“STRIKE IS GOOD FOR LABOR UNIONS”

(Being too good is not good)

I - IMPORTANCE OF DECLINE OF UNIONIZATION IN U.S.

As the result of ongoing decline of labor unions in the U.S.A., scholars, researchers and practitioners have been focused on the determinants of unions density. Since labor unions have been important institutions having significant impacts on the performance of whole economy. They might effect productivity, unemployment and inflation rates, the amount of money spent on research and development, etc. Besides open functions, they might have important implicit functions which are not seen or understood as long as they disappear or decline. For example, they have played important role against discrimination based on sex, race in the U.S., even it has not been realized very well by scholars or researchers.

The impacts don’t have necessarily the same sign. Some functions are negative, whereas others might be positive or in some cases they don’t have any significant impact. The important questions arise when we calculate these signs and see the net effect. Net effect answers Freeman’s usual question: Are labor unions good, or bad, or irrelevant? Whereas a lot of hypothesis have been tested to see the impacts of unions on whole economy from different perspectives, the “collective-voice” hypothesis still remains as the most important and consistent one with the findings of researchers.

According to this hypothesis, labor unions decrease turnover rate, bring certain rules to the workplace, increase workers’ morale, establish certain

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grievance procedure, make communication between management and workers
e.g. As the results of these functions, almost it is certain that unions have
important positive contribution to the productivity. According to Freeman, even
impact of unions on employment might be negative, net effect is positive
(Freeman and Medoff, 1984).

Other important hypothesis is “shock effect”. According to this hypothesis
unions increases wages, as the result of this, employers search for cost-saving
methods and make investment on research and development and it brings
important contributions to the economy (McConnel and Brue, 1992). Also, from
the demand perspective (Keynesian) by increasing wages unions increase
purchasing power, actually favorable union policies of U.S. government partly
aimed to increase consumers’ power in the 1930's. However positive functions
of unions can be more than researchers findings since it is difficult to see
implicit functions as long as unions disappear or decline and also open positive
functions can have interactive effects. Therefore findings of researchers can
underestimate positive functions of unions. In fact, simultaneous decline of U.S.
unionization and economic performance (productivity, research and
development, competitiveness, etc.) since the beginning of 1970's remained
important relations and deserve a lot of empirical estimations between these two
debates. The present results of U.S. decline of unionization are summarized by
Blanchflower and Freeman as follow:

“We believe continued decline in unionization is bad not only for unions
and their members but for the entire society. Because our research shows that
unions do much social good, we believe that union free economy desired by
some business groups would be a disaster for the country. We also think that 100
percent (or virtually 100 percent) unionization would be economically
undesirable for the United States while we are not sure what the optimal degree
of unionization is in this country, we are convinced that current trends have
brought the union density below the optimal level. In a well functioning labor
market, there should be a sufficient number of union and nonunion firms to offer
alternative work environments to workers, innovation in workplace rules and
conditions, and competition in the market. Such competition will, on the one
hand, limit union monopoly power on the other, limit management power over
workers.” (Freeman, Blanchflower, 1992).

It is worth mentioning that arguments made against unions from
economical perspective mostly based on theoretical perspective foundations
(radical schools like classical and neo-classical) and they generally conflict with
the findings of researches. For example, even M. Freedmen does not see any
inflationary impact of unions (Freedman, 1995) and it might be really difficult
to find significant negative impact of unions on economy among many
researches. For instance, the strongest argument against unions done by claiming that unions weaken the U.S. competitiveness against foreign products by increasing wages, however, most of the researches failed to find any negative significant effect on U.S. competitiveness (Karier, 1992). Also, in one of his latest researches, Karier could not find any evidence that have been significant factor in the decision of U.S. firms to produce abroad, based on an analysis of industry by region data (Karier, 1995).

In summary, decline of U.S. unions might have significant negative effect on the performance of U.S. economy and it deserves to search the real determinants of this decline and make and implement efficient policies to reverse the situation.

