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THE ADVANTAGES AND DISADVANTAGES of Unionization in the Workplace

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The Mackinac Center for Public Policy

The Advantages and Disadvantages of Unionization in the Workplace

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Preface*

To a worker who is considering whether to bring a union in his or her workplace, the conflicting messages from the proposed union and the employer may prove difficult to reconcile. This report is an attempt to put the controversy about a union's effect on the workplace into context. The focus will be on workers and how unions affect their jobs.

* An executive summary of this study appears at the back, on Page 45.

How Unionization Works: A Brief Explanation

As important as labor unions are in Michigan and many nearby states, the basics of labor law, how labor unions are formed and what role they play afterward are not widely understood. Unions as we know them now are products of state and federal statutes that establish a formal "recognition" process and give union officials fairly broad powers once the unions have been recognized. State laws control labor relations in state government, municipal governments, county governments and public school districts. In contrast, a federal law known as the National Labor Relations Act governs nearly all private-sector employees. The process for establishing a union is usually similar under both state and federal law, but there are some differences in terms of how disputes are settled.

The laws for union recognition are based on a majority vote of the workers in a given "bargaining unit" within the company or government agency. The road to recognition starts with advocates of unionization collecting signatures from workers at a particular company or facility; usually these signatures are written on cards.

By law, once a union has collected signatures from 30 percent of the workers, it can petition for an election, although the union will usually try to get signatures from a clear majority before taking any further steps. With evidence that a majority of workers desire a particular union's representation, that union can ask their employer to recognize it as the workers' representative. Sometimes the employer will grant that request, but not always. If the employer refuses to recognize the union voluntarily, the union may petition either state or federal authorities to hold a secret-ballot election so that workers can vote. If the employer recognizes the union voluntarily, usually no election will be held.

During the run-up to an election, both the union and employer have opportunities to make their cases to workers for supporting or opposing the union. The law also provides procedures for clarifying who in the workplace the union will represent. Floor managers, for instance, may be seen as part of management and excluded from union representation. The law also details how the election will be held.

If the union is recognized — either by the employer or after winning a majority of the votes cast during the secret-ballot election — it will represent all workers who are part of the bargaining unit. Technically, this does not mean that all workers in the bargaining unit are members of the union, but rather that all workers in the unit will be covered by the terms of any collective bargaining agreement and that workers with a grievance will be represented by the union.

During the bargaining of a contract for workers in a bargaining unit, the union and the employer are required to bargain in good faith, but this does not mean that the parties are required to agree to a contract. In the private sector, a union may call a strike instead. Alternatively, a company may “lock out” its employees if negotiations reach an impasse. In either event, workers will not be paid by their employers while the strike or lockout continues.

For government employees, on the other hand, strikes and lockouts are prohibited. State law provides a variety of methods, ranging from mediation to — in the case of public safety workers — binding arbitration in order to encourage or produce a contract. Employees are not paid by their employer during strikes or lockouts.

Once a union is recognized it will attempt to negotiate a contract (often referred to as a “collective bargaining agreement”) that governs wages, benefits and negotiated work rules for the bargaining unit. The work rules will affect how promotions, bonuses, layoffs, workplace grievances and workplace discipline will be decided.

Union dues vary from union to union, but they usually add up to several hundred dollars per year for every worker. In states that have not enacted “right-to-work” laws, the typical union contract has a clause that requires all workers either formally join the union and pay regular dues or pay an “agency fee” in place of regular dues if they do not wish to formally join.

Agency fees generally are the same amount as regular dues, although in principle, a worker should be able to have his or her agency fee reduced to cover only his or her share of the costs of representation: in particular, the costs related to bargaining, grievances and the administration of a contract. This right to opt out of supporting a union’s political and social activities is referred to as “Beck rights,” after a significant U.S. Supreme Court decision. Typically when a worker invokes his or her Beck rights, the union determines the proper fee, which a worker may then challenge in arbitration or in court.

In a right-to-work state, workers cannot be forced to join a union or to pay agency fees. Workers who object to union politics or who believe that the union is not working in their own best interests are free to withhold financial support. These workers are still covered by the union contract and must accept the union’s representation in grievances as well.

The law also provides for the removal, or “decertification,” of a union that has lost the support of a majority of workers in a bargaining unit. Much like the procedure for establishing a union, this process begins with dissatisfied workers collecting petition signatures from bargaining unit members. When signatures from 30 percent of workers are collected, workers may petition for a secret-ballot vote. If a majority of workers vote for decertification, the union no longer serves as their representative in dealings with management. A union may also disavow interest in representing a bargaining unit at its own discretion.

The Goal of This Study

Being certified gives unions tremendous influence in the workplace. Once a union is in place, its decisions will have important consequences for workers. The decision to unionize is not one that should be taken lightly.

The publisher of this study, the Mackinac Center for Public Policy, has at times been critical of labor unions and of the laws that have empowered them. Center analysts have even recommended instituting a right-to-work law in Michigan and ending collective bargaining the public sector. This is not the same as saying that unions are inherently wicked, that workers have not benefited from their services or that workers cannot benefit from union representation today. Our research has shown — and this paper further illustrates the point — that the value of unions can differ greatly over time, from industry to industry, company to company, workplace to workplace, department to department and worker to worker.

In the world of political rhetoric, unions are often reduced to pure virtue or total evil; either the brave defenders of the common man or scheming union bosses. In the real world there are a lot of gray areas, with room for individual preferences and judgments to come into play. Union representation, membership and support should be a matter of individual choice, based on an individual’s own assessment of his or her interests and conscience.

We hope to empower workers to make an enlightened decision, based on a realistic view of what unions can and cannot do for them. At the same time, we hope to encourage everyone to respect the choices of others, with the sober understanding that two workers, often standing right next to each other and doing the exact same job, may nonetheless have very different interests and very different opinions about the value of a union.

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Introduction

A union certification election is a defining event for a worker. Unionization will fundamentally change nearly every aspect of an employee's job, from wages and benefits to promotions, job security, work procedures and workplace disputes. Since a union significantly alters a workplace, and since union certification requires only a bare majority — one vote above 50 percent of the workers who complete a ballot — it is in a worker's best interest to cast an informed vote.

Yet it is difficult for a worker to obtain balanced information. Prior to a union election, a worker may be bombarded with messages both from union organizers and from an employer hostile to unionization. These messages will likely be loud and distorted. As a result, workers may find it hard to separate fact from fiction.

The goal of this study is to present a clear, evenhanded account of how unionization affects a workplace, so nonunion workers can cast an informed ballot if they choose to unionize. The aim is not to tell workers how they should vote. Hence, this study will present the facts and leave it to the individual worker to decide how to use them.

This review of the advantages and disadvantages of unionization focuses primarily on industrial unions covered by the National Labor Relations Act — broadly speaking, blue-collar economic sectors that are traditionally areas of union strength. There is also a discussion of unions in government, a field in which unionization has grown.

In contrast, the study says little about white-collar unionism, except implicitly in connection to the public sector. And despite the emphasis on blue-collar work, this study does not discuss “craft unions” like those in the building industry. These unions are governed by different rules and differ in their dynamics from traditional industrial unions, since craft unions are not linked to a single specific company. These differences call for a separate discussion that is not presented here.

In analyzing unionization, this study discusses the differences between union and nonunion employment on a number of key measures:

- Compensation, including both wages and fringe benefits
- Employment levels
- The likelihood and consequences of a strike
- Grievance procedures
- Workplace rules.

Hopefully, after reading this discussion, workers will feel confident that they are making the right choice at the workplace ballot box.

Compensation

Without question, improving wages and benefits is the biggest recruiting tool unions use to convince workers to unionize. For example, in an essay posted on the AFL-CIO website and titled “Why You Need a Union,” four-fifths of the material is devoted to arguing that unions will increase workers’ wages and benefits. Only the final sentence states that unions “give workers a say in improving their jobs.”¹

Not surprisingly, better compensation is an important motivator. Out of the nine studies examined by Harvard economists Richard Freeman and James Medoff in their influential 1984 book “What Do Unions Do?,” five studies claimed that workers cited “economic issues” as the most important factor when voting to unionize. The other three studies cited “worker dissatisfaction,” which certainly could include economic issues.²

Wages

The AFL-CIO claims that union wages are 30 percent higher than nonunion wages on average. The AFL-CIO implies that this 30 percent wage premium is solely the result of unionization.³

While we do find that unionization is associated with higher wages, the actual wage premium — that is, the wage benefit due specifically to unionization — for unionized workers is more modest. Wages are influenced by many factors, of which unionization is only one, and a wage premium may come about for other reasons. For example, if larger companies pay a higher wage than smaller companies, and if larger companies are more likely than smaller companies to be unionized, then these unionized companies will have a higher wage than the nonunion companies. However, this higher wage will come about because of company size, not bargaining status.

The same may be true for job type. If manufacturing companies pay a higher wage than nonmanufacturing companies, and if manufacturing companies are more likely to be unionized, then these unionized companies will also have a higher wage than the nonunion companies. However, the higher wage will come about because of job type, not bargaining status.

Yet economists widely agree that unionized workers do earn a wage premium compared to nonunion workers because of their bargaining status. In other words, if two companies are identical in all respects except bargaining status — one company is unionized; one company is not — the employees in the unionized company will probably earn a higher wage. According to economists David Blanchflower of Dartmouth College and Alex Bryson of the Policy Studies Institute and Centre for Economic Performance, the average union wage premium for all unionized workers, both private and public, was 17.1 percent

1 “Why You Need a Union,” (AFL-CIO, 2009), <http://goo.gl/CHwTd> (accessed Dec. 13, 2011).

2 Richard B. Freeman and James L. Medoff, *What Do Unions Do?* (New York: Basic Books, 1984), 147, Table 9.6.

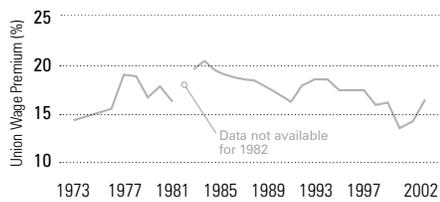
3 “Why You Need a Union,” (AFL-CIO, 2009), <http://goo.gl/CHwTd> (accessed Dec. 13, 2011).

between 1973 and 2001.* This means that a union worker could expect to earn a wage 17.1 percent higher than a nonunion worker in the same job.

However, Blanchflower and Bryson’s research also shows that the union wage premium has not been constant over time (see Graphic 1). The wage premium was highest in the late 1970s and mid-1980s, when it was close to 20 percent. The wage premium has exhibited a long-run decline, particularly since 1983, with short-run cyclical fluctuations above and below the long-term trend. The union wage premium hit a low of 13.4 percent in 2000, but rebounded to 16.5 percent in 2002. The short-run fluctuations, particularly when the wage premium increases, are due to differences in how union and nonunion companies deal with economic downturns. This will be more fully discussed on Pages 6 and 7.

* The union wage premium in the private sector was 17.6 percent during that period. See David G. Blanchflower and Alex Bryson, “What Effect Do Unions Have on Wages Now and Would Freeman and Medoff Be Surprised?,” *Journal of Labor Research* 25, Summer 2004: 393, Table 4, <http://goo.gl/tO6Z5> (accessed Oct. 19, 2011).

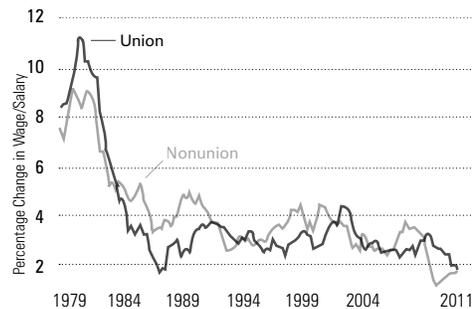
Graphic 1: Union Wage Premium, 1973-2002



Source: Blanchflower and Bryson (2004), Page 393, Table 4.

The general, long-term decrease in the union wage premium has occurred because nonunion wages and total compensation have grown more rapidly than union wages and total compensation. As seen in Graphic 2, nonunion wages have generally risen faster than union wages between 1979 and 2011, with the exceptions of the early 1980s, early 1990s and early 2000s.

Graphic 2: Annual Union and Nonunion Wage and Salary Percentage Changes for Private-Sector Workers, 1979-2011



Source: Bureau of Labor Statistics Employment Cost Index. Wage and salary changes calculated for the 12-month periods ending March, June, September and December. Data for pre-2001 no longer available online.

This erosion of the union wage premium has been fairly broad, at least in the private sector, according to calculations by Blanchflower and Bryson.⁴ From Graphic 3, we can see that for all groups of private-sector workers, the union wage premium has decreased between the period 1974-1979 and the period 1996-2001,[†] with

† Blanchflower and Bryson control for nonunionization factors that influence wages. These factors include business cycles, workers’ demographics, and the state and industry in which workers are employed.

4 Blanchflower and Bryson, “What Effect Do Unions Have on Wages Now and Would Freeman and Medoff Be Surprised?,” *Journal of Labor Research* 25, Summer 2004: 389, <http://goo.gl/tO6Z5> (accessed Oct. 19, 2011).

the exception of four sets of workers: those on the job for zero to three years (no change in the premium), those on the job for 11 to 15 years (a 1 percentage point increase in the premium), high school graduates (a 2 percentage point increase in the premium) and workers age 45-54 (a 1 percentage point increase in the premium).⁵ Women and young workers saw a marked decrease in their wage premium over time, with the union wage premium for women falling from 22 percent to 13 percent, and the premium for workers of ages 16 to 24 falling from 32 percent to 19 percent. Even construction workers saw a decrease in their union premium, from 49 percent to 39 percent, illustrating the result of increased competition from nonunion contractors, as union membership rates in the construction industry fell from 36 percent in 1977 to 19 percent in 2001.⁶ Overall, the union wage premium for private-sector workers fell from 21 percent to 17 percent. Thus, it appears that private-sector unions have had difficulty maintaining wage gains relative to nonunion employees.

Graphic 3 also illustrates the union wage premiums for public-sector employees during the periods 1983-1988 and 1996-2001. In this case, the union wage premium has increased on average, from 13 percent to 15 percent and has remained relatively stable for most groups. Only young workers and workers without a high school degree saw a large decrease — 5 percentage points and 8 percentage points, respectively. High school graduates, women, and workers with one to three years of college also experienced a decrease in the wage premium. The different occupations in the public sector saw an increase.⁷

This general increase in the public-sector union wage premium is perhaps unsurprising. In the public sector, union bargaining power is strengthened by the absence of the direct nonunion competition that is present in the private sector.

5 Ibid., 391.

6 Ibid., Table 2.

7 Ibid., Table 3.

Graphic 3: Private- and Public-Sector Wage Premiums, Various Years (Percent)

	Private Sector		Public Sector		
	1974-1979	1996-2001	1983-1988	1996-2001	
Men	19	17	8	10	
Women	22	13	17	16	
Ages 16-24	32	19	28	23	
Ages 25-44	17	16	13	15	
Ages 45-54	13	14	8	11	
Ages > 54	19	16	13	14	
Northeast	14	11	17	17	
Central	20	15	16	16	
South	24	19	10	12	
West	23	22	10	13	
< High School	33	26	26	18	
High School	19	21	15	13	
College (1-3 yrs)	17	15	13	11	
College (4+ yrs)	4	3	8	11	
Whites	21	16	13	14	
Nonwhite	22	19	15	16	
Tenure (0-3yrs)	20	20	•	•	
Tenure (4-10yrs)	16	15	•	•	
Tenure (11-15yrs)	10	11	•	•	
Tenure (16+ yrs)	17	8	•	•	
Manual	30	21	18	18	
Nonmanual	15	4	13	14	
Manufacturing	16	10	Registered Nurses	5	6
Construction	49	39	Teachers	15	21
Services	34	16	Social Workers	12	12
			Lawyers	5	17
			Firefighters	15	19
			Police and Correction Officers	16	18
All Private	21	17	All Public	13	15
			Federal	2	8*
			State	9	10
			Local	16	20

Source: Blanchflower and Bryson, Page 390, Table 3. • Indicates data not available.

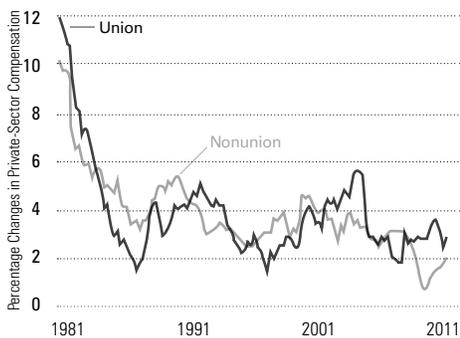
As we will see when we look at total compensation, union jobs would appear to offer better fringe benefits than nonunion jobs, but this does not reverse the trend toward a smaller union compensation premium for private-sector workers. Graphic 4 illustrates that total compensation, including the value of fringe benefits, has generally increased more rapidly for nonunion jobs than for union jobs from 1981 to 2008 in the private sector — again with the exception of the early 1980s, early 1990s and early 2000s.^{†, 8} Thus, joining a union is likely to give a private-sector worker a wage bump, but that bump is probably not as large as it once might have been, and the worker’s wage and benefits are likely to grow more slowly over time than those of a private-sector nonunion worker.

* This appears to include only civilian employment, although Blanchflower and Bryson do not specify. They do comment: “Nearly all federal workers have wages set by civil service pay schedules, but these are not set by collective bargaining in any meaningful sense. Even with workers in the exact same federal job, one will say they are a union member and the other will say they are not. Thus the low union premium for federal workers may not be very meaningful.” Blanchflower and Bryson, “What Effect Do Unions Have on Wages Now and Would Freeman and Medoff Be Surprised?,” *Journal of Labor Research* 25, Summer 2004: 411, n. 13, <http://goo.gl/tO6ZS> (accessed Oct. 19, 2011).

† In some instances, as in the early 2000s, there can be a slight delay between an onset of a recession and a change in the union premium. Employment often lags the business cycle, especially during recoveries.

8 “Employment Cost Trends,” (U.S. Bureau of Labor Statistics, 2011), <http://goo.gl/BWRn8> (accessed Oct. 26, 2011). Data were compiled by using the one-screen data search and selecting “Total compensation,” “Private industry,” “12-month percent change” and (under “Select one or more Series”) “All union workers” and “All nonunion workers.”

Graphic 4: Annual Union and Nonunion Total Compensation Percentage Changes for Private-Sector Workers, 1981-2011.



Source: Bureau of Labor Statistics Employment Cost Index. Total compensation changes calculated for the 12-month periods ending March, June, September and December, 1981-2011. Data for pre-2001 no longer available online.

It is not a coincidence that union wages and benefits grew faster than nonunion wages and benefits — a reversal of the overall trend — during the early 1980s, early 1990s, and early 2000s. In these years, the economy was in recession, and union and nonunion companies deal with recessions differently.* Nonunion companies tend to react to slower sales by cutting or freezing wages and hours, while union companies tend to react to slower sales by placing some workers on temporary layoff and protecting wages and hours for other workers. Freeman and Medoff found that in the mid-1960s to early 1970s, layoff rates were two to four times higher in union companies than in nonunion companies.⁹ Likewise, U.S. Census Bureau Data from 2002 through 2008 finds that on average, 2.0 percent of union workers are on temporary layoff, compared to 0.86 percent of nonunion workers.

