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They may not have the skills, but they have the desire: Why the skill composition of trade unions matters for wage inequality

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ABSTRACT

There has been a scholarly consensus that greater union strength translates into lower levels of wage inequality. However, recent evidence indicates that this union effect disappeared in the 1990s. We argue that unions still reduce wage inequality, but that their effect is dependent on the type of workers that are actually unionized. Using survey data, we construct a variable that measures the proportion of union members that are unskilled manual workers in twenty wealthy democracies. We find that as the share of these workers rises, wage inequality falls, regardless of the level of union density, the level of union coverage, or whether a country has liberal, mixed, or coordinated market economy. However, the proportion of union members that are unskilled manual workers has no effect on wage inequality when wage bargaining institutions are decentralized, likely because such workers are unable to extract wage gains from their more skilled and higher paid union brethren in such an institutional context. These results suggest that the unitary actor assumption, so commonly employed by scholars to explain union effects on political and socio-economic outcomes, is misplaced; and that even though politicians may be more responsive to the policy preferences of the wealthy, poorer individuals can achieve relative economic gains when properly organized.

1. Introduction

Recent evidence indicates that unions' negative effect on wage inequality became insignificant in the 1990s (Golden & Wallerstein, 2011). This is noteworthy considering the strong consensus in the political economy literature that levels of, and changes in, union strength account for much of the cross-national and over-time variation in wage inequality (Golden & Londregan, 2006; Iversen, 1996; Kahn, 1998, 2000; Martin & Swank, 2012; Oliver, 2008; Pontusson, Rueda, & Way, 2002; Rueda & Pontusson, 2000; Visser & Checchi, 2009; Wallerstein, 1999). We examine whether unions still have an effect on wage inequality, but do so by focusing on what we term the skill and capital mechanisms, the primary means by which unions reduce wage inequality. The capital mechanism is emphasized in power resource theory (PRT), and refers to the ability of unions to extract wage concessions from their employers (Korpi & Palme, 2003; Korpi, 2006).[1] The skill mechanism is emphasized by scholars outside of the PRT tradition, including by those working within the varieties of capitalism (VoC) approach, and refers to the ability of less skilled union members to extract wage concessions from more skilled union members (Becher & Pontusson, 2011; Checchi, Jelle, & van de Werfhorst, 2007; Iversen & Soskice, 2010; Oliver, 2008).

Despite the implicit recognition of both of these mechanisms in the wage inequality literature, the union variables scholars have employed to determine union effects on wage inequality are more appropriate for measuring unions' ability to activate the capital mechanism rather than the skill mechanism. These "union presence" (Visser & Checchi, 2009) variables measure unions' overall organizational strength, but do not consider what types of workers are actually unionized. Therefore, the finding that unions have recently lost their ability to reduce wage inequality might more accurately be interpreted as unions no longer being able to activate the capital mechanism.

In order to test whether unions are still able to activate the skill mechanism, we construct our own data of the proportion of union members that are unskilled manual workers using European Value Survey (EVS) and World Value Survey (WVS) data. Based on the assumptions that union member preferences

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[1] In this article, "employer" refers not only to actual business owners, but also top managers (e.g., Chief Executive Officers) that may or may not have an ownership stake but nonetheless formulate and implement policies relating to investments and/or employee compensation.

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are substantially determined by their skill or income level and union decision-making is approximately democratic, we argue that greater numbers of unskilled union members relative to more skilled union members should increase unions' ability to activate the skill mechanism and thus reduce wage inequality. Using the trade union and wage inequality data on twenty wealthy democracies between the years 1990 and 2009, we find that as proportion of union members that are unskilled manual workers rises, wage inequality falls, regardless of the level of union density, the level of union coverage, or whether a country has liberal, mixed, or coordinated market economy. However, the share of such workers has no effect on wage inequality when wage bargaining institutions are decentralized, likely because unskilled manual workers are unable to extract wage gains from their more skilled and higher paid union brethren in such an institutional context.

Our findings indicate that unions do have an effect on wage inequality even in the post-1989 period, but that this effect is driven not only by the redistribution of earnings from employers to workers, but also from some union workers to others. These results suggest that the unitary actor assumption, so commonly employed by scholars to explain union effects, is misplaced; and that we need to consider the preferences and behavior of different types of union members if we are to properly account for the impact of unions on political and socio-economic outcomes. The results further imply that even though politicians may be more responsive to the policy preferences of the wealthy, poorer individuals can achieve relative economic gains when properly organized.

