculated using the “adjusted” difference.

These data show that a union premium exists in every dimension of the compensation package. Unionized workers are 28.2% more likely to be covered by employer-provided health insurance. Unionized employers also provide better health insurance, paying an 11.1% higher share of single-worker coverage and a 15.6% higher share of family coverage. Moreover, deductibles are \$54, or 18.0%, less for union workers. Finally, union workers are 24.4% more likely to receive health insurance coverage in their retirement.

Similarly, 71.9% of union workers have employer-provided pensions, compared to only 43.8% of non-union workers. Thus, union workers are 53.9% more likely to have pension coverage. Union employers spend 36.1% more on defined-benefit plans but 17.7% less on defined-contribution plans. As defined-benefit plans are preferable, as discussed earlier, these data indicate that union workers are more likely to have the better form of pension plans.

TABLE 3.36 Union impact on paid leave, pension, and health benefits

Benefit	Paid leave	Pension and retirement	Health insurance
Union impact on benefit incidence	3.2%	22.5%	18.3%
Union impact on benefit cost per hour			
Total impact	11.4%	56.0%	77.4%
From greater incidence	3.4	28.4	24.7
From better benefit	8.0	27.7	52.7

Source: Pierce (1999), Tables 4, 5, and 6.

Union workers also get more paid time off. Their three weeks of vacation amount to about three days (0.63 weeks) more than non-union workers receive. Including both vacations and holidays, union workers enjoy 14.3% more paid time off.

Table 3.36 provides a more refined analysis of the union wage premium by comparing the employer costs in unionized settings to non-union settings in comparable occupations and establishments (factories or offices). Specifically, the estimated union premium controls for the sector (public or private) in which the establishment is located, the establishment's size, full-time or part-time status of its employees, and its detailed industry and region. Unionized workers are 18.3% more likely to have health insurance, 22.5% more likely to have pension coverage, and 3.2% more likely to have paid leave. Unionized employers pay more for these benefits because the benefits they provide are better than those offered by non-union employers and because unionized employers are more likely to provide these benefits. For instance, unionized employers pay 77.4% more in health insurance costs per hour, 24.7% more because of the greater incidence and 52.7% because of the better benefit.

This analysis also shows that unionized employers pay 56.0% more per hour for pension plans, 28.4% from a greater incidence of providing pensions and 27.7% from providing better pensions. Similarly, unionized workers have 11.4% greater costs for their paid leave, mostly because of the more extensive paid leave (the 8.0% "better benefit" effect).

The effect of the erosion of unionization on the wages of a segment of the workforce depends on the degree to which deunionization has taken place and the degree to which the union wage premium among that segment of the workforce has declined. **Table 3.37** shows both the degree to which unionization and the union wage premium have declined by occupation and education level over the 1978-2005 period (1979 data were not available). These data, which are for men only, are used to calculate the effect of weakened unions (less representation and a weaker wage effect) over the period on the wages of particular groups and the effect of deunionization on occupation and education/wage differentials.

Union representation fell dramatically among blue-collar and high-school-educated male workers from 1978 to 2005. Among the high-school-graduate workforce, unionization fell from 37.9% in 1978 to 19.0% in 2005, or by about half. This decline obviously

TABLE 3.37 Effect of declining union power on male wage differentials, 1978-2005

		Percent union				Union effect*							
		1978	1989	2000	2005	1978	1989	2000	2005				
A. Unionization and effect of union decline on wages													
By occupation													
White collar	14.7%	12.1%	11.2%	10.7%	0.2%	0.0%	-0.2%	-0.2%					
Blue collar	43.1	28.9	23.1	19.2	11.5	6.7	4.3	3.8					
Difference	-28.4	-16.7	-11.9	-8.5	-11.3	-6.8	-4.5	-4.1					
By education													
College	14.3%	11.9%	13.1%	11.0%	0.9%	0.5%	0.9%	0.4%					
High school	37.9	25.5	20.4	19.0	8.2	5.5	3.1	3.3					
Difference	-23.6	-13.6	-7.4	-8.0	-7.3	-5.0	-2.3	-2.8					
B. Contribution of union decline on wage differentials													
		Change in wage differential**				Change in union effect				Deunionization contribution			
		1978-89	1989-2000	2000-05	1978-2005	1978-89	1989-2000	2000-05	1978-2005	1978-89	1989-2000	2000-05	1978-2005
White collar/blue collar	5.0%	4.2%	1.9%	11.1%	-4.6%	-2.3%	-0.5%	-7.3%	-90.5%	-55.2%	-23.5%	-65.3%	
College/high school	3.0	8.1	1.1	22.1	-2.3	-2.5	0.6	-4.4	-17.8	-30.6	53.6	-20.1	