Given union seniority rules, workers placed on temporary layoff are likely to be younger workers and other workers with relatively few years of service at the company. Graphic 5, based on U.S. Census Bureau data from 2002 through 2008, illustrates that senior union members are less likely to be placed on temporary layoff than younger members.¹⁰ Additionally, all male union workers are more likely to be placed on temporary layoff than their male nonunion counterparts.¹¹

Additionally, if a company or government agency gets into financial trouble, younger workers are more likely to be permanently laid off if they are unionized. As illustrated in Graphic 5, young male union workers are almost one-and-a-half times as likely to be placed on permanent layoff as young male nonunion workers, despite senior male union workers being about half as likely to be placed on permanent layoff as senior male nonunion workers. Likewise, Graphic 5 shows that though both young male workers and young adult male workers are more likely than mature male workers to be placed on permanent layoff in both the union and nonunion workplace, the discrepancy between mature and younger worker layoff rates is larger in the union setting. This difference between how

* The United States was in a recession in 1980-1982, 1990-1991, 2001, and December 2007-June 2009. Notice in Graphic 2 and Graphic 4 that in 2008, the growth of union wages and total compensation surpassed that of nonunion wages and total compensation.

9 Freeman and Medoff, *What Do Unions Do?* (New York: Basic Books, 1984), 115, Table 7-2.

10 Author's calculations based on "U.S. Census Bureau Current Population Survey Displaced Worker/Job Tenure Supplement (2002-2008)," (2011) <http://goo.gl/Et8Jj> (accessed Dec. 8, 2011).

11 Ibid.

union and nonunion shops handle economic slowdowns is beneficial to the senior worker and harmful to the junior worker.*

Graphic 5: Percentage of Union and Nonunion Male Workers on Layoff, by Age Group

	Union				Nonunion			
	Young Men (19-24)	Young Adult Men (25-34)	Mature Men (35-54)	Senior Men (55-65)	Young Men (19-24)	Young Adult Men (25-34)	Mature Men (35-54)	Senior Men (55-65)
Temporary Layoff	3.90	4.49	4.54	2.79	1.96	1.88	1.26	0.71
Permanent Layoff	13.6	9.12	6.49	2.93	9.17	10.0	7.82	5.53

Source: Author's calculations based on the U.S. Census Bureau Current Population Survey Displaced Worker/Job Tenure Supplement, 2002-2010.

Recessions are typically short-lived and sporadic. No post-World War II recession has lasted longer than two years.¹² The average recession lasts 11 months, and the average time between recessions is 59 months.¹³ As a result, union wages grow faster than nonunion wages only for short, intermittent intervals, and the overall trend has been for the union wage and benefit premium to shrink.

The union wage premium is not constant across workers, job type and geographical location. As seen from Graphic 3, the private-sector union premium tends to be higher for men than for women; higher for the youngest workers than for the oldest; higher in the West and South than in the Northeast and Central states; higher for those without a high school diploma; higher for workers with fewer years on the job; and higher for manual laborers. Workers with a college degree receive a smaller 3 percent union wage premium, and nonmanual laborers receive a 4 percent premium. Hence, unionization may bring some workers significant wage increases, while others see much more modest gains. Workers should evaluate their jobs and companies and draw their own conclusions about what effect a union will have on their wages.

Workers should consider the effects of unionization on other forms of compensation as well. Employers often provide bonuses based on performance, profitability or other factors.

According to 2006 data from the Bureau of Labor Statistics, 47 percent of nonunion workers have access to bonuses, whereas only 39 percent of union workers do. The reason for this difference in bonuses is that unions frequently dislike the discretion involved in bonus payments.¹⁴ Additionally, the decision to award a bonus to a private-sector employee is a mandatory subject of bargaining under federal law, meaning the employer must negotiate with the union the terms under which bonuses are awarded.¹⁵ This can make a bonus system extremely

* Freeman and Medoff suggest that the differences in layoff patterns between union and nonunion companies may lie in the influence senior workers have in a union: "Why do unionized workers and firms choose temporary layoffs rather than reductions in wages or hours? Perhaps the most important reason is that temporary layoffs usually mean laying off junior workers, not the senior employees who have a greater influence on union policies than they would have on the policies of a nonunion firm. Faced with the choice of reduced earnings through fewer hours or lower wages or the unemployment of a junior worker, the senior worker will select the policy that is personally most beneficial. Except in cases where mass layoffs are threatened, this will lead him or her to prefer layoffs to other forms of adjustment." Freeman and Medoff, *What Do Unions Do?* (New York: Basic Books, 1984), 115.

12 "US Business Cycle Expansions and Contractions," (National Bureau of Economic Research, Sept. 20, 2010), <http://goo.gl/rLYEB> (accessed Dec. 19, 2011).

13 Ibid.

14 Freeman and Medoff, *What Do Unions Do?* (New York: Basic Books, 1984), 65.

15 *Southern States Distrib.*, 264 NLRB 1, 111 LRRM 1255 (1982); *Goren Printing Co.*, 280 NLRB 1120, 123 LRRM 1276 (1986); *Storall Mfg. Co.*, 275 NLRB 220, 119 LRRM 1132 (1985), *enf. without opinion*, 786 F.2d 1169, 122 LRRM 2832 (8th Cir. 1986); and *NLRB v. Niles-Bement-Pond Co.*, 199 F.2d 713, 31 LRRM 2057 (2nd Cir. 1952).

cumbersome to implement. If the bonus system is based on profitability, the union may require the employer to provide confidential, internal financial information, which employers are hesitant to do.¹⁶

Workers should also bear in mind that a collectively bargained contract may be renegotiated before the contract expires. “Concession bargaining,” where a union agrees to wage and benefit givebacks while a contract is still in force, has recently occurred at the “Big Three” automotive companies, and it is not uncommon, especially during recessions. In a 1983 study prepared for The Conference Board, a nonprofit organization that studies business management and the marketplace, Audrey Freedman found that one-third of the largest bargaining units surveyed reported early contract openings and concessions.¹⁷ Of these cases, 51 percent of the companies wanted a wage freeze or delay in a scheduled increase; 29 percent wanted explicitly to cut wages; 57 percent wanted a reduction in fringe benefits; and 30 percent wanted a two-tiered wage system, where new hires would be placed on a lower wage scale than current employees.¹⁸

According to the report, companies were largely successful in getting concessions from the union. Ninety-three percent of companies wanting to avert a cost-of-living increase were able to do so. Additionally, 65 percent of companies seeking to modify the cost-of-living adjustment were able to, and 48 percent seeking to eliminate a cost-of-living adjustment altogether were able to.¹⁹ In fact, according to the Bureau of Labor Statistics, only 22 percent of private-sector workers covered by a collective bargaining contract in 1995 were entitled to cost-of-living adjustments, down from nearly 60 percent in the mid-1970s to mid-1980s.²⁰ Part of this decline can be explained by union concessions.*

Additionally, Freedman found that during concession bargaining, 80 percent of companies seeking to implement a two-tiered wage system for new hires were able to; 79 percent of companies seeking to reduce paid time off were able to; 76 percent of companies seeking to change work rules were able to; 66 percent of companies seeking to reduce fringe benefits were able to; 66 percent of companies seeking to reduce wages were able to; and 60 percent of companies seeking to delay or freeze scheduled wage increases were able to.²¹ Thus, there is no guarantee that union compensation gains will not be lost through concession bargaining when the company or the economy weaken.

* Another part of the decline was due to a natural reduction in the union demand for cost-of-living adjustments as the runaway inflation of the 1970s was tamed in the following decade.

16 See generally “Union’s Rights to Company Information,” by Dennard and Tandy, John M. Olin Institute for Employment Practice and Policy, George Mason University, Labor Relations and Public Policies Series No. 21 (2001); and The Labor Lawyer, American Bar Association, “The Disclosure of Profits in the Normal Course of Collective Bargaining,” 47-74.

17 Audrey Freedman, “The New Look in Wage Policy and Employee Relations,” (New York: The Conference Board, 1985), 11.

18 Ibid., 12, Table 4.

19 Ibid.

20 Janice M. Devine, “Cost-of-Living Clauses: Trends and Current Characteristics,” *Compensation and Working Conditions* Winter (1996): 24 <http://goo.gl/mbnrV> (accessed July 31, 2009).

21 Freedman, “The New Look in Wage Policy and Employee Relations,” (New York: The Conference Board, 1985), 12, Table 4.

Fringe Benefits

According to the Bureau of Labor Statistics Office of Compensation and Working Conditions, in September 2011, union workers received 39.3 percent of their total compensation in the form of fringe benefits (paid leave, insurance, pensions, etc.).²² Nonunion workers received 28.0 percent of their total compensation in the form of fringe benefits.²³ Which level of benefits is “better” will depend on an individual worker’s tastes and preferences.

Graphic 6 presents data regarding fringe benefits for both union and nonunion workers. As seen from the graphic, a larger percentage of union workers receive employer-provided benefits in every category except access to fitness centers and long-term disability. Thus, although a large percentage of nonunion workers receive employer-provided benefits, such as paid time off, union workers are more likely to do so.

Union members are much more likely to participate in retirement benefits. Graphic 6 shows that the difference comes from union workers being more likely to participate in defined-benefit plans (traditional pension plans that promise to pay a predefined benefit on a regular basis). Only about 20 percent of companies offer such a pension plan anymore, however.²⁴ Those that do tend to be older unionized companies.²⁵ As we will see, defined-benefit programs involve risks for employees, just as other types of pension plans do. No pension system is risk-free. A majority of companies currently offer defined-contribution plans (pension plans where the company’s contribution, rather than the benefit, is predefined).²⁶ As seen from Graphic 6, nonunion and union workers are equally likely to participate in a defined-contribution plan.

The graphic also indicates that health care benefits are one reason why fringe benefits are more generous — and more expensive — for union than for nonunion workers. Union workers are much more likely to participate in health care insurance programs — medical, dental and vision — than nonunion workers. Nevertheless, it is important to recognize the difference between participating in such programs and having access to them. The Bureau of Labor Statistics figures do not measure the percentage of nonunion workers who have access to health benefits but choose not to participate. For instance, workers may prefer a higher cash wage to vision benefits, and their employer may give them a choice between the two. If union members are less likely to have a choice between cash wages and fringe benefits in their contracts, the BLS data below could overstate the differences between union and nonunion workers in access to medical, dental and vision insurance. This may be true for other fringe benefits as well.

Nevertheless, the data in Graphic 6 illustrates that when a nonunion worker does participate in an employer medical plan, the employer’s contribution to the medical plan is generally smaller than it would be in a unionized company.

* These fringe benefits are provided by the employer. When the union movement first started, unions themselves sometimes provided such worker benefits, but workers’ demand for union-provided benefits has declined as government benefits starting serving as a substitute. For example, prior to the 1930s, individual unions provided members with services like unemployment insurance, disability insurance, education benefits, pensions, workshop safety rules and so forth. Beginning with the New Deal and continuing to present time, government has provided these services. Melvin W. Reeder, “The Rise and Fall of Unions: The Public Sector and the Private,” *Journal of Economic Perspectives* 2, no. Spring (1988): 100-01.

† Specifically, defined-contribution pension plans predefine the size of the regular contributions that an employer and/or employee will make to an employee’s personal retirement account, which the employee then accesses for money upon retirement. In contrast, a defined-benefit pension plan predefines the eventual size of the pension benefits the employer will pay. Defined-contribution and defined-benefit plans are the two major alternatives among pension plans.

22 “Economic News Release: Table 5. Private Industry, by Major Occupational Group and Bargaining Status,” (U.S. Bureau of Labor Statistics, September, 2011), <http://goo.gl/O7iaH> (accessed Dec. 14, 2011).

23 Ibid.

24 Terry Savage, “Pension Tsunami Is About to Hit,” (MoneyShow.com, 2009), <http://goo.gl/cmuPU> (accessed Dec. 14, 2011).

25 Bureau of Labor Statistics Employee Benefit Survey, 2006.

26 Leo Kolivakis, “Checkmate for Pensions?,” (Pension Pulse, 2009), <http://goo.gl/4PTaw> (accessed July 30, 2009).

Nonunion workers are more likely to have to contribute to their medical care than union workers are, and this contribution is higher — \$20 more a month for individual health care plans. For family health care plans, the average contribution for a nonunion worker is roughly \$110 higher a month than for a union worker.²⁷

Graphic 6: Summary of Fringe Benefits for Union and Nonunion Workers

	Nonunion	Union
Workers Participating in Short-Term Disability Insurance	35%	62%
Workers Participating in Long-Term Disability Insurance	29%	29%
Workers Participating in Life Insurance	48%	62%
Workers with Access to Long-Term Care Insurance	11%	15%
Workers Participating in Retirement Plans	47%	80%
Workers Participating in Defined-Contribution Retirement Plans	43%	44%
Workers Participating in Defined-Benefit Retirement Plans	14%	68%
Workers Receiving Employer Assistance for Child Care	14%	19%
Workers Participating Dental Care Benefits	33%	63%
Workers Participating in Vision Insurance	19%	48%
Workers Participating in Medical Insurance	49%	80%
Workers Required to Contribute to Individual Health Care Plan	80%	51%
Average Monthly Contribution to Individual Health Care Plan	\$78.34	\$57.28
Workers Required to Contribute to Family Health Care Plan	92%	60%
Average Monthly Contribution to Family Health Care Plan	\$308.88	\$196.60
Workers With Paid Sick Leave	57%	59%
Workers With Paid Vacation Leave	77%	83%
Workers With Paid Holiday Leave	75%	83%
Workers With Paid Funeral Leave	66%	81%
Workers With Paid Military Leave	47%	55%
Workers With Paid Jury Duty Leave	69%	82%
Workers With Paid Personal Leave	36%	47%
Workers With Adoption Assistance	10%	14%
Workers With Access to Work-Related Education Assistance	48%	56%
Workers With Access to Employer-Provided Fitness Centers	13%	10%

Source: Bureau of Labor Statistics Employee Benefit Survey, 2006.

Fringe benefits like defined-benefit pension plans and employer-provided health care benefits are arguably hard-won union gains. However, these gains translate into higher costs for the company and can put them at a competitive disadvantage with nonunion competitors — a problem that can have drawbacks for union workers.

Graphic 7 illustrates that a large share of the union cost difference comes from health insurance, with union companies having insurance costs that are 2.5 times those for nonunion companies. If a union company is in competition with nonunion companies, it will have trouble passing these health care costs on to consumers through higher prices, since consumers will simply switch to buying from lower-cost nonunion competitors to save money. Instead, the union company will often cover its higher costs by decreasing its profits, meaning that the trade-off for more generous health care benefits can be losses for the company and reduced job security. This issue will be discussed more fully under “Employment” below.

²⁷ “Summary of Fringe Benefits for Union and Nonunion Workers,” (U.S. Bureau of Labor Statistics, 2011), <http://goo.gl/9D56x> (accessed Dec. 23, 2011).

Graphic 7: Employer Cost per Hour Worked

	Union	Nonunion
Total Compensation	\$37.68	\$27.08
Wages and salaries	\$23.02	\$19.51
Total Benefits	\$14.67	\$7.56
Paid leave	\$2.77	\$1.83
Vacation	\$1.42	\$0.93
Holiday	\$0.81	\$0.58
Sick	\$0.38	\$0.23
Personal	\$0.15	\$0.09
Supplemental pay	\$1.16	\$0.72
Overtime and premium	\$0.73	\$0.20
Shift differentials	\$0.18	\$0.06
Nonproduction bonuses	\$0.25	\$0.46
Insurance	\$4.94	\$1.97
Life	\$0.08	\$0.04
Health	\$4.63	\$1.85
Short-term disability	\$0.14	\$0.04
Long-term disability	\$0.09	\$0.04
Retirement and saving	\$2.64	\$0.82
Defined benefit	\$1.92	\$0.26
Defined contribution	\$0.72	\$0.56
Legally required benefits	\$3.16	\$2.22

Source: Bureau of Labor Statistics Employer Cost of Employee Compensation, March 2011.

Note: Legally required benefits include Social Security, Medicare, workers compensation, and federal and state unemployment.

As described earlier, union employees are much more likely to participate in defined-benefit pension programs. Defined-benefit pension plans are appealing in that they promise a predefined, steady stream of pension income in retirement. Unions.org claims that these pensions “are better for workers than defined-contribution plans, in which the balance in a worker’s account fluctuates depending on how well the underlying investments perform, and the monthly payment amount is uncertain.”²⁸

However, the safety of defined-benefit plans can be an illusion. Employees with defined-benefit plans run the risk that companies will underfund these pension obligations and not be able to pay out the promised benefits. According to Bradley Belt, the executive director of the Pension Benefit Guaranty Corporation (the governmental agency charged with monitoring and insuring defined-benefit pension plans), private single-employer defined-benefit pension plans were underfunded by \$450 billion in 2005, meaning these pension plans are promising an estimated \$450 billion more in earned benefits than they will be able to pay.²⁹ This number is certainly higher in 2010, given the decline in the stock market since 2005. For instance, at the end of 2007, the 100 largest U.S. private pensions were 109 percent funded. By 2008, they were only 79 percent funded, meaning the pensions’ projected future assets will be sufficient to pay only 79 percent of the employee benefits earned so far.³⁰

This concern is even greater in the public sector. In 2008 and 2009, between 80 percent and 90 percent of state and local government workers participated

28 “Union Members Have Pensions and the Best Health Insurance,” (Unions.org), <http://goo.gl/GWOAy> (accessed Dec. 19, 2011).

29 Bradley D. Belt, (testimony before the United States Senate Committee on Finance, Washington, D.C., March 1, 2005), <http://www.pbgc.gov/news/testimony/page/tm030105.html> (accessed Dec. 14, 2011).

30 Todd Wallack, “Pension Plan Choices May Shrink,” Boston Globe, Mar. 25, 2009, http://www.boston.com/business/personalfinance/articles/2009/03/25/pension_plan_choices_may_shrink/ (accessed Dec. 8, 2011).

in defined-benefit pension plans, compared to only 20 percent of workers in the private sector.* In April 2009, the Financial Times reported that public retirement plans were estimated to be only 50 percent funded, meaning public pension funds will be able to pay only half of the retirement benefits earned so far.³¹ According to the National Bureau of Economic Research, in order for public-sector pension plans to be fully funded, an estimated \$2 trillion in revenue would need to be raised immediately, with this amount increasing for each year of delay.³² Since tax increases to raise this revenue would be politically difficult, some state and local private-sector workers may ultimately receive fewer pension benefits than they expected.

In other words, just like defined-contribution pension plans, defined-benefit pension plans are subject to stock market risk, since stocks make up a significant portion of their assets. According to the Organisation for Economic Co-operation and Development Global Pension Statistics, three-fifths of all U.S. pension funds are invested in stocks and mutual funds.³³ As a result, average pension fund assets at America's 500 largest companies declined by 24 percent in 2008.³⁴ In 2008, public employee pension funds, which also invest heavily in stocks, lost close to \$1 trillion dollars.³⁵ Additionally, workers bear the risk that managers of defined-benefit pension funds will make unwise projections and asset allocations, as fund managers did in New Jersey, where the state pension plan is currently underfunded by \$60 billion,³⁶ and in Detroit, where city pension fund managers lost \$90 million in shaky investments.³⁷ Thus, workers cannot avoid stock market risk by electing to participate in defined-benefit pension plans, rather than 401(k)-style defined-contribution pension plans.

