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**PUBLIC-SECTOR UNIONISM: A REVIEW**

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# Public-Sector Unionism: A Review

Eileen Norcross<sup>1</sup>

In 2009, membership in public sector unions surpassed membership in private sector unions for the first time in U.S. history. The growth in public sector unionism is part of 60-year trend fueled by a decline in private sector union membership and the legalization of public sector unionization. The shift in American labor unionism from a private to a public sector movement has been described as a “structural break” in American labor unionism with implications not for the profitability of firms but for the solvency of governments.<sup>2</sup>

Public sector unions are able to affect governments’ fiscal and budgetary policy by exerting influence through the collective bargaining process and through political activity by backing candidates likely to support the union’s agenda. The effectiveness of these approaches in raising wages, employment, and spending depends on the interaction of collective bargaining laws and the political activity of unions.

In the larger policy debate over the role of public sector unions, there is a tendency to blur the lines between the history and goals of the private sector union movement and those of the public sector union movement, and thereby misunderstand their unique effects. The public sector union movement shares a link to the history and institutional structure of private sector unionism, yet they are also distinct movements, differing in origins, goals, approaches to bargaining, philosophies, and effects.<sup>3</sup> These two unionisms operate in different spheres. Private unionism operates as a labor cartel within the market economy and thus affects the profitability of firms, economic growth, the demand for labor, and consumer prices. Public sector unions function as a monopoly provider of labor within a bureaucratic-political realm. Public sector unionism introduces an unelected body into policy-making, thereby undermining the sovereignty of the state.<sup>4</sup> Public sector employees are able to influence through political lobbying their “employer-sponsors” or politicians, who may seek to enhance union employment as a means of expanding their constituency.

This study reviews the origins, goals, and fiscal effects of public sector unionism.

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<sup>2</sup> Leo Troy, *The New Unionism*, 2004, George Mason University Press.

<sup>3</sup> Troy, 106.

<sup>4</sup> Troy, 80.

## I. **The Origins of Public Sector Unionism**

Private sector unionism emerged slowly over a 150-year period dating to the end of mercantilism. In the period leading into the 18<sup>th</sup> century, labor markets in Britain and the Americas were regulated under mercantilist systems. The disintegration of these controls in the 18<sup>th</sup> century gave rise to laissez faire capitalism and less-regulated labor, which in turn generated a trade union movement among skilled workers in the United States.<sup>5</sup> Public employees were not part of this early union movement, with the exception of a few groups of workers: postal workers, naval shipyard workers, arsenal workers, and Government Printing Office employees. A handful of local public unions, including municipal workers in Chicago, the Boston police, and some hospital workers, operated at the local level.

Private unions gained powers and recognition with the National Labor Relations Act of 1935 (NLRA), which granted employees the power to form unions and bargain collectively with their employers over working conditions, wages, and benefits. Several groups of workers, including public sector employees, were excluded from coverage under the NLRA.<sup>6</sup> After this law passed, private sector union membership grew during the 1930s and 1940s. This increase in unionization was due not only to the creation of a legal framework that permitted unionism but also to the corporatist policies set in motion by the Depression and the New Deal in which “business, labor and government were economic partners.”<sup>7</sup>

The NLRA was amended twice to limit union excesses. The Taft-Hartley Act of 1947 outlawed the closed shop,<sup>8</sup> permitted states to pass right-to-work laws and—in so doing—ban the union shop,<sup>9</sup> and granted the federal government the right to end strikes that directly affect public safety.<sup>10</sup> The Landrum-Griffith Act of 1959 sought to curtail corrupt practices on the part of labor unions by instituting secret elections, requiring financial disclosure by unions, and protecting workers against union abuses.

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<sup>5</sup> Troy notes, “Paradoxically...trade unions in the private sector owe their origin to markets even though they are an anti-market (monopoly) force,” 20.

<sup>6</sup> Other workers excluded from coverage under the NLRA include supervisors and managers, independent contractors, employees of certain small businesses, domestic workers, and agricultural workers.

<sup>7</sup> Barry T. Hirsh, “Sluggish Institutions in a Dynamic World: Can Unions and Industrial Competition Coexist?” Discussion Paper No. 2930, Institute for the Study of Labor (IZA), Bonn, Germany, July 2007, 3. [http://unionstats.gsu.edu/IZA\\_Unions&Competition\\_dp2930.pdf](http://unionstats.gsu.edu/IZA_Unions&Competition_dp2930.pdf).

<sup>8</sup> The closed shop permits employers to agree to hire only union workers.

<sup>9</sup> The union shop permits employers to require new hires to join the union within a specified period of time.

<sup>10</sup> Ibid.

The curtailment of union power under Taft-Hartley and Landrum-Griffith occurred during a period of structural change to the U.S. economy. The shift from a manufacturing to service economy in the post-World War II period separated private sector unionism from its industrial base, contributing to a decline in membership.<sup>11</sup> Economic forces changed the market terrain on which the private unions built a 150-year long movement. In addition, “unenthusiastic worker, public...and employer sentiment for unions in...a highly-competitive world is the ultimate constraint on union density.”<sup>12</sup> Interestingly, increased governmental regulation of the workplace may have substituted for collective bargaining.<sup>13</sup>

As this decline in private sector unionism was underway, a new movement emerged—partly springing from the “old unionism” as some unions transformed themselves from private to public unions, notably the SEIU (formerly the Building Services Employees Union),<sup>14</sup> and partly through a movement to “organize the organized,” transforming professional associations into labor unions.<sup>15</sup> Such “proto-unions” included the American Federation of Teachers (AFT), the American Federation of State, County and Municipal Employees (AFSCME), and the International Association of Fire Fighters (IAFF).

The public sector union movement began its ascent as the slow decline in private sector unionism was underway. In 1956, one-third of workers belonged to a private sector union, but by 2010 this had fallen to only 6.9 percent. There are many possible explanations for the decline in private unionism’s membership. Among these explanations are legal and institutional reforms, including growing opposition on the part of employers toward unions, modifications to the NLRA during the 1950s that weakened union power, and decreasing efforts by unions to promote new organizing.<sup>16</sup> Empirical evidence suggests that far more important to the decline in union membership were changes to the U.S. economy. Growing competition from foreign markets and the increased mobility of capital diminished the ability

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<sup>11</sup> See Troy, 2004.

<sup>12</sup> Barry T. Hirsch and Jeffrey M. Hirsch, “The Rise and Fall of Private Sector Unionism: What Comes Next?” December 2005, Prepared for the LERA/AEA session, “The NLRA after Seventy Years: An Assessment,” Allied Social Science Association Meetings, Boston, January 9, 2006.