II - LITERATURE REVIEW

A - comparative studies show that U.S. decline differs from other countries as being permanent state. The table below shows U.S. uniqueness among industrialized countries. Even though the latest figures based on 1986 data, in 1990’s situation remains basically the same.

<table>
<thead>
<tr>
<th>Density of Unionization</th>
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<tbody>
<tr>
<td>Country</td>
</tr>
<tr>
<td>United States</td>
</tr>
<tr>
<td>Australia</td>
</tr>
<tr>
<td>Canada</td>
</tr>
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<td>France</td>
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<tr>
<td>Germany</td>
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<td>Italy</td>
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<tr>
<td>Japan</td>
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<tr>
<td>Sweden</td>
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<td>United Kingdom</td>
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Determinants of union density (defined as the number of union membership divided by total number of workers) have been analyzed from different perspectives. As it seems more reliable and analytical B. Mason and P. Bain (Bain, Mason, 1992) divide proponents of these perspectives into two ideal types: those who argue that exogenous determinants are the crucial influence on
union growth are labeled as "structural determinists", whereas those who see union recruitment strategies as of significant variables are called "union interventionists" by Bain and Mason.

Whereas business cycle, government and employer policies are seen as basic variables for union density by structural determinist, union interventionist consider role of leaders, number of full-time union official, union finances, recruitment effort of unions as the influential determinants of union density. While Bain (1976, 1983), Disney (1990), Freeman and Pelletier are the important representatives of structuralist schools, Undy (1981), Kelley and Heary (1989), Willman (1989, 1990), Beaumont and Harris (1991), Cregan, Johnson, Benjamin, Masters, Barkin, Etc. can be considered as important figures of the interventionist school.

Implications for union membership in 1990's also differs for these two major schools (Bain, Mason, 1992). Although structuralist school seems pessimistic and predict decline in unionization 1990's, interventions are optimistic and consider growth of unionization as a possibility.

B - Regardless of perspectives or schools, the basic hypothesis about determinants of unionization can be summarized as below:

1) Paradigm Shift: This hypothesis basically focuses on transformation of industrial relations caused by environmental factors influencing industrial relations (Dunlop (1992), Kochan (1994), Sandver (1993), According to this thesis, as the result of environmental changes (government policy, technology, method of production, inflation, unemployment, etc.) industrial relations are transforming into other stages which can be called paradigm shift. This shift determines density of unionization. However, implication of this thesis has two versions. Whereas Dunlop (1992) and Kochan are not pessimistic about future unionization, Sandver (1993) does not see any possible future for unions.

2) Business Cycle: This hypothesis has two dimensions as inflation and unemployment. During the accelerating inflationary period workers are getting less likely to join unions but once earnings rise above inflation workers are getting less likely to join unions. Bain and Elsheikh (Bain, Mason, 1992) explained union growth between 1969-79 by using inflationary effect in England.

Another dimension of this hypothesis is unemployment (second business cycle effect) level. Almost there is a consensus among scholars that high and rapidly rising level of unemployment has significant negative impact on unionization.
3- Government Policies: This hypothesis is accepted by many American scholars. After 1930 rise of U.S. unionization is explained by favorable public policies and legislative framework brought by these public policies (Wagner, Norris-Laguardia Acts). Freeman (1992), Kochan (1994), McConnel (1993). Also, contemporary decline of U.S. unionization can be partly explained by unfavorable government policies. For instance deregulation policies during Reagan administration and anti-unions appointees NLRB (Rhodes, Brown, 1992).

4- Public Opinion: Union growth and decline are explained favorable or unfavorable public opinions. In U.S. 60 percent rise of unionization between 1930-50 was explained by favorable public opinion (Lipset, 1986). However, this hypothesis is execrated and actually it may not have any significant explanatory power since in the U.S. public opinion has never favored unions.