Even though he or she cannot avoid stock market risk, a worker with a 401(k) may have an advantage if his or her company goes bankrupt. If the worker is fully vested in a defined-contribution plan, the money sits in a worker's private account and cannot be taken away in the event of the company's bankruptcy.³⁸ In contrast, bankruptcy courts can reduce the payouts promised in a defined-benefit plan if the plan is terminated in court and the plan is not fully funded at the time.³⁹ In effect, a bankruptcy judge can allow a company to default on its defined-benefit pension obligations in order to allow the company to return to profitability.

If such a default occurs, the company's pension obligations are transferred to the Pension Benefit Guaranty Corporation, a federal agency entrusted with insuring pensions. The PBGC, however, does not necessarily repay a worker's full pension.⁴⁰ Depending on the individual worker's situation, pension payments

* Robert Novy-Marx and Joshua D. Rauh, "The Intergenerational Transfer of Public Pension Promises," (Society of Actuaries, 2009), <http://goo.gl/Hdloq> (accessed Dec. 14, 2011); Savage, "Pension Tsunami Is About to Hit," (MoneyShow.com, 2009), <http://goo.gl/cmuPU> (accessed Dec. 14, 2011). Novy-Marx and Rauh, writing in 2009, cite 2008 survey data from the U.S. Bureau of Labor Statistics to report the state and local government worker participation rate in defined-benefit pension plans as 80 percent. Savage, also writing in 2009, reports a 90 percent figure, citing the Federal Reserve Bank of Minneapolis.

31 Deborah Brewster, "Investment Losses Hit Public Sector Pensions," Financial Times, April 7, 2009, <http://goo.gl/Ofbk6> (accessed July 31, 2009).

32 Savage, "Pension Tsunami Is About to Hit," (MoneyShow.com, 2009), <http://goo.gl/cmuPU> (accessed Dec. 14, 2011).

33 Directorate for Financial and Enterprise Affairs, "Global Pension Statistics," (Organisation for Economic Co-operation and Development, 2009), <http://goo.gl/bsF9C> (accessed July 31, 2009).

34 Mary Williams Walsh, "G.M.'s Pension Fund Stays Afloat, against the Odds," The New York Times, Nov. 24, 2008, <http://www.nytimes.com/2008/11/25/business/25auto.html> (accessed July 31, 2009).

35 Brewster, "Investment Losses Hit Public Sector Pensions," Financial Times, April 7, 2009, <http://goo.gl/Ofbk6> (accessed July 31, 2009).

36 Mike Shedlock, "State of New Jersey Is Insolvent," (Mish's Global Economic Trend Analysis, 2008), <http://goo.gl/OJByw> (accessed July 31, 2009).

37 Jennifer Dixon and Tina Lam, "Shaky Deals Cost Detroit Pension Funds \$90 Million," Detroit Free Press, April 19, 2009, <http://goo.gl/waZlr> (accessed July 31, 2009).

38 Ben Branch, Hugh Ray, and Robin Russell, *Last Rights: Liquidating a Company* (New York: Oxford University Press, 2006).

39 Kelly Greene, "Bankruptcy Can Result in Lower Pension Benefit," (The Wall Street Journal, 2009), <http://goo.gl/CEUXF> (accessed Dec. 19, 2011).

40 See, for example, "PBGC Announces Maximum Insurance Benefit for 2009," (Pension Benefit Guaranty Corporation, Nov. 3, 2008), <http://goo.gl/oOhGU> (accessed Dec. 19, 2011).

may be reduced as much as 50 percent, as they were in the United Airlines bankruptcy.⁴¹ In short, defined retirement benefits are not guaranteed and remain linked to the health of the company.

In a 2008 study, Diana Furchtgott-Roth and Andrew Brown, both of the Hudson Institute, found that defined-benefit retirement plans at unionized companies are more likely to be underfunded than defined-benefit retirement plans at nonunion companies. In 2006, large union defined-benefit plans — plans with 100 or more participants — were on average 86 percent funded, with only 17 percent of them fully funded.⁴² In contrast, large nonunion defined-benefit plans were on average 97 percent funded, with 35 percent of them fully funded.⁴³

Of course, healthy defined-benefit plans are sometimes temporarily underfunded due to fluctuations in the stock market. But in 2006, 41 percent of large union defined-benefit plans were less than 80 percent funded — “endangered,” under the definition in the federal Pension Protection Act of 2006 — compared to only 14 percent of large nonunion defined-benefit plans.⁴⁴ The statistics for small-defined benefit plans (plans with fewer than 100 participants) are similar.^{*, 45}

It is impossible to know for certain why union plans are more likely to be unfunded than nonunion plans.[†] Regardless, the findings of the Furchtgott-Roth study suggest that union defined-benefit plans are not as advertised.

Generous retiree health care and defined-benefit pension plans can produce high “legacy costs” that reduce a company’s ability to compete with firms that offer more modest benefits, as these latter firms do not bear the cost of paying both current and former workers. The legacy costs can thus contribute to a company’s bankruptcy, as they did with Chrysler, General Motors and several major airlines, such as United, Delta, Northwest and Continental.⁴⁶ For example, according to the 2008 Harbour Felix Report, legacy costs add an extra \$30 per man-hour to General Motors’ labor costs. This contributes to Japanese automakers’ \$606 advantage in labor cost per vehicle over General Motors, Ford and Chrysler.⁴⁷

High-cost health care benefits can also hurt a company’s competitiveness. In 2008, General Motors spent \$1,635 per vehicle for active workers’ and retirees’ health care costs. Toyota has essentially no health care costs for retired workers and only

* Interestingly, the pension plans of union officers appear to fare much better than do those of their rank-and-file members. Furchtgott-Roth and Brown examine 30 officer funds related to 46 of the largest union pension funds, such as the Teamsters and the SEIU. On average, the officer funds were 93 percent funded, while their members’ plans were on average 79 percent funded. Furchtgott-Roth and Brown, “Comparing Union-Sponsored and Private Pension Plans: How Safe Are Workers’ Retirements?” (Hudson Institute, 2009), 22, <http://goo.gl/s1yT3> (accessed Dec. 19, 2011).

† Furchtgott-Roth and Brown suspect that since union leaders face regular election, they concentrate on winning future pension benefit increases, which are visible now, rather than achieving a fully funded plan, which would produce mostly future benefits and could require current sacrifice, such as agreeing to a reduction in promised benefits. See the authors’ full discussion of why union pension plans are more likely to be underfunded at *ibid.*, 16-19.

41 Micheline Maynard, “United Air Wins Right to Default on Its Employee Pension Plans,” *The New York Times*, May 11, 2005, <http://goo.gl/19p0C> (accessed July 31, 2009).

42 Diana Furchtgott-Roth and Andrew Brown, “Comparing Union-Sponsored and Private Pension Plans: How Safe Are Workers’ Retirements?” (Hudson Institute, 2009), 11-12, <http://goo.gl/s1yT3> (accessed Dec. 19, 2011).

43 *Ibid.*

44 *Ibid.*, 2, 12-13.

45 *Ibid.*, 19-21.

46 See, for example: Daniel Angber, “Why Do Airlines Go Bankrupt,” (*Slate.com*, 2005), <http://goo.gl/YkFNA> (accessed Dec. 19, 2011). and Peter Pae, “In Chrysler Bankruptcy, Carmakers May Be Following Airlines’ Path,” (*Los Angeles Times*, 2009), <http://goo.gl/ED6MF> (accessed Dec. 19, 2011).

47 “The Harbour Report: North America 2008,” (Oliver Wyman, 2008), <http://goo.gl/bA0mc> (accessed Dec. 17, 2011).

\$215 in health care costs per vehicle for active ones.* This may largely explain why General Motors lost \$729 per vehicle in 2008 and filed for bankruptcy the next year, while Toyota earned \$922 per vehicle and was financially sound.⁴⁸ If General Motors had had Toyota's health care cost structure, it might have earned \$691 per vehicle and made profits comparable to Toyota's.

Fringe benefits were also a factor in Chrysler's financial woes. In 2006, the UAW refused to offer concessions to Chrysler, because even though Chrysler itself was losing money, Chrysler's parent company, Daimler-Benz, was still earning a profit. In 2007, when it became clear that the UAW would not come to an agreement regarding Chrysler, Daimler-Benz sold the company to Cerberus. On April 30, 2009, Cerberus filed for Chapter 11 bankruptcy protection for Chrysler.⁴⁹ Although it is impossible to know for sure, one can speculate that had the UAW been willing to offer concessions to Chrysler in 2006 regarding health care costs, the sale to Cerberus might have been avoided and Daimler-Benz may have been able to keep Chrysler out of bankruptcy.

It should be noted that older workers benefit more than younger workers when fringe benefits make up a larger share of compensation. Older workers are closer to retirement, so they will use employer-provided retirement benefits sooner than the younger workers. Older workers are also more likely to need health care and are thus more likely to use employer-provided insurance.

Moreover, fringe benefits, such as paid leave, tend to rise with seniority. As reported by Harvard economists Richard Freeman and James Medoff, even though union employers gave their employees more paid vacation days than nonunion employers, this difference became sharp only after many years of employee service. Freeman and Medoff found that the average blue-collar worker with less than one year of company service received six days of paid vacation under a union contract and five days under a nonunion contract. If a blue-collar worker had one to 10 years of service, he or she received an average of 11 days of vacation under union contracts and eight days under nonunion. If the blue-collar worker had over 10 years of service, he or she received an average of 17 days of paid vacation under union contracts and 11 days under nonunion.⁵⁰ The authors estimated that fringe benefits increased compensation by 23 percent for a 60-year-old union worker and by 15 percent for a 60-year-old nonunion worker. The difference in fringe benefits between union and nonunion workers was much more modest for younger workers. Fringe benefits increase compensation by 5 percent for a 20-year-old union worker and by 4 percent for a 20-year-old nonunion worker.⁵¹

Thus, in order to gain the full benefit of unionization's fringe benefits, a worker needs to remain with his or her unionized employer for a long time. This may be difficult to do in today's economy. As reported by the U.S. Bureau of Labor Statistics, for instance, baby boomers born between 1957 and 1964 had approximately 11 jobs on average between the ages of 18 and 44, holding 4.4 of

* Alex Taylor III, "Behind Ford's Scary \$12.7 Billion Loss," CNNMoney.com/FORTUNE, Jan. 26, 2007, <http://goo.gl/asV71> (accessed Dec. 17, 2011). In its 2008 annual report, Toyota states that it does provide some health care benefits to current retirees, but this amount is not large enough to significantly affect profits (see Toyota's 2008 Annual Report, available at "Toyota Motor Corporation Annual Report 2008 (Year Ended March 31, 2008): Driving to Innovate New Value," (Toyota Motor Corporation, 2008), 119, http://www.toyota.co.jp/en/ir/library/annual/pdf/2008/ar08_e.pdf (accessed Nov. 10, 2009).) Thus, using zero as the cost of current Toyota retirees is a reasonable approximation.

48 "The Harbour Report: North America 2008," (Oliver Wyman, 2008), <http://goo.gl/bA0mc> (accessed Dec. 17, 2011). See Slide 25 of the media release.

49 Associated Press, "UAW Leader Says Union Won't Give Same Health Care Concessions to Chrysler," USA Today, Sept. 7, 2006, <http://goo.gl/8P58I> (accessed Dec. 14, 2011); Chris Isidore, "Daimler Pays to Dump Chrysler," (CNN, Fortune & Money, May 14, 2007), <http://goo.gl/c1v0y> (accessed Dec. 14, 2011); Neal E. Boudette, Alex P. Kellogg, and John D. Stoll, "Slump, Debt Dashed Bid to Turn around a U.S. Icon," The Wall Street Journal, May 1, 2009, <http://goo.gl/Glmf2> (accessed Dec. 14, 2011).

50 Freeman and Medoff, *What Do Unions Do?* (New York: Basic Books, 1984), 129.

51 Ibid., 132, Table 8-3.

these jobs between the ages of 18 and 22 and 3.2 of them between the ages of 23 and 27.⁵² In the current economy, the average worker does not remain with a single employer for all of his or her career.

Finally, it is important to note that voting to unionize does not guarantee a collectively bargained contract will follow. The National Labor Relations Act does *not* require the employer to reach a collective bargaining agreement with the union. The law only states that the employers have a duty to bargain in “good faith” with the union.⁵³ If an impasse is reached, meaning that both parties have exhausted all bargaining alternatives and that further negotiation would be pointless, the duty to bargain in good faith is suspended and the employer can unilaterally implement its last, best preimpasse offer.⁵⁴ The union could retaliate by going on strike, but the union may not have the ability to shut down the firm, since the employer may be able to hire replacement workers.*

It is unclear how many newly formed unions fail to reach collective bargaining agreements with their employers. According to 2004 data from the Federal Mediation and Conciliation Service, 45 percent of newly formed unions were unable to reach a collective bargaining agreement with their employers within two years of the election.⁵⁵ However, Cornell University labor and industrial relations professor Kate Bronfenbrenner has stated that FMCS data is flawed and that only 15 percent of newly formed unions are unable to reach collective bargaining agreements within two years of their NLRB elections.† Although these two estimates differ considerably, it is clear that some new unions are unable to reach collective bargaining agreements with their employers.

Employment

Higher wages and benefits for union workers than for nonunion workers translate into higher labor costs for union employers. These differences can affect union workers’ employment levels.

* In the wake of a failed strike, a union may lose the support of the workers, and the workers may elect to decertify the union. A decertification election occurs when 30 percent or more of the bargaining members sign a petition stating that they no longer want the union to represent them and collectively bargain on their behalf. The decertification election then takes place via secret-ballot election. See 29 USC §159; “Decertification Elections Rd,” (National Labor Relations Board), <http://www.nlr.gov/decertification-elections-rd> (accessed Nov. 15, 2011).

† Kate Bronfenbrenner, WebLog comment on Jonathan Tasini, “Stop the Presses: Employer Resistance Rises,” July 5, 2006, 2006), <http://goo.gl/MrA1r> (accessed Dec. 14, 2011). Further discussion of her figures appears in ———, “Kate Says Things Aren’t That Bad,” July 9, 2006, 2006), <http://goo.gl/jtBf7> (accessed Dec. 14, 2011). Her earlier research also found higher first-contract success rates than the federal figures cited above; see Kate Bronfenbrenner, “Uneasy Terrain: The Impact of Capital Mobility on Workers, Wages, and Union Organizing,” (U.S. Trade Deficit Review Commission, 2000), <http://goo.gl/F2Wxi> (accessed Dec. 14, 2011).

52 “Number of Jobs Held, Labor Market Activity, and Earnings Growth among the Youngest Baby Boomers: Results from a Longitudinal Survey,” (Bureau of Labor Statistics, 2010), <http://goo.gl/W2Lrs> (accessed Dec. 14, 2011).

53 29 USC §158(d); 29 USC §158(a)(5). (See “National Labor Relations Act,” (National Labor Relations Board), <http://goo.gl/XZR00> (accessed Dec. 15, 2011).)

54 “Area Trade Bindery Co. And Graphic Communication Local 404, Graphic Communications Conferences of the International Brotherhood of Teamsters,” (Decisions of the National Labor Relations Board), <http://goo.gl/fPOhy> (accessed Dec. 16, 2011).

55 Kris Maher, “Unions Set Pacts at a Slower Pace as Clout Wanes,” July 5, 2006, <http://goo.gl/tHVRr>.

Private-Sector Employment

According to the Bureau of Labor Statistics, in September 2011, total worker compensation costs were \$11.14 more per hour for union employers than for nonunion employers in the private sector.⁵⁶ In a 1984 study of 253 publicly traded companies that held certification elections, economists Richard Ruback of the Massachusetts Institute of Technology and Martin Zimmerman of the University of Michigan found that union certification reduces company equity by an average of 3.84 percent, representing an average loss of equity per worker of about \$46,180 — \$120,000 in 2010 dollars.⁵⁷

This result is consistent with the idea that unions reduce company profitability through higher costs. Likewise, a 2009 study by David Lee and Alexandre Mas of Princeton found that following a union victory in an election supervised by the National Labor Relations Board, a company suffers a 10 percent decline in market value, or a loss of \$40,500 per worker.⁵⁸ Interestingly, Ruback and Zimmerman also found that an election *not* resulting in certification reduces company equity by an average of 1.32 percent, for an average loss of about \$7,410 per worker — \$19,600 when adjusted for inflation.⁵⁹

The disparity between union and nonunion costs was on display during General Motors' financial meltdown. As reported by The New York Times, GM paid its workers an average of \$40 per hour in wages and \$15 per hour in fringe benefits, while also paying benefits to GM retirees that averaged about \$15 per hour.⁶⁰ Since the cost of benefits paid to current retirees does not vary with the size of the current workforce, the true measure of cost of a current United Auto Workers employee to General Motors may be closer to \$55 per hour. Nevertheless, the cost of benefits to current retirees represents additional overhead that General Motors must bear that its nonunionized competitors do not.⁶¹

And even setting aside retiree costs, GM's labor costs of \$55 per hour per worker still represent a substantial competitive disadvantage compared to the \$45 per-hour-per-worker cost for its nonunion competitors. As of 2009, General Motors had approximately 40,500 hourly employees.⁶² If GM had had Toyota's labor costs, GM would have saved \$607,500 per hour, or more than \$1.2 billion per year (assuming each worker worked 40 hours per week for 50 weeks per year).*

Higher labor costs would not be an issue for union companies if the costs could simply be passed on to consumers through higher prices, or if unionization led to significantly higher productivity. For example, union gains just after World War II took place when a handful of large companies with no significant nonunion rivals

* It should be noted that General Motors' hourly employment has substantially decreased in the current year as a result of the company's financial troubles and subsequent bankruptcy filing. In 2006, General Motors employed approximately 114,000 hourly workers. Using the above approximation, 114,000 hourly workers would give General Motors a \$3.4 billion annual cost disadvantage compared to its nonunion competitors.

56 "Economic News Release: Table S. Private Industry, by Major Occupational Group and Bargaining Status," (U.S. Bureau of Labor Statistics, September 2011), <http://www.bls.gov/news.release/ecec.t05.htm> (accessed Dec. 14, 2011).

57 Richard S. Ruback and Martin B. Zimmerman, "Unionization and Profitability: Evidence from the Capital Market," *Journal of Political Economy* 92 (1984): 1144 (Table 2), 50, 56. Specifically, Ruback and Zimmerman looked at certification elections held by the National Labor Relations Board (which certifies most private-sector unions) between February 1962 and September 1980.

58 David Lee and Alexandre Mas, "Long-Run Impacts of Unions on Firms: New Evidence from Financial Markets, 1961-1999," in *NBER Working Paper 14709* (National Bureau of Economic Research, Feb. 2009), 2-3.

59 Ruback and Zimmerman, "Unionization and Profitability: Evidence from the Capital Market," *Journal of Political Economy* 92 (1984): 1144 (Table 2), 50, 56.

60 David Leonhardt, "\$73 an Hour: Adding It Up," *The New York Times*, Dec. 10, 2008, <http://goo.gl/925Ao> (accessed July 31, 2009).

61 Ibid.

62 Soyung Kim, "GM Readies Deeper Cuts as 6,000 Workers Leave," (Reuters, Aug. 3, 2009), <http://goo.gl/NYzwn> (accessed Dec. 18, 2011).

dominated major industries, such as trucking and auto and steel manufacturing.⁶³ These large companies enjoyed unusually high rates of profit, allowing unions to collectively bargain over this profit and receive a larger wage-and-benefit package than workers would have received without a union. Given the absence of competitors, unionized companies could simply pass these additional labor costs on to consumers via higher prices.