<sup>13</sup> *Ibid.*, Hirsch and Hirsch, 2006.

<sup>14</sup> Another notable example of a union transforming its membership from private to largely public is the New Jersey chapter of the Communication Workers of America, AFL-CIO.

<sup>15</sup> Troy notes that associations faced a “Darwinian choice” in the face of the growing public sector union movement—unionize or disappear, p. 45.

<sup>16</sup> Henry S. Farber and Bruce Western, “Round Up the Usual Suspects: The Decline of Unions in the Private Sector, 1973-1998,” Working Paper #437, Princeton University, Industrial Relations Section, April 2000.

of unions to secure high wages and job security, decreasing the value of unions to workers.<sup>17</sup> In effect, the laws instituting unionism in the private sector were “repealed” by market forces.<sup>18</sup>

Public sector unionism’s surge during the 1960s can be attributed to a change in the legal environment and government policy.<sup>19</sup> Before this period, state and local court rulings on civil service rules for public employees shaped the legal environment. Legal opinion often “explicitly distinguished between the public and private sectors.”<sup>20</sup> Several court cases during the 1940s upheld restrictions on public workers participating in union activities. Legal objections to civil service workers forming unions rested on several criticisms, including the implications for state sovereignty and democratic governance.<sup>21</sup>

Attitudes toward permitting public sector workers the right to unionize and bargain collectively began to shift in the 1940s and 1950s as academic opinion favorable to public unionism filtered into the larger policy debate. The literature on public administration stressed the similarities between public and private workers and their shared interest in improved working conditions and wages. A further argument was made that public sector unionism would not result in fiscal abuses because the absence of profits in the public sector was “compensated by constant pressures for governmental economy.”<sup>22</sup>

One of the greatest objections to unionization of public workers—the threat of strike and its effects on public safety and welfare—was ameliorated by the decline in private sector strike activity and the argument that arbitration procedures would limit the possibility of public strikes.<sup>23</sup> During the 1950s, several prominent organizations began to change their views on public sector unionism. Early advocates included the National Civil Service League, the

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<sup>17</sup> Ibid.

<sup>18</sup> Troy, p. 32.

<sup>19</sup> Joseph E. Slater, *Public Workers*, Chapter 3.

<sup>20</sup> Ibid., 75.

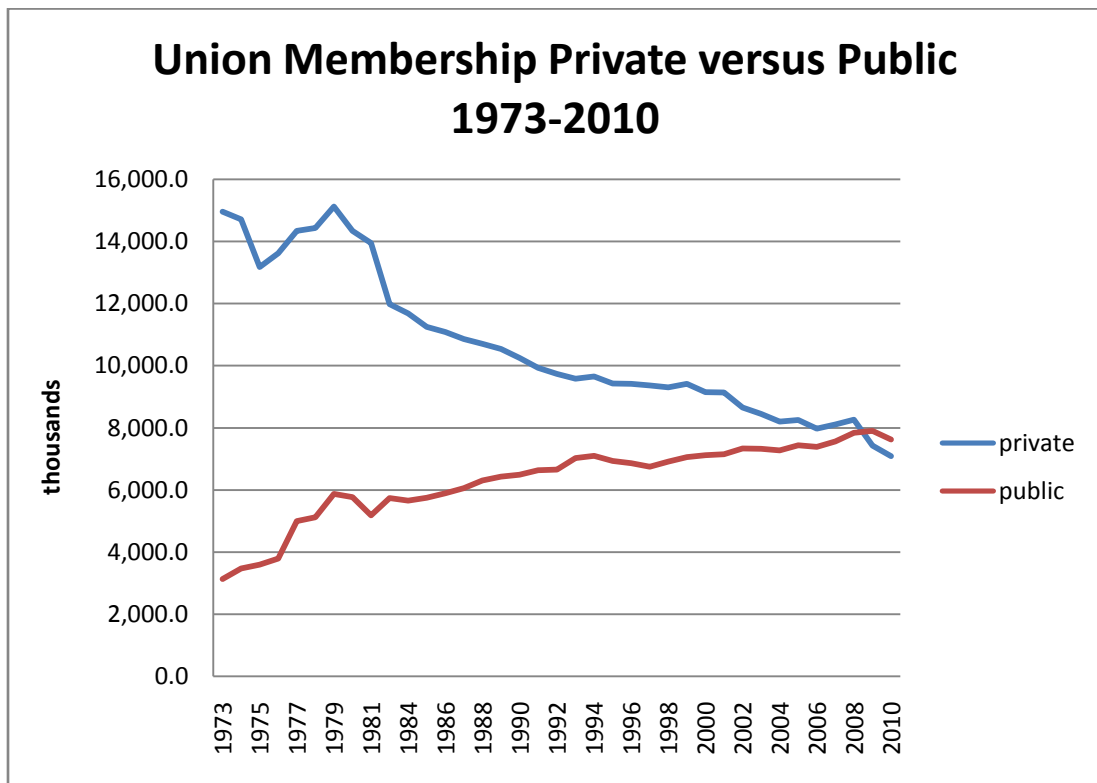
<sup>21</sup> Slater notes that “...courts held that public employers could not delegate any power to a private body such as a union....delegating to labor the power to bargain or to arbitrators the power to bind governments would violate constitution non-delegation doctrines and ostensibly threaten democracy,” 75.

<sup>22</sup> Joseph E. Slater, *Public Workers*, 159-160. It is worth noting that the argument that fiscal restraint could be ensured by the pressure for government efficiency is challenged by a literature demonstrating the impossibility of achieving government efficiency in the absence of profits or prices. See Friedrich Hayek, “The Use of Knowledge in Society,” *American Economic Review*, XXXV, No. 4, pp. 519-30. Also, as William Niskanen theorizes, government bureaucrats have an incentive to maximize the size of their budgets. See, *Bureaucracy as Representative Government*, Aldine: Altherton, 1971.

<sup>23</sup> Ibid.

