



# Labor Unions Part I

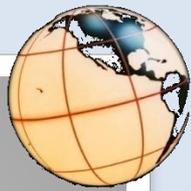
The role of a labor union is to ensure that the balance is not tipped in favor of the employer when employees do not receive wages and benefits commensurate with their contribution.

William Burrus



**Labor supply** is the willingness and ability to work specific amounts of time at alternative wage rates in a given time period, *ceteris paribus*.

## The Labor Market



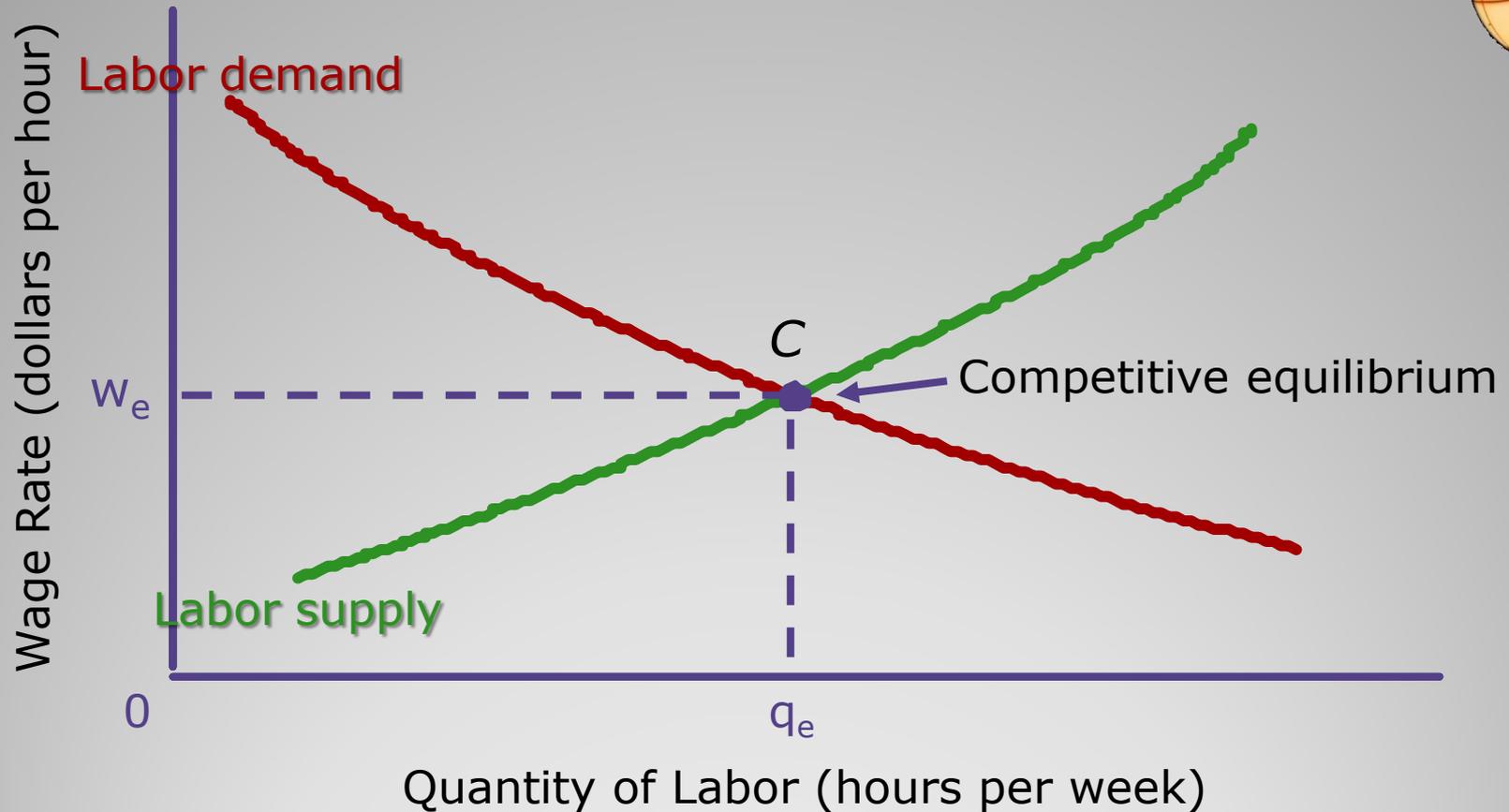
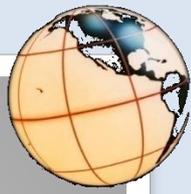
The **demand for labor** is the quantities of labor employers are willing and able to hire at alternative wage rates in a given time period, *ceteris paribus*.