However, the 1960s saw nonunion companies enter these markets, with their entry accelerating through the 1970s, 1980s and 1990s.⁶⁴ Imports certainly played a role in this, but so did nonunion American companies, such as nonunion airlines, nonunion commercial trucking companies, nonunion commercial steel mills, and nonunion auto assembly and parts-making companies.⁶⁵

In his book “Bethlehem Steel: Builder and Arsenal of America,” Kenneth Warren makes a convincing case that nonunion commercial steel mills — known as “minimills” — were more responsible for Bethlehem Steel’s bankruptcy and liquidation than imported steel. For example, production at a Nucor Steel minimill in Blytheville, Miss., required 1 man-hour per ton compared to 5 man-hours per ton at Bethlehem. The chairman of Nucor, Ken Iverson, claimed that this would give him a \$50 per ton cost advantage, and Nucor used this advantage to win a 20 percent market share in structural steel, Bethlehem’s traditional strength.⁶⁶ When Nucor President John Correnti visited Lehigh University, located near Bethlehem Steel’s base of operations, he remarked on Bethlehem’s plan to invest \$250 million in their local facility by saying: “It’s a joke. We’ll kill them.”⁶⁷

Imported steel did play a role, though Bethlehem Steel and other domestic steel makers enjoyed protection from imported steel throughout the 1980s — and even as recently as 2002 — via tariffs, quotas and voluntary export restraints.⁶⁸ But when Bethlehem failed, and when other major steel producers, such as U.S. Steel, declined, there was no threat of the U.S. steel industry disappearing and the market being served solely by imports. America’s nonunion minimills were still competitive. In fact, as Brookings Institution economist Robert Crandall told the St. Paul Pioneer Press in 2001, the decline of big steel was due not to a loss of market share to imported steel, but rather to the minimills using more efficient production methods.⁶⁹

Kenneth Warren points out that Bethlehem Steel was more apt to blame imports than the minimills for Bethlehem’s decline because the minimills “were homegrown competition, the product of free enterprise.”⁷⁰ Indeed, myopic management shares some of the blame for Bethlehem’s decline, particularly since they never took minimills as a serious competitive threat until the very end.⁷¹ Nevertheless, the generous wages and benefits, particularly retiree health care costs, played a major role as well. As reported by The New York Times, retiree health care costs were the main barrier to the steel industry consolidation that might have saved Bethlehem Steel. Bethlehem had 13,000 active workers and

63 Brink Lindsey, “Paul Krugman’s Nostalgianomics: Economic Policies, Social Norms, and Income Inequality,” (Cato Institute, 2009), <http://goo.gl/cX9rR> (accessed Nov. 21, 2011).

64 John Hagel III, John Seely Brown, and Lang Davison, “Measuring the Forces of Long-Term Change: The 2009 Shift Index,” (Deloitte, 2009), 85, Exhibit 66, <http://goo.gl/dPoIV> (accessed Dec. 18, 2011). Specifically, Exhibit 66 on p. 85 illustrates that competition in the U.S. economy more than doubled between 1965 and 2008.

65 Freedman, “The New Look in Wage Policy and Employee Relations,” (New York: The Conference Board, 1985), 4.

66 Kenneth Warren, *Bethlehem Steel: Builder and Arsenal of America* (Pittsburgh: Pittsburgh University Press, 2008), 240.

67 *Ibid.*, 243.

68 *Ibid.*, 212-213.

69 Dave Beal, “To Survive, Steel Firms Will Need to Restructure,” *St. Paul Pioneer Press*, Oct. 21, 2001.

70 Warren, *Bethlehem Steel: Builder and Arsenal of America* (Pittsburgh: Pittsburgh University Press, 2008), 215.

71 *Ibid.*

130,000 retirees and dependents in 2001, costing the company \$3 billion — more than the combined stock market value of all the major steel companies.⁷² Ultimately, a union that forgets that the employer must remain competitive can lose workers their jobs.

Even in the case of autos, where nonunion rivals traditionally took the form of Japanese imports, domestic competition played a role, since more and more Japanese cars are built in the United States. For example, in 2006, Japanese manufacturers built more than 3.7 million vehicles in the United States, according to *The Boston Globe*.⁷³ On average, Toyota vehicles sold in the United States had a domestic content rating of 48 percent, meaning that nearly half of the content contained in a Toyota was produced domestically. For Honda and Nissan, the domestic content ratings were 59 percent and 45 percent, respectively. General Motors, Ford and Chrysler did have more domestic content in 2006, with General Motors and Ford vehicles averaging 73 percent domestic content and Chrysler vehicles averaging 72 percent domestic content.⁷⁴

Still, several best-selling “foreign” autos have high domestic content. In 2011, “foreign cars” held half of the slots on the Cars.com “American Made Index,” which lists the 10 best-selling cars that are comprised of at least 75 percent domestic content.⁷⁵ On this list, all cars, both foreign and domestic, are assembled in the U.S., including the Toyota Camry, ranked No. 1 by sales, and the Honda Accord, ranked No. 2. Interestingly, many well-known “American” cars have less domestic content. The Ford F-150 has a domestic content rating of 60 percent, while the Chevrolet Silverado has a domestic content rating of 61 percent.⁷⁶

To summarize, it is incorrect to attribute the decline of union companies solely to imports. A major reason why union companies have experienced losses is that their cost structures place them at a competitive disadvantage with nonunion companies. Even when there is no nonunion competition, the union company’s manifest cost disadvantage encourages nonunion companies to enter the market. Thus, even if unions were to persuade lawmakers to re-establish tariffs and other trade barriers, there would still be competitive pressure and the possibility that union workers would lose jobs on account of their companies’ higher labor costs. Ultimately, competition with nonunion companies gives unionized companies less flexibility in setting prices, so management is now less able than it once was to offer generous concessions in exchange for good relations with a union.

The structural change associated with the growth of nonunion industries is evident in surveys done by Audrey Freedman for The Conference Board. The surveys suggest that between 1983 and 1987, companies began shifting their emphasis toward keeping the company nonunion, rather than achieving the best bargaining result. For example, in 1978, among companies with a high rate of unionization (meaning 51 percent to 75 percent of the company workforce was unionized), 75 percent said that the most important goal in contract negotiations

72 Beal, “To Survive, Steel Firms Will Need to Restructure,” *St. Paul Pioneer Press*, Oct. 21, 2001; Leslie Wayne, “Steel Producers Seek a Merger, with U.S. Help,” *The New York Times*, Dec. 5, 2001, <http://goo.gl/RfzEc> (accessed Dec. 14, 2011).

73 Jim Mateja and Rick Popely, “Made in America? Hard to Tell,” *Boston Globe*, Sept. 24, 2006, <http://goo.gl/wYlpL> (accessed July 31, 2009).

74 *Ibid.*

75 Kelsey Mays, “The Cars. Com American-Made Index,” June 27, 2011), <http://goo.gl/GQdCO> (accessed Dec. 14, 2011).

76 *Ibid.*

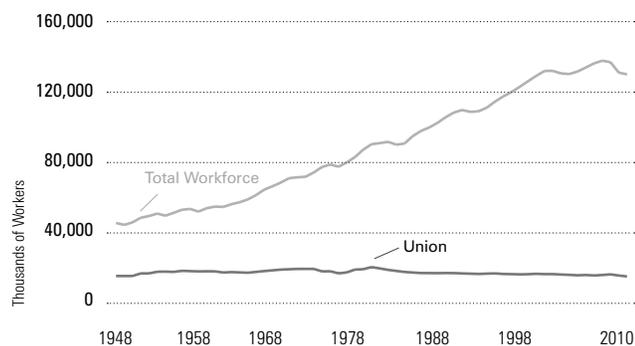
was getting the most favorable bargain possible. Only 25 percent said the most important goal was keeping as much of the company nonunion as possible.⁷⁷ By 1983, only 61 percent said that the most important goal was getting the most favorable bargain possible, while 39 percent said the most important goal was keeping the company as nonunion as possible.⁷⁸

A similar trend was seen among companies with medium levels of unionization, meaning that 26 percent to 50 percent of the company workforce unionized. In 1978, only 59 percent of those companies said keeping the company as nonunion as possible was the most important goal; by 1983, 73 percent stated this was the most important goal.⁷⁹

When faced with nonunion competition, a union company has to bring its costs into line with those for nonunion companies. The union company can do this in one of two ways: concession bargaining or shrinking.

In fact, union employment has shrunk remarkably. As Graphic 8 illustrates, total union membership is at its lowest level since 1950, even though the figures include the public sector, an area of union growth, and despite the near tripling of the total number of jobs in the economy from 45 million in 1950 to 130 million in 2010.⁸⁰ In 1950, unions comprised 33 percent of the workforce; by 2010, unions comprised only 11 percent of it.⁸¹ Thus, the post-World War II era has been marked by both rapid growth in nonunion jobs and a long-term decline in union jobs.

Graphic 8: Number of Union Members and Size of Workforce, 1948-2010 (Thousands of Workers)



Source: Data on workforce size comes from the Bureau of Labor Statistics Current Employment Statistics. Union member data from 1948-1972 comes from the "Statistical Abstract of the United States." Union member data from 1973-2010 comes from the "union membership and coverage database" at www.unionstats.com.

Private-sector union employment has likewise declined in commonly unionized industrial sectors in recent years.* Graphic 9 shows that union employment in durable goods manufacturing fell steadily from 2.5 million workers in 1992 to

* Mining was not included in the discussion below simply because it is a very small sector of the economy. Construction, on the other hand, does not follow the "industrial union" model discussed in this study; construction unions are "craft unions" that are typically not associated with a particular company and that instead funnel workers from a local "union hall" to construction projects in the surrounding area based on rules established by the union. White-collar sectors of the private economy were not explored in detail, either.

77 Freedman, "The New Look in Wage Policy and Employee Relations," (New York: The Conference Board, 1985), 6, Chart 2.

78 Ibid.

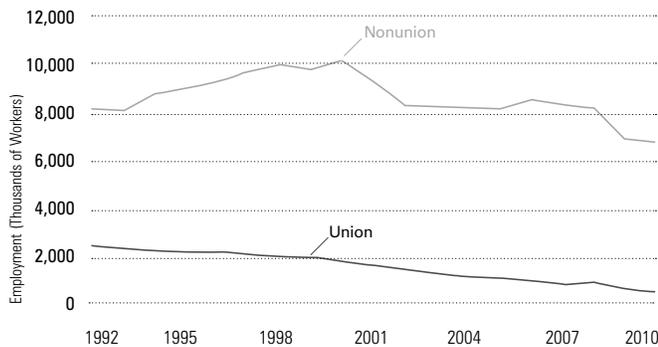
79 Ibid.

80 "U.S. Census Bureau Statistical Abstracts: 1901-1950," (U.S. Census Bureau, 1948-1950), Table 390, <http://goo.gl/8ST08> (accessed Oct. 27, 2011); "U.S. Census Bureau Statistical Abstracts: 1951-1994," (U.S. Census Bureau, 1951-1972), Table 390, <http://goo.gl/QlrGf> (accessed Oct. 27, 2011); Barry T. Hirsch and David A. Macpherson, "Unionstats.com, I. U.S. Historical Tables: Union Membership, Coverage, Density and Employment, 1973-2010, All Wage and Salary Workers" (Unionstats.com, 2011), <http://www.unionstats.com/> (accessed Dec. 14, 2011).

81 Ibid.

900,000 in 2010, a 64 percent decline.⁸² However, as Graphic 9 also illustrates, the situation in nonunion durable goods manufacturing has been different. As union durable goods employment fell during the 1990s, nonunion employment in durable goods manufacturing rose from 8.4 million workers in 1992 to 10 million workers in 2000, an increase of 19.0 percent. The 2001 and 2007-2009 recessions eliminated those gains, and nonunion durable goods manufacturing stood at 7.4 million workers in 2010, or 12 percent below its 1992 levels.⁸³

Graphic 9: Union and Nonunion Employment in Durable Goods Manufacturing, 1992-2010 (Thousands of Workers)



Sources: Bureau of Labor Statistics, Union Members Reports, 2001-2010; Bureau of Labor Statistics Archives, Union Membership Annual, Durable Goods Manufacturing Abstracts 1993, 1995, 1997, 1999.

The difference between union and nonunion employment in the nondurable goods manufacturing sector is similar. Graphic 10 illustrates that union employment in nondurable manufacturing has declined considerably, and its 2010 level of 629,000 workers was 58 percent below its 1992 level of 1.5 million workers.⁸⁴ Nonunion employment in nondurable manufacturing also experienced a decline during this time, but as shown in Graphic 10, the relative decline was less. At approximately 4.4 million workers in 2010, nonunion employment in nondurable manufacturing was 35 percent below its 1992 level of 6.6 million workers.⁸⁵

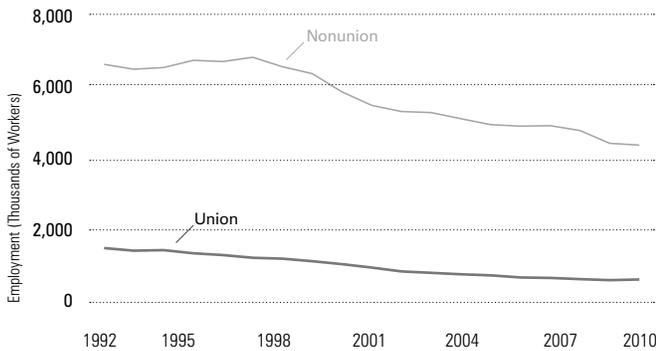
82 “BLS Information: Archived News Releases: Union Membership (Annual),” (U.S. Bureau of Labor Statistics), <http://goo.gl/AOiV0> (accessed Oct. 26, 2011); “Data Retrieval: Labor Force Statistics (CPS),” (U.S. Bureau of Labor Statistics, 2010), <http://goo.gl/ivrjt> (accessed Oct. 26, 2011).

83 Author’s calculations based on “BLS Information: Archived News Releases: Union Membership (Annual),” (U.S. Bureau of Labor Statistics), <http://goo.gl/AOiV0> (accessed Oct. 26, 2011); “Data Retrieval: Labor Force Statistics (CPS),” (U.S. Bureau of Labor Statistics, 2010), <http://goo.gl/ivrjt> (accessed Oct. 26, 2011).

84 “BLS Information: Archived News Releases: Union Membership (Annual),” (U.S. Bureau of Labor Statistics), <http://goo.gl/AOiV0> (accessed Oct. 26, 2011); “Data Retrieval: Labor Force Statistics (CPS),” (U.S. Bureau of Labor Statistics, 2010), <http://goo.gl/ivrjt> (accessed Oct. 26, 2011).

85 Author’s calculations based on “BLS Information: Archived News Releases: Union Membership (Annual),” (U.S. Bureau of Labor Statistics), <http://goo.gl/AOiV0> (accessed Oct. 26, 2011); “Data Retrieval: Labor Force Statistics (CPS),” (U.S. Bureau of Labor Statistics, 2010), <http://goo.gl/ivrjt> (accessed Oct. 26, 2011).

Graphic 10: Union and Nonunion Employment in Nondurable Goods Manufacturing, 1992-2010 (Thousands of Workers)

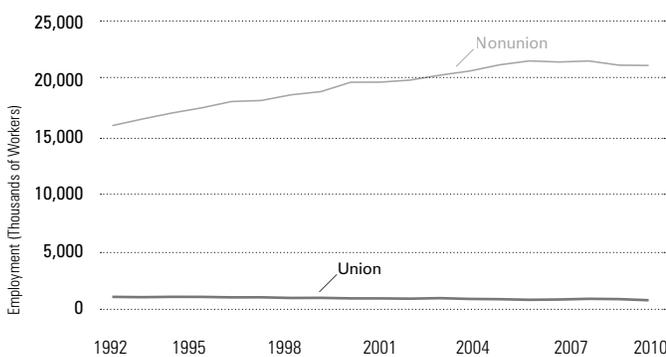


Sources: Bureau of Labor Statistics, Union Members Reports, 2001-2010; Bureau of Labor Statistics Archives, Union Membership Annual, Nondurable Goods Manufacturing Abstracts 1993, 1995, 1997, 1999.

The retail trade sector posted similar declines in union employment, while nonunion employment enjoyed remarkable gains. As illustrated by Graphic 11, union employment steadily dropped from 1.23 million workers in 1992 to 863,000 workers in 2010, a decline of 29 percent.⁸⁶ Globalization and the importation of manufactured goods could conceivably have contributed to declines in unionized employment in manufacturing, but globalization cannot explain the decline in unionized retail trade employment, as retail trade does not face direct global competition.* The decline in unionized employment in retail trade is likely explained by the fierce competition from nonunion retailers.

Graphic 11 also illustrates employment in nonunion retail trade. Between 1992 and 2010, nonunion retail trade employment increased from 16.0 million workers to 21.3 million workers, a gain of 33 percent.⁸⁷

Graphic 11: Union and Nonunion Retail Trade Employment, 1992-2010 (Thousands of Workers)



Sources: Bureau of Labor Statistics, Union Members Reports, 2001-2010; Bureau of Labor Statistics Archives, Union Membership Annual, Retail Trade Abstracts 1993, 1995, 1997, 1999.

* According to the OECD “Glossary of Statistical Terms,” the definition of retail trade is, “[T]he re-sale (sale without transformation) of new and used goods to the general public, for personal or household consumption or utilisation,” which means goods bought and sold in stores by consumers (see “Glossary of Statistical Terms: Retail Trade — ISIC Rev. 3,” (Organisation for Economic Co-operation and Development, Sept. 25, 2001), <http://goo.gl/NJxWI> (accessed Dec. 15, 2011).) Since it seems safe to assume that consumers largely do not shop in foreign stores, then retail trade establishments do not face direct global competition from other retail trade establishments.

86 “BLS Information: Archived News Releases: Union Membership (Annual),” (U.S. Bureau of Labor Statistics), <http://goo.gl/AOiV0> (accessed Oct. 26, 2011); “Data Retrieval: Labor Force Statistics (CPS),” (U.S. Bureau of Labor Statistics, 2010), <http://goo.gl/ivrjt> (accessed Oct. 26, 2011). Note that there is a discontinuity in the definition of “retail trade” beginning in the year 2002, when the Bureau of Labor Statistics stopped including food services and drinking places under retail trade. In order to provide consistent data, the figures presented here for retail trade include these food services figures throughout.

87 Author’s calculations based on “BLS Information: Archived News Releases: Union Membership (Annual),” (U.S. Bureau of Labor Statistics), <http://goo.gl/AOiV0> (accessed Oct. 26, 2011); “Data Retrieval: Labor Force Statistics (CPS),” (U.S. Bureau of Labor Statistics, 2010), <http://goo.gl/ivrjt> (accessed Oct. 26, 2011). As with the number of unionized workers, food services and drinking place employment was included in the retail trade data throughout the interval in order to provide consistent data (see endnote 86).