* Premium estimated with simple human capital model plus industry and occupational controls. Union effect is premium times union coverage.

** Estimated with a simple human capital model.

Source: Authors' update of Freeman (1991).

weakened the effect of unions on the wages of both union and non-union high-school-educated workers. Because unionized high school graduates earned about 17% more than equivalent non-union workers (a premium that declined from roughly 22% in 1978, not shown in table), unionization raised the wage of the average high school graduate by 8.2% in 1978 (the “union effect”). Unions had a 0.9% impact on male college graduate wages in 1978, leaving the net effect of unions on narrowing the college/high school gap by 7.3 percentage points in that year. The decline in union representation from 1978 to 2005, however, reduced the union effect for high school male workers to just 3.3% in 2005 while hardly affecting college graduates; thus, unions closed the college/high school wage gap by only 2.8 percentage points in 2005. The lessened ability of unions to narrow this wage gap (from a 7.3% to a 2.8% narrowing effect) contributed to a 4.4 percentage-point rise in the college/high school wage differential from 1978 to 2005, an amount equal to 20.1% of the total rise in this wage gap. In other words, deunionization can explain a fifth of the growth in the college/high school wage gap among men between 1978 and 2005.

The weakening of unionism’s wage impact had an even larger effect on blue-collar workers and on the wage gap between blue-collar and white-collar workers. The 43.1% unionization rate among blue-collar workers in 1978 and their 26.6% union wage premium boosted blue-collar wages by 11.5%, thereby closing the blue-collar/white-collar wage gap by 11.3 percentage points in that year. The union impact on this differential declined as unionization and the union wage premium declined, such that unionism reduced the blue-collar/white-collar differential by 4.1 rather than 11.3 percentage points in 2005, a 7.2 percentage-point weakening. This lessened effect of unionism can account for 65% of the 11.1 percentage-point growth of the blue-collar/white-collar wage gap over the 1978-2005 period. It was primarily driven by the enormous decline of unionism among blue-collar men, from 43.1% in 1978 to just 19.2% in 2005. In that nearly 30-year period unionism among blue-collar workers lost much of its ability to set wage patterns.

Unions reduce wage inequalities because they raise wages more at the bottom and in the middle of the wage scale than at the top. Lower-wage, middle-wage, blue-collar, and high-school-educated workers are also more likely than high-wage, white-collar, and college-educated workers to be represented by unions. These two factors—the greater union representation and the larger union wage impact for low- and mid-wage workers—are key to unionization’s role in reducing wage inequalities.

The larger union wage premium for those with low wages, in lower-paid occupations, and with less education is shown in **Table 3.38**. For instance, the union wage premium for blue-collar workers in 1997, 23.3%, was far larger than the 2.2% union wage premium for white-collar workers. Likewise, the 1997 union wage premium for high school graduates, 20.8%, was much higher than the 5.1% premium for college graduates. The union wage premium for those with a high school degree or less, at 35.5%, is significantly greater than the 24.5% premium for all workers.