## The Labor Market



- The **equilibrium wage** is the wage rate at which the quantity of labor supplied in a given time period equals the quantity of labor demanded.
- The intersection of labor-supply and labor-demand reveals the equilibrium wage.

## Competitive Equilibrium



**Chart: Competitive Equilibrium in the Labor Market**



- It is more appropriate to think in terms of localized labor markets.
- Power in labor markets is likely to be more effective in specific areas, occupations and industries.

## Local Labor Markets



- The immediate objective of labor unions is to alter the equilibrium wage and employment conditions in specific labor markets.
- To be successful, unions must be able to exert control over the market supply curve.

## Labor Unions

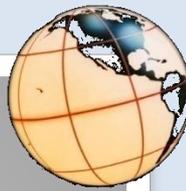




- Workers organize themselves along either industry or occupational craft lines.
  - **Industrial unions** include workers in a particular industry – auto industry workers.
  - **Craft unions** represent workers with a particular skill – brick layers.
- Regardless of how they organize, unions follow one of three basic models.

## Organizing





# Demand Enhancement Model

- Increase Product Demand
- Increase Productivity
- Alter the Price of Other Inputs

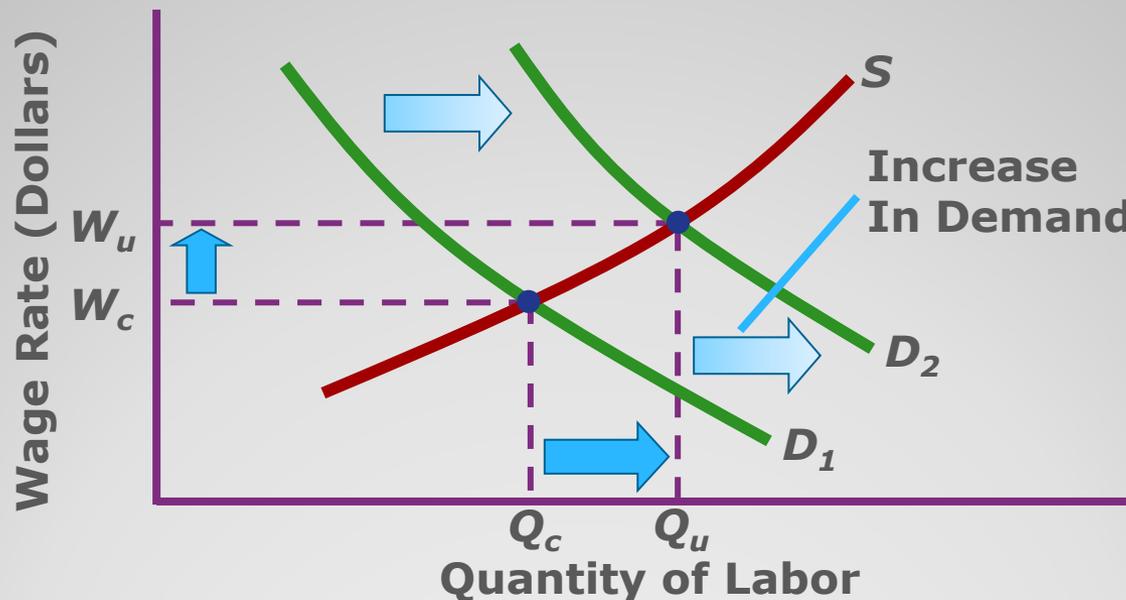


Chart: Three Union Models

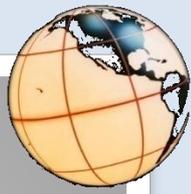


## Exclusive or Craft Union Model

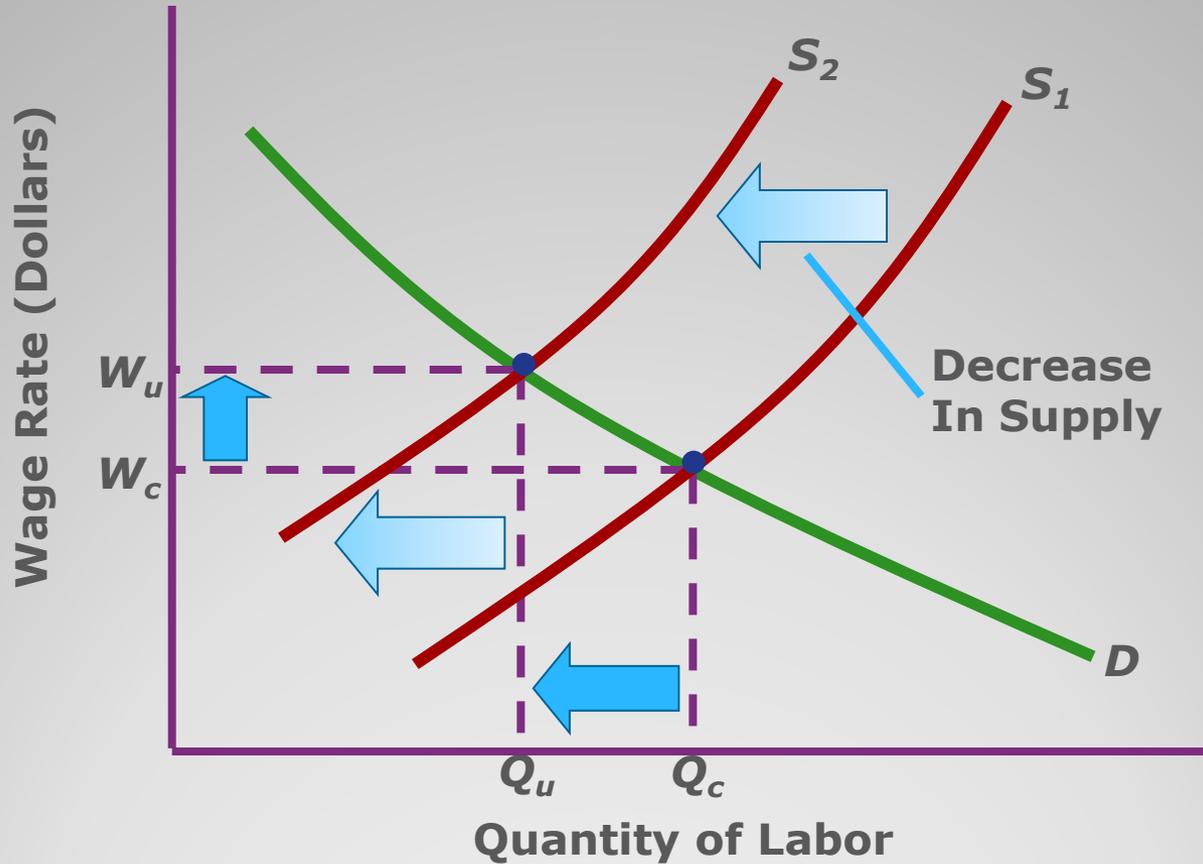
- Restrict Immigration
- Reduce Child Labor
- Encourage Compulsory Retirement
- Shorter Hour Workweek
- Exclusive Unionism
- Occupational Licensing

*Graphically...*

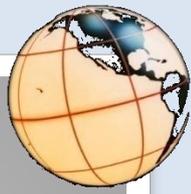
## Three Union Models



# Exclusive or Craft Union Model



## Chart: Three Union Models



# Inclusive or Industrial Union Model

- Inclusive Unionism

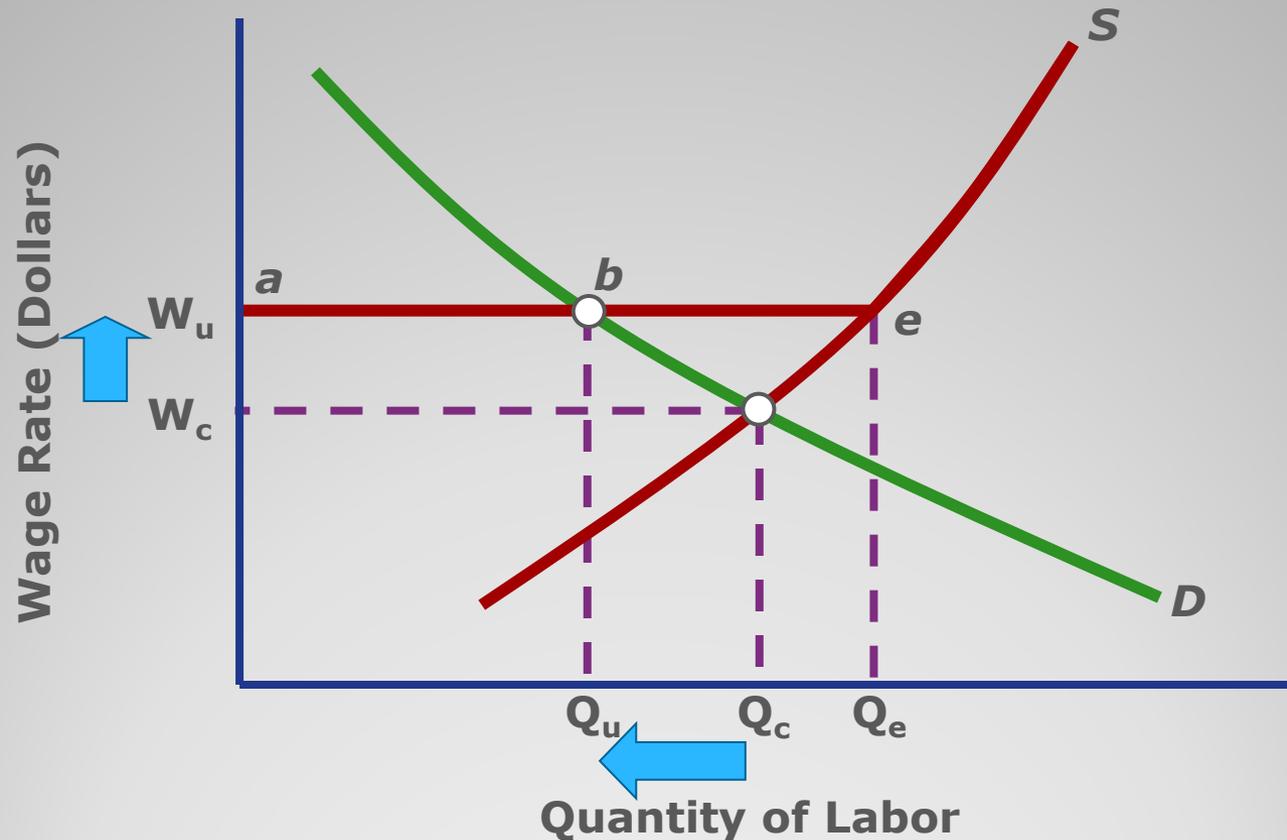
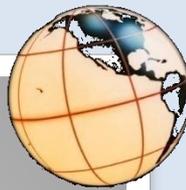
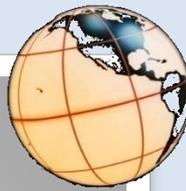