Overall, between 1973 and 1998 employment in unionized companies decreased by an average of 2.9 percent per year, while employment in nonunionized companies increased by an average of 2.8 percent per year.⁸⁸ Brink Lindsey, former Cato Institute vice president for research, points out that unions would need to organize new bargaining units at the rate they did in the early 1950s just to cancel their ongoing loss of membership and hold the level of union membership as a percentage of the private workforce steady. Yet union organization rates have been in decline since the early 1950s.⁸⁹

Why have private-sector union organization rates deteriorated? One possible explanation is that public policy has become hostile to unions. But as Lindsey points out, it is hard to identify what this public policy change might be. No significant change in labor law has taken place since the Taft-Hartley Act of 1947 allowed the creation of “right-to-work” states and made it illegal to establish closed shops — that is, shops where employers can hire only union members. The Senate did filibuster a 1978 bill that would have strengthened union power, particularly during certification elections,^{*} but this filibuster simply maintained the status quo, rather than weakening union power.⁹⁰ Some claim that President Ronald Reagan’s firing of the unionized air traffic controllers in 1981 ushered in a decline of unionization. However, it is hard to imagine how President Reagan’s action alone could have sparked a three decade decline absent any major piece of legislation.

More likely, the decline in unionized private-sector employment stemmed from two factors. First was a structural shift of the economy from sectors such as manufacturing, where union membership was prevalent, towards sectors where union membership was less common. Second, and more important, was the stiff competition unionized companies began to face from nonunion competitors who did not bear the increased employment costs associated with unionization. In fact, according to Georgia State University economist Barry Hirsch, even if there had been no decline in manufacturing employment, the percentage of the workers belonging to a union would still have fallen from 16.5 percent in 1983 to 10.2 percent in 2002, compared to an actual level of 8.6 percent in 2002.⁹¹ Thus, the vast majority of the decrease in unionization can be explained by the rise of nonunion companies and the decline of their unionized competitors.

There is also some evidence that workers’ perceptions of unionization have changed. Economist Henry Farber, then at the Massachusetts Institute of Technology and the National Bureau of Economic Research, studied nonunion workers’ views of unions, controlling for 19 factors that might influence an employee’s desire for unionization, including age, sex, race, education, industry and occupation. Farber found that the demand for union representation decreased from 39.5 percent of nonunion workers in 1977 to 32.4 percent in 1984.^{†,92} Farber concluded that all of this decrease could be explained by the increase in nonunion

* Specifically, the bill would have streamlined union certification elections, increased penalties for labor law violations and forced employers to give unions equal time to address employees on company property prior to a certification election.

† Farber provides a second model of the demand for union representation that shows a decline from 38.2 percent in 1977 to 33.2 percent in 1984. Henry S. Farber, “The Decline of Unionization in the United States: What Can Be Learned from Recent Experience?” *NBER Working Paper No. 2267*, (National Bureau of Economic Research, 1987), Table 8.

88 Henry S. Farber and Bruce Western, “Round Up the Usual Suspects: The Decline of Unions in the Private Sector, 1973-1998,” (Princeton University, 2000), <http://goo.gl/4ySrx> (accessed Dec. 15, 2011).

89 Lindsey, “Paul Krugman’s Nostalgianomics: Economic Policies, Social Norms, and Income Inequality,” (Cato Institute, 2009), 17, <http://goo.gl/cX9rR> (accessed Nov. 21, 2011).

90 *Ibid.*, 16.

91 Barry T. Hirsch, “Sluggish Institutions in a Dynamic World: Can Unions and Industrial Competition Coexist?,” (Georgia State University, 2007), 5, <http://goo.gl/UserCd> (accessed Dec. 15, 2011).

92 Henry S. Farber, “The Decline of Unionization in the United States: What Can Be Learned from Recent Experience?” *NBER Working Paper No. 2267*, (National Bureau of Economic Research, 1987), 24, Table 8.

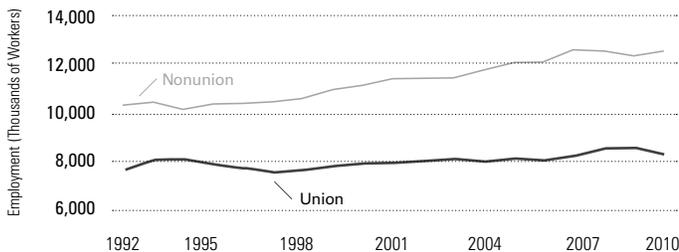
workers' satisfaction with their jobs and the decrease in their belief that unions could improve workers' wages and working conditions.⁹³

Unionization may also affect a company's ability to innovate. Barry Hirsch and University of North Carolina economist Albert Link hypothesize that the higher costs associated with unionization reduce the rate of return for a unionized company's research and development projects. Looking at 1985 data and controlling for factors that affect a company's ability to produce technological advances, the authors concluded that unionized companies are significantly less likely than nonunion companies to view themselves as leaders in technological innovation and to state that their profitability stems from technological superiority.* Having fewer innovations would put a union company at a further competitive disadvantage and could contribute to the job losses discussed above.

Public-Sector Employment

Unionization is more common in the public sector. Notably, the government faces no direct competition from nonunion rivals, as private unionized companies do. Graphic 12 shows that among government employees at all levels of government, union employment rivals nonunion employment. Unlike private-sector union employment, which has seen its numbers decrease throughout the time period, union employment in the public sector rose during the late 1990s and the 2000s. Union government employment at 8.4 million workers in 2010 was 8 percent above its 1992 level of 7.8 million workers.⁹⁴ Nevertheless, in the public sector, as in the private sector, nonunion employment gains outpaced union gains. Nonunion government employment increased by 22 percent between 1992 and 2010, from 10.3 million workers to 12.6 million workers.⁹⁵

Graphic 12: Union and Nonunion Employment, All Levels of Government (Thousands of Workers)



Sources: Bureau of Labor Statistics, Union Members Reports, 2001-2010; Bureau of Labor Statistics Archives, Union Membership Annual, All Levels of Government Abstracts 1993, 1995, 1997, 1999.

Graphic 13 through Graphic 15 illustrate public-sector union and nonunion employment for federal, state and local government between 1996 and 2010. As shown, union employment in the federal government declined by 9 percent, from roughly 1.3 million workers to 1.2 million workers, while nonunion employment increased 25 percent, from 2.0 million workers to 2.5 million workers.⁹⁶ Thus, unions have not been able to make employment gains in the federal government.

* The authors control for company size, profitability, the degree of foreign competition, the state of the company's labor-management relations, and the industry the company is in. Barry T. Hirsch and Albert N. Link, "Labor Union Effects on Innovative Activity," *Journal of Labor Research* Volume VIII, no. 4 (Fall 1987) <http://goo.gl/HM0wR> (accessed Nov. 11, 2011).

93 Ibid., 32.

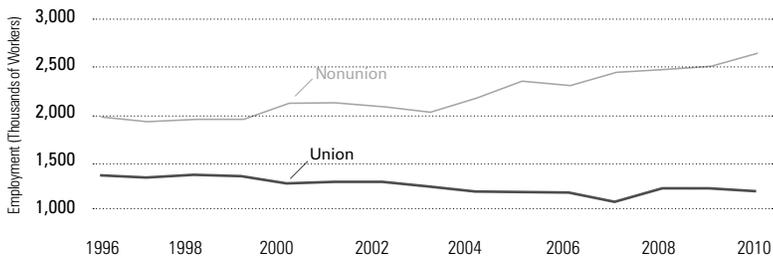
94 "BLS Information: Archived News Releases: Union Membership (Annual)," (U.S. Bureau of Labor Statistics), <http://goo.gl/AOiV0> (accessed Oct. 26, 2011); "Data Retrieval: Labor Force Statistics (CPS)," (U.S. Bureau of Labor Statistics, 2010), <http://goo.gl/ivrjt> (accessed Oct. 26, 2011).

95 Author's calculations based on "BLS Information: Archived News Releases: Union Membership (Annual)," (U.S. Bureau of Labor Statistics), <http://goo.gl/AOiV0> (accessed Oct. 26, 2011); "Data Retrieval: Labor Force Statistics (CPS)," (U.S. Bureau of Labor Statistics, 2010), <http://goo.gl/ivrjt> (accessed Oct. 26, 2011).

96 Author's calculations based on "Data Retrieval: Labor Force Statistics (CPS)," (U.S. Bureau of Labor Statistics, 2010), <http://goo.gl/ivrjt> (accessed Oct. 26, 2011).

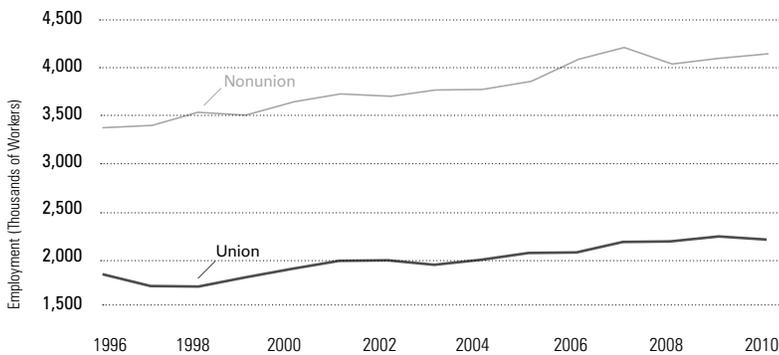
In contrast, unions have been able to make employment gains in state and local government. Between 1996 and 2010, unionized employment in state government rose by 22 percent, from 1.8 million workers to 2.2 million workers, and unionized employment in local government rose by 8.5 percent, from 4.7 million workers to 5.1 million workers.⁹⁷ But even in state and local governments, union employment gains were outpaced by nonunion employment gains. In state governments, nonunion employment increased by 24 percent, from 3.3 million workers to 4.1 million workers. In local governments, nonunion employment increased by 18 percent, roughly from 5 million workers to 6 million workers.⁹⁸ Thus, even though government faces no competition from nonunion rivals, nonunion employment in the public sector mirrors trends in the private sector: Nonunion employment is growing more rapidly than union employment. The difference is that except for the federal government, union employment is not simultaneously shrinking.

Graphic 13: Union and Nonunion Employment in the Federal Government, 1996-2010 (Thousands of Workers)



Source: Bureau of Labor Statistics Union Members Reports, 1996-2010.

Graphic 14: Union and Nonunion Employment in State Government, 1996-2010 (Thousands of Workers)

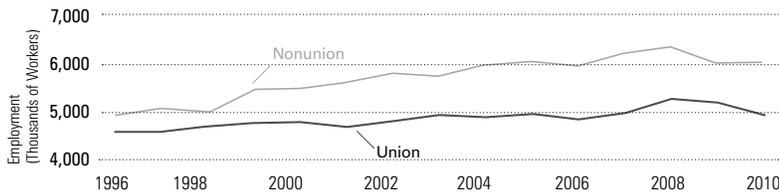


Source: Bureau of Labor Statistics Union Members Reports, 1996-2010.

97 Ibid.

98 Author's calculations based on *ibid.*

Graphic 15: Union and Nonunion Employment in Local Government, 1996-2010 (Thousands of Workers)



Source: Bureau of Labor Statistics Union Members Reports, 1996-2010.

Even though the government itself faces no direct competition, government workers do through “privatization,” which typically involves contracting with a private company to perform a particular government service. According to a 2002 survey of state executive agency directors, 35 percent of major state agencies increased privatization activity in their states during the previous five years.⁹⁹ With certain types of services, the rate of increase was even higher: 44 percent of corrections agencies and 59 percent of transportation agencies reported increases in privatization over the previous five years.¹⁰⁰ Only 5 percent report either no privatization or a decrease in it. The most common reason cited for privatization was “cost savings,” the explanation chosen by 68 percent of state budget directors and legislative service agency directors. Other reasons given for privatization were “flexibility and less red tape,” “high quality service,” “increased innovation” “lack of state personnel or expertise” and “speedy implementation.”¹⁰¹

As state and local governments face financial difficulties, government officials will become more likely to explore what functions can be contracted to private entities at reduced cost. Because of this, a public-sector union member cannot be content to rely on the government’s monopoly power as a guarantee of job security: He or she must be concerned with whether the government can contract out his or her job. Even if the government faces very little competition, government employees do.

Strikes

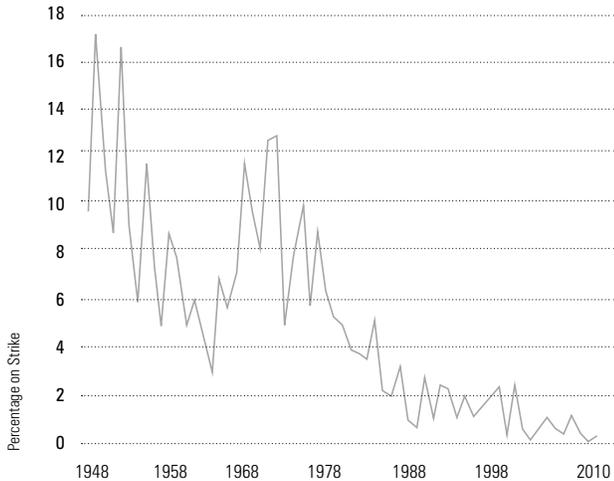
One cost of unionization that gets a lot of attention is the expense of a strike. In recent years, however, the chance of a strike has fallen substantially. Graphic 16 illustrates this trend in terms of the percentage of union members — both private- and public-sector — on strike in a given year. Between 1948 and 1979, with only a handful of exceptions, over 5 percent of union members were on strike in any given year. For example, in 1959, 7.6 percent of all union members were on strike, primarily because of a United Steel Workers of America strike that shut down every steel mill in the United States for four months.

By 2001, less than 1 percent of union members were on strike, with only 0.6 percent of union members striking in 2005 and 0.5 percent of union members striking in 2006. 2007 did see a slight increase in strike activity, with 1.2 percent of union members on strike. This activity was nowhere near the levels seen from 1950 to 1980, however.

99 Keon S. Chi, Kelley A. Arnold, and Heather M. Perkins, “Privatization in State Government: Trends and Issues,” *Spectrum: The Journal of State Government* (Fall 2003): 13, Figure 3 <http://goo.gl/1Z7qC> (accessed Nov. 12, 2011).

100 Ibid., 16-17.

101 Ibid., 14, Figure 5.

Graphic 16: Percentage of Union Members on Strike, 1948-2010

Sources: Calculations based on data from the Bureau of Labor Statistics "Work Stoppages" database; 1948-1972 data comes from The Statistical Abstract of the United States (http://www.census.gov/compendia/statab/past_years.html).

The drop-off in strike activity after 1980 corresponds to a time when companies appeared to fear strikes less. In a 1983 survey of unionized companies for The Conference Board, Freedman found that "unexpected strikes during negotiations" and "wildcat strikes during contract" fell in importance from a similar 1978 survey and were the sixth and seventh, respectively, of the seven concerns employers had about their union. By far, the most important factor cited was the "effects of negotiations on labor cost," while the second-most important factor was the "size of settlement compared with industry settlement." In fact, out of the seven factors considered, the factors related to maintaining a good relationship with the union ranked in the bottom four, emphasizing the heavy concern companies placed on the cost of labor as they faced fierce competition from nonunion rivals.¹⁰²

Even though the chance of a strike has fallen, it remains a real possibility. If a strike is called, the union leadership will expect every member of the bargaining unit to go on strike, regardless of whether the individual worker supports it.

Of course, depending on a union's internal rules, the union may offer workers an opportunity to vote prior to a strike. Still, the only options available to the worker once a strike is called are either to join the strike or to refuse. Refusing may mean crossing a picket line and being branded as a "scab" by the union.

The Supreme Court has ruled that as a part of a private-sector union's membership rules, the union may be able to fine a member for crossing a picket line and working during a strike.* The size of the fine varies from union to union and may equal even double or triple the amount of money the union member earned when he or she crossed the picket line.¹⁰³ For example, the United Auto Workers fined workers who crossed the picket line at Allis-Chalmers Manufacturing during the 1959 and 1962 strikes the inflation-adjusted equivalent of \$150 to \$750.¹⁰⁴

* "U.S. Supreme Court: NLRB v. Allis-Chalmers Mfg. Co., 388 U.S. 175 (1967)," (FindLaw), <http://goo.gl/bhHGk> (accessed Dec. 18, 2011). The court's majority opinion, written by Justice William Brennan, stated, "Integral to ... federal labor policy has been the power in the chosen union to protect against erosion [of] its status under that policy through reasonable discipline of members who violate rules and regulations governing membership. That power is particularly vital when the members engage in strikes." (Citations omitted.)

¹⁰² Audrey Freedman, "The New Look in Wage Policy and Employee Relations," (New York: The Conference Board, 1985), 29, 31, Table 10.

¹⁰³ Dmitri Iglitzin, "Mercy, Justice, and the Strikebreaker," (DSA Labor Network, Jan. 5, 2010), <http://goo.gl/EWvwj> (accessed Dec. 18, 2011).

¹⁰⁴ "U.S. Supreme Court: NLRB v. Allis-Chalmers Mfg. Co., 388 U.S. 175 (1967)," (FindLaw), <http://goo.gl/bhHGk> (accessed Dec. 18, 2011); "Inflation Calculator," (Bureau of Labor Statistics, 2011), <http://goo.gl/WLib> (accessed Dec. 28, 2011).

Nonmembers, in contrast, are not subject to a private-sector union's membership requirements and cannot be disciplined by a union for working during a strike. The National Labor Relations Board has also ruled that workers who resign from the union prior to crossing the picket line cannot be fined or fired from their jobs for doing so.¹⁰⁵

A strike can be financially difficult for a worker if it lasts more than a few days. While on strike, workers do not receive their regular pay; instead, they receive "strike pay" from the union.

For example, during the three-month American Axle strike at the beginning of 2008, one union worker who had been grossing \$1,400 per week at work grossed just \$200 per week in UAW strike pay, according to the *Kalamazoo Gazette*.¹⁰⁶ The lost income for this worker was \$1,200 a week for three months — suggesting a total loss of more than \$14,000.

This cost might have been offset by wage gains had the union won concessions from American Axle. However, all indications are that American Axle's management got most, if not all, of what it originally wanted. According to the UAW during the strike (as reported by a local newspaper), American Axle intended to cut some wages from approximately \$28 per hour to \$14 per hour.¹⁰⁷ Under the agreement ending the strike, American Axle cut pay for production workers from \$28 per hour to between \$14.35 and \$18.50 per hour in its Detroit Axle plant, while closing forge facilities in Detroit, Mich., and Tonawanda, N.Y.¹⁰⁸ American Axle also cut pay at its two other plants, refused to increase wages over the life of the contract, froze the defined-benefit pension plan,* eliminated holiday and vacation time, increased health care co-pays and left the General Motors arbitration-based grievance system for a more flexible system.¹⁰⁹ Thus, it appears that American Axle workers made a substantial financial sacrifice during the strike, but did not receive much in return. In fact, the Associated Press recently reported that American Axle is shutting down its largest plant in Detroit and transferring that production to Mexico, resulting in the elimination of approximately 770 of the roughly 1,000 unionized jobs.¹¹⁰

This was still a more favorable outcome for workers than the 2005 Northwest Airline mechanics strike. Prior to the strike, Northwest offered to keep 2,750 union mechanics if the union would accept the layoff of numerous other workers and if the remaining union mechanics would agree to a 25.7 percent pay cut, substantial benefit cuts and increased outsourcing.¹¹¹ When the union declined and went on strike, Northwest simply replaced the strikers with new mechanics.

* When a plan is frozen, workers stop earning new pension benefits, though they retain the benefits they had already earned for their previous work at the company.

