Union Decline and Rising U.S. Wage Inequality

Jake Rosenfeld, Washington University in St Louis
Bruce Western, Columbia University In The City of New York

The wages and salaries earned by America's workers have become much more unequal over the past four decades. Compensation has spread out – with top employees getting much more and lowest-paid workers getting relatively less. During the same decades, membership in labor unions in the private sector of the economy also plummeted. The drop was especially dramatic for working men. In 1973, more than a third of private-sector male workers were members of unions, but that plummeted to less than ten percent in 2007. Unions went from being a major influence on the working lives of ordinary workers to just barely hanging on in a few industries and regions.

Did the decline in America's private-sector unions help to cause the rise in wage inequality? Or did these two trends just coincidentally unfold together? Scholars debate the many market factors that may have spurred rising wage inequality – including technological changes, an increasing demand for highly skilled workers, the need for employers to pay a premium to attract college graduates, and the role of free trade and increased immigration in lowering wages for the least skilled. Until now, union decline has been assigned only a modest role in explaining increased wage inequality – partly because the full picture of what unions do has not been brought into sharp focus.

We take a fresh look in research that makes two innovative moves:

- First, we go beyond considering just what unions do about the wages of their own members. We also look at *how the wages of all workers in an industry or region are affected when unions have a strong presence in those sectors.*
- Second, we use advanced statistical techniques to pin down the combined effects of unionization plus education and other factors considered important in the marketplace for workers. Analyzing shifts in workers' individual educational qualifications alongside the strength of unions allows us to compare the relative strength of these two key factors in accounting for rising wage inequality in recent times.

Pinning Down the Trends

The private sector of the U.S. economy accounts for about 85 percent of all nonfarm employment. From 1973 to 2007, wage inequality for full-time male workers increased by forty percent (going from .25 to .35 on a scale where lower numbers indicate greater equality or evenness in wages) and women's wage inequality went up by fifty percent (going from .20 to .30 on that same scale). Gaps in wages have been driven at different times by movements at the bottom and top of the compensation hierarchy. During the 1970s and 1980s, wages fell for the lowest paid workers. After that, increases in wages for the highest-paid employees accounted for overall growth in wage inequality.

Rising wage inequality was accompanied by falling rates of unionization. Union enrollment fell for men from 35 percent of private-sector workers in 1973 to 8 percent by 2007. Among women workers in the private sector, rates fell from 16 percent unionized in 1973 to 4 percent in 2007. The declines in unionization were especially sharp from in the 1970s and 1980s – the same period when wages went down for workers at the bottom, especially for men.

How Do Unions Influence Wages?

Previous research has documented two ways in which unions equalize wages for their members. First, unions pull up the wages for their least well-paid members compared to others. Second, union leaders use collective bargaining to try to get the same compensation for all members who do the same type of work and have similar skills and experience. Consequently, union contracts promote equal wages across firms and industries.

But taking account of what unions directly do for members is not enough. In the real world, strong unions influence the economic and moral climate for all workers and employers. When unions enroll a large fraction of all the workers in an industry or region, they influence what employers and workers think is right, and they affect the balance of leverage. Unionized workplaces can be attractive, prompting all employers to match wages to attract or hold good employees. And if union organizers are on the horizon, nonunionized firms may improve wages to forestall the possibility that their own employees will vote for unions. In this research, we take advantage of variations in union strength across industries and regions to investigate such spillover effects.

The Bottom Line: Union Decline Spurs Wage Gaps for All

More pay for college-educated people and the decline of labor unions have worked together to spur wage gaps since the 1970s. Together, these key factors account for about three-quarters of the rise in private sector wage inequality among men, and two-thirds of the rise for women. Our research teases out the relative effects and explains how union decline has mattered.

- The educational compensation gap accounts for about a third of the increased wage inequality for men and about two-fifths of the increased wage inequality for women.
- Declining unionization was associated with about a third of the increase in wage inequality for men from 1973 to 2007 and about a fifth of the increase for women. *For male workers, therefore, the impact of declining unions has been roughly equal to the impact of the growing wage gap between college and high school-educated workers.*
- Union decline powerfully affected wage inequality among nonunion workers in highly unionized regions and industries. When unions went into a tailspin, the entire surrounding labor market was affected. Worker leverage suffered and prevailing wages faltered. Pay at work grew more unequal for union members and nonunionized workers alike.

Read more in Bruce Western and Jake Rosenfeld, "Unions, Norms, and the Rise in U.S. Wage Inequality" *American Sociological Review* 76, no. 4 (2011): 513-537.