Chart: Three Union Models



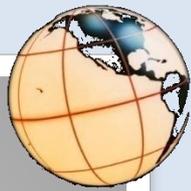
- Wage Increases and Unemployment
- Average 15% Higher Wages
- Reduced Employment Levels corrected by:
  - Growth
  - Elasticity

## Three Union Models



- The purpose of labor unions is to create a **monopoly** in its labor market.
- They do so by coordinating the actions of thousands of individual workers to control market supply.

## Union Objectives



- The AFL-CIO is the American Federation of Labor - Congress of Industrial Organizations
- It is a representational body of 120 national unions that focuses on issues of general labor interest.

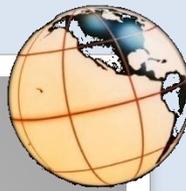
**The AFL-CIO**





- A primary objective of unions is to raise the wages of union members.
- Union objectives also include improved working conditions, job security and other non-wage forms of compensations.

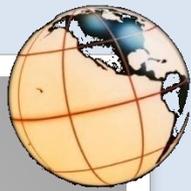
## Union Objectives



Workers who belong to trade unions (internationally) earn higher wages, work fewer hours, receive more training and have longer job tenure on average, than their non-unionized counterparts .... At the macroeconomic level, high unionization rates lead to lower inequality of earnings and can improve economic performance.

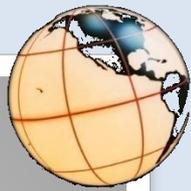
The World Bank, 2003

## Union Objectives



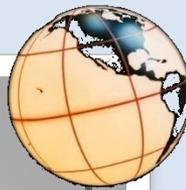
- A union evaluates job offers on the basis of the collective interests of its members.
- It must consider the effects of increased employment on the wage rate paid to all of its members.

## The Potential Use of Power



- Like all monopolists, unions have to worry about the downward slope of the demand curve.
- It must consider how hiring one more worker will affect the wages of all workers.

## The Marginal Wage



- A union must distinguish the marginal wage from the market wage.
- The **marginal wage** is the change in total wages paid associated with a one-unit increase in the quantity of labor employed.