105 "The Right of Unions to Fine Members Who Have Engaged in Strikebreaking Activities after Resigning from the Union During a Strike," *Columbia Law Review* 72, no. 7 (Nov. 1972): 1277. The National Labor Relations Act is available online at "National Labor Relations Act," (National Labor Relations Board), <http://goo.gl/XZR00> (accessed Dec. 15, 2011).

106 Jennifer Harnish, "American Axle Workers Make Do on Strike Pay in Three Rivers," *Kalamazoo Gazette*, April 13, 2008, <http://goo.gl/w9oz2> (accessed Nov. 12, 2011).

107 Rick Haglund, "American Axle Strike Impact Widens," (Grand Rapids Press, 2008), <http://goo.gl/mo1GR> (accessed Dec. 18, 2011).

108 Tom Krishner, "American Axle Workers Vote to End Strike," *USA Today*, May 23, 2008, <http://goo.gl/oQnmD> (accessed Dec. 18, 2011); Chris Kotalik, "American Axle Workers Take a Hard Hit as UAW Officials Give up on Strike," (AlterNet, May 29, 2008), <http://goo.gl/33WuB> (accessed Nov. 22, 2011).

109 ———, "American Axle Workers Take a Hard Hit as UAW Officials Give up on Strike," (AlterNet, May 29, 2008), <http://goo.gl/33WuB> (accessed Nov. 22, 2011).

110 Associated Press, "Union: American Axle to Close Detroit Plant," (Crain's Detroit Business, 2009), <http://goo.gl/552uq> (accessed Dec. 18, 2011).

111 Chris Kotalik and William Johnson, "Northwest Mechanics Strike against Deep Pay Cuts, Outsourcing," (Labor Notes, Aug. 31, 2005), <http://labornotes.org/node/777>; Associated Press, "Northwest Mechanics Vote to Stay on Strike," (msnbc.com, 2005), <http://goo.gl/BCOUY> (accessed Dec. 29, 2011).

In the final offer accepted by the union, the striking mechanics had to choose between resigning from their jobs with 10 weeks' back pay or joining a waiting list for future job openings with five weeks' back pay.¹¹²

The decisions to strike by the UAW at American Axle and by the Aircraft Mechanics Fraternal Association at Northwest Airlines illustrate that union members bear the risk when a strike is unsuccessful. Thus, an individual union member must work to ensure that union leadership really acts in the individual member's best interest.

The effectiveness of a strike is determined not just by whether a company fears a strike, but also by the company's financial health. American Axle was recording record losses at the time of the UAW strike, and it posted a \$1.22 billion loss in 2008.¹¹³ Following the mechanics strike, Northwest Airlines filed for bankruptcy. A company in poor financial shape may be financially unable to provide concessions.

This presents the union with two unappealing choices. It can accept the company's offer and receive a substantially less-favorable contract, or it can reject the company's offer and risk losing union jobs, either because the company closes its factories or because the company hires replacement workers. Union officials and workers are confronted with the seeming paradox that a union's bargaining power often depends on an employer's financial strength.

This observation explains why the major union gains in the United States were made in the 1950s and 1960s, when unionized companies were hugely profitable and growing. Consider the famous "Treaty of Detroit," the settlement of a 1950 UAW strike against General Motors that won its members generous wage and cost-of-living increases, healthcare, unemployment, pension and vacation benefits. In the 1950s, General Motors alone controlled 46 percent of the U.S. auto market on average,¹¹⁴ with a peak of 50.7 percent in 1962, according to Ward's Automotive. In 2010, General Motors' market share was 18.8 percent.¹¹⁵

Even if gains can be won from the company while the company is strong, these gains can contribute to decline in the future. For example, the "Treaty of Detroit" is largely the reason for GM's "legacy burden," which is pushing its hourly labor costs to \$55 per worker per hour, compared to \$45 an hour for its foreign rivals. A 67-day UAW strike in 1970 won GM's UAW members the ability to retire after 30 years on the job, regardless of age, as well as increased health benefits and unlimited cost-of-living adjustments. This settlement added to GM's legacy costs. It also reduced the company's competitiveness by increasing compensation without a corresponding increase in productivity.¹¹⁶ Similarly, amid the SUV-fueled profits of 1998, the 54-day strike at the Flint, Mich., metal stamping plant over issues such as work rules and outside contracting resulted in GM's shutting down 90 percent of its North American production, costing the company approximately \$2.2 billion.¹¹⁷

112 Martin Moylan, "Northwest Airlines Mechanics Vote to End Strike," *Minnesota Public Radio News*, Nov. 6, 2006, <http://goo.gl/L2RiS> (accessed July 31, 2009).

113 Associated Press, "Union: American Axle to Close Detroit Plant," (*Crain's Detroit Business*, 2009), <http://goo.gl/552uq> (accessed Dec. 18, 2011).

114 "General Motors Corporation," (*New York Times*, 2009), <http://goo.gl/DGYs> (accessed Nov. 22, 2011).

115 "U.S. Vehicle Sales Market Share by Company, 1961-2010," (*Ward's*, 2011), <http://goo.gl/tuFmO> (accessed Dec. 15, 2011). Data can be obtained by clicking "View Data."

116 Paul Ingrassia, *Crash Course* (New York: Random House, 2010), 45-46.

117 Jim Lehrer, "Hitting the Brakes," (*NewsHour with Jim Lehrer*, 1998), <http://goo.gl/nqvry> (accessed Dec. 18, 2011); Paul Ingrassia, *Crash Course* (New York: Random House, 2010), 131.

The 1959 steel strike by the United Steel Workers of America won workers a pay increase, automatic cost-of-living adjustments and generous pension and health benefits. But unknown at the time, the strike also marked the beginning of the decline for large, integrated American steel companies, such as Bethlehem Steel.¹¹⁸ The strike shut every steel plant in America, and domestic manufacturing companies had to rely on imported steel to make up the difference.

This led to a major change in American manufacturers' views. As Kenneth Warren reported in his book "Bethlehem Steel," domestic manufacturers had previously regarded imported steel as low-quality. Once they began to use imported steel during the strike, however, they realized they were wrong. Given that imported steel sold for a lower price than domestic steel, imported steel became more widely used.¹¹⁹ Hence, while imports had been only a small share of the domestic steel market prior to 1959, the United States became a net importer of steel that year, shipping in 3.3 million more tons than it shipped out.* By 1968, net imports had increased to 16.78 million tons.¹²⁰

Hence, even though a strike may result in gains for the union, these gains may only be short-term. In the long run, the company — and thus the union — may end up weaker.

A hidden cost of frequent conflict between union and management is that both may lose sight of the customer as they focus on winning battles against each other. In 2007, John Lippert, chief of Bloomberg News' Detroit bureau and a former assembly line worker at GM's Fleetwood plant, wrote, "As we GM workers clashed over benefits, speed, safety and pay, a generation of car buyers turned to Toyota Motor Corp. in search of quality."¹²¹ Lippert noted that in 1980, Toyota had 105 customer complaints per 100 vehicles, while GM had 740 and Ford had 670.¹²² He also wrote that George McGregor, president of the UAW Local 22 and a former worker at the Fleetwood assembly plant now says (in Lippert's words), "[T]he UAW should have used its power to stop GM from shipping defective cars instead of forcing it to hire unneeded workers."¹²³

Such a loss of customer focus can cause customers to flee to competitors, reducing union members' job security. As Lippert says after describing a 1976 work stoppage: "We the employees won that one. Management won others. In the end, we all lost."¹²⁴

* In contrast, in 1957, the United States exported 5.15 million more tons of steel than it imported, and in 1958, it exported 1.33 million more tons of steel than it imported. *Ibid.*, 183-84.

118 Warren, *Bethlehem Steel: Builder and Arsenal of America* (Pittsburgh: Pittsburgh University Press, 2008), 183.

119 *Ibid.*, 184, 206.

120 *Ibid.*

121 John Lippert, "The Fall of Detroit: An Insider's Tale," (Bloomberg Markets, November, 2007), http://www.bloomberg.com/apps/news?pid=nw&pname=mm_1107_story1.html (accessed Nov. 18, 2011).

122 *Ibid.*

123 *Ibid.*

124 *Ibid.*

Internal Regulation of the Workplace

Grievance Systems

Union and Nonunion Grievance Systems

Grievance systems are seen as a benefit of unionization. On the AFL-CIO Web page “Why You Need a Union,” giving workers “a say in improving their jobs” is the only benefit to unionization mentioned besides higher wages and benefits.¹²⁵

Union grievances usually proceed through a system consisting of three or four steps, with the first step being an interaction with the worker’s direct supervisor (or with a higher level authority, such as the plant manager, if the grievance is against the supervisor). The final step is binding arbitration. In their 1984 book, Harvard economists Richard Freedman and James Medoff found that on average, a union grievance system reduced quit rates as much as a 2 percent wage increase would.¹²⁶

However, the value of a grievance system is likely to vary from worker to worker, since some will use the system more than others. And despite the AFL-CIO’s implication that only a union can get you a “say” in improving your job, many nonunion companies also have grievance systems. David Lewin of UCLA, surveying the academic literature on nonunion grievance systems, finds that estimates for the fraction of nonunion companies with a grievance system range from one-third and two-thirds, and that on average, slightly more than one-half of nonunion companies have such a system.¹²⁷ In a 1980 study of nonunion grievance systems, Ronald Berenbeim cites a Conference Board survey of 652 companies with a union presence. The survey found that about 45 percent of these companies — 296 — had adopted a grievance system for their nonunion employees. The survey also included 96 nonunion companies and found that more than two-thirds of them — 66 — had a grievance system.¹²⁸

Berenbeim also notes that larger companies in the Conference Board survey were more likely to have a grievance system for nonunion employees. Eighty-eight percent of nonunion companies with more than 5,000 employees had a grievance system, while just 67 percent of nonunion companies with fewer than 5,000 employees did.¹²⁹ Similarly, 54 percent of partially unionized companies with more than 5,000 employees had a grievance system for their nonunion employees, while just 42 percent of partially unionized companies with fewer than 5,000 employees did.¹³⁰

In addition, Berenbeim also noted that the surveyed companies were more likely to have a grievance system for their nonunion employees if their workforce was less unionized. Approximately 70 percent of companies that are mostly or entirely nonunionized had a grievance system for nonunion employees, while only 35 percent of companies that are mostly or entirely unionized did.¹³¹

125 “Why You Need a Union,” (AFL-CIO, 2009), <http://goo.gl/CHwTd> (accessed Dec. 13, 2011).

126 Freeman and Medoff, *What Do Unions Do?* (New York: Basic Books, 1984), 110.

127 David Lewin, “Unionism and Employment Conflict Resolution: Rethinking Collective Voice and Its Consequences,” *Journal of Labor Research* 26, no. 2 (Spring 2005): 215-16.

128 Ronald Berenbeim, “Nonunion Complaint Systems: A Corporate Appraisal,” (The Conference Board, 1980), 4.

129 *Ibid.*, 4, Chart 1.

130 *Ibid.*

131 *Ibid.*, 5, Chart 2.

Unlike union grievance systems, which uniformly end with binding arbitration, nonunion grievance systems vary, although they share a general pattern. The most common nonunion grievance system involves an “open door,” where workers can bring concerns without fear of reprisal to their supervisor or to the next-highest authority, if the concern regards their immediate supervisor. Some companies use the policy to resolve disputes quickly on the ground level, while other companies provide a more structured process, with formal written complaints and responses.

A second, less common nonunion grievance system utilizes a series of steps that end with an appeal to the highest-ranking officer at the employee’s plant or office, with no appeal to corporate headquarters possible. Such a system is more rigid than the open door: Complaints are dealt with in writing, and each step occurs within a certain time frame. A more common system augments the open door with an appeals process that culminates in a hearing by a third party within the company, such as the chief executive officer or other company executive. In some companies, the third party may be a peer review panel that consists of a jury of workers and supervisors who hear the case and decide by majority vote.* Finally, a nonunion grievance system may replicate a union system, where the final step of the process is binding arbitration.¹³²

It is clear that a grievance system does not require a union. But how do union and nonunion grievance systems compare? Case studies find that the two systems’ outcomes are nearly identical. In a 1987 study, Casey Ichniowski of Columbia and David Lewin collected data from 106 hospitals to examine the effect of grievance systems on nursing turnover. Controlling statistically for other factors that influence nursing turnover,[†] the authors found that a union grievance system reduces turnover by 16 percentage points, whereas a nonunion grievance system reduces turnover by 14 percentage points. If third-party arbitration is the final step of the grievance system, both union and nonunion grievance systems reduced turnover by 17 percentage points.¹³³

Union and nonunion grievance systems may also be similar in their speed and thoroughness in settling grievances. In a 1987 study, David Lewin used data for a financial services company, an aerospace company and a computing equipment company to examine their nonunion grievance systems.¹³⁴ Each of the three companies began the grievance procedure with an informal open-door discussion between the employee and his or her immediate supervisor. If the grievance was not settled, it was put in writing and then moved through as many as four steps. The fifth and final step for the financial services company culminated with a written decision by the vice president of human resources. For the computer services and aerospace companies, the fourth steps were final and resulted, respectively, in a written decision by chief executive officer and in a written decision by an “adjustment board” comprised of an outside arbitrator, an employee representative and a management official.¹³⁵ Lewin found that 60 percent of the grievances filed were settled during the open-door discussion, occurring within 30 days of filing, while another 23 percent were settled at the second step, occurring within 60 days of filing.¹³⁶

* For more information on this particular form of nonunion dispute resolution, see Alexander J. S. Colvin, “Adoption and Use of Dispute Resolution Procedures in the Nonunion Workplace,” in *Advances in Industrial and Labor Relations*, ed. David Lewin and Bruce E. Kaufman (London: Elsevier, 2004), 71-97.

† These factors include items like wages, fringe benefits, job satisfaction, the regional unemployment rate and the number of nursing opportunities available in the region. The latter two measures indicate how easy or difficult a nurse would find it to land another job if he or she quit.

132 See Berenbeim, “Nonunion Complaint Systems: A Corporate Appraisal,” (The Conference Board, 1980), 7-17.

133 Casey Ichniowski and David Lewin, *Grievance Procedures and Firm Performance*, eds. Morris M. Kleiner, Richard N. Block and Sidney W. Salsburg, Human Resources and Performance of the Firm, Industrial Relations Research Association Series (Madison: University of Wisconsin, 1987), 178, Table 1.

134 David Lewin, “Dispute Resolution in the Nonunion Firm: A Theoretical and Empirical Analysis,” *The Journal of Conflict Resolutions* 31, September 1987.

135 *Ibid.*, 471, Table 1.

136 *Ibid.*, 481.

In a 1984 study, Lewin examined settlements in union companies. He found that on average, grievances were settled after 2.6 steps in a union steel company, 1.8 steps in a union retail trade company, 1.6 steps in a union nonprofit hospital and 2.1 steps in a union public school. The average speed of settlement was 28 days in a unionized steel manufacturing company, 22 days in a unionized retail trade company, 44 days in a unionized nonprofit hospital and 36 days in a unionized public school.¹³⁷ These figures appear to be comparable to those for the nonunion grievance settlements discussed above.

The similarity between union and nonunion grievance systems was further underscored by Lewin's 2005 study. Lewin found that 30 percent of grievance filings in a nonunion company are taken beyond the first step, while 2 percent are taken to the final step. Interestingly, he also found that 33 percent of grievance filings in a union company are taken beyond the first step, while 3 percent to 4 percent are taken to the final step.¹³⁸ Thus, union and nonunion grievance filings are about equally likely to proceed past the first step and make it to the final step.

Union and nonunion grievance systems appear to be equally fair, though the data on grievance systems is limited.* Lewin's 1987 study reports that employees won 46 percent of all grievance filings in the nonunion financial services company, 48 percent of all filings in the nonunion aerospace company, and 51 percent of all filings in the nonunion computing equipment company.¹³⁹ Thus, employees have approximately a 50-50 chance of winning their grievance filings in a nonunion company.

Unfortunately, Lewin does not report grievance "win rates" for the union companies in his 1984 study. Instead, he reports how local union officials perceived the "equity of the settlement" on a scale from "1" to "10," with "1" being very inequitable and "10" being very equitable. Average equity of the settlement in the view of local union officials was 4.6 at the unionized steel manufacturing company, 6.2 at the unionized retail trade company, 3.6 at the unionized nonprofit hospital, and 5.1 at the unionized public school.¹⁴⁰ These middle-of-the scale ratings between "very equitable" and "very inequitable" suggest something like the roughly 50-50 win rate found by Lewin for nonunion companies.†

The similarity between union and nonunion grievance systems is not surprising given the likely motivations behind a nonunion grievance system. As one executive told Ronald Berenbeim, "We did not develop this procedure because we are nice, but because we want the nonunion employees to stay that way. ... We know that we have provided employees with a vehicle because the union organizer says the system is good."[‡]

This motive can also be seen in a 1980 survey of companies by The Conference Board. In the survey, 60 percent of companies that said that preventing new unionization was their most important labor relations priority had a grievance

* Grievance systems can vary subtly from company to company, making general comparisons difficult. Moreover, outcome data for grievance systems is not centrally gathered, confining studies of grievance systems to case studies of a limited number of companies.

† Specifically, if we assume the equity of the settlement as perceived by local union officials is positively correlated with the percentage of grievances won by employees (with local union officials more likely to view grievance settlements won by employees as "equitable"), then the "win-rates" between union and nonunion grievance filings are similar.

‡ Berenbeim, "Nonunion Complaint Systems: A Corporate Appraisal," (The Conference Board, 1980), 5. A union organizer is an individual attempting to unionize nonunion workers.

137 ———, "Empirical Measures of Grievance Procedure Effectiveness," *Labor Law Journal* August 1984, no. 35 (1984): 492, Table 1.

138 ———, "Unionism and Employment Conflict Resolution: Rethinking Collective Voice and Its Consequences," *Journal of Labor Research* 26, no. 2 (Spring 2005): 219-20.

139 ———, "Dispute Resolution in the Nonunion Firm: A Theoretical and Empirical Analysis," *The Journal of Conflict Resolutions* 31, September 1987 (1987): 487, Table 8.

140 ———, "Empirical Measures of Grievance Procedure Effectiveness," *Labor Law Journal* August 1984, no. 35 (1984): 492, Table 1.

system, while only 25 percent of companies that did not say this had such a system.¹⁴¹ Another executive surveyed by The Conference Board stated that once implemented, management was committed to a nonunion grievance system because: “Unless you have the dedication of the total management system from the top, you’re going to fail — and fail miserably. Without this dedication, it will be worse than if you have never had a system.”¹⁴²

Thus, if having a grievance system is a primary goal of workers who are thinking of unionizing, companies may be willing to implement one of similar quality. Additional reasons cited by companies for implementing a nonunion grievance system include reducing employee discontent, increasing worker productivity and giving higher-level managers information about how to improve the production process.¹⁴³

Other Issues Regarding Grievance Procedures

The value of grievance systems to the employee has declined somewhat due to court decisions. Many state courts have held that company policies, handbooks and oral promises form an “implied contract” by creating employee expectations of due process.* If a company fires an employee, it can be held liable by a court for violating this implied contract. States have also held that if an employer hires someone for an indefinite period, agrees to fire the employee only under certain circumstances or has policies describing proper discharge procedures, the company has lost the right to terminate the employee “at will.”