5- Structural Shift: This hypothesis is other commonly accepted and tested one. According to this hypothesis, as the result of production shift from traditionally unionized industrial sector to nonunionized sector unions have lost their important potential members. Also, increasing participation rate of women to labor force has negative impact on unionization since tendency of women to unionize (13 percent) is less than men (McConnel, Brue, 1992)

6) Employer Opposition: Freeman is the champion of this hypothesis. Forty percent decline of U.S. unionization has been explained by increasing employer opposition. Big wage gap (1992) as the major reason for increasing employer opposition against unions in U.S. Even though this hypothesis still has much credit, latest development might falsify it at least partly because for last 7-8 years nonunionized sector is getting more wage increase than unionized sector and there is not indication that employer opposition is decreasing.

7) Substitution Hypothesis: It basically states that in terms of functions unions have been replaced by government. Government protects the rights of workers (like equal pay act, civil rights acts, minimum wage), therefore, workers don’t feel that they need unions.

8) Union Activities: Until now all the above hypothesis and determinants of unionization were exogenous, in other words they are all structural determinants, and they did not give any importance union activities. Results of structuralism are almost decline in unionization in the long run.

C- As opposite to the structuralists, the basic thesis of this study states that union activities are the most important role. Comparative studies show that in countries which unions increase their activities (political, organizations, economics), level of unionization continues to go up or at least unions are able to
keep their density at current level. For example in Scandinavian countries as the result of increasing union activities (especially economic and political) the density of unionization is going up (currently an average 90 percent of workers are union members) (Chang, Sorrentino, 1991).

However, in U.S. studies and researches mostly focus on structural determinants of unionization and it is really difficult to find any study giving attention to union activities as an important determinant of unionization among hundreds. This is one of the important difference between U.S. and European studies. In any case it is not possible satisfactorily to explore determinant of unionization (for this study density of unionization) without including union activities.

Present figures show that decline of unionization goes hand in hand with decreasing union activities. These activities have three dimensions as economic, political and organizational. From the early 1950’s until the mid-1970’s constant dollar union organizing expenditures per nonunion worker fell more than 30 percent (Benjamin, 205, 1986) and this fall is still going on. Also, union lobby activities have been falling sharply relative to employers. However, among these activities the strike represents the important and the most declining one. It is the most important one since it represents all kinds of activities it has economic dimension because by strike unions demand more wages and show its monopoly power, it has political dimension because by its nature it is political and exercise the power of labor in a society and it has administrative and organizational dimension since decision and success of strike based on unions ability to organize and drive significant amount of workes for this purpose. In addition, density of strike might be a good indicator or quality of leadership since leadership is oriented and committed to growth as a priority, should be seen by actual and potential members as adopting militant bargaining policies, using strike as a weapon against employers (Bain, Mason, 1992).

Besides being a good measurement of union activities, high strike rates increase the probability of union victories and give confidence to workers to stay as a member of union or to join the union. Whereas in other countries, high strike rate is related with membership growth (for example in England 1916-22, 1933-43, 1968-74), there is not any specific reason not to see similar relation for U.S. Therefore, at this study, it will be attempted to show that decreasing rate of strike is an important determinant of U.S. decline of unionization besides structural determinants.
III. RESEARCH

A- Model designed for this study includes union activity besides structural determinants. Having interventionist variable (union activity) differentiates this model from others. By using structural and interventionist variables it will be tried to see the significant determinants, of union density particularly the decline of density of unionization in U.S. and specifically among the independent variables, position of union activity as a measure of strike will be determinants, of union density particularly the decline of density of unionization in U.S. and specifically among the independent variables, position of union activity as a measure of strike will be determined.

