Policy Brief

Published by Applied | Economic | Strategies, LLC

April 17, 2009 *Policy Brief No. 2009-3*

ECONOMIC RECOVERY IS NOT DEPENDENT ON HIGHER UNIONIZATION RATES

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Contention: *The link between greater productivity and higher wages has broken down. Workers help the economy grow by becoming ever more productive, but they receive only a small share of the new wealth they help create. What is sustainable is an economy where workers are adequately rewarded and have the income they need to purchase goods. This is where unions come in.*

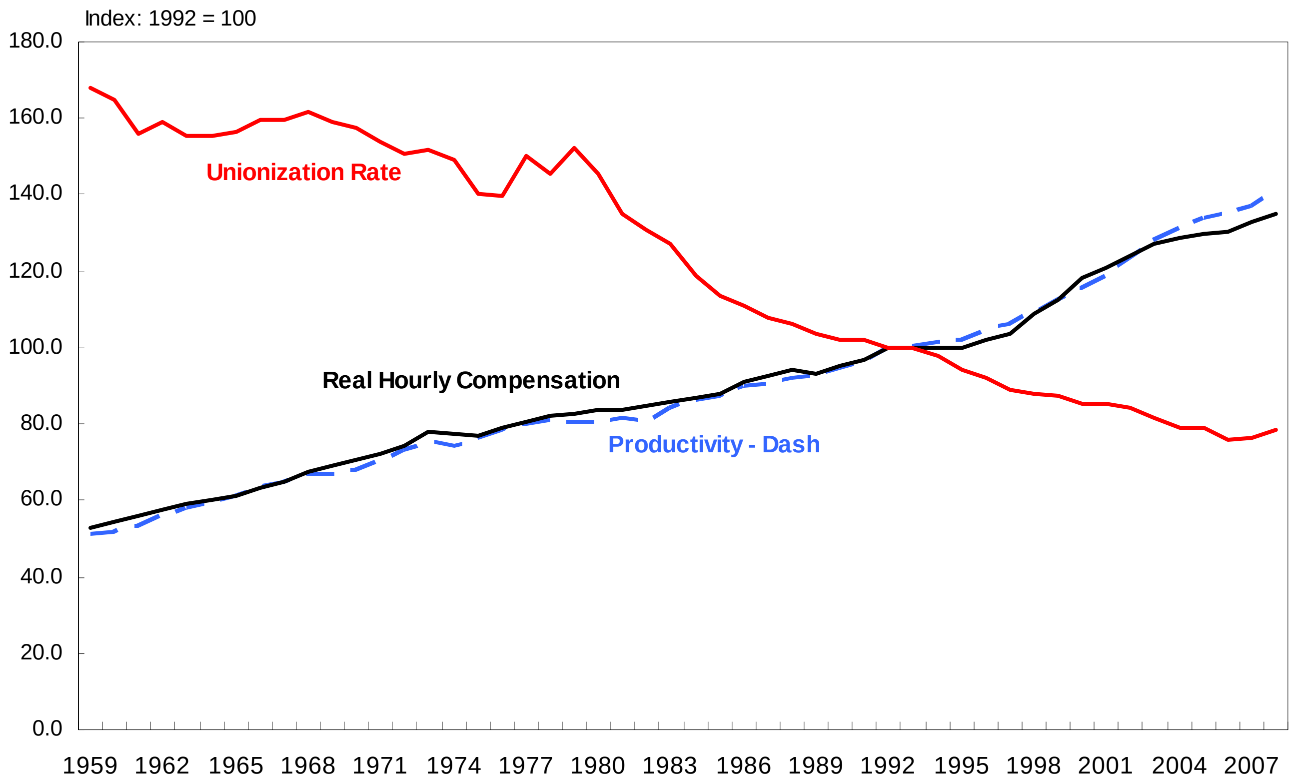
> David Madland and Karla Walter, Unions Are Good for the American Economy, *Center for American Progress Fund,* (February 2009)

Fact: The Link Between Greater Productivity and Higher Compensation Is Not Broken. Although higher wages are important to workers, what matters most to them is the combination of wages and benefits, or compensation, they receive. As Chart 1 shows, when appropriately adjusting hourly compensation with the same price index that is used with the productivity measure, the increase in real hourly compensation closely tracks the increase in productivity over time. Moreover, the significant decline in the rate of unionization since 1969 has not had an impact on this very stable trend.

Although the productivity and compensation trends appear to diverge after 2003, this is accounted for by the larger contribution of capital intensity and the impact of technology to productivity growth compared to the contribution of labor composition or the impact of unionization.[1] Moreover, compensation and productivity trends have diverged at times in the past and have always reverted back to their long-run trends whether unionization rates were high or not.

[1] Bureau of Labor Statistics, Multifactor Productivity Trends, 2007, Table B, March 25, 2009, available at: www.bls.gov/news.release/pdf/prod3.pdf.