Likewise, courts have found that implied contracts can arise when an employee pays for job training in advance, turns down other offers of employment, makes unusual sacrifices for work, accrues many years of service or receives expressions of satisfaction with his or her work. In Michigan, the courts have found that even if an employee signs a statement acknowledging that he or she is employed “at-will,” the company loses its right to terminate at will if it assures employees that satisfactory work will protect them from being fired or that specific procedures will be followed before they are fired. Thus, a union is not necessary to avoid being terminated at will, and a grievance procedure is not necessary to prevent employees from being summarily discharged.[†]

Finally, employees have to evaluate whether or not filing a grievance is an effective mechanism for “having a say” in their jobs. Intuitively, a grievance system would make it easier for employees to get their problems rectified with management, but studies suggest the reality is more complex. For example, in a 1999 study of four unionized companies, David Lewin and the University of Washington’s Richard Peterson found that following a grievance settlement, grievance filers’ turnover increased and their performance ratings, promotion rates and attendance rates decreased, despite similar records for filers and non-filers prior to the filing and settlement.¹⁴⁴ Likewise, in a 1996 study, Julie Olson-Buchanan found that unionized workers who filed grievances had worse job performance ratings than nonfilers after the grievance settlement.¹⁴⁵

* This point is more fully developed in Brian Heshizer, “The Implied Contract Exception to At-Will Employment,” *Labor Law Journal* 35, no. 3 (March 1984).

† Brian Heshizer, “The Implied Contract Exception to At-Will Employment,” *Labor Law Journal* 35, no. 3 (March 1984): 135-136. In a 1984 study, George R. Neumann and Ellen R. Rissman, both of Northwestern University, found that unionization rates are approximately 7 percent lower in states with an implicit-contract exception to “employment at will” than in states without one. George R. Neumann and Ellen R. Rissman, “Where Have All the Union Members Gone?,” *Journal of Labor Economics* 2, no. 2 (April 1984): 188, Table 6. This suggests that the implicit-contract exception decreases the demand for union protection by providing an alternative safeguard against being fired without cause.

141 Berenbeim, “Nonunion Complaint Systems: A Corporate Appraisal,” (The Conference Board, 1980), 5.

142 *Ibid.*, 6.

143 *Ibid.*, 3.

144 David Lewin and Richard B. Peterson, “Behavioral Outcomes of Grievance Activity,” *Industrial Relations* 38 (October 1999).

145 Julie B. Olson-Buchanan, “Voicing Discontent: What Happens to the Grievance Filer after the Grievance?,” *Journal of Applied Psychology* 81 (January 1996).

A similar outcome is observed in nonunion settings. David Lewin's 2005 study reviewed the literature on nonunion grievance procedures and found that nonunion grievance filers had worse job performance evaluations, promotion rates and work attendance than nonfilers, despite comparable records prior to the filing.¹⁴⁶

There are many possible reasons grievance filings might undermine a filer's work environment. For instance, management might be dubious about workers who file grievances. Alternatively, the events that triggered the grievance could cause the employee to re-evaluate a previously friendly working arrangement. A worker who had viewed his or her employer favorably might become less enthusiastic or even resentful, particularly if the employer won the grievance.

Whatever the reason may be, it is clear that a grievance system is not necessarily a panacea for workers. The formalized process of setting a dispute may generate bad feelings on both sides. Freeman and Medoff report that union workers are more dissatisfied with their jobs than nonunion workers. In four out of the five data sets they evaluated, union members report having lower job satisfaction than nonunion members, with the other data set indicating that union membership has no effect on job satisfaction.¹⁴⁷ Harvard economist George Borjas finds that belonging to a union makes a worker 8.7 percent less likely to report liking his or her job "very much," and that belonging to a union makes a worker 3.0 percent less likely to like his or her job "very much" or "fairly well."¹⁴⁸

The problem does not appear to be wages and benefits. Freedman and Medoff found that union workers are as satisfied with these as nonunion workers; unfortunately, they appeared more dissatisfied with their relationships with supervisors. Compared with nonunion workers, union workers in major employment surveys were less likely to agree, "My supervisor offers new ideas for solving job related problems," "My supervisor pays attention to what you're saying," or "My supervisor encourages those he/she supervises to exchange opinions and ideas."¹⁴⁹

Of course, it is likely that unions form at companies that have bad employee-management relations to begin with. In fact, out of the nine studies examined by Freeman and Medoff about why workers vote to unionize, five found employees' dissatisfaction with their relationship with management to be a significant stand-alone cause separate from other issues, such as dissatisfaction with compensation.¹⁵⁰ They also report that, according to the 1977 Quality of Working Conditions survey, only 20 percent of workers who were "very satisfied" with their jobs said they would vote for a union in an NLRB certification election, and just 40 percent of workers who were "somewhat satisfied" would. In contrast, 61 percent of workers who were "not too satisfied" would vote for a union, and 77 percent of workers who were "not at all satisfied" would.¹⁵¹

146 Lewin, "Unionism and Employment Conflict Resolution: Rethinking Collective Voice and Its Consequences," *Journal of Labor Research* 26, no. 2 (Spring 2005): 224-25.

147 Freeman and Medoff, *What Do Unions Do?* (New York: Basic Books, 1984), 139, Table 9-2.

148 George J. Borjas, "Job Satisfaction, Wages, and Unions," *The Journal of Human Resources* 14, no. 1 (Winter 1979): 26-27.

149 Freeman and Medoff, *What Do Unions Do?* (New York: Basic Books, 1984), 142.

150 *Ibid.*, 147, Table 9-6.

151 *Ibid.*, 148, Figure 9-1.

It is possible that satisfaction at these jobs is higher with the union than without. However, the data does suggest that even if a union is voted in, noticeable dissatisfaction remains.

Freeman and Medoff attribute the relative dissatisfaction in the unionized workplace to the forum that a union provides workers for complaining about problems. The authors point out that there is a lot of complaining in democracies, but a lack of complaining in dictatorships.¹⁵²

Borjas attributes worker dissatisfaction to the “politicization” of the workforce, where workers, particularly senior workers, voice discontent to make employers aware of what is wrong with their jobs.¹⁵³ He found that the longer the union worker was on the job, the less likely he or she was to report being satisfied with his or her job compared to a nonunion worker. In particular, the union worker was 0.4 percent less likely each year compared to a nonunion worker to report liking his or her job “very much.”¹⁵⁴

On one hand, then, unions may at least allow problems and complaints to be aired, rather than leaving them bottled up. On the other hand, unions may be unable to improve worker job satisfaction.

Further evidence that unions do not fully improve the relationship between workers and supervisors comes from the fact that relations were notoriously volatile between large labor unions and unionized companies. Even though unions had garnered considerable concessions, such as the benefits won by the UAW in the “Treaty of Detroit,” relations between management and labor were never particularly good. Negotiations between labor and management frequently broke down and led to strikes. As shown in Graphic 16 (see Page 26), a large fraction of union members were on strike in a given year, and a significant share of union work time was lost to strikes when union membership was at its peak.

Moreover, employee grievances may sometimes be used less to express employee workplace concerns than to provide a negotiating tool against the company. Auto journalist Paul Ingrassia reports in his book “Crash Course” that shortly before the UAW’s 1998 strike against General Motors in Flint, Mich., the number of grievances in the affected factories rose from six to 259, and “most of them were blatantly bogus.”¹⁵⁵

To summarize, workers who are dissatisfied with their jobs appear more likely to state that they would vote for unionization in a certification election. Nevertheless, unionized workers report above-average levels of dissatisfaction in their relationship with management, and the introduction of a union does not substantially improve the relationship between workers and supervisors.

152 Ibid., 140.

153 Borjas, “Job Satisfaction, Wages, and Unions,” *The Journal of Human Resources* 14, no. 1 (Winter 1979): 25, 30, 38.

154 Ibid., 31, Table 4.

155 Ingrassia, *Crash Course* (New York: Random House, 2010), 130.

Work Rules

Unionized workplaces are usually governed by rules negotiated with management during collective bargaining. Graphic 17, based on data from the U.S. Bureau of Labor Statistics, illustrates that in 1980, the majority of union contracts covering 1,000 workers or more had work rules restricting the company's subcontracting and the work that could be performed by workers outside the bargaining unit.¹⁵⁶ About one-fifth of these union contracts had restrictions regarding the size of work crews on a job; only a small percentage of the contracts had explicit restrictions on the weight an individual worker was permitted or required to lift. Though these findings date to a time when unions commanded a larger share of the U.S. workplace than they do now, many unions still have negotiated significant work rules into contracts, as Ford's 2,215-page contract with the UAW in 2007 illustrates.¹⁵⁷

Graphic 17: Percentage of Major Union Contracts With the Following Work Rules, 1980

Work Rule	All Union	Manufacturing	Nonmanufacturing
Subcontracting provisions	58.1	53.2	62.6
Subcontracting limited	57.1	52.1	61.8
Subcontracting prohibited	0.6	0.3	0.9
Subcontracting not limited	0.4	0.8	0
Limiting or regulating crew size	22.1	9.87	33.5
Limits on the amount of weight an employee may lift	2.8	1.7	3.9
Restrictions on work by personnel outside of the bargaining unit	62.8	77.6	48.9

Source: Bureau of Labor Statistics, *Characteristics of Major Collective Bargaining Agreements*, January 1, 1980, Tables 7.3, 7.5. "Major" union contracts were those covering 1,000 workers or more.

The BLS publication that includes this data also indicates that the language in the agreements is "complicated and elusive, and often is submitted to arbitration for interpretation."¹⁵⁸ A similar picture of union work rules emerges from a survey of labor and management representatives by Robert Kaufman of Bain and Company and Roger Kaufman of Smith College in a 1987 study.¹⁵⁹ Graphic 18 reports the authors' survey findings for work rules in 16 union and 21 nonunion automotive companies.¹⁶⁰ As seen from the graphic, over half of the union companies "usually" or "occasionally" prohibited production workers from doing the work of another, while no nonunion companies did. In addition, if no work was available for a union employee, 43.8 percent of the union companies redeployed the worker based on reassignment rules, kept the worker on site without a task or sent the worker home with pay.¹⁶¹

In contrast, if no work was available for an employee in a nonunion company, over 90 percent of the companies either freely reassigned a worker to a new job or sent the worker home without pay. Moreover, all nonunion companies surveyed allowed a supervisor to perform production work, while less than half of union companies let them do so.¹⁶²

As seen from the graphic, the UAW seems to be more restrictive than other unions. Although only 31.3 percent of union contracts "usually" prohibited production workers from doing the work of others, 57.1 percent of UAW contracts did.

¹⁵⁶ "Characteristics of Major Collective Bargaining Agreements, January 1, 1980," (Washington, D.C.: Bureau of Labor Statistics), Tables 7.3, 7.5.

¹⁵⁷ LaborPains.org, "22 Pounds of UAW Work Rules and Regulations," in Carpe Diem, ed. Mark J. Perry (2008), <http://goo.gl/bXUmn>, (accessed Dec. 16, 2011)

¹⁵⁸ "Characteristics of Major Collective Bargaining Agreements, January 1, 1980," (U.S. Bureau of Labor Statistics, 1980), 1.

¹⁵⁹ Robert S. Kaufman and Roger T. Kaufman, "Union Effects on Productivity, Personnel Practices, and Survival in the Automotive Parts Industry," *Journal of Labor Research* 8, no. 4 (Fall 1987).

¹⁶⁰ *Ibid.*, 338, n. 3.

¹⁶¹ *Ibid.*, 343, Table 3.

¹⁶² *Ibid.*

The same majority of UAW contracts stipulated that employees without work to do remained on the job, were sent home with pay or were reassigned according to reassignment restrictions — a contrast with all union and nonunion companies, where just 43.8 percent and 9.5 percent did, respectively.¹⁶³

Graphic 18: Percentage of Union and Nonunion Companies With Various Work Rules

Work Rule	All Union	UAW	Nonunion
In certain spontaneous, on-the-spot situations, nonsafety rules:			
1) usually prohibit production workers from doing the work of another	31.3	57.1	0
2) occasionally prohibit production workers from doing the work of another	25.0	0	0
3) never prohibit production workers from doing the work of another	43.8	42.9	100
If no work is available for a job at some time, the production worker:			
1) is reassigned to any job for which he has skills or is sent home without pay	56.3	42.9	90.5
2) is reassigned according to skills and reassignment restrictions, remains on the job even with no work, or is sent home with pay	43.8	57.1	9.5
Supervisors are allowed to perform production work other than for purposes of demonstrations	46.7	42.9	100

Source: Kaufman and Kaufman, Page 343, Table 3.

The work restrictions are well-intentioned and designed to protect the worker. On the surface, for instance, preventing supervisors from performing line work appears to be a good way to protect line workers' jobs. But this protection comes at the cost of making a company inflexible, putting it at a competitive disadvantage with companies that do not face this prohibition. As a result, unionized companies that prevent supervisors from doing line work may sometimes experience disruptions in production and sustain financial losses that ultimately threaten line workers' jobs anyway.

In general, work rules do carry such risks. For example, in early 2007, the consulting firm Harbour-Felax found that work rules, line relief and holiday pay cost the three Detroit automakers \$630 per vehicle. Paying nonworking UAW members after a plant closes added another \$350 per vehicle.¹⁶⁴ These work rules and contract restrictions cost the unionized Detroit automakers \$980 per vehicle — an expense their nonunionized competitors did not bear.

Indeed, according to a study by the consulting firm AlixPartners, the Big Three must maintain 8,200 more assembly jobs than they would if their plants had the flexibility of Toyota's plants, with the discrepancy being 50 percent to 70 percent higher if nonassembly jobs of stamping, power-train and other manufacturing operations were included.¹⁶⁵ These work rules help explain why labor hours per vehicle have typically been higher at General Motors, Ford and Chrysler than at most of their nonunion competitors. That is, these added costs don't appear to be offset by increased productivity. In 2007, Toyota, Honda and Nissan took 30.37, 31.33, and 32.96 total labor hours, respectively, to build a car, including assembly, stamping, and transmission. In the same year, it took Chrysler, General Motors and Ford 30.37, 32.29 and 33.88 labor hours, respectively, and these figures were significantly improved from the Big Three's badly lagging 37.42, 35.20 and 38.60 total labor hours, respectively, just four years before.¹⁶⁶

163 Ibid.

164 Alan Taylor III, "Behind Ford's Scary \$12.7 Billion Loss," CNNMoney.com/FORTUNE, Jan. 26, 2007, <http://goo.gl/asV7l> (accessed Dec. 17, 2011).

165 Jui Chakravorty, "Auto Industry Seen Remaining Private-Equity Target," (Reuters, 2007), <http://goo.gl/6tFzS> (accessed Dec. 17, 2011).

166 "The Harbour Report: North America 2008," (Oliver Wyman, 2008), 24, <http://goo.gl/bA0mc> (accessed Dec. 17, 2011).

Despite productivity comparable to the Japanese companies, Ford, General Motors and Chrysler continued to be in the red in 2007, with Ford losing \$1,467 per vehicle produced; General Motors, \$729 per vehicle produced; and Chrysler, \$412. In contrast, during the same year, Toyota earned a profit of \$922 per vehicle produced, while Honda and Nissan each earned a profit of \$1,641 per vehicle produced.¹⁶⁷

It is difficult for a unionized company operating under restrictive work rules to compete with a nonunionized company that does not bear these costs. Indeed, Steven Allen, an economist at North Carolina State University, wrote in a 1988 working paper for the National Bureau of Economic Research: “Union and nonunion managers alike almost always claim that the biggest advantage to remaining nonunion is flexibility. Occupational jurisdictions and contract provisions limit the ability of managers to optimally assign workers to jobs.”¹⁶⁸

Perhaps the most striking example of a restrictive work rule harming a company’s competitiveness was the “past practices” clause in Bethlehem Steel’s union contract. This clause, implemented in 1956, guaranteed that staffing levels for particular tasks would not be altered, even if the tasks could now be performed by machines.¹⁶⁹

Again, the intentions behind this clause were certainly noble from the workers’ perspective, and at first, the company’s resulting competitive disadvantage did not matter, since the U.S. steel market was dominated by a handful of large unionized companies. However, the market changed in the 1960s with the importation of low-cost, high-quality steel from Japan, and particularly later, with the rise of domestically owned “minimills” in the U.S. market. Minimills were small, nonunionized U.S.-owned steel plants that could take advantage of their low structural costs and flexibility in production to gain market share.

In July 1991, Bethlehem Steel attempted a joint operation with British Steel in order to compete with the minimills in the production of beam steel. The feasibility of the project was predicated on the United States Steelworkers Association’s accepting changes in staffing levels, modifications to work rules and a 2000-person reduction in the workforce. The USWA refused, a decision that killed the deal, according to British Steel Chairman Bob Scholey.¹⁷⁰ As a result, Bethlehem Steel ended iron and steel operations at its facility in Bethlehem, Penn.

Hence, while work rules may seem to affect only the company’s internal workings, they can have a broader impact. Technically, major business decisions are not collectively bargained between the union and company, but the effects that such decisions have on worker job security or economic well-being are mandatory subjects of bargaining.¹⁷¹ This bargaining requirement, however well-intentioned, may lead to work rules that place the company at a competitive disadvantage with its competitors and interfere with business decisions affecting the company’s

167 *Ibid.*, 25.

168 Steven G. Allen, “Human Resource Policies and Union-Nonunion Productivity Differences: Working Paper No. 2744,” (National Bureau of Economic Research, October 1988), 8.

169 Warren, *Bethlehem Steel: Builder and Arsenal of America* (Pittsburgh: Pittsburgh University Press, 2008), 203-04.

170 *Ibid.*, 242.

171 William H. Holley, Kenneth M. Jennings, and Roger S. Wolters, *The Labor Relations Process* (Cengage Learning, 2008), 269-70.

survival, as at Bethlehem Steel. This has the unfortunate effect of reducing workers' long-term job security, rather than increasing it.

A similar instance occurred with the Big Three. During contract negotiations in 1984, the UAW was worried about the effect automation would have on workers' job security. To address this concern, General Motors implemented a "jobs bank" that paid workers displaced by factory automation 95 percent of their current wages until a new job was found for them. Ford and Chrysler followed suit.¹⁷² By 2005, General Motors was paying \$800 million per year to workers in the jobs bank, a cost not shared by their Japanese competitors.¹⁷³

These costs were one more factor in GM's bankruptcy in 2009. As with the case of Bethlehem Steel, even though a union may insist on work rules that seem beneficial to the worker, the reverse can also prove true. Work rules have costs as well as benefits, and if these costs hamper a company's ability to compete against other firms, employees may find their jobs at risk.

Seniority Rules

Union companies are much more likely to rely on seniority lists than nonunion companies do when making human resource decisions. The effect of seniority on the individual worker is mixed.

On one hand, seniority rules clearly benefit the most senior members in terms of job security and opportunities for promotion. According to the 1977 Quality of Employment Survey, 55 percent of union workers with 20 or more years of service at a job viewed their job security as being good, whereas only 33 percent of nonunion workers with 20 or more years of service did (see Graphic 19).¹⁷⁴

However, the advantage union employees have in perceived job security disappears and even reverses for workers with less experience. Among employees with 10 to 20 years on the job, 40 percent of union workers viewed their job security as being good, and 39 percent of nonunion workers shared that view. Similarly, the percentages for union and nonunion workers were about equal for employees with between zero and three years of experience — 27 percent and 28 percent, respectively. But among employees with three to 10 years on the job, 34 percent of union workers viewed their job security as good, compared to 41 percent of nonunion workers.¹⁷⁵ Thus, seniority rules may increase a sense of job security only for the most senior workers and actually reduce the perceived job security for less-senior workers.

