Summary of Research Results

Declining union density in the United States and the United Kingdom has prompted some commentators to wonder whether unions matter anymore. In particular, there has been speculation that the intensification of competition since the 1980s, coupled with a diminution of union bargaining strength, has prevented unions from obtaining the sort of wage premium they achieved in the past. It is evident that unions are not as central to the economy as they used to be, but union decline is not apparent everywhere: many employers continue to contend with strong unions, raising important questions about union effects in those sectors. For the first time, this study shows what has actually happened to the premium in the US and the UK using consistent data and estimation techniques over time.

The union membership wage premium has been higher in the US than the UK in the last couple of decades. In both countries the premium was untrended in the years up to the mid-1990s, but it has fallen since then. Much of this is due to counter-cyclical movement and thus, as we might expect, the premium rose with unemployment in both countries in 2001 and 2002 after a number of years of decline. However, we also find clear evidence in the US of a secular decline in the premium. Even so, in 2002, the premium in the US economy was 16.5%, just a little below the 17.1% average for the period 1973-2002. In the private sector it was 1 percentage point above the average of 17.6% for the period. Why has the US premium remained so high in the face of intensifying product market competition? It may be the strongest unions that remain in place (a ‘batting average’ effect). Where they are still in situ unions do often show signs of real strength: in the US we find unionised workers are better able than non-unionised workers to resist downward wage pressures, as instanced by a counter-cyclical premium, a positive impact of import penetration on the premium and positive premium effects post-deregulation in some industries. Another contributory factor may be increased wage responsiveness in the non-union sector to labour spillovers from the union sector: recall that, in the private sector, union density has been in decline for decades, implying some employment spillover into the non-union sector. If wage setting in the non-union sector is more flexible than it used to be, this additional supply of labour to the non-union sector may depress non-union wages more so than in the past, keeping the premium higher than anticipated. In the UK, on the other hand, there are real questions as to whether
there is a significant union wage premium for workers at the beginning of the 21st Century. Standard Ordinary Least Squares estimates of the premium show no statistically significant premium for many types of worker. Analyses for 1998 using linked employer-employee data suggest that estimates of the premium in Britain based on individual or household survey data may even overstate the size of the premium, a finding supported by analyses using an alternative estimation technique (propensity score matching) instead of OLS.

In the US and the UK the premium has fallen for virtually all types of private sector employee, with those with the largest premiums at the outset suffering the greatest declines. These include more vulnerable workers such as the lower educated and women, raising questions about unions’ ability to bid up the wages of those with lower marginal productivity and those who may be earning below their marginal product as a result of discrimination or labour market segmentation. The picture was very different when we estimated the US premium at the level of industry, state and occupation. The premium went up in many industries and occupations, and down in others, but again there was regression to the mean.

US analyses for the public sector revealed quite a different picture. Here the premium rose a little and did so for nearly all types of worker.

What are the implications for trade unions? The size of the premium in the US might suggest that the benefits of membership, net of dues and other costs, remain sizeable. So why has density been declining in the private sector? One possibility is that the premium comes at the cost of union jobs. Unionised companies face greater competition from non-union employers at a time when increasing price competitiveness means employers are less able to pass the costs of the premium onto the consumer. Declining union density, by increasing employers’ opportunities to substitute non-union products for union products, fuelled this process. So too did rising import penetration: if imports are non-union goods, regardless of union density, they increase the opportunity for non-union competition. These pressures have increased the employment price of any union wage premium. A second possibility – not inconsistent with the first – is that the costs of membership have risen, most notably through increasing employer opposition to union organising (Kleiner, 2002). That opposition may even be fuelled, in part, by the size of the wage premium if employers
view it as the price tag attached to successful union organising campaigns. Either way, it is clear that unions’ relative success in the bargaining arena is not going to bring about a reversal in union fortunes. In the UK, the problem is that unions are struggling to procure any premium for members. At a time when the new cohort of employers has turned away from unions (Bryson, Gomez and Willman, 2004), raising the costs of employees joining unions, this dip in the premium means a further reduction in the net benefits of membership, making it increasingly difficult for unions to recruit new members.

(947 words)

References