ACLU, the American Bar Association’s Section on Labor Relations Law, and some public employers.<sup>24</sup>

This change in popular attitudes toward public sector unionism was accompanied by the growth in a professionalized public sector workforce. Beginning in the mid-1950s, public sector union membership began to increase: between 1956 and 1964, the proportion of public employees in the labor movement increased from 5.1 to 8.1 percent.<sup>25</sup> In 1959, the AFL-CIO issued a statement in support of extending collective bargaining powers to the public sector. Public employment was growing, in particular on the state and local level. Between 1946 and 1962, the number of state and local employees nearly doubled to 6,380,000, resulting in a growing pool of workers. AFSCME noted, “Industrial unions seem to be at the end of a line...as more and more plants are automated,” and employment for craft unions “is growing only slowly. In public employment, however, there is an expanding reservoir of workers.”<sup>26</sup>



Source: Barry T. Hirsch and David MacPherson, *Current Population Survey, U.S. Census*

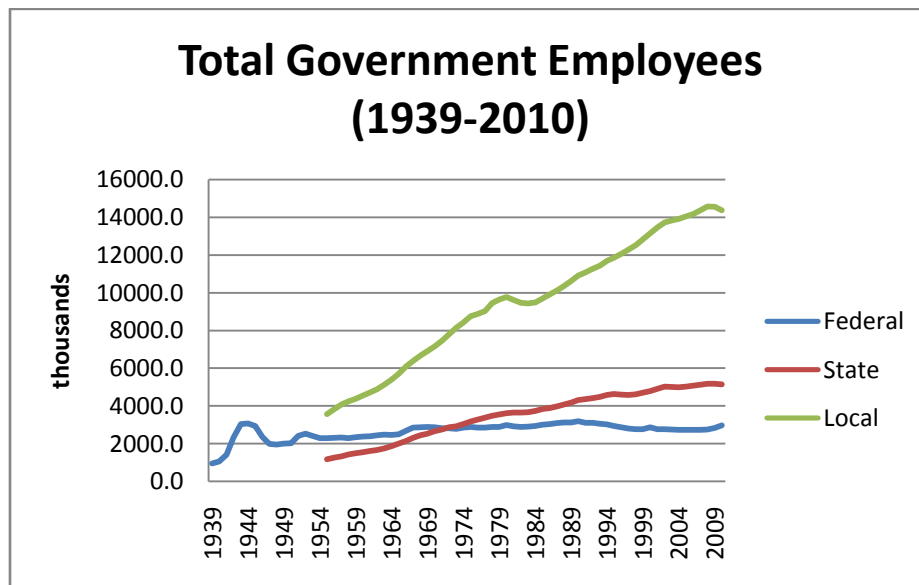
<sup>24</sup> Ibid., 161.

<sup>25</sup> Ibid.

<sup>26</sup> Ibid., 163.

At the center of the effort to expand public sector bargaining was the proto-union, AFSCME, chartered in 1936 and originally established in 1932 as the Wisconsin State Administrative Employees Association, representing white-collar government workers. Between 1936 and 1946, AFSCME increased its membership from 5,355 to 78,164, and a decade later to 200,000 members.<sup>27</sup> During this early period, AFSCME reported that its unions secured 445 “agreements” for local unions, despite the lack of a legal framework for bargaining, a fact used to highlight the growing gap between practice and the law.<sup>28</sup> After merging with the AFL-CIO in 1955, AFSCME began an effort to get municipal governments to institute collective bargaining powers. Philadelphia and New York City granted such powers to their workers in 1955 and 1958, respectively. AFSCME pressed for collective bargaining to be legalized on the state level, realizing its first success in the state where its union originated, Wisconsin.<sup>29</sup>

The climate of growing acceptance for public sector unionization was bolstered by the activism of key organizations, including the AFSCME, and the growth in government and thus a “pool of available workers” at the state and local level, which increased further with the implementation of the Johnson Administration’s domestic spending initiatives.



*Data: Bureau of Labor Statistics, “Employment, Hours, and Earnings from Current Employment Statistics, 1939-2009*

<sup>27</sup> Ibid., 164.

<sup>28</sup> Ibid., 163.

<sup>29</sup> Ibid., 165.

Wisconsin’s passage of a collective bargaining law was followed by a change in federal policy toward public sector unionization. In 1962, President Kennedy signed Executive Order 10988, which gave federal workers the power to unionize—an event that is often seen as triggering the wave of collective bargaining laws that followed in many state governments in the 1960s and 1970s.<sup>30</sup>

Between 1959 and 1984, 35 states granted collective bargaining powers to at least some public sector workers.<sup>31</sup> The scope of collective bargaining provisions—what is permitted for negotiation and the number of occupational groups covered—varies from state to state (see Table 1).<sup>32</sup> Collective bargaining for public sector workers is still prohibited in twelve states. Other union practices such as agency shop, dues check off, and union shops are prohibited in 22 states, making these “right-to-work” states.<sup>33</sup> It is possible to be a right-to-work state and have strong collective bargaining laws. Such states include Florida, North Dakota, and Nebraska.

*Table 1: State Public Sector Bargaining Laws Coverage*

State	Police & Fire	State	Education	Municipal
Alabama		No Provision		
Alaska	Y	Y	Y	Y
Arizona		No Provision		
Arkansas		No Provision		
California	-	-	Y	-
Colorado		No Provision		
Connecticut	Y	Y	Y	Y
Delaware	Y	Y	Y	Y

<sup>30</sup> Marlow and Orzechowski (1994).

<sup>31</sup> Robert G. Valletta and Richard B. Freeman, “Appendix B: The NBER Public Sector Collective Bargaining Law Data Set,” <http://www.nber.org/publaw/>.

<sup>32</sup> Valletta and Freeman.

<sup>33</sup> Agency shop provisions allow unions to collect fees from non-members, or require employees to eventually join the union. Dues check off allows union members to deduct dues from members’ salaries. A union shop requires new employees to join the union as a condition of employment.



District of Columbia	Y	-	Y	Y
Florida	Y	Y	Y	Y
Georgia	Y	-	-	-
Hawaii	Y	Y	Y	Y
Idaho	Y	-	Y	-
Illinois	Y	Y	Y	Y
Indiana*	Y	-	Y	Y
Iowa	Y	Y	Y	Y
Kansas	-	-	Y	-
Kentucky	Y	-	Y	-
Louisiana		No Provision		
Maine	Y	Y	Y	Y
Maryland		No Provision		
Massachusetts	Y	Y	Y	Y
Michigan	Y	Y	Y	Y
Minnesota	Y	Y	Y	Y
Mississippi		No Provision		
Missouri		No Provision		
Montana	Y	Y	Y	Y
Nebraska	Y	Y	Y	Y
Nevada	Y	-	Y	Y
New Hampshire	Y	Y	Y	Y
New Jersey	Y	Y	Y	Y
New Mexico	Y	Y	Y	Y
New York	Y	Y	Y	Y
North Carolina		No Provision		

North Dakota	-	-	Y	-
Ohio	Y	Y	Y	Y
Oklahoma	Y	-	Y	-
Oregon	Y	Y	Y	Y
Pennsylvania	Y	Y	Y	Y
Rhode Island	Y	Y	Y	Y
South Carolina		No Provision		
South Dakota	Y	-	Y	Y
Tennessee	-	-	Y	-
Texas	Y	-	-	-
Utah	-	-	Y	-
Vermont	Y	Y	Y	Y
Virginia		No Provision		
Washington	Y	-	Y	Y
West Virginia		No Provision		
Wisconsin	Y	Y	Y	Y
Wyoming	Y	-	-	-

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*Source:* Bennett and Masters, “The future of public sector labor-management relations,” *Journal of Labor Research*, Vol. 24, No. 4 533-544, (2003).

