



Spillover effects of unionisation on non-members' wellbeing[☆]



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HIGHLIGHTS

- We examine if unionisation has a spillover effect on non-members' wellbeing.
- We adapt the Social Custom Model of unions and conduct empirical analysis on a rich linked data.
- The empirical analyses uses alternative methodologies and a sensitivity analysis.
- We find that unionisation has a negative spillover effect on non-members' job satisfaction.
- Subgroup analysis reveals that the adverse job satisfaction effect is specific to covered workplaces.

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ABSTRACT

We investigate whether unionisation has a spillover wellbeing effect on non-members. To this end, we adapt the Social Custom Model of trade unions and conduct empirical analyses using linked employer–employee data on private establishments in Britain. We find that unionisation lowers non-members' job satisfaction, but the effect is confined to workplaces where pay is set through collective bargaining.

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1. Introduction

Empirical evidence indicates that union members report lower job satisfaction than their non-member counterparts, *ceteris paribus*, despite unions' role in improving pay and working conditions. Considerable

efforts have been made to explain this empirical regularity (see Bryson *et al.*, 2010; Green and Heywood, 2010 for recent reviews). If union membership was compulsory where workers are covered by collective bargaining this might not be puzzling. However, covered employees are not compelled to join unions in Britain. So we might expect workers to sort to optimise their utility, whereupon there would be no job satisfaction differential between members and non-members. On the other hand, the 'open shop' model makes the union associated multi-attribute good largely non-excludable, creating an incentive to free-ride. This paves the way for the coexistence of members and non-members in workplaces. It is this coexistence that we aim to exploit to gain new insights into the link between unions and job satisfaction. Specifically, we argue that this coexistence may have a negative spillover on non-

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members' wellbeing. If so, the gap in job satisfaction between members and non-members that the literature reports may be an underestimate, since it does not account for the potentially adverse causal impact of unionisation on the job satisfaction of non-members.

Recent evidence (Bryson et al., 2010), indicates the importance of bargaining coverage at the workplace in explaining the link between membership and satisfaction. If members' bargaining power is a rising function of union density, something much of the literature confirms, then non-members would be limiting the bargaining power of members. If so, non-members may risk being ostracised by members, which may have adverse implications on their job-related wellbeing. Several factors may entail adverse wellbeing effects on non-members. These include the exclusion of non-members from certain private goods such as legal and pension advice (Booth and Chatterji, 1995), reputational costs (Booth, 1985), and a potentially disruptive workplace environment triggered by the process of collective bargaining, among others.

This paper establishes whether there is a negative spillover wellbeing effect of unionisation on non-members. In doing so it departs from the existing literature by focusing exclusively on non-members. Our theoretical framework adapts the Social Custom Model of trade unions (Booth, 1985) to non-members. We argue that non-members are identical to members other than with respect to their exposure to unionisation. Using rich linked employer–employee data we construct a counterfactual world for the non-members in the union world that is observationally equivalent but excludes unions, thereby addressing the potentially important issue of non-member selection adequately, if not perfectly. We also carry out a sensitivity analysis of the effect of unionisation on non-member wellbeing using the method pioneered by Altonji et al. (2005), which has been further developed in Oster (2014).

Our analysis centres on the private sector for two main reasons. First, the public sector accounts for only 31.7% of the employees observed in our data; and 63.4% of these employees are union members. This makes it almost impossible to carry out our non-member centred analysis, which relies on constructing a counterfactual group of non-members in non-union workplaces. Secondly, it is difficult to get a clear picture of the role collective bargaining plays in setting pay in public establishments due to the presence of public sector pay review bodies in such establishments.

We find that unionisation reduces the job satisfaction of non-members in workplaces where pay is set through collective bargaining. Non-members are outside of the bargaining process. However, our findings suggest a reduction in their job satisfaction, possibly due to a strained workplace environment triggered by bargaining and voice induced complaining. Our findings have a major implication for the empirical union literature linking membership and job satisfaction. The often reported 'puzzling' empirical regularity indicates that unionisation lowers members' job satisfaction compared with non-members'. If non-members in union workplaces fare worse in job satisfaction terms vis-à-vis other workers in non-union workplaces as our findings indicate, it may mean that the job satisfaction gap between members and non-members may have been underestimated.