Chart 1: Increases in Real Hourly Compensation Closely Tracks Productivity And the Decline in the Unionization Rate has had No Impact on This Trend



Source: Applied Economic Strategies, LLC, data from the Bureau of Economic Analysis, the Bureau of Labor Statistics, and Barry T. Hirsch, *Union Membership And Earnings Data Book, 2008.*

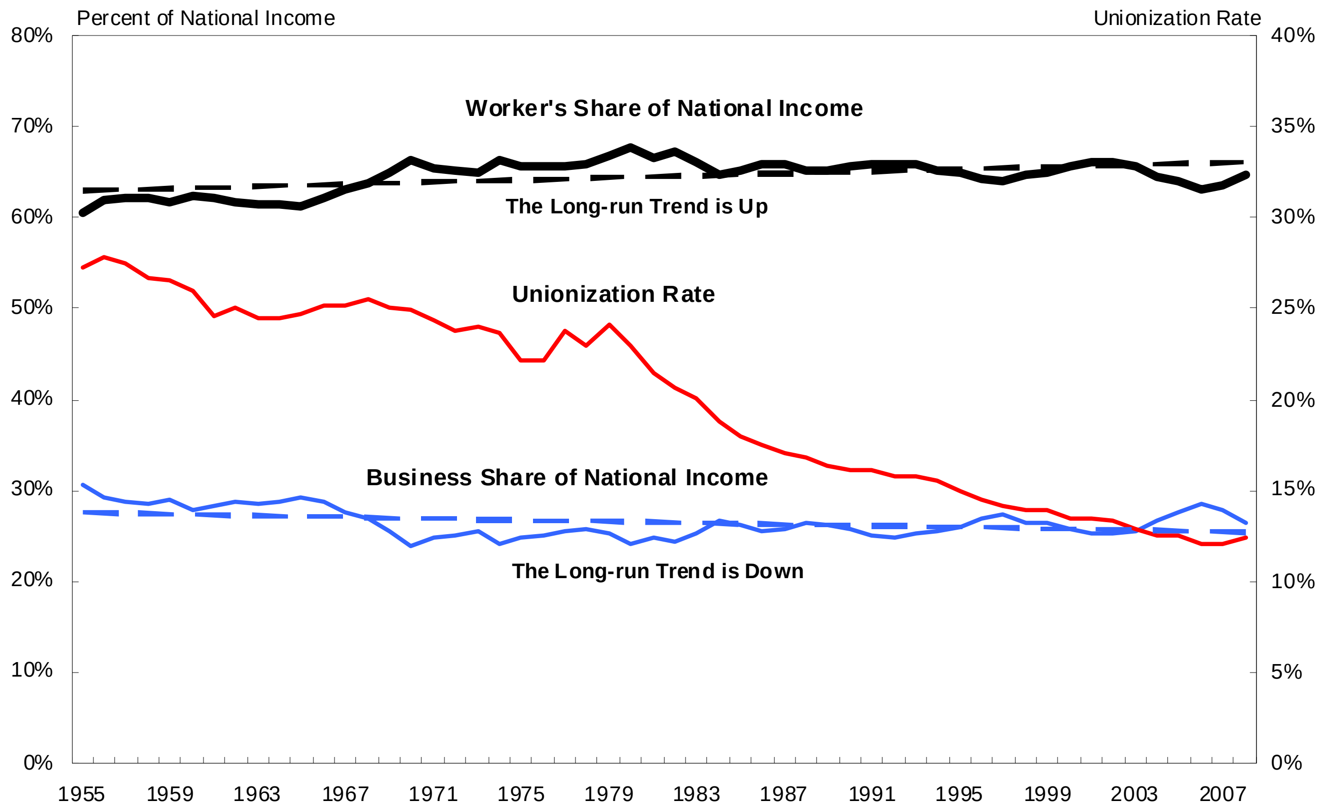
Fact: The Share of National Income That Goes to Workers Has Increased. It is simply not true that workers receive only a small share of the wealth they create. As Chart 2 shows, the long-run trend in the share of national income that goes to workers is up. In fact, from 2007 to 2008 as the recession started, the compensation of employees continued to rise (1.8 percent) while corporate profits fell by 21.5 percent.[2] Moreover, the relatively stable trend in the share on national income going to workers has continued as the rate of unionization has declined.

Further, the argument that unions are needed to make sure that low-wage and middle-class workers receive their "fair share" of the nation income does not hold up when one compares recent income trends for full-time year-round workers and the decline in unionization rates. As Chart 3 shows, since 1994, three important income fairness measures for men who work full-time year-round – the 90th percentile / 10th percentile income ratio; the 50th percentile / 10th percentile income ratio; and the Gini Index – have

[2] Bureau of Economic Analysis, Gross Domestic Product: Fourth Quarter 2008 (Final), March 26, 2009, available at: www.bea.gov/newsreleases/national/gdp/2009/pdf/gdp408f.pdf.