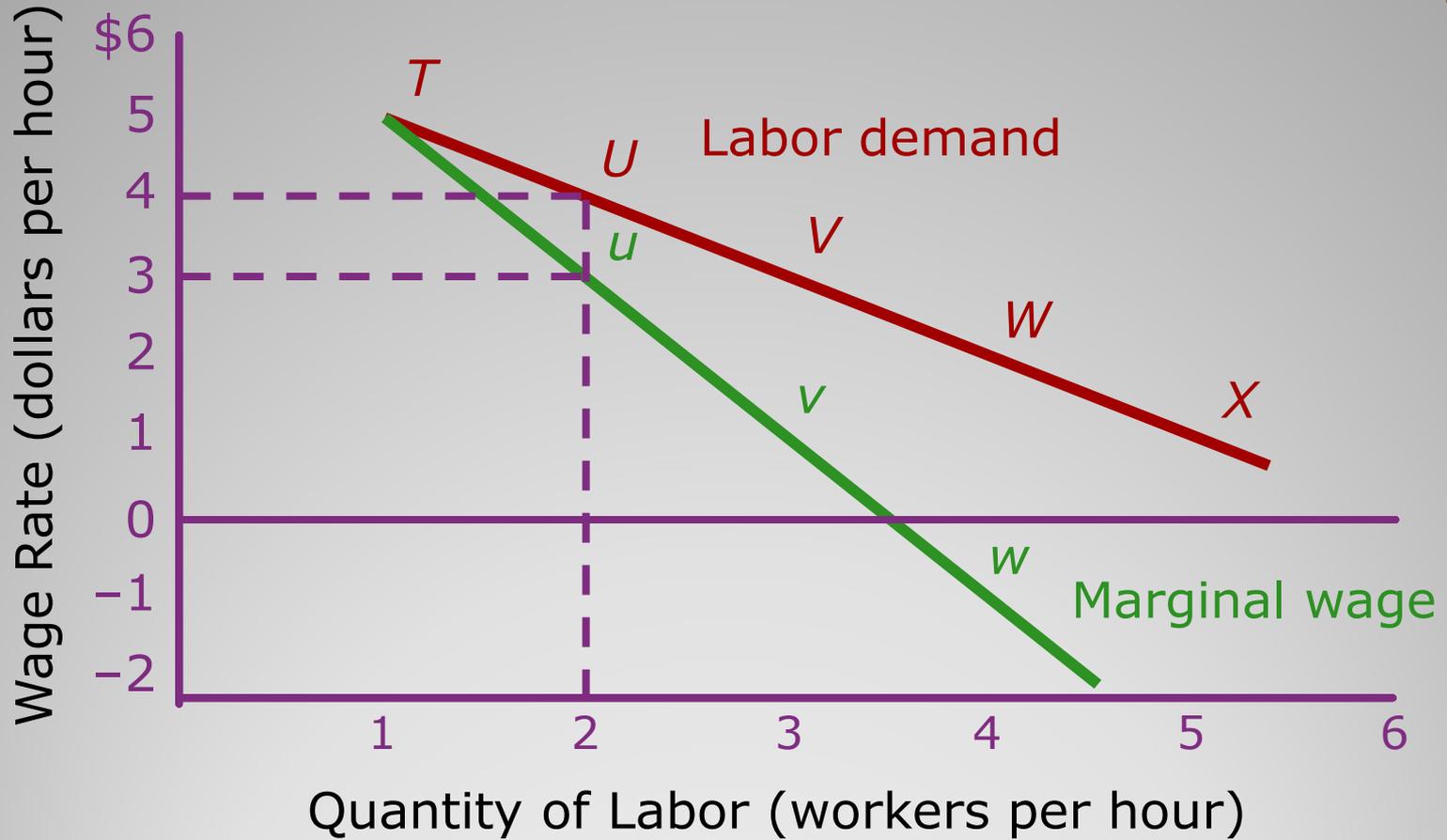
$$\text{marginal wage} = \frac{\text{change in total wages paid}}{\text{change in quantity of labor employed}}$$

## Total Wages Paid



	Wage Rate (per hour)	X	Number of Workers Demanded (per hour)	=	Total Wages Paid (per hour)	Marginal Wage (per labor hour)
S	\$6		0		\$0	
T	5		1		5	\$5
U	4		2		8	3
V	3		3		9	1
W	2		4		8	-1
X	1		5		5	-3