*\*In 2005, Indiana repealed the Certified Educational Employee Bargaining — Ind. Code Ann. §§ 20-7.5-1-1 to 20-7.5-1-14.*

States with strong collective bargaining powers tend to have stronger arbitration and mediation procedures for when parties reach an impasse during negotiations. Nine states permit striking. Most have a total ban on striking by public workers, and other states impose fines for strikes.

Union density is affected by the scope of collective bargaining. It is higher where unions are allowed the agency shop and where employers have a legal duty to bargain with labor

unions.<sup>34</sup> Collective bargaining laws vary in terms of how lenient or restrictive they are. Farber finds there is a strong relationship between union density and the presence of public sector bargaining laws. Where collective bargaining is prohibited, only 17 percent of state and local employees are unionized, while 50 to 75 percent are unionized where there is a duty to bargain.<sup>35</sup> Collective bargaining regimes and union activity levels are also a function of the political, social, and economic environment of the state. Where collective bargaining laws include right-to-work laws that prohibit the agency shop or closed shop, 28.9 percent of employees are unionized.<sup>36</sup> Unionization rises to 50 to 70 percent where the agency shop is either permitted or compulsory.<sup>37</sup>

As states passed collective bargaining laws for public employees, public sector unions had a growth spurt in membership during the 1960s and 1970s. Reid and Kurth offer an additional theory to explain the transformation of public employee organizations from a patronage-based system to a civil service system and then to politically active labor unions. The new organizational form benefited “politician-directors” most profitably.<sup>38</sup>

Reid and Kurth point to the behavior of associations in the period before and after unionization. Before 1955, public sector professional organizations provided expert testimony to legislators but “never took an adversarial stance towards their employers.”<sup>39</sup> Between 1955 and 1978, public unionism increased by 5-fold as militant job actions increased by 90-fold and largely at the local level. They further assert that local public employees did not become militant at once but in occupational waves beginning with teachers, firemen, police, and social workers, waves that followed “targeted federal revenue sharing that mandated expenditures patterns different from those followed locally.”<sup>40</sup> For example, federal funds sent to the local level aimed at upgraded science education in inner-city schools prompted teacher strikes and the redirection of funds to all schools and to teachers’ salaries. In other

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<sup>34</sup> Henry S. Farber, “Union Membership in the United States: The Divergence between the Public and the Private Sector,” Working Paper #503, Princeton University, Industrial Relations Section, September 2005, p. 1.

<sup>35</sup> Farber, 20-21.

<sup>36</sup> *Ibid.*, 20.

<sup>37</sup> *Ibid.*

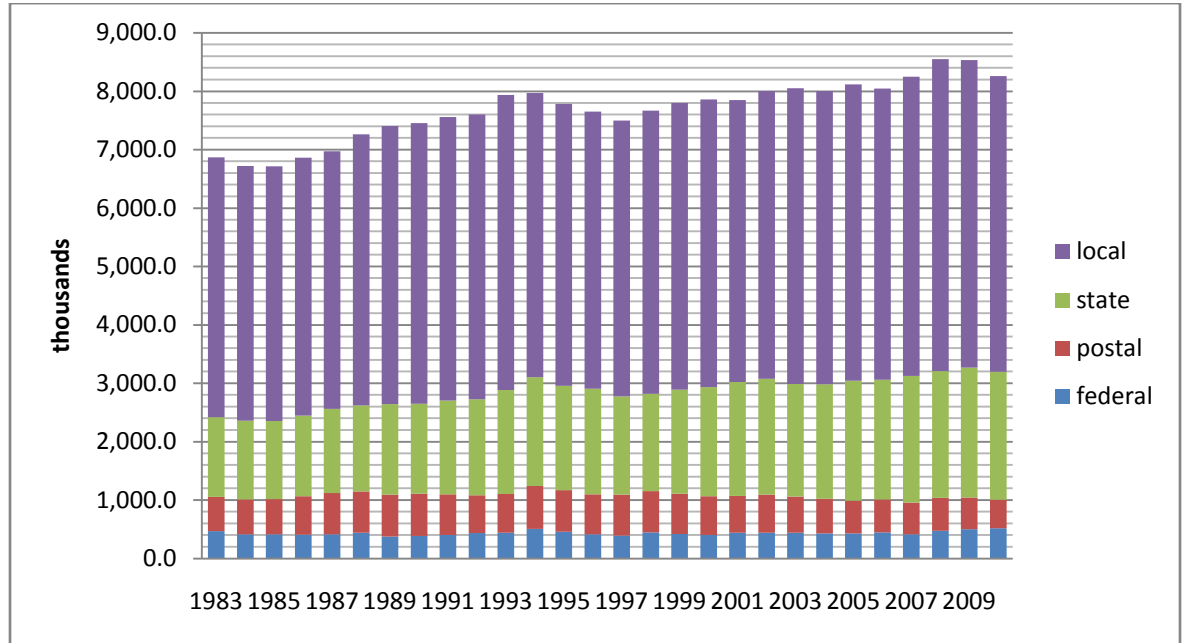
<sup>38</sup> Joseph D. Reid and Michael M. Kurth, “The determinants of public sector bargaining legislation: comment,” *Public Choice*, Vol. 66 177-182, 1990.

<sup>39</sup> *Ibid.*

<sup>40</sup> *Ibid.*

words, local politicians encouraged public sector militancy in order to redirect federal dollars.<sup>41</sup>

### Public Sector Union Membership according to Government Sector



Source: Barry T. Hirsch and David A. Macpherson, <http://www.unionstats.com>

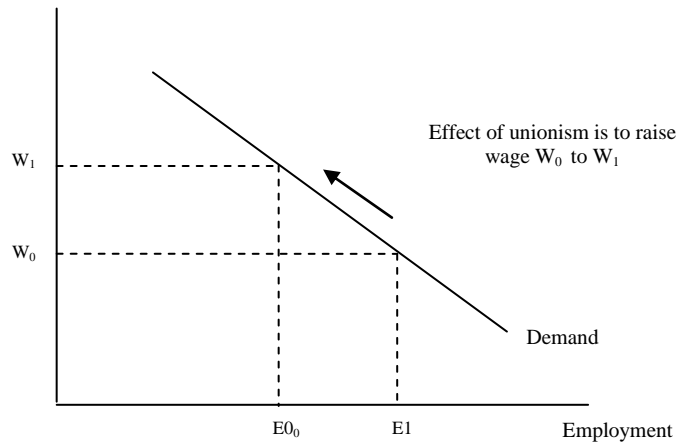
## II. Theoretical Distinctions Between Public and Private Unionism

In economics, a union is defined as a labor cartel. In bargaining with a private employer, the union exercises monopoly power and is able to secure a wage that is higher than the competitive or market wage. Driving up the wage rate causes the employer to purchase less labor. Thus, while private sector unions are able to increase wages for their members, these gains come with an economic tradeoff: fewer jobs for nonunion employees, lower corporate profits, and higher prices to consumers.

