



Unions Are Good for California's Economy

More unionized workers would be even better

David Madland and Karla Walter

Unions paved the way to the middle class for millions of workers in California and pioneered benefits such as paid health care and pensions along the way. Even today, union workers earn significantly more on average than their non-union counterparts and union employers are more likely to provide benefits. And non-union workers—particularly in highly unionized industries—receive financial benefits from employers who increase wages to match what unions would win in order to avoid unionization.

Unfortunately, as unionization rates decline, workers are less likely to receive good wages and be rewarded for their increases in productivity. The Employee Free Choice Act, which is likely to be one of the most important issues debated when the 111th Congress starts in January, holds the promise of boosting unionization rates and improving the economic standing and workplace conditions for millions of American workers.

Unions help workers achieve higher wages

Union members in California and across the country earn significantly more than non-union workers. On average, over the four-year period between 2004 and 2007, unionized workers' wages in California were 12.7 percent higher—\$2.74 dollars more per hour—than non-union workers with similar characteristics.¹ That means that, all else equal, California workers that join a union will earn 12.7 percent more than their otherwise identical non-union counterparts.

Yet union coverage rates have been declining for several decades. In 1983, the first year for which state level unionization data is available, 25.9 percent of workers in California were either members of a union or represented by a union at their workplace. By 2007, that portion declined to 17.8 percent.²

Workers' wage growth lags as American productivity increases

Workers helped the economy grow during this time period by becoming ever more productive, but they received only a small share of the new wealth they helped create. Throughout the middle part of the 20th century—a period when unions were stronger—American workers generated economic growth by increasing their productivity, and they were rewarded with higher wages.³ But this link between greater productivity and higher wages has broken down.

Prior to the 1980s, productivity gains and workers' wages moved in tandem: as workers produced more per hour, they saw a commensurate increase in their earnings. Yet wages and productivity growth have decoupled since the late 1970s. Looking from 1980 to 2007, nationwide worker productivity grew by 70.1 percent, while workers' inflation-adjusted average wages in California increased by only 21.4 percent, which means that workers were compensated for only 30.6 percent of their productivity gains.⁴

The cost of benefits—especially health insurance—has increased over time and now accounts for a greater share of total compensation than in the past, but this increase is nowhere near enough to account for the discrepancy between wage and productivity growth.⁵ For example, according to analysis by the Center for Economic and Policy Research, between 1973 and 2006 the share of labor compensation in the form of benefits rose from 12.6 percent to 19.5 percent.⁶

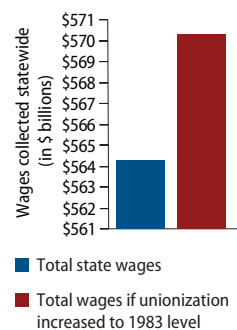
If California's workers were rewarded for 100 percent of their increases in labor productivity since 1980—as they were during the middle part of the 20th century—average wages would be just over \$30 per hour—40.1 percent higher than the average real wage in 2007.⁷

Increased unionization rewards workers for productivity growth

Slow wage growth has squeezed the middle class and contributed to rising inequality.⁸ By increasing unionization rates, these trends could likely be reversed, as more Americans would benefit from the union wage premium and receive higher wages. If unionization rates were the same as they were in 1983 and the current union wage premium remained constant, new union workers in California would earn an estimated \$5.9 billion more in wages and salaries per year.⁹ Non-union workers also would see a benefit as their employers would be likely to raise wages to match what unions would win in order to avoid unionization.¹⁰

Union employers are significantly more likely to provide benefits to their employees. Union workers nationwide are 28.2 percent more likely to be covered by employer-provided health insurance and 53.9 percent more likely to have employer-provided pensions compared to workers with similar characteristics who were not in unions.¹¹

Annual state wages increase if unionization increased in California



Source: Authors' calculations based on CEPR estimates of the union premium from the Current Population Survey Micro-Data for all wage and salary workers 16 years and older; and unionized workforce data from Barry T. Hirsch and David A. Macpherson, "Union Membership and Coverage Database from the Current Population Survey," available at <http://www.unionstats.com> (last accessed December 2008).

Note: Total wages collected includes all hourly wage and salary workers. Total wage data extrapolated from 2004 through 2007 average state wage for wage and salary workers. The estimated total wages collected if unionization increased to 1983 level does not include any estimate of the wage benefit to non-union workers. Estimated total wages would be higher if this benefit were included.