**Table: The Marginal Wage**

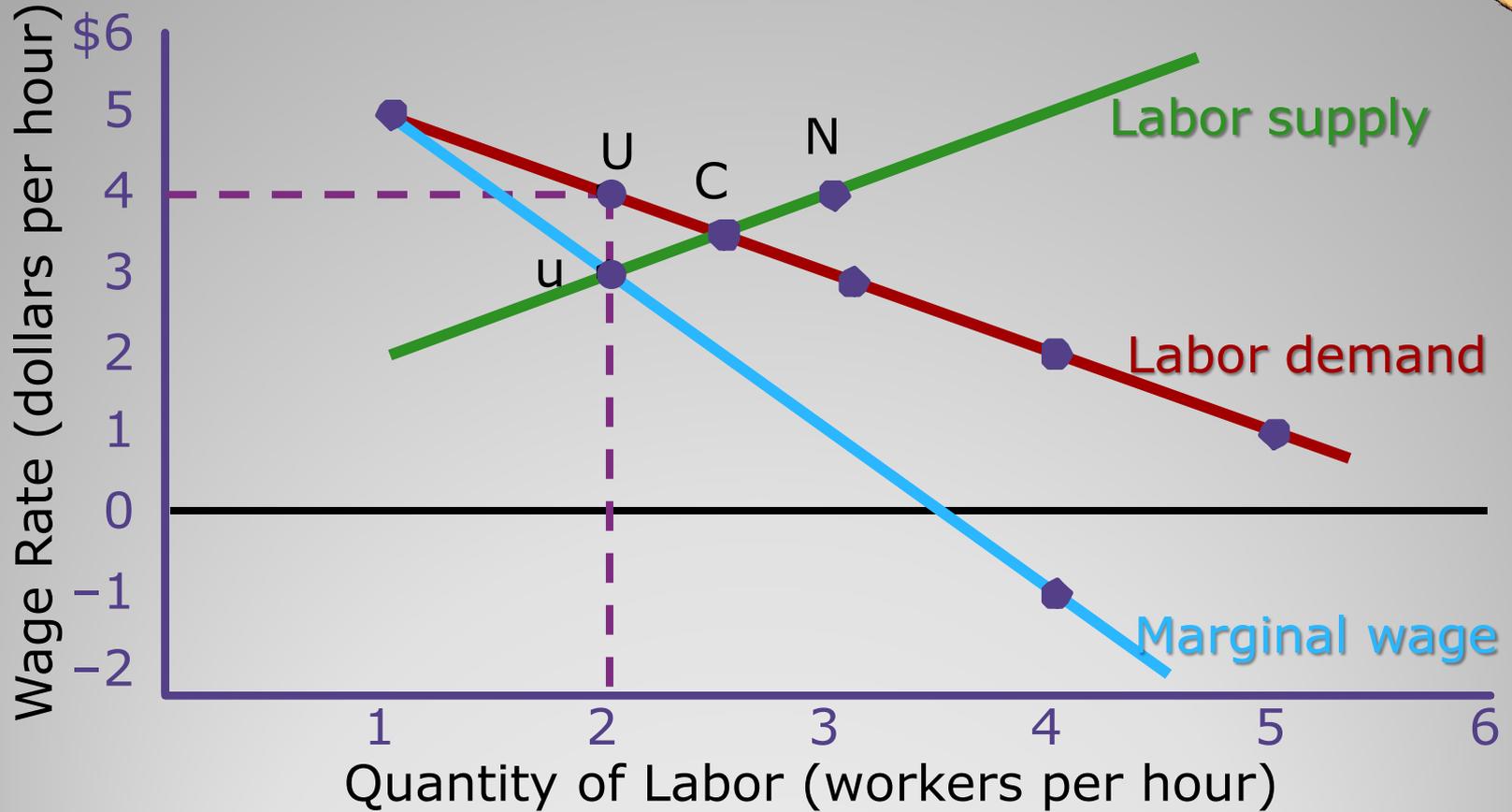


**Chart: The Marginal Wage**



- The union will seek the level of employment that equates the marginal wage with the supply of union labor.
- The intersection of the marginal wage curve with the labor-supply curve identifies the union's desired level of employment.

## The Union Wage Goal

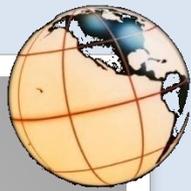


**Chart: The Union Wage Goal**



- Collective action, such as forming a labor union, is always difficult because it requires that individuals commit themselves to produce public goods enjoyed by all, including those who free ride rather than contribute to the group effort.
- If the union succeeds, free riders receive the same benefits as do activists; but if it fails, the activists suffer while those who remained outside lose nothing.
- Because individual logic leads workers to free ride, unions cannot grow by appealing to individual self-interest.

## The Free Rider Problem

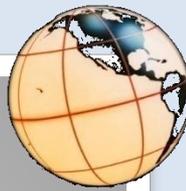


To maintain a noncompetitive wage, the union must be able to exercise some control over the labor-supply decisions of individual workers.

**NOTICE IS HEREBY GIVEN  
THAT IT IS THE DESIRE  
OF THE COUNCIL THAT  
ALL EMPLOYEES SHOULD BE  
MEMBERS OF THEIR  
APPROPRIATE TRADE UNIONS**

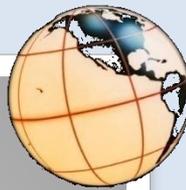
By Order,  
**ARTHUR PURKIS,**  
TOWN CLERK.

**Exclusion**



- Unions attempt to solidify their control of the labor supply by establishing union shops.
- A **union shop** is an employment setting in which all workers must join the union within thirty days after being employed.

**Exclusion – Union Shop**



- Unions are subject to potential competition from substitute labor.
- Employers try to find replacement workers when their unionized workers go on strike.

## Replacement Workers



- Free riding is a problem for all collective movements, but unionization is especially difficult because unions must attract members against the opposition of often-hostile employers. Workers who support unions sacrifice money and risk their jobs, even their lives.
- Success comes only when large numbers simultaneously follow a different rationality. Unions must persuade whole groups to abandon individualism to throw themselves into the collective project.