The rest of the paper is organised as follows. Section 2 reviews the literature. Section 3 extends the Social Custom Model and sets out the framework for the empirical analyses. Section 4 describes the data and variables used in the empirical analyses. Section 5 discusses the empirical models. Section 6 discusses the results before the final section concludes the paper.

2. Review of the literature

The negative association between job satisfaction and union membership is a puzzling empirical regularity. The puzzle stems from the expectation that unions should in general enhance members' job satisfaction and wellbeing. A number of influential studies have

established a link between unions and a pay premium and/or lower pay inequality (see, for example, Borjas, 1979; Freeman, 1980; Booth, 1985; Gosling and Machin, 1995; Clark and Oswald, 1996; Card, 1996; Card et al., 2003; Budd and Na, 2000; Metcalf et al., 2001; Hirsch, 2004; Blanchflower and Bryson, 2004). Unions have also been linked to a number of other welfare improving changes for members, which include access to employer provided training (Acemoglu et al., 2001; Booth et al., 2003; Waddoups, 2012), risk sharing (Malcomson, 1983), health insurance and pension plans (Buchmueller et al., 2002), workplace and occupational health and safety (Donado and Walde, 2012), family friendly policies (Budd and Mumford, 2004), and curbing discrimination (Wunnava and Peled, 1999). More generally, unions uphold members' interest in collective bargaining on issues such as transfers, promotions and grievances, among others, in the spirit of Freeman and Medoff's (1984) "collective voice". Notwithstanding these well-established benefits associated with unions, which would be expected to enhance the satisfaction and wellbeing of members, existing empirical evidence points to a negative association between membership and job satisfaction.

The union literature is centred on the impact of unionisation on members. Little is known about the effect that unionisation may have on non-members. However, several factors can be thought of as having negative spillover effects on non-members. *First*, the operation of union bargaining and voice may impact the wellbeing of non-members adversely even though they are outside the bargaining process. This is because the workplace environment can become strained due to voice induced complaining, especially if the process is conflict-laden. As a result, employees generally and non-members in particular may experience a lower wellbeing than might otherwise be the case. There is some evidence suggesting that non-members in union workplaces are more likely to view the climate as poor vis-à-vis comparable non-members in non-union workplaces (Bryson, 1999). *Secondly*, unionisation may entail some additional costs to the firm, which it may try to claw back through cost-offsetting practices such as tight manning levels or the loss of autonomy. Such practices may lead to increased disutility, particularly for non-members. *Third*, unions do still procure some private benefits including legal and pension advice exclusively for their members. Such 'discrimination' by unions may trigger envy on the part of non-members, with possibly adverse wellbeing consequences. It is also possible that unions, who are keen to procure private excludable goods for members, are able to promote policies that discriminate in favour of members, perhaps with the collusion of employers, reducing the job dissatisfaction of non-members. *Fourth*, there may also be 'reputational' costs associated with being a non-member as per the Social Custom Model. The wage standardising policies of unions may also be viewed as adversely impacting the wellbeing of non-members. Abowd and Farber (1982) indicate that non-members with high earnings potential who end up in union workplaces are misallocated. Such non-members are likely to have a preference for greater wage inequality than members, thereby incurring some wellbeing cost as a result of union policies.

In theory, the effects of unionisation on non-members' wellbeing could go either way. The 'open shop' model of unionisation in Britain may mean that non-members choose to free-ride in union workplaces perhaps attracted by the benefits of unionisation. Such benefits may or may not fully compensate for the potential disutility stemming from adverse spillover effects of unionisation. Unions are unable, for the most part, to offer private excludable goods to members. Instead, they tend to provide public goods thus extending the benefits that they confer on members to covered non-members as well. Donado and Walde (2012) show this to be the case with respect to health and safety provisions at work. The law also prevents employers from discriminating on grounds of union membership. These union-generated benefits might translate into higher levels of non-member wellbeing than might have been in a non-union environment. The net wellbeing effect of unionisation on non-members is therefore an empirical question. In

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