2. Union effects on wage inequality

The three most common measures for union presence in the wage inequality literature are union density, the level of wage bargaining, and union coverage. *Union density* refers to the proportion of employed individuals that belong to a union. Higher levels of union density enable unions to mobilize many workers and inflict economic damage on employers (e.g., through a strike) (Mishel, 1986). It is also presumed that wage inequality among union members is smaller than that among non-members due to the democratic nature of union organizations (Pontusson et al., 2002). Thus, overall wage dispersion will be compressed if many workers belong to unions.

The *level of wage bargaining* refers to the primary level at which unions and employers negotiate over compensation. This is typically an ordered categorical variable that ranges from firm-level bargaining, to industry-level bargaining, to national level bargaining. The centralization of wage bargaining intensifies the overall power of unions by eliminating competing unionism. Wallerstein (1999) suggests two additional explanations for why the level of wage bargaining is negatively associated with wage inequality: a "political explanation" (lower income workers have more relative power in the context of a centralized agreement than they do in the marketplace or in a more decentralized wage setting) and an "ideological explanation" (that centralization fosters the widespread acceptance of norms of fairness by which the importance of an individual worker is seen in the context of the workforce as a whole, and not only for her or his individual contribution).

Union coverage refers to the proportion of workers that are covered by a collective bargaining agreement, whether or not the workers are union members. It is expected to reduce wage inequality for the same reason as union density: the more workers a union is able to influence, the more powerful it is; and the more workers that are included under a negotiated contract, the greater the number of individuals contained within a union bargained wage structure.

Though it is not widely considered as a variable of union presence in the study of wage inequality, market institutions ("coordinated" and "liberal") can be described as a more encompassing measure of union strength. In addition to a high degree of institutionalization of collective bargaining and coordination of wage formation that strengthen union power, coordinated market economies have a comprehensive, publicly funded social welfare system, as well as significant government regulation to standardize employment conditions and to provide for a high degree of employment security. Rueda and Pontusson (2000) find that the centralized wage bargaining structure effect on wage inequality is larger in coordinated market economies because collectively bargained wages spread to non-unionized workers and workplaces more than in liberal market economies.

While all of the above measures of union presence are found in numerous studies to be significantly and negatively related to wage inequality, recent evidence indicates that these effects vary over time. In their study of the determinants of wage inequality, Golden and Wallerstein (2011) find that while union density and the level of wage bargaining had substantial (negative) effects in the 1980–1990 period, in the 1991–2000 period the union effects turned insignificant. According to the authors, the divergent results of the two time periods indicate that the decline of union density and the decentralization of bargaining over the 1980s and 1990s made unions increasingly incapable of resisting the wage pressures brought about by trade with less developed countries. In other words, unions are only able to reduce wage inequality when they have substantial organizational strength.

While previous literature focuses primarily on the organizational strength of unions, we take into account their compositional makeup as well. Although we agree that the degree of union power likely has implications for the union effect on wage inequality, we contend that there is another aspect of unions that is relevant in this regard: the skill profile of union members.

3. Skill composition of trade unions and the union effect on wage inequality

Scholarship examining the effect of unions on wage inequality emphasizes what we label the "capital mechanism", or the ability of unions to extract wage concessions from their employers. This theoretical explanation is derived from power resource theory, an approach that neatly divides society into two general classes, employers and employees, or capitalists and workers. Power resource theory argues that the economic class with more relative power translates that power into policies and outcomes that are beneficial to their class. While a capitalist system tends to benefit the holders of capital, the working class can gain greater relative power by organizing into labor unions and electing supportive (typically labor or socialist) political parties, thus winning distributive battles outright or gaining concessions from their upper class adversaries. This may be done, for example, by workers jointly withholding their services until particular demands are met regarding compensation (Checchi et al., 2007). Since the working class has less income but greater numbers than the capitalist class, the "victories" and concessions produced via greater working class power produce a more egalitarian distribution of earnings (Korpi & Palme, 2003; Korpi, 2006).

Power resource theory rests on two basic assumptions: that workers have homogenous interests and that these shared interests include a desire for less economic inequality. However, a plethora of research suggests that worker preferences towards redistribution and earnings inequality are substantially determined by the labor market risks they confront and their market earning potential. It has been argued that workers with more specific skills have a greater