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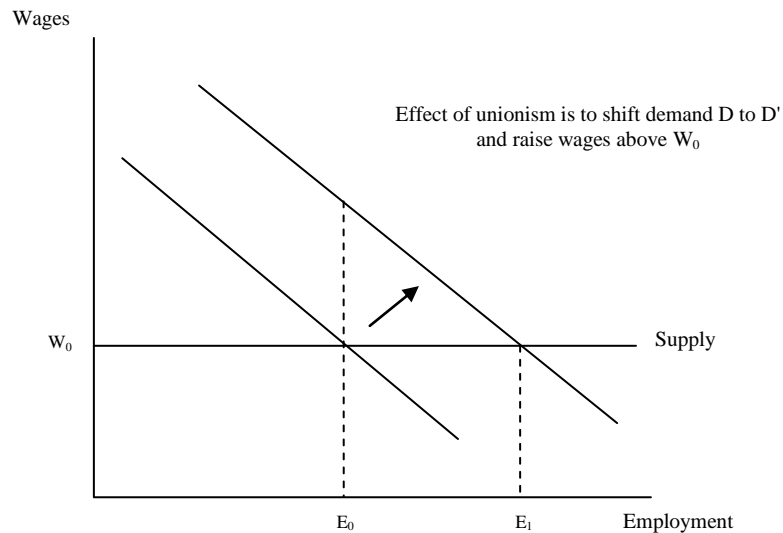
<sup>41</sup> Ibid.

### Private Sector Union Wage Effect



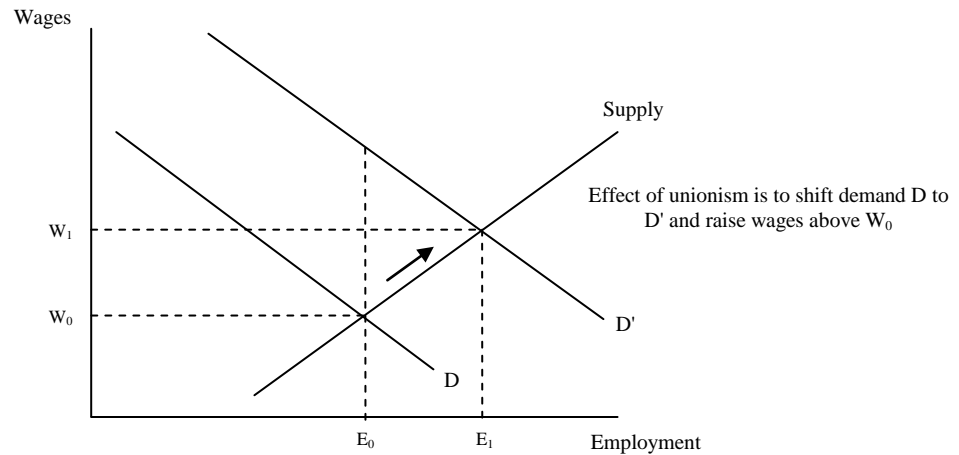
In the public sector, unions are also able to increase their wages through employer negotiations. In addition, public sector unions are also able to increase demand for their labor through the political, legislative, or regulatory process, thus increasing both wages and employment, in contrast to the private sector.<sup>42</sup>

### Public Sector Shift in Demand Effects Case I: Perfectly Elastic Supply Curve



<sup>42</sup> Richard B. Freeman, "Unionism Comes to the Public Sector," NBER Working Paper 1452, 1984.

Case II: Upward-Sloping Supply Curve



A review favorable to the public sector union movement notes, "...while public sector unions often would have preferred to use forms of collective bargaining to resolve these issues, use of politics was inevitable simply because the members of these unions remain highly active politically today, even where they can bargain. Further, public sector unions have often acted in a decidedly politically progressive manner both externally and within the AFL-CIO. Thus public sector unions, often relatively liberal, became especially adept at lobbying, elections and other political strategies and comfortable with some government regulation of terms and conditions of employment."<sup>43</sup>

Freeman rejects the claim that the monopoly power of government creates an inelastic demand for public employees.<sup>44</sup> He counters that unions are limited in their employment and wage growth by the short-run tax and budget constraints faced by their employer, the government. The budget acts as a disciplinary force leading to a "quantity-price tradeoff" for the employer in choosing how much of the budget can be dedicated to labor costs. In the long run, Freeman posits, governments are kept in check by "Tiebout Competition."<sup>45</sup> As residents elect to "vote with their feet" and move to other jurisdictions when unsatisfied with the level of service, or taxation, "...public sector unions may have an advantage in bargaining because they help elect the political leaders against whom they negotiate, 'legislative vetoes' of

<sup>43</sup> Slater, 200.

<sup>44</sup> Inelastic demand is defined as quantity demanded of a good is not sensitive to changes in price.

<sup>45</sup> "Tiebout Competition" is a sorting mechanism whereby municipalities compete for citizens and capital by offering different mixes of public spending and taxation. Citizens may elect to move to a municipality that reflects their preferences for a particular mix of spending and taxation. See Charles Tiebout, "A Pure Theory of Local Expenditure," *The Journal of Political Economy*, Vol. 64, No. 5, 416-24, 1956.

negotiated settlements and taxpayers' referenda which limit taxes create potential weaknesses for unions."<sup>46</sup>

However as the current fiscal stress in many state and local government reveals, government negotiators share the goals of unions to increase spending and are able to conceal the full price of bargaining agreements to voters in the form of current or deferred compensation (e.g., enhanced pension formulas and benefits). Governments may resort to debt finance, spending deferrals, or intergovernmental aid, thus enabling the government to increase employment and wages (either current or deferred) for union workers while concealing the true cost to voters.<sup>47</sup> That is, the spending limit, or budgetary constraint under which governments operate may be evaded by resorting to accounting techniques or fiscal illusion. Fiscal illusion occurs when the methods government uses to finance spending cause taxpayers to perceive spending as less costly than it actually is. Examples include an overly complex revenue system, debt finance, and income tax withholding.<sup>48</sup>

### **Institutional Stability of Public Sector Unionism**

Public sector union membership has enjoyed a period of sustained growth since the 1960s. It is a movement that appears to be more stable than the private sector union movement. Farber notes that legal politics favoring unionization owe their success to the very factors that distinguish the private from the public sector.<sup>49</sup> First, private sector employment growth is subject to more volatility. As unprofitable firms die, unions lose membership that is harder to regain when new firms are established since it requires new organizing efforts. The public sector increases employment as the demand for public services increases. Although firms go out of business, governments do not. This institutional stability makes it easier to unionize new government employees in the public sector. Moreover, job tenure is higher in the public

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<sup>46</sup> Freeman, 2.

