


Do Labor Unions Increase the Wages of Workers?

Full Length Text — Part: 6 Chapter: 11
Micro Only Text — Part: 4 Chapter: 8

To Accompany "Economics: Private and Public Choice 11th ed."
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Union Membership as a Share of the Work Force

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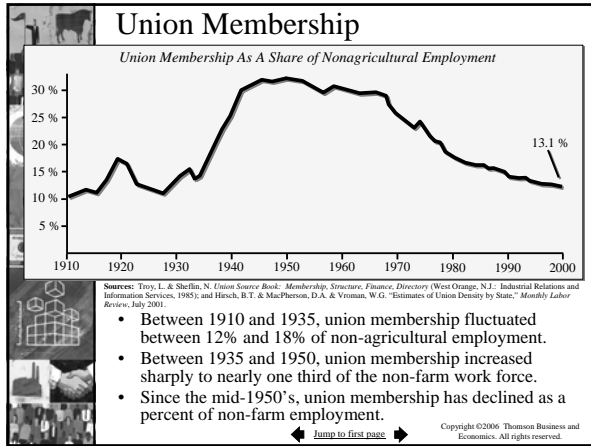


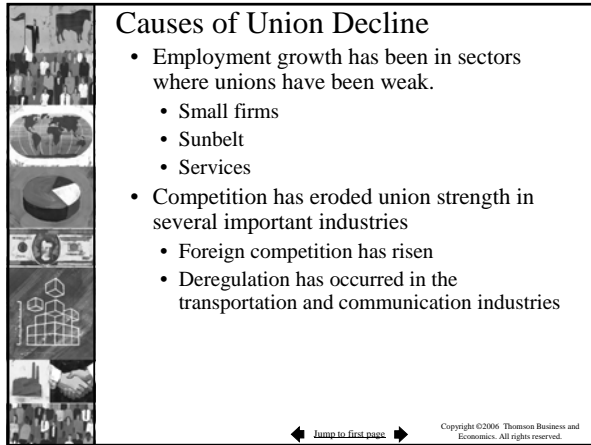
Union Membership Trend

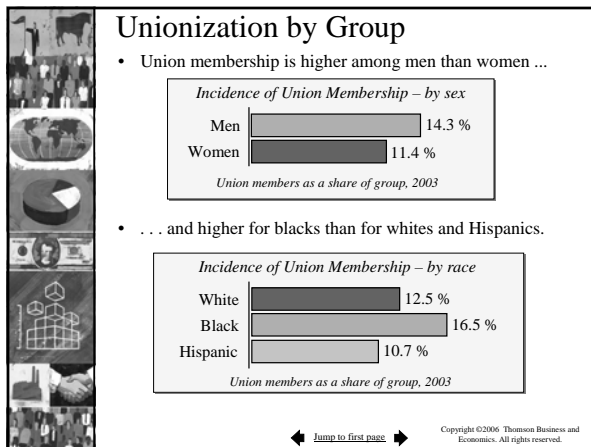
- Since the mid-1950s, union membership has declined.
- It declined slowly as a share of the labor force during 1955-1970
- It has fallen more rapidly during the last couple of decades.
 - In 2003 union members comprised only 13.1% of non-farm employment


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How Can Unions Influence Wages?

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How Can Unions Increase Wages for Members?

- Unions may increase the wages of their workers by:
 - Restricting the supply of competitive inputs, including nonunion workers.
 - Using bargaining power enforced by a strike or a threat of one.
 - Increasing the demand for the labor services of union members.

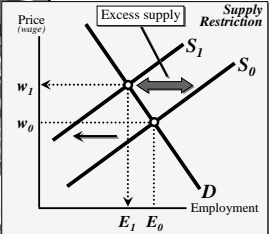
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Supply Restrictions & Bargaining Power

- The impact of higher wages obtained by restricting supply is similar to that obtained through simple bargaining power.
- Without a union restricting the supply of labor, equilibrium wage and employment levels are w_0 and E_0 respectively.
- After restricting the supply of labor, the new higher wage level w_1 results in both a lower level of employment E_1 and an excess supply of labor.



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Supply Restrictions & Bargaining Power

- Now let us consider the same market where bargaining power is used to establish a wage above equilibrium where the starting employment and wages are E_0 and w_0 respectively.
- After employing bargaining techniques, a new higher wage level w_1 with a lower level of employment, E_1 is present. Despite the different means, the same end results.

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What Gives a Union Strength?

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What Gives a Union Strength?

- If a union is to be strong, the demand for union labor must be inelastic.
 - This will enable the union to obtain large wage increases while suffering only modest reductions in employment.
- Demand for union labor is *inelastic* when:
 - There is an absence of good substitutes for the services of union employees.
 - The demand for the product produced by the union labor is highly inelastic.
 - The union labor input is a small share of the total cost of production.
 - The supply of available substitutes is inelastic.


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Wages of Union and Non-Union Employees

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Unions and Wages

- Studies suggest that the wage premium of union members relative to similar nonunion workers increased during the 1970s.
- Over the last two decades, the union-nonunion wage differential has been in the 14% to 19% range.

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Wage Premium of Union Workers

Wage Premium of Union Workers Relative to Similar Non-Union Workers


Period	Wage Premium
1973-1974	18%
1977-1978	22%
1983-1984	19%
1994-1995	19%
2002-2003	14%

Sources: Barry T. Hirsch and David A. Macpherson, *Union Membership and Earnings Data Book: Compilations from the Current Population Study, 2004 edition* (Washington D.C.: The Bureau of National Affairs, 2004).

- Most studies indicate that, for the past two decades, the wages of union workers have been between 14% and 19% higher than those of similar non-union workers.
- This union-nonunion wage differential is lower than it was during the late 1970's.

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Profits and Employment

- If unions increase the wages of unionized firms above the competitive market level, then profits will fall unless productivity rises.
 - Unions have tended to reduce profits.
 - Low profitability causes unionized firms to grow slowly or decline.
- The growth of productivity and employment tend to lag in the unionized sector.
 - Resources shift away from unionized operations and toward nonunion firms.

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Impact of Unions on Wages of all Workers

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Unions and Labor's Share

- Unions increase the wages of their members but there is no evidence that they have increased the wages of all workers.
 - The share of national income going to labor (*human capital rather than physical capital*) has been about the same through both expansions and declines in union membership as a share of the work force.
- The real wages of workers are a reflection of their productivity rather than the share of the work force that is unionized.

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Questions for Thought:

1. The Retail Clerks Union has organized approximately one-third of the department stores in a large metropolitan area. Do you think the union will be able to significantly increase the wages of its members? Explain.
2. "Unions provide the only protection available to working men and women. Without them, employers would be able to pay workers whatever they wanted."
-- Is this statement *true or false*?


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Questions for Thought:

3. Suppose that the United Automobile Workers (UAW) substantially increases wages in the auto industry. What impact will the higher wages in the auto industry have on:
 - a. wages of nonunion workers outside the automobile industry
 - b. the price of automobiles made by the UAW
 - c. demand for foreign-produced automobiles
 - d. profitability of U.S. automobile manufacturers


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Questions for Thought:

4. Even though the wage scale of union members is substantially greater than the minimum wage, unions have generally been at the forefront of those lobbying for higher minimum wages. Why do you think unions fight so hard for a higher minimum wage?

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**End
Special Topic 11**

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