B- Operational definitions of variables

1) Independent variable: Probability of workers to join the union as measured by logodds = log (u.d / (1-u.d)), u.d = union density

2) Dependent variables:
   a) Strike activity, as a union activity is measured strike time as a percent of total work time in U.S. by following formula
      percentage of time lost = \( \frac{\text{Strikes} \times \text{strike duration} \times 100}{\text{employment} \times 250} \)
      where 250 = number of workdays in the year (Hamermesh, Rees, 1993)
   b) Unemployment is used as a percentage of unemployed workers who are in the labor force. This variable catches effect of business cycle on unionization besides inflation.
   c) Inflation.
   d) The Union-Nonunion Wage Difference: This variable is intended to catch the employer opposition to unions. By assumption employer attitudes toward unions is determined by union-nonunion wage difference. It is calculated as follows: \( M = 100 \times \frac{W_u - W_n}{W_n} \)
      \( M = \) wage gap
      \( W_u = \) union wage level in average
      \( W_n = \) nonunion wage leveled in average
e) Female Participation Rate: This variable is intended to catch the effect of structural shift. Since as the result of production shift from manufacturing to service sector, female participation rate is increasing, and composition of labor force is changing in favor of female which has less tendency to unionize (13%) relative to men (19%). Therefore, composition of labor force has important impact on the level of unionization.

f) Union representation election: This is a good variable to measure the effects of public opinion and also partly government policies toward unionization. Since public opinion is the results of climate created by governments and it determines the net results by unions.

g) Minimum wage: It is included to test the substitution hypothesis.

C- Data: For this study time series data as last 38 years observations is used for whole country.

Data Sources:

Union density (independent variable) figures were gathered from Current Population Surveys published by E. Kokkelenberg, D. Sockell (Industrial Labor Relations review, Vol. 38, 1985), and B. Hirch, D. Macpherson (KLR, Volume 46, 1993).

Unemployment (except 1989-92) and some of wage gap figures were gathered from Handbook of Labor Statistics (U.S. Department of Labor, BLS, Bulletin 23, August, 1989).

Strike, participation, elections and some of wage gap figures were gathered from other sources.

- Model: Since we try to test the impact of strike on the probability of workers to join the union, the following logit model has been used.

\[
\log \left( \frac{U.\text{den}}{1-U.\text{den}} \right) = C + B1 \text{Unemp.} + B2 \text{Strike} + B3 \text{Wage Gap} + B4 Fp + B5 \text{Min. Wage} + B6 U.r. election + B7 \text{Infla} + e.
\]

U. Den. = Union density

Str = Strike

Unp = Unemployment

Wg = Wage Gap
Ure = Union Representation Election
Fp = Female Participation Structure
Infla. = Inflation
Min. Wage = Minimum Wage

E - Results of Research
Both ordinary least squares and weighed least squares methods have been used and the following results were obtained.

Equation 1
Method of Estimation = Ordinary Least Squares
Dependent variable: LOGODDS
Std. Error of regression = .072857
R-squared = .929183
Adjusted R-squared = .912659
Durbin-Watson statistic = 1.39383
F-statistic (zero slopes) = .562321

chwarz Bayes. Info. Cilt. = .4.70910
Lo of likelihood function = .501036

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Error</th>
<th>t-statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>.280680</td>
<td>.655461</td>
<td>.428218</td>
</tr>
<tr>
<td>Unemp</td>
<td>.019373</td>
<td>.013940</td>
<td>1.38970</td>
</tr>
<tr>
<td>Strike</td>
<td>.332783</td>
<td>.174585</td>
<td>1.90614</td>
</tr>
<tr>
<td>Wage Gap</td>
<td>-2.12773E-02</td>
<td>.586619E-02</td>
<td>-.362711</td>
</tr>
<tr>
<td>Female Part.</td>
<td>-2.0697</td>
<td>.012642</td>
<td>-1.63709</td>
</tr>
<tr>
<td>Minimum Wage</td>
<td>-2.14787</td>
<td>.099549</td>
<td>-2.15760</td>
</tr>
<tr>
<td>U.r.election</td>
<td>-9.88278E-02</td>
<td>.504159E-02</td>
<td>-1.96025</td>
</tr>
<tr>
<td>Inflation</td>
<td>.040976</td>
<td>.465271E-02</td>
<td>8.80694</td>
</tr>
</tbody>
</table>
Equation 2

Method of Estimation = Weighted Regression

Weight : S

Dependent variable : LOGODDS
(Statistics based on transformend data)