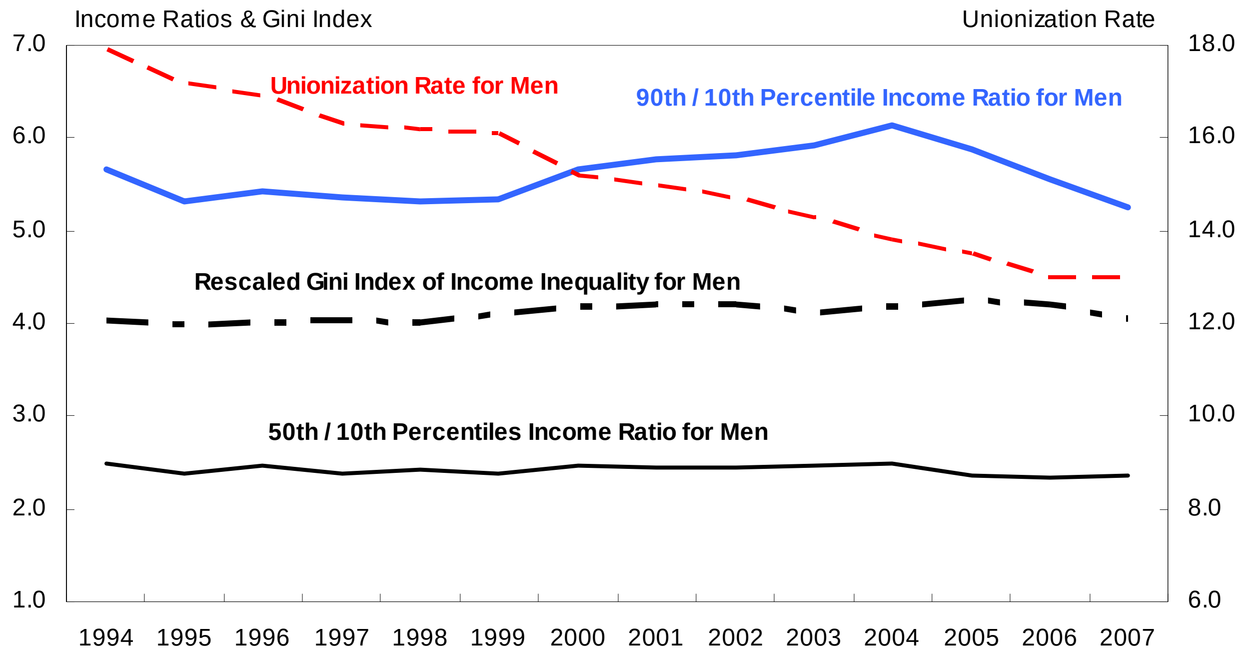
remained fairly stable as the unionization rate for men has fallen. This strongly suggests that any effort to increase unionization rates will have little or no impact on the relative incomes of low-wage and middle-class men. To the extent that income shares have become more unequal since 1979, it has more to do with increasing returns to education, global and regional competition, advancements in technology, and high levels of immigration, than declining unionization rates. In fact, higher unionization rates can have a variety of negative labor market effects on low-wage and middle-class workers. The more likely direction of causation begins with increasing unionization rates that leads to higher labor costs; that leads to a substitution of capital and non-union labor for union workers and hours; that leads to fewer job opportunities for union workers in the long-run.

Chart 2: As the Unionization Rate has Declined, The Share of National Income Going to Workers has Increased And the Share Going to Business has Decreased



Source: Applied Economic Strategies, LLC, data from the Bureau of Economic Analysis and Barry T. Hirsch, Union Membership And Earnings Data Book, 2008.

Chart 3: Since 1994, the Significant Decline in the Unionization Rate for Men Has Not Increased the 90/10 and 50/10 Income Ratios for Men or The Gini Index Measure of Inequality for Men



Source: Applied Economic Stragegies, LLC, data from the Census Bureau and the Bureau of Labor Statistics.

Fact: Higher Unionization Rates Will Lead To Higher Unemployment. A recent economic study by Anne Layne-Farrar found that passing the Employee Free Choice Act (EFCA) would lead to a one percentage-point increase in the unemployment rate for every three percentage-point increase in the rate of union membership brought about by a system of card checks and mandatory arbitration.[3] For example:

- If EFCA passed today and resulted in an increase in unionization from the current rate of about 12 percent to 15 percent, the unemployment a year from now would rise by 1.5 million, to 10.4 million workers.[4]

Conclusion: The economic recovery and a strong middle-class are not dependent on higher unionization rates. The economic arguments that proponents make in support of EFCA often fail to recognize that the American and global economies have significantly changed. Compensation growth still tracks productivity and workers continue to receive their "fair share" of national income. Significantly changing the Nation's labor relations law is unlikely to have any impact on these trends and may lead to a variety of unintended negative impacts on workers.

[3] Anne Layne-Farrar, *An Empirical Assessment of the Employee Free Choice Act: The Economic Implications*, LECG Consulting, February 25, 2009.
[4] *Ibid.*