## Growth spurts



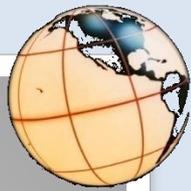
- Rarely have unions grown incrementally, gradually adding members. Instead, workers have joined unions en masse in periods of great excitement.
- Growth has come in spurts, short periods of social upheaval punctuated by major demonstrations and strikes when large numbers see their fellow workers publicly demonstrating a shared commitment to the collective project.
- Union growth, therefore, is concentrated in short periods of dramatic social upheaval.

## Growth Spurts



- Although the first labor unions in America were organized in the 1780s, union power was not a significant force in labor markets until the 1900s.
- By the end of the nineteenth century, labor unions and labor-oriented political parties had become major forces influencing wages and working conditions.

## The Extent of Union Power



- Unions grew in power between 1916 and 1920.
- Job losses caused by the Great Depression led to union membership dropping to the 1915 level.

## Early Growth



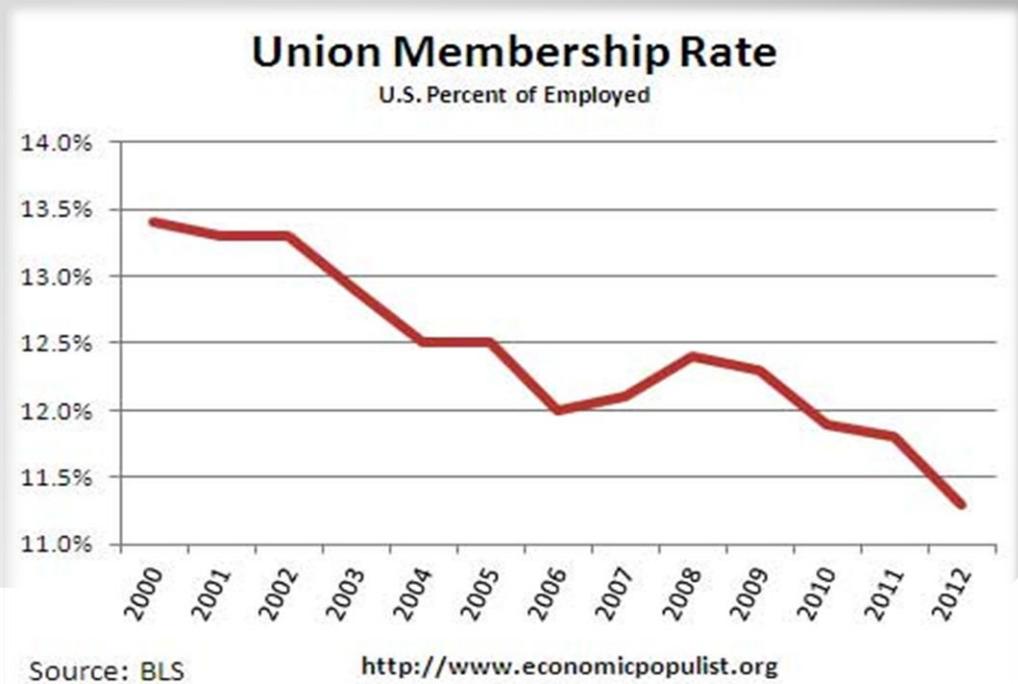
- The Wagner Act helped union membership double from 1933-37.
  - 1935 National Labor Relations Act established a National Labor Relations Board charged to enforce employees' "right to self-organization, to form, join or assist labor organizations to bargain collectively through representatives of their own choosing and to engage in concerted activities for the purpose of collective bargaining or other mutual aid or protection."
- World War II helped continue the growth of unions.
  - Helped unions both by eliminating unemployment and because government officials supported unions to gain support for the war effort.

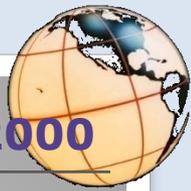
## Early Growth



- The **unionization rate** is the percentage of the labor force belonging to a union.
- The unionization rate has been in steady decline for over forty years.