172 Ingrassia, *Crash Course* (New York: Random House, 2010), 87.

173 *Ibid.*, 173.

174 Freeman and Medoff, *What Do Unions Do?* (New York: Basic Books, 1984), 127, Figure 8-1.

175 *Ibid.*

Graphic 19: Employees' Experience on the Job and Perceived Job Security

Years of Experience	Percentage Who Said They Had "Good" Job Security	
	Union Employees	Nonunion Employees
More than 20 years	55	33
10-20 years	40	39
3-10 years	34	41
0-3 years	27	28

Source: Freeman and Medoff, Page 127, Figure 8-1.

Unionized companies typically use seniority to determine who will be laid off. Graphic 5 illustrates that young, unionized male workers are more likely to be placed on permanent layoff than their nonunion counterparts. However, senior unionized male workers are only about half as likely to be placed on permanent layoff as their nonunion counterparts. Freeman and Medoff attribute this difference in layoff rates between young and senior workers to union leaders' making wage concessions to save jobs only when the company is threatened by mass layoffs or plant closings, since senior members' jobs, not just junior members' jobs, are in jeopardy in these cases.¹⁷⁶

Thus, the job security enjoyed by unions because of seniority rules carries a cost for junior workers. In addition, the wage concessions agreed to by unions often affect the younger members the most. The two-tier wage system that usually results from wage concessions allows new workers to be hired at a lower wage, one that is prevented from rising to the level of current members' wages. Such a system protects the wages of senior union members, while allowing the company to reduce its labor costs and improve its profitability, especially in the long run, as older workers retire.

Unions frequently consent to such a system. As reported by Audrey Freedman based on 1983 survey data, 80 percent of companies that sought a two-tiered wage system were able to get one.¹⁷⁷ Likewise, the Big Three automakers were able to bargain a two-tier wage system in 2007.¹⁷⁸

Unionized companies are also much more likely to rely on seniority when making promotion decisions, according to reviews by Freeman and Medoff and by Kaufman and Kaufman (see Graphic 20). True, seniority may hardly ever be the sole factor when it comes to promotions, as only 6 percent of union companies reported that they always promoted the most senior employee in a survey by Kaufman and Kaufman.¹⁷⁹ Moreover, Freeman and Medoff report that 43 percent of managers at union companies stated that a junior candidate would be promoted over a senior candidate as long as the junior candidate were "significantly better," while 25 percent of those managers said they might promote a junior candidate over a senior one if the junior one were "better."¹⁸⁰

¹⁷⁶ Ibid., 115.

¹⁷⁷ Freedman, "The New Look in Wage Policy and Employee Relations," (New York: The Conference Board, 1985), 12, Table 4.

¹⁷⁸ Joseph Szczesny, "UAW Faces Revolt over Two-Tier Wages," (The Detroit Bureau, Aug. 16, 2011), <http://goo.gl/aVIYS> (accessed Dec. 18, 2011).

¹⁷⁹ Robert S. Kaufman and Roger T. Kaufman, "Union Effects on Productivity, Personnel Practices, and Survival in the Automotive Parts Industry," *Journal of Labor Research* 8, no. 4 (Fall 1987): 343, Table 3.

¹⁸⁰ Freeman and Medoff, *What Do Unions Do?* (New York: Basic Books, 1984), 128.

Still, in union companies, seniority is usually a factor and is often the most important consideration. Reviewing several sources, Freeman and Medoff found that little over half of all companies — both union and nonunion — stated that seniority is a “factor” in promotions, while more than 70 percent of union contracts did. Similarly, while only 12 percent of all companies listed seniority as a major factor in promotions, 45 percent of union contracts listed it as the most important factor.¹⁸¹ Likewise, Freeman and Medoff recount that one-third of managers in unionized companies said they would never choose a junior candidate for promotion over a senior candidate, even if the junior candidate were “significantly better” than the senior candidate.¹⁸² Additionally, as seen from the table, seniority was often used to break a tie in promotions in unionized companies, especially in UAW companies, according to Kaufman and Kaufman.¹⁸³

Graphic 20: Percentage of Union Companies/Contracts/Managers With Various Seniority Policies

Seniority Policy	Nonunion	All Union	UAW
The senior employee is always promoted	0	6.3	0
If all employees are of roughly equal ability, the senior employee has the first option in promotion	23.8	62.5	85.7
The most able employee is always promoted	76.2	31.3	14.3
Seniority is a “factor” in promotions	N/A	70*	N/A
Seniority is the “most important factor” in promotions	N/A	45	N/A
A junior employee would never be promoted over a senior employee, even if junior employee were much better for the job	12	33	N/A
A junior employee would be promoted over a senior employee if junior employee were “significantly better”	N/A	43	N/A
A junior employee might be promoted over a senior employee if junior employee were just “better”	N/A	25*	N/A

*Approximate figures; Freeman and Medoff actually specify “more than 70 percent,” and “nearly a quarter.”

Sources: Data for the first three responses come from surveys administered in Kaufman and Kaufman, Page 343, Table 3. Remaining data come from Freeman and Medoff, Pages 127-128, citing two sources. Union figures are for companies, contracts or managers, depending on the source.

Whether these seniority rules are a good thing depends on a worker’s preferences. Workers may find seniority rules beneficial if they fear promotions based on favoritism rather than merit, or if they have a special respect and concern for older workers. On the other hand, they may find it frustrating to wait in line for their turn in promotions if they are younger and looking to rise rapidly through the company ranks.

Workers might find it especially troubling if prior to forming a union, promotions are based primarily on merit, while after forming a union, promotions are based primarily on seniority. As illustrated by Graphic 20, 76.2 percent of nonunion companies claimed that the most able employee is always promoted, compared to only 31.3 percent of union companies and 14.3 percent of UAW companies. If this is true in general, then the productivity of union companies may suffer compared to that of nonunion companies, reducing the company’s competitiveness with its nonunion rivals and decreasing the job security of union members, particularly the youngest.

181 Ibid., 127-28.

182 Ibid., 128.

183 Robert S. Kaufman and Roger T. Kaufman, “Union Effects on Productivity, Personnel Practices, and Survival in the Automotive Parts Industry,” *Journal of Labor Research* 8, no. 4 (Fall 1987): 343, Table 3.

Conclusion

Like most other choices, the decision to unionize has both costs and benefits, with important trade-offs involved. Union workers on average do earn higher wages and benefits than nonunion workers, but with the trade-off of risking lower job security in the long run, as the higher wages and benefits render their companies less competitive with nonunion rivals.

Given that global competition is fierce, unionized companies cannot pass their higher labor costs on to consumers in the form of higher prices, since this price increase will not necessarily be matched by their nonunion competitors. This means the unionized company's only other option to reduce labor costs is to shrink the size of its workforce. As seen from the earlier chapter on "Employment," union employment in the private sector of the economy has shrunk, while nonunion employment has grown. This is also seen by looking at specific industries, such as manufacturing and retail trade, where union employment has declined while nonunion employment has grown or contracted more slowly. Even in the public sector, where overall employment has been rising and unions face less pressure from nonunion competition, nonunion employment gains have far outpaced union employment gains at the federal, state and local level.

And even though it is less probable than it once was, a union can still go on strike. Sometimes these strikes lead to better contracts from the workers' perspective. Nevertheless, while on strike, individual workers lose their weekly pay and earn "strike pay" — a small fraction of their regular wage. This loss of income can be financially difficult for the worker and in some cases may yield no long-term financial gains for the worker, as in the strikes against Northwest Airlines and American Axle.

Many nonunion companies have grievance procedures, and evidence suggests outcomes for the workers are similar to those in union grievance procedures. The available evidence also suggests that union and nonunion grievance procedures are not an effective way for workers to resolve their concerns with management. Even if a grievance procedure protects a union or nonunion worker from being fired, a worker is likely to log lower attendance rates, performance evaluations and promotion rates than before he or she filed a grievance. Additionally, court decisions that have given employees legal protection from being fired "at will" in some states have likely reduced the value of grievance procedures to workers over time.

Finally, unions operate under a much more regimented work environment than nonunion companies, particularly with job classifications and assignments, and the role of seniority in promotions and layoffs. Depending on the individual worker's preferences, he or she may find this either frustrating or beneficial. On the other hand, if managers cannot flexibly assign workers to jobs, or if the company is promoting senior workers while its competitors are promoting

workers based on merit, the union company's ability to quickly respond to the competitive forces of the marketplace will be hindered.

Unions saw their greatest gains immediately following World War II. Major sectors of the U.S. market were dominated by a handful of companies. These businesses faced no meaningful international competition, which was hampered by high transoceanic transportation costs, the stifling effect of half of the world living under communism, and the commercial vacuum left by Europe's and Japan's industrial infrastructures' lying in rubble following the war.

At present, there is significant nonunion competition in the U.S. market, even in traditionally union-dominated industries, such as autos, steel and transportation. Low international transportation costs augment this competition. Because of this, union companies have trouble passing their higher costs on to consumers via higher prices.

Given the structural changes that have occurred since World War II, it would be a mistake to assume that the union gains made in the early and middle parts of the 20th century would recur if public policy made it easier for unions to become certified in a company. Regardless of changes to public policy, a union that is successful in bidding wages well above their market level in today's competitive environment can expect its employment to shrink.

Thus, for workers debating whether to vote for a union, there is much to consider in terms of the costs and benefits of unionization. Unionization will affect many aspects of their jobs and their interactions with their employer, and it will do so for each member of their bargaining unit, regardless of that member's view of the union. New hires who may never vote will also be represented by the union. Given the prominence of both our work and our coworkers in our daily lives, the decision to unionize should be careful and informed.

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Executive Summary*

Workers face an important decision when they are asked to vote on unionizing their workplace. A union will represent them in their interactions with their employer, affecting their wages, benefits, promotions, layoffs, work procedures and workplace dispute resolutions. In many states, workers will also owe some form of financial support to the union.[†] If they formally join the union (as opposed to simply being represented by it), they will be subject to legally binding union rules regarding, among other things, whether to strike or cross a picket line.

To help workers make an informed decision, this study reviews the effects of unionization, both in the private and public sector. The study's emphasis, however, is on private-sector industrial unions.

Compensation. Unionized employees generally earn higher wages than nonunionized employees in comparable jobs — approximately 17 percent more on average between 1973 and 2001, according to a study by David Blanchflower and Alex Bryson. In the private sector, however, this percentage has generally decreased since 1973. Thus, private-sector workers joining a union may receive higher wages, but those wages may grow more slowly over time. Private-sector nonunion wages have grown more quickly on the whole from 1979 to 2011; the same is true of private-sector nonunion total compensation.

In the public sector, the wage advantage for unionized employees has increased somewhat, from an average of 13 percent in the period from 1983 to 1988 to an average of 15 percent from 1996 to 2001. Public-sector unions encounter less direct nonunion competition.

Union workers are more likely to receive fringe benefits, and generally, fringe benefits comprise a higher percentage of total compensation for a union worker than for a nonunion worker — 39 percent vs. 28 percent, respectively. Federal statistics gathered in 2006 show that union workers were much more likely to receive health insurance, short-term disability insurance, vision insurance and dental benefits than nonunion workers. They were somewhat more likely to receive paid leave of various kinds, including leave for funerals and jury duty, and they were also much more likely to participate in a traditional pension plan.

The value of many fringe benefits, such as health insurance, tends to be higher for older workers, and Richard Freeman and James Medoff found that unionization may raise the availability of paid leave for older workers more than for younger workers. In addition, the value of traditional pension plans to the worker may be somewhat tempered by the widespread underfunding of the plans, both in the private and public sectors, reducing the plans' security. Providing retirement benefits can also cause a company to assume long-term financial liabilities that threaten its financial health. In a bankruptcy, pension benefits can be reduced, as can the number of jobs and level of compensation for current workers.

* Citations for the findings summarized here are provided in the study's main text.

† Financial support will not be mandatory for workers living in states with so-called "right-to-work" laws.

Contracts. Unionization does not guarantee a collectively bargained contract. An employer is compelled only to bargain in “good faith” with the union. One estimate suggests 15 percent of newly formed unions are unable to reach a contract within two years; another places the figure at 45 percent.

Layoffs. Layoffs can also affect compensation. In general, among males, union workers are more likely to be placed on temporary layoff than nonunion workers, based on Census Bureau data for 2002 through 2008. Male union workers are, however, less likely to be placed on permanent layoff than nonunion male workers, unless they are men ages 19 to 24. These young men may face higher permanent layoff rates in unions than outside them due to unions’ emphasis on seniority.

Employment. The higher total compensation that union workers receive — \$11.14 more per hour in September 2011, according to federal labor statistics — is a cost to the company. Two separate studies found that the stock market responds to a successful union certification vote by lowering a company’s equity by more than \$40,000 per worker. This drop in investor confidence signals an expectation that higher labor costs will lower a company’s profitability. Evidence for this view was on display during the bankruptcies of unionized companies like General Motors and Bethlehem Steel in the auto and steel industries, areas of traditional union strength.

Reduced profits affect a company’s ability to offer new jobs or even retain current ones. Over the past 60 years, nonunion employment gains have considerably exceeded union employment growth. Between 1950 and 2010, the total number of jobs in the U.S. economy nearly tripled from 45 million to 130 million, while union membership fell from 33 percent of the workforce to 11 percent. Despite public-sector union gains, total union membership is at its lowest level since 1950.

This decline reflects the end of the post-World War II dominance of large unionized firms that faced little domestic or foreign nonunion competition. Nonunion competition has accelerated since the 1960s, and although the resurgence of Japanese and European imports has played some role in this, domestic nonunion competition has been particularly vigorous. Changes in government policy toward imports are unlikely to affect this dynamic, nor can these declines be explained by changes in government policy toward private-sector unions.

In the public sector, where union employment rose by 8 percent between 1992 and 2010, nonunion employment still rose more quickly, by 22 percent. Even at specific levels of government — federal, state and local — since 1996, nonunion employment growth has outpaced that of union employment, which actually fell in the federal government, while rising more slowly at the state and local level. Hence, even in the public sector, union employment faces nonunion competition, including an increase in private contracting of government activities.

Strikes. The chances of a strike have declined considerably since 1948. From 1948 to 1979, more than 5 percent of U.S. union members typically went on strike in a given year. This percentage has generally declined since the 1980s and has been particularly low since 2001, with 0.6 percent, 0.5 percent and 1.2 percent of workers striking during 2005, 2006 and 2007, respectively. A 1983 survey of unionized companies indicates that they had become less afraid of strikes and more concerned about high and uncompetitive labor costs.

During a strike, a union can penalize a union member for crossing a picket line and continuing to work, though it cannot punish workers whom it represents but who have not formally joined it. Also during that time, workers do not receive pay from their employer; instead, they receive “strike pay” from the union. This strike pay is typically less than their usual income. During the American Axle strike in 2008, the United Auto Workers union reportedly disbursed strike pay of \$200 per week.

Ideally, a union worker will recover any financial losses during a strike by the income from a better contract. The 1970 UAW strike at General Motors, for instance, won workers a milestone contract with generous retirement benefits. Nevertheless, a better contract is not guaranteed. In the 2005 Northwest Airlines mechanics strike and the 2008 American Axle strike, workers ultimately received substantial wage and benefit cuts similar to what the company had proposed before the strike. The number of jobs available declined as well.

During a strike, a company’s customers may turn to other suppliers. During the 1959 United Steel Workers strike, American manufacturers increased their use of imported steel, and the United States became a net steel importer. This new comfort with imported steel created a weaker market for major U.S. steel manufacturers.

Grievance Systems. Unions frequently implement grievance systems to settle disputes between workers and management. These systems are often seen as an advantage to the worker. In 1984, Richard Freeman and James Medoff found that a union grievance system was equivalent to a 2 percent wage increase in lowering the rate at which employees left a company.

Nonunion companies have grievance systems, too. David Lewin, after surveying the academic literature, has suggested that they exist in about half of nonunion companies. Although data on grievance systems is somewhat limited, case studies suggest that compared to union systems, nonunion systems are about as effective at reducing employee turnover; similar in speed and thoroughness; and about as fair in choosing between workers and management.

Still, a worker using a grievance system may not restore his or her work situation to what it was prior to filing the grievance. Studies indicate that following a

grievance, both a union worker and a nonunion worker tend to measure more poorly on a variety of job statistics, such as performance ratings, attendance rates and promotion rates.

Evidence also suggests that union workers are more dissatisfied with their jobs than nonunion workers. This may be due to the problems that led to unionization in the first place, and unions may ameliorate some of the dissatisfaction workers might otherwise feel. Still, the data indicate that even after unionization, measurable dissatisfaction persists.

Work Rules. Unions bargain work rules into the contracts they bargain with management. These rules may limit the company's ability to subcontract work to other firms, restrict the amount of weight an employee can lift or specify what work nonunion employees may not perform. Work rules in the UAW's 2007 contract with Ford contributed to the contract's length of 2,215 pages.

In a 1987 study of union and nonunion companies, Robert Kaufman and Roger Kaufman found that in 44 percent of union companies, employees without work to perform had to be reassigned in keeping with work rules, kept on the job without work or sent home with pay. Only 10 percent of nonunion companies had a similar restriction; the remainder reassigned the worker freely or sent him or her home without pay. The additional protection provided by unions may be attractive to a worker.

There can be costs to these rules, however. Kaufman and Kaufman also found that union companies typically had at least some restrictions on workers' performing one another's jobs and prevented supervisors from performing production work for purposes other than demonstration. Nonunion companies had no similar prohibitions. While the absence of such rules may seem to leave a worker unprotected, it also means a nonunion company gains flexibility to adjust to variations in workload and prevent production disruptions.

Without such flexibility, a nonunion company may become less competitive and profitable, jeopardizing line workers' jobs regardless. A 2007 report by the consulting firm Harbour-Felax found that UAW work rules added hundreds of dollars to the cost of each of the Detroit automakers' vehicles. A 2007 study by AlixPartners, another consulting firm, found that the three Detroit automakers maintained at least 8,200 more jobs than they would have if they had had the flexibility of Toyota, which is not unionized. Both studies were published not long before the bankruptcy of GM and Chrysler. Work rules regarding staffing levels at Bethlehem Steel also contributed to the shuttering of the company's plant in Bethlehem, Penn.

Seniority. In union firms, workers with seniority typically receive preference in decisions about promotion and layoffs. This policy can contribute to a sense of

job security for the most senior workers, but this security may come at junior workers' expense. As noted earlier, male union workers ages 19 to 24 are more likely than their nonunion counterparts to face temporary or permanent layoff.

Similarly, Richard Freeman and James Medoff in 1984 cited a survey in which just one-quarter of managers in union companies said a junior employee would be promoted over a senior one if the junior employee were better; 43 percent said the junior worker would have to be "significantly better" and 33 percent said the junior worker would never be promoted over a senior one.

Obviously, junior and senior workers may view such restrictions differently. In the same way, workers who fear favoritism in management decisions or who are especially concerned about senior workers may prefer seniority rules, while workers used to promotions based on merit may find seniority rules frustrating.

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