<sup>47</sup> See Eileen Norcross, "Fiscal Evasion in State Budgeting," Mercatus Center Working Paper No. 10-39, July 2010, <http://mercatus.org/sites/default/files/publication/Norcross.Fiscal%20Evasion.%20State%20Budget%20Gimmicks.%20Updated%208.23.10.pdf>.

<sup>48</sup> For a discussion of the development of the theory of fiscal illusion, see *Public Finance in Democratic Process: Fiscal Institutions and Individual Choice* by James M. Buchanan, 1967, in *The Collected Works of James Buchanan*, vol. 4, Liberty Fund (1999).

<sup>49</sup> Farber, 10-13.

sector, with the job loss rate in the private sector 2.5 times the job loss rate in the public sector.<sup>50</sup>

Second, while the private sector must face competition from global markets for the goods and services it produces, the public sector enjoys a monopoly in the provision of its products. “Public education and public safety cannot be provided overseas,” thus making it easier for the public sector to “take wages out of competition.”<sup>51</sup> Public sector workers still face the threat of outsourcing to the private sector. Yet that is not an approach that has been taken by governments in general.

Just as employees in the public sector do not face market competition, public employers are also not bound by market discipline. Increases in wages and benefits and budgets are achieved through higher taxation. “Government taxing authority allows the financing of union compensation in a way that is not possible in the private sector.”<sup>52</sup> The check on excessive taxation is voter opposition at the ballot box. However, if the potential for fiscal illusion and fiscal evasion allows governments to conceal the full cost of public sector labor to taxpayers for a sustained period, then the ultimate check on the growth of public sector unionism is municipal insolvency.<sup>53</sup>

In the private sector, competitive forces act as a constraint on the size of pay and benefits. In addition, employees have an incentive to ensure that the employer remains profitable in order that the employee may share in those profits.<sup>54</sup>

Since the employer and the employee benefit from the expansion of the public budget and increased spending, there is an incentive to grant awards that put greater demands on fiscal resources, necessitating higher levels of local taxes, greater indebtedness, or intergovernmental transfers. In this way, collective bargaining in the public sector may impede economic growth.

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<sup>50</sup> Ibid.

<sup>51</sup> Ibid.

<sup>52</sup> Ibid, Farber, 14

<sup>53</sup> Troy, 147.

<sup>54</sup> Barry Hirsh notes, “Although corporate shareholders and unions have different views on how a firm’s revenues are to be divided, they have a mutual interest in maintaining employers’ financial health.”



### III. Empirical Effects of Public Unionism and Collective Bargaining on Wages, Employment, and Spending

The effect of public sector unionism—both through collective bargaining and political activity—on municipal budgets, wages, and spending is the subject of a long-running empirical literature. This literature has arrived at a range of findings and leaves several areas open for future research.

Earlier studies from the 1960s–1980s found a positive but weak impact of collective bargaining on wages in the public sector in comparison to the private sector.<sup>55</sup> Freeman notes that these initial studies looked at data during a period when collective bargaining laws had just been instituted. It is likely that the wages in earlier contracts are smaller than the wages secured in later contracts. Thus, the early literature likely understates the long-term impact of public sector unions on compensation. A second problem is that many of these studies failed to distinguish between public sector unionism in general and the effects of individual unions on wages. In addition, public sector compensation packages differ in the public sector and are not accurately captured in the data used in earlier studies.<sup>56</sup>

Interestingly for the current debate on collective bargaining effects on pension benefits, the studies reviewed by Freeman also find that public sector unions are able to raise fringe benefits by more than they are able to raise wages, leading to an increase in the size of public sector retirement funds.<sup>57</sup> The reason for this differential between public unions' effect on wages and their effect on fringe benefits is that “politicians with short time horizons should be especially willing to pay fringe benefits.”<sup>58</sup>

Studies in this period also generally found a positive impact on employment. Freeman cautions that studies until this point fall short of a complete analysis because they fail to take into account wages, employment, and budgets simultaneously, and thus none “adequately models the budget process, its interrelation to taxes, intergovernmental grants, or debt financing.”<sup>59</sup>

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<sup>55</sup> For a review of this early literature see, Richard B. Freeman, “Unionism Comes to the Public Sector,” *Journal of Economic Literature*, Vol. 24, March 1986, pp. 41-86.

<sup>56</sup> *Ibid.*, 3-4.

<sup>57</sup> *Ibid.*, 33.

<sup>58</sup> *Ibid.*, “If, as some claim, the public sector has a bias toward deferred compensation because politicians have a short time horizon this is likely to understate the effect of public sector unions,” p. 26.

<sup>59</sup> *Ibid.*, 40.

Zax and Ichniowski (1988) respond to this research gap identified by Freeman in their investigation of how municipal public unions affect employment, pay levels, and overall budgets in their localities. They find that cities with bargaining units representing police, fire, sanitation, and street and highway workers spend more on these activities than do cities that do not bargain with unions. Bargaining units are found to raise employment by 11 percent for their members and therefore increase expenditures on these activities. While bargaining units are able to increase spending on specific line items, this doesn't lead to an increase in overall municipal spending. They conclude that union activity is primarily focused on reallocating city funds from non-organized to organized activities rather than increasing spending and taxation overall. In short, unions affect line items but not the total size of the budget.<sup>60</sup>

Valletta (1988) tests the extent to which public sector unions are able to use collective bargaining power to influence budgets. Unions at the municipal level are able to exert significant influence over the budgetary process through a combination of lobbying and collective bargaining. If they are successful, municipal unions can increase both employment and wages for their members. Unless these are offset by reductions in other types of spending, the overall effect will be to increase total municipal spending.