Conclusion

Nearly three out of five survey respondents from a Peter Hart Research Associates poll report that they would join a union if they could, but workers attempting to unionize currently face a hostile legal environment and are commonly intimidated by aggressive antiunion employers.¹² The Employee Free Choice Act would help workers who want to join a union do so by ensuring fairness in the union selection process through three main provisions: workers would have a fair and direct path to join unions through simple majority sign-up; employers who break the rules governing the unionization process would face stiffer penalties; and a first contract mediation and arbitration process would be introduced to thwart bad-faith bargaining.

Passing the Employee Free Choice Act and making it easier to join a union would be good for California's workers. It would help boost workers' wages and benefits and make it more likely that workers would benefit from their increased productivity.

The Center for American Progress would like to thank the Center for Economic and Policy Research for providing the state-by-state analysis of the union wage premium.

Endnotes

- 1 Data from Center for Economic and Policy Research analysis of Current Population Survey Micro-Data for all wage and salary workers 16 years and older. Over the study period, the average wage of workers in California in real 2007 dollars was \$21.61. The 2004 to 2007 study period was chosen to allow a sample size large enough to conduct a statistically valid state-by-state analysis. The analysis controls for workers' age, sex, education level, and industry of employment; it includes observations where the Bureau of Labor Statistics has imputed missing wages, which imparts a downward bias on the effects of unionization. See Barry T. Hirsch and Edward J. Schumacher, "Match Bias in Wage Gap Estimates Due to Earnings Imputation," *Journal of Labor Economics* 22 (3) 2004: 689-722.
- 2 Barry T. Hirsch and David A. Macpherson, "Union Membership and Coverage Database from the Current Population Survey," available at <http://www.unionstats.com> (last accessed December 2008).
- 3 Philip Dine, *State of the Unions* (New York: McGraw Hill, 2008).
- 4 U.S. Bureau of Labor Statistics, Major Sector Productivity and Costs Index, available at <http://www.bls.gov/lpc/> (last accessed December 2008). And Current Population Survey Micro-Data, all wage and salary workers 16 years and older. The gap between productivity growth and average wage growth is significantly smaller than the gap between productivity growth and median wage growth, reflecting growing wage inequality. Salaried workers at the very top of the income spectrum have pulled up average wages, but have relatively little effect on the wage median. For more see: Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *The State of Working America 2008-09* (Ithaca, New York: Cornell University Press, 2008).
- 5 For a more thorough discussion of the relationship between wages and productivity see: Mishel, Bernstein, and Shierholz, *The State of Working America 2008-09*; Dean Baker, "The Productivity to Paycheck Gap: What the Data Show, Center for Economic and Policy Research Briefing Paper" (Washington, DC: Center for Economic and Policy Research, 2007); Ian Dew-Becker and Robert J. Gordon, "Where Did the Productivity Growth Go? Inflation Dynamics and the Distribution of Income" (Washington, D.C.: Brookings Papers on Economic Activity, 2005).
- 6 Baker, "The Productivity to Paycheck Gap."
- 7 U.S. Bureau of Labor Statistics, Major Sector Productivity and Costs Index, available at <http://www.bls.gov/lpc/> (last accessed December 2008). And Current Population Survey Micro-Data, all wage and salary workers 16 years and older.
- 8 Heather Boushey and Christian Weller, "What the Numbers Tell Us," In James Lardner and David A. Smith, eds., *Inequality Matters* (New York: The New Press, 2005); And Christian Weller and Amanda Logan, "America's Middle Class Still Losing Ground" (Washington, D.C.: Center for American Progress, 2008).
- 9 Authors' calculations based on CEPR estimates of the union premium from the Current Population Survey Micro-Data for all wage and salary workers 16 years and older; and unionized workforce data from Hirsch and Macpherson, "Union Membership and Coverage Database from the Current Population Survey."
- 10 Lawrence Mishel and Matthew Walters, "How Unions Help All Workers" (Washington D.C.: The Economic Policy Institute, 2003).
- 11 Mishel, Bernstein, and Shierholz, *The State of Working America 2008-09*. National benefits union premium adjusts for establishment size, occupation, industry, and other factors.
- 12 Peter Hart Research Associates Poll, December 2006, cited in Harley Shaiken, "Unions, the Economy, and Employee Free Choice" (Washington, D.C., The Economic Policy Institute, 2007); And Gordon Lafer, "Neither Free Nor Fair, The Subversion of Democracy Under National Labor Relations Board Elections" (Washington D.C.: American Rights at Work, 2007).