Sun of squared residuals = .158818
Variance of residuals = .529392E-02
Std. Error of regression = .072759
R-squared = .929328
Adjusted R-squared = .912838
Durbin-Watson statistic = 1.41203
Sum of weights = 38.0000
F-statistic (zero slopes) = 56.3568

Schwarz Bayes. Info. Crit. = -4.71178
Log of likelihood function = 49.9691
(Statistics based on original data)

Sun of squared residuals = .161281
Variance of residuals = .53760E-02
Std. Error of regression = .073321
R-squared = .928423
Adjusted R-squared = .911722
Durbin-Watson statistic = 1.38893

<table>
<thead>
<tr>
<th>Variable</th>
<th>Estimated Coefficient</th>
<th>Standard Error</th>
<th>t-statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>.479382</td>
<td>.668578</td>
<td>.717017</td>
</tr>
<tr>
<td>Unemp.</td>
<td>.018786</td>
<td>.013977</td>
<td>1.34405</td>
</tr>
<tr>
<td>Strike.</td>
<td>.392095</td>
<td>.184118</td>
<td>2.12959</td>
</tr>
<tr>
<td>Wage Gap</td>
<td>-168324E-02</td>
<td>.590123E-02</td>
<td>-285234</td>
</tr>
<tr>
<td>Female Partic.</td>
<td>-021902</td>
<td>.012662</td>
<td>-1.72968</td>
</tr>
<tr>
<td>Minimum Wage</td>
<td>-225256</td>
<td>.098423</td>
<td>-2.28864</td>
</tr>
<tr>
<td>U.r.election</td>
<td>-012264</td>
<td>.5129556E-02</td>
<td>-2.39075</td>
</tr>
<tr>
<td>Inflation</td>
<td>039803</td>
<td>.446327E-02</td>
<td>8.91798</td>
</tr>
</tbody>
</table>
As it is expected, our research result shows that strike is an important
determinant of probability of workers to join the union. There is a significant
positive correlation between probability of joining the union and strike at 5%
level (T-statistics is 2.12 with weighed olsq). Also, substitution hypothesis gets
credit since it seems that increasing minimum wage decreased the probability of
workers to join unions (T-statistics is -2.28) because workers consider minimum
wage as a substitute to labor unions.

As parallel to the other results of researches, inflation is highly significant
(T is 8.9). Since during the inflationary periods workers need the protection of
unions to keep their real wage.

Surprisingly, wage gap, unemployment, and female participation don’t
seem that they are important determinants of workers’ probability to join the
unions. However, lost union representation elections seems to decrease the
probability of workers to join unions.

CONCLUSION:

Even though our research suffers some important technical and data
problems, (since it is designed to be first preliminary step of future researches) it
is still possible to derive some important results for scholars, labor unions and
policy makers.

It is almost certain that strike is important determinant of union density
and models should include strike as an interventionist variable besides structural
determinants in U.S. and scholars, researchers should be very careful when they
choose their independent variables.

Other important results is for labor unions. They hav to understand that
they should not sit back and wait for more favorable environment in which to
recruit, it is clear that their future is based on their activities and they should
understand that the nature of labor-management is based on conflict (win-lose)
and win-win (too much cooperation) policies are mostly employers tactics to
avoid unions. Therefore, strike is the most important instrument for better wage
and working conditions which make labor unions attractive to workers.

Even though it is not attributable directly from the results of this research,
the last recommendation can be done for policy makers. As Freeman points out,
Policy makers should bring legal changes that will make it easier to unionize
since continued decline in unionization is bad not only for unions and their
members, but for the entire society. Because unions do much social good, and
union free economy would be disaster for the country, it does not mean that 100
percent unionization is desirable but it is clear that current trends have brought
union density below the optimal level. In a well functioning labor market, there
should be a sufficient number of union and nonunion firms to offer alternative
work environments to workers, innovation in workplace rules and conditions and
competition in the market. Such competition will, on the one hand, limit union
monopoly power but also limit management’s power over workers. (Freeman,
Blanchflower, 1992).

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