Using data for 700 cities, Valletta estimates the effects of collective bargaining on department budgets based on inter-city variations in collective bargaining agreements. He finds that while collective bargaining agreements are associated with greater expenditures in departments covered by a contract, agreements do not result in higher overall expenditures or revenues. In a subsequent study, Valletta (1989) finds that the presence of collective bargaining agreements increase municipal employment by 20 percent.<sup>61</sup>

Freeman and Valletta (1988) assess the impact of labor laws on the extent of collective bargaining, wages, and employment for local public employees. They find the design of collective bargaining laws affects wage and employment outcomes. Favorable collective bargaining laws produce higher wages, but they are also associated with lower employment in departments that lack collective bargaining contracts. The authors posit this is because departments without such agreements pay higher wages to avoid unionization. Collective

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<sup>60</sup> Jeffrey Zax and Casey Ichniowski, "The Effects of Public Sector Unionism on Pay, Employment, Department Budgets, and Municipal Expenditures," in *When Public Sector Workers Unionize*, ed Richard B. Freeman and Casey Ichniowski, (Chicago: University of Chicago Press, 1988), 323-364.

<sup>61</sup> Robert G. Valletta, "The Impact of Unionism on Municipal Expenditures and Revenues," *Industrial and Labor Relations Review*, Vol. 42, No. 3 430-442, 1989.

bargaining agreements for local government employees are associated with higher wages and employment, underscoring the role that political activity plays in leading unions to increase demand for public services. They also find that within the same city wages and employment between departments do not differ greatly.<sup>62</sup> These studies acknowledge and stress the important role that political activity plays in influencing budgetary outcomes. However they do not model the effects directly, but instead use proxy measures.<sup>63</sup> O'Brien (1994) refines these earlier studies by measuring the separate effects of collective bargaining agreements and the political activity of unions on municipal spending and wages and creating a political activity index to capture the degree of political activity within different unions. O'Brien notes, "Political activity by public employee unions is a form of legislative enactment designed to increase the demand for union labor."<sup>64</sup> This is in contrast to the private sector, where the majority of the union's influence is in the collective bargaining process. Public sector workers can vote for their employers and are incentivized to back candidates who are likely to increase their wages and employment.<sup>65</sup> In addition to campaigning for candidates and using union funds to support politicians, unions also influence public opinion and thus the demand for public services through advertising or by backing ballot initiatives for bond issues to support spending projects that benefit their members.<sup>66</sup>

O'Brien measures the effect of collective bargaining agreements and political activity on spending outcomes in municipal fire and police departments. Contrary to Freeman and Valletta (1988), O'Brien finds that the presence of a collective bargaining agreement does not affect police department spending and it actually leads to a decrease in fire department

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<sup>62</sup> Richard B. Freeman and Robert G. Valletta, "The Effects of Public Sector Labor Laws on Labor Market Institutions and Outcomes.

<sup>63</sup> Trejo (1991) also finds that unionization is associated with higher wages and employment for police and fire workers in municipalities. However he rejects the theory that this is caused partially by union political activity and instead posits that economies of scale in union organizing explain part of the correlation between public sector unionization and employment. Stephen J. Trejo, "Public Sector Unions and Municipal Employment," *Industrial and Labor Relations Review*, Vol. 45, No. 1.

<sup>64</sup> O'Brien.

<sup>65</sup> O'Brien.

<sup>66</sup> In constructing the political activity index to measure union political activity, O'Brien assigns a weight to each of the following: candidate endorsement, candidate financial contribution, manpower or in-kind campaign contributions, mismanagement disclosure threats, publicity campaigns, state-level lobbying, taking issues to referendum, and no involvement in political activity. See O'Brien, p. 327.

spending. However, greater political activity on the part of police and fire unions increases spending in both police and fire departments.<sup>67</sup>

Further, O'Brien investigates how political activity and collective bargaining influences the wage bill, wages, and employment. He finds that collective bargaining has no effect on the "wage bill,"<sup>68</sup> but a positive effect on the average hourly wage, offset by a negative effect on employment. Political activity has a positive and significant effect on the wage bills of police officers and firefighters only when a collective bargaining agreement is present. Union political activities also raise department expenditures but do not lead to higher total municipal expenditures and revenues, presumably because increased spending on police and fire leads to decreases in other (non-unionized) areas.

In sum, O'Brien finds that collective bargaining alone is insufficient in raising the wages and employment of union members; the union must also be politically active.

Marlow and Orzechowski (1996) also test the relationship between public sector unionism and public spending.<sup>69</sup> They build on public choice theory that posits public sector employees, as an interest group, have an incentive to express "their preference for public sector expansion to policymakers."<sup>70</sup> Public sector unions may also influence the supply of public goods by "exerting pressure to maintain and expand" their monopoly position. Examples include teachers' unions' opposition to school choice and privatization and efforts by public sector unions to increase collective bargaining protections for their members. Public sector unions' incentive to be politically active is also indicated in their level of political involvement. Public employees, in particular state and local employees, are shown to vote more often than private sector employees and federal employees.<sup>71</sup> Marlow and Orzechowski find that unionization has a positive influence on government spending on public welfare and education as a share of Gross State Product—a finding that challenges the

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<sup>67</sup> Ibid. O'Brien argues that his findings likely contradict earlier studies on the impact of collective bargaining since these earlier studies did not account for the influence of political activity on municipal budgets.

<sup>68</sup> The wage bill is defined as total personnel expenditures for a department. This includes total wages, salaries, and employer contributions to health retirement.

<sup>69</sup> Gordon Tullock, "Dynamic hypothesis on bureaucracy," *Public Choice* 19, 127-131, 1974; James Buchanan and Gordon Tullock, "The expanding public sector: Wagner squared," *Public Choice* 32, 142-150, 1977.

<sup>70</sup> Michael L. Marlow and William Orzechowski, "Public sector union and public spending," *Public Choice* 89, 1-16, 1996.

<sup>71</sup> See Bush and Denzau (1977), Bennett and Orzechowski (1983), and Gramlich and Rubinfeld (1982); also Johnson and Liebcap who find that the probability of voting is greater for state and local workers than federal. Federal workers' probability of voting is roughly equal to the probability of voting for private sector workers.

hypothesis that public sector unions attempt to shift a greater portion of spending away from income transfer programs and toward areas dominated by government employees.

Union strategy over how to use political influence to raise wages and employment is considered by Babcock, Engberg, and Glazer (1997).<sup>72</sup> They hypothesize that unions use their political influence to shift voter opinion to favor more spending. To be successful, the “decisive voter” must be a voter with higher income. If unions are successful, the result will be an increase in employment and wages for its members.<sup>73</sup> The rationale given is that public sector unions seek to increase employment because it enables them to increase public support for a higher wage for their members. A large union membership enhances the unions’ political effectiveness.<sup>74</sup>

The scope of collective bargaining laws matters in terms of their effect on wage outcomes. Farber (2005) finds that union workers’ earnings are 10 percent higher where an agency or union shop is permitted or compulsory. Where right-to-work laws prohibit the agency or union shop, earnings are 7.5 percent lower. Yet, the legal duty to bargain has a negative effect on wages.