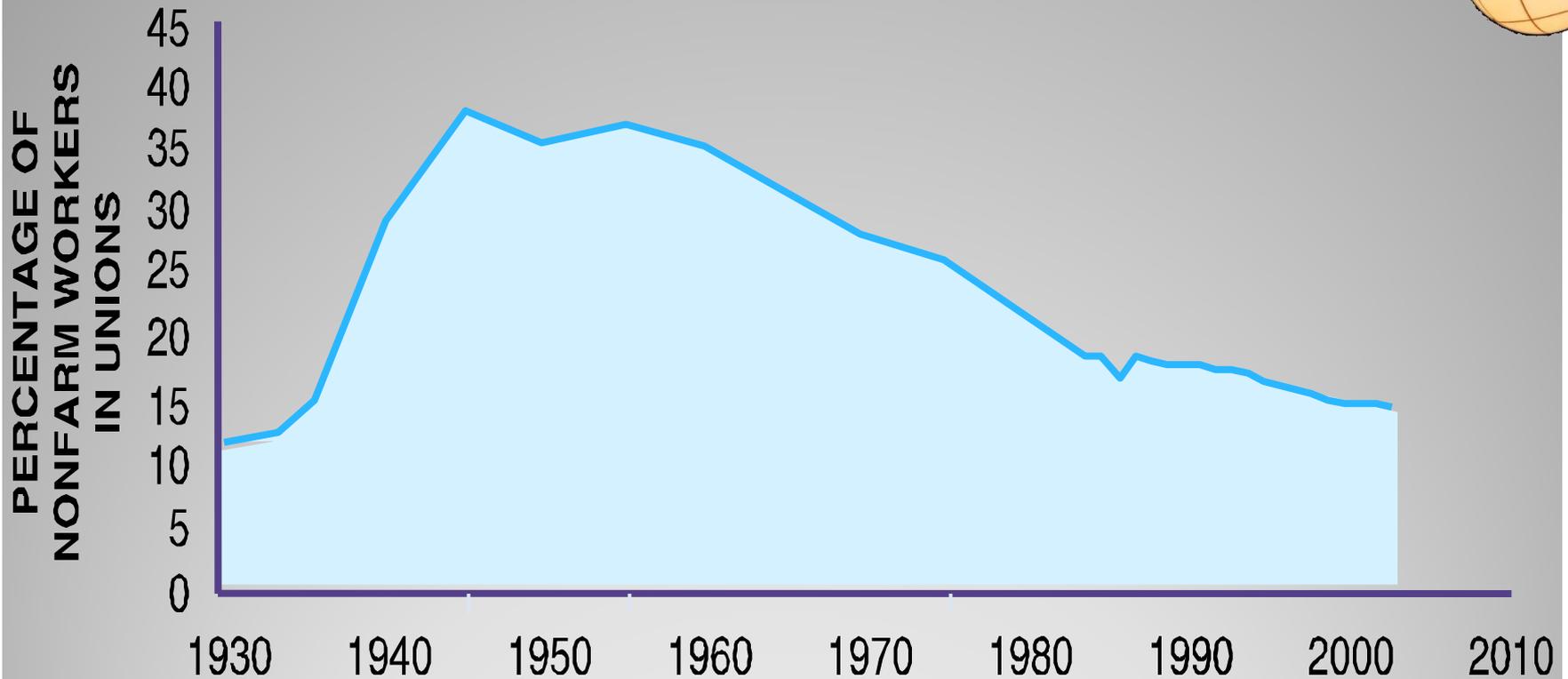
## Union Power Today



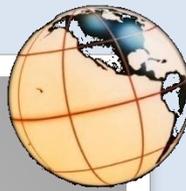


Industry	1880	1910	1930	1953	1974	1983	2000
Agriculture Forestry Fishing	0.0	0.1	0.4	0.6	4.0	4.8	2.1
Mining	11.2	37.7	19.8	64.7	34.7	21.1	10.9
Construction	2.8	25.2	29.8	83.8	38.0	28.0	18.3
Manufacturing	3.4	10.3	7.3	42.4	37.2	27.9	14.8
Transportation Communication Utilities	3.7	20.0	18.3	82.5	49.8	46.4	24.0
Private Services	0.1	3.3	1.8	9.5	8.6	8.7	4.8
Public Employment	0.3	4.0	9.6	11.3	38.0	31.1	37.5
All Private	1.7	8.7	7.0	31.9	22.4	18.4	10.9
All	1.7	8.5	7.1	29.6	24.8	20.4	14.1

**Table: Unionization Rates by Industry in the US**

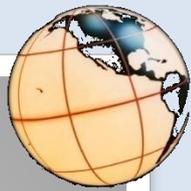


**Chart: Changing Unionization Rates**



- Periods of rapid union growth end because social upheaval provokes a hostile reaction.
- Union growth leads employers to organize, to discover their own collective interests. They join together to discharge union activists, to support each other in strikes and to demand government action against unions.

## Union Decline



- Rising opposition ends periods of rapid union growth, beginning a new phase of decline followed by longer periods of stagnant membership.
- The weakest unions formed during the union surge succumb to the post-boom reaction; but if enough unions survive they leave a movement larger and broader than before.

## Union Decline



*“Personally, I prefer the stick to the carrot. I tried threatening them with a carrot once, and it didn’t work worth a damn.”*

Continued in Labor Unions Part II