Table 3.38 presents a comprehensive picture of the impact of unions on employees by showing the union wage premiums by the wage distribution. The sample is split into five equal groups of workers from the lowest wage to the highest. The union wage premium was far greater among low-wage workers (27.9%) than among middle-wage (18.0%) or the

TABLE 3.38 Union wage premium for sub-groups

Benefit	Union wage premiums	Percent union
Occupation		
White collar (1997)	2.2%	11.6%
Blue collar (1997)	23.3	20.8
Education		
College (1997)	5.1%	10.4%
High school (1997)	20.8	23.6
All (1992, 1993, 1996)	24.5	n.a.
High school or less	35.5%	n.a.
Wage distribution (1989)		
Lowest fifth	27.9%	23.5%
Second fifth	16.2	30.3
Middle fifth	18.0	33.1
Fourth fifth	0.9	24.7
Top fifth	10.5	17.7

Source: Mishel et al. (2003), Table 2.3a; Gundersen (2003), Table 5.1 and Appendix C; and Card (1991).

highest-wage (10.5%) workers. The table also shows the greater unionization rates in the middle of the wage distribution and the greater unionization at the bottom than the top.

There are several ways that unionization's impact on wages goes beyond the workers covered by collective bargaining to affect non-union wages and labor practices. For example, in industries and occupations where a strong core of workplaces are unionized, non-union employers will frequently meet union standards or, at least, improve their compensation and labor practices beyond what they would have provided if there were no union presence. This dynamic is sometimes called the union threat effect, the degree to which non-union workers get paid more because their employers are trying to forestall unionization.

There is a more general mechanism (without any specific "threat") in which unions have affected non-union pay and practices: unions have set norms and established practices that become more generalized throughout the economy, thereby improving pay and working conditions for the entire workforce. This has been especially true for the 75% of workers who are not college educated. Many fringe benefits, such as pensions and health insurance, were first provided in the union sector and then became more generalized—though, as we have seen, not universal. Union grievance procedures, which provide due process in the workplace, have been adapted to many non-union workplaces. Union wage-setting, which has gained exposure through media coverage, has frequently established standards of what

TABLE 3.39 Impact of unions on average wages of high school graduates

	Share of workforce	Union wage impact	Union contribution to higher average wage
Non-union	75.0%	5.0%	3.8%
Union	25.0	20.0	5.0
Total	100.0	8.8	8.8

Source: Authors' analysis.

workers generally expect from their employers. Until the mid-1980s, in fact, many sectors of the economy followed the patterns set in collective bargaining agreements. As unions have weakened, especially in the manufacturing sector, their ability to set broader patterns has diminished. However, unions remain a source of innovation in work practices (e.g., training, worker participation) and in benefits (e.g., child care, work-time flexibility, sick leave).

The impact of unions on wage dynamics and the overall wage structure is not easily measurable. The only dimension that has been subject to quantification is the threat effect. The union effect on total non-union wages is nearly comparable to the effect of unions on total union wages. **Table 3.39** illustrates the union impact on union, non-union, and average wages among workers with a high school education. Assuming that unions have raised the wages of union workers by 20.0%, the average high school wage would be raised by 5.0% (25% of 20%). The total effect of unions on the average high school wage in this example is an 8.8% wage increase, 3.8 percentage points of which are due to the higher wages earned by non-union workers and 5.0 percentage points of which are due to the union wage premium enjoyed by unionized workers.

Two conclusions can be reached based on these studies. First, unions have a positive impact on the wages of non-union workers in industries and markets in which unions have a strong presence. Second, because the non-union sector is large, the union effect on the overall aggregate wage comes almost as much from the impact of unions on non-union workers as on union workers.

The decline of union coverage and power affects men more than women and adversely affects middle-wage men more than lower-wage men. Consequently, deunionization has its greatest impact on the growth of the 90/50 wage gap among men. In this light, it is not surprising that the period of rapid decline of union coverage from 1979 to 1984 (during a deep recession, and at a time that the manufacturing sector was battered by the trade deficit) was also one where the male 90/50 wage gap grew the most. Recall from Table 3.37 that male blue-collar unionization fell from 43.1% in 1978 to just 28.9% in 1989, contributing to the rapid growth of male wage inequality in the 1980s. The decline of unionization in the 1990s and 2000s put continued downward pressure on middle-wage men and contributed to the continued growth of the 90/50 wage gap between middle- and high-wage men.