The question as to whether public sector unionization results in a higher wage for union versus non-union members is the subject of a few recent studies.

Theory does not provide a clear guide as to whether the union–non-union wage differential for public employees is likely to be smaller or larger than in the private sector.<sup>75</sup> The wage differential may be larger in the public sector since the employer does not face a profit motive and may not oppose union demands. Public unions’ ability to apply their political influence and the fact that the demand for public employees is relatively inelastic would suggest that the wage premium is likely to be larger in the public sector. Earlier studies found the union wage premium for the public sector was lower by between three to seven points than the

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<sup>72</sup> Babcock, Engberg, Glazer, “Wages and Employment in Public-Sector Unions,” *Economic Inquiry*, vol. XXXV, July 1997, 532-543. According to the efficient bargains model, unions bargain for both increased wages and employment. The model predicts unions have a positive effect on wages but ambiguous effects on employment.

<sup>73</sup> Farber, 532.

<sup>74</sup> *Ibid*, the authors note these tactics have been effective. They cite case studies provided by Horton (1973) and Gramlich (1976). The influence of unions was sufficiently large to swing elections in New York City in the 1960s and 1970s for which in return the unions won wage increases.

<sup>75</sup> Bahman Bahrami, John D. Bitzan, and Jay A. Leitch, “Union Worker Wage Effect in the Public Sector,” *Journal of Labor Research*, Vol 30, 35-51, 2009.

union wage premium for the private sector.<sup>76</sup> These studies, as the authors note, failed to consider the differences in fringe benefits, strike effects, workforce composition, and wage trends between the public and private sector. Using a sample of 35,300 federal, state, and local employees from 1998 to 2004, Bahrami, Bitzan, and Leitch find that the union wage premium is highest for local employees, followed by state employees and federal employees.

When comparing the public to the private sectors they find a much larger union wage premium, 22.7 percent, in the private sector. The premium in the public sector is 11.2 percent, only about half the private sector premium.

To determine why such a difference in union wage premiums exists between private and public sector workers, the authors separate the earning gap into two components, with one portion explained by personal characteristics and the other by differences in the coefficient estimates between the groups. They find that between 39 to 50 percent of the difference in the union wage premium between private and public sector workers is explained by differences in the characteristics of workers in these groups. The remaining 60 to 50 percent of the difference is explained by the differences in the rewards provided to such characteristics for union members in the two sectors.

More specifically, 22 percent of the difference in private and public union wage premiums is explained by the larger percentage of public sector workers classified as white collar and the higher education level attained by public sector workers.<sup>77</sup> In a second study, Bitzan and Bahrami (2010) investigate union–non-union wage premiums according to occupational group. They find a statistically significant and positive wage premium for 27 out of 41 occupations.<sup>78</sup> The largest wage premiums are for mail sorters, ground maintenance workers, driver/sales workers, truck drivers, and other teachers and instructors. Occupations with smaller wage premiums include secretaries, social workers, and typists. They find that similar union wage premiums exist for these occupations in the private sector.

Private sector union workers have wage premiums that exceed those of public sector union workers due to the differences in how the two sectors reward worker characteristics. To

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<sup>76</sup> See GH Lewis, "Union/nonunion Wage Gap in the Public Sector," *Journal of Labor Economics*, Vol. 8, S260-S328, 1990.

<sup>77</sup> The authors find differences in union premiums for different types of workers. A wage premium is found for blue collar workers versus white collar, part-time employees versus full-time employees, females versus males, and black workers versus white workers.

<sup>78</sup> John D. Bitzan and Bahman Bahrami, "The Effect of Unions on Wages by Occupation in the Public Sector," *International Business & Economics Research Journal*, Vol. 9 No. 8, July 2010.

explain why private union workers receive a larger wage premium than their public sector counterparts, the authors point to low public tolerance to pay for government services, legal restrictions on striking, and labor-saving technologies. However, the authors also note that their study does not address the wage differential between public and private sector workers. In addition, they do not account for the way unions reward workers in the public versus the private sector—such as job security and other benefits.

### **Conclusion and Questions for Further Research**

The rising cost of funding public sector pension plans and health benefits—and stories of exorbitant salaries enjoyed by some public sector workers—has occurred during a period of slow economic growth, high unemployment, weak tax revenues, and rapidly increasing levels of federal debt. The discussion about how to control spending on the state, local, and federal levels has sparked a debate about the role public sector unions have played in the growth of spending over the past several decades. The literature shows that public sector unions indeed do influence public policy and spending. The tools they use to influence budget outcomes include informal political activity, which may be more effective than the formal collective bargaining process in securing increased wages, benefits, and higher levels of employment and spending.

This fact should not be too surprising. Public sector unionism allows an unelected body, effectively a special interest, to negotiate over the ends of public policy. The public sector employer is also a public sector employee. The parties at the negotiating table share similar goals and benefit from the expansion of public spending. Linda Edwards notes in her assessment of growth patterns in public sector unionism that “growth of government...is self-reinforcing through the political process. The suppliers of public services (i.e. elected officials, managers, employers and their unions) have every incentive to support and vote for larger public budgets. They act in the political arena as a cohesive interest group to lobby for an increase in the quantity and quality of public services...The increased demand for public sector workers created an environment favorable to union-organizing activities.”<sup>79</sup> Several studies indicate public sector unions are more politically active as a group, with state and local employees more likely to vote than private sector or federal workers.

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<sup>79</sup> Linda N. Edwards, “The Future of Public Sector Unions: Stagnation or Growth?” *The American Economic Review*, Vol. 79, No. 2, Papers and Proceedings of the Hundred and First Annual Meeting of the American Economic Association May, 1989, pp. 161-165.

The question of exactly how unions affect spending has implications for public policy. Curbing collective bargaining laws may or may not have the effects intended by reformers if the political activity of unions is a far more powerful influence over spending. Some important questions remain to be explored, including testing the link between collective bargaining and the political activity of unions and their effects on pension funding, pension shortfalls, budget gaps, and overall state and local indebtedness.

The actions of public sector workers may be based on the belief that the expansion of government spending benefits society or may be motivated by individual self-interest. Whatever the reason, theoretical and empirical evidence over the period point to the effectiveness of the institutionalization of government unionism on shaping fiscal and spending policies of federal, state, and local governments.