



Unions Are Good for Indiana's Economy

More unionized workers would be even better

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The essence of what labor unions do—give workers a stronger voice so that they can get a fair share of the economic growth they help create—is and has always been important to making the economy work for all Americans. And unions only become more important as the economy worsens.

One of the primary reasons why our current recession endures is that workers do not have the purchasing power they need to drive our economy. Even when times were relatively good, workers were getting squeezed. Income for the median working age household fell by about \$2,000 between 2000 and 2007, and it could fall even further as the economy continues to decline.¹ Consumer activity accounts for roughly 70 percent of our nation's economy, and for a while workers were able to use debt to sustain their consumption. Yet debt-driven consumption is not sustainable, as we are plainly seeing.

What is sustainable is an economy where workers are adequately rewarded and have the income they need to purchase goods. This is where unions come in.

Unions paved the way to the middle class for millions of workers in Indiana and pioneered benefits such as paid health care and pensions along the way. Even today, union workers earn significantly more on average than their non-union counterparts, and union employers are more likely to provide benefits. And non-union workers—particularly in highly unionized industries—receive financial benefits from employers who increase wages to match what unions would win in order to avoid unionization.

Unfortunately, declining unionization rates mean that workers are less likely to receive good wages and be rewarded for their increases in productivity. The Employee Free Choice Act, which is likely to be one of the most important issues debated by the 111th Congress, holds the promise of boosting unionization rates and improving millions of Americans' economic standing and workplace conditions.

Unions help workers achieve higher wages

Union members in Indiana and across the country earn significantly more than nonunion workers. Over the four-year period between 2004 and 2007, unionized workers' wages in Indiana were on average 12.0 percent higher than non-union workers with similar characteristics.² That means that, all else equal, Indiana workers that join a union will earn 12.0 percent more—or \$2.23 more per hour in 2008 dollars—than their otherwise identical non-union counterparts.³

Yet union coverage rates have been declining for several decades. In 1983, the first year for which state level unionization data is available, 27.0 percent of workers in Indiana were either members of a union or represented by a union at their workplace.⁴ By 2008, that portion declined to 13.7 percent.⁵

Workers' wage growth lags as American productivity increases

Workers helped the economy grow during this time period by becoming ever more productive, but they received only a small share of the new wealth they helped create. Throughout the middle part of the 20th century—a period when unions were stronger—American workers generated economic growth by increasing their productivity, and they were rewarded with higher wages.⁶ But this link between greater productivity and higher wages has broken down.

Prior to the 1980s, productivity gains and workers' wages moved in tandem: as workers produced more per hour, they saw a commensurate increase in their earnings. Yet wages and productivity growth have decoupled since the late 1970s. Looking from 1980 to 2008, nationwide worker productivity grew by 75.0 percent, while workers' inflation-adjusted average wages in Indiana increased by only 20.3 percent, which means that workers were compensated for only 27.1 percent of their productivity gains.⁷ Since 2000, Indiana workers were only compensated with increased wages for 19.8 percent of their gains in productivity.⁸

The cost of benefits—especially health insurance—has increased over time and now accounts for a greater share of total compensation than in the past, but this increase is nowhere near enough to account for the discrepancy between wage and productivity growth.⁹ For example, according to analysis by the Center for Economic and Policy Research, between 1973 and 2006 the share of labor compensation in the form of benefits rose from 12.6 percent to 19.5 percent.¹⁰

If Indiana's workers were rewarded for 100 percent of their increases in labor productivity between 1980 and 2008—as they were during the middle part of the 20th century—average wages would be \$26.98 per hour—45.5 percent higher than the average real wage in 2008.¹¹

Unionization rewards workers for productivity growth

Slow wage growth has squeezed the middle class and contributed to rising inequality.¹² But increasing union coverage rates could likely reverse these trends as more Americans would benefit from the union wage premium and receive higher wages. If unionization rates were the same now as they were in 1983 and the current union wage premium remained constant, new union workers in Indiana would earn an estimated \$1.5 billion more in wages and salaries per year.¹³ If union coverage rates increased by just 5 percentage points over current levels, Indiana's newly unionized workers would earn an estimated \$547 million more in wages and salaries per year.¹⁴ Non-union workers would also benefit as employers would likely raise wages to match what unions would win in order to avoid unionization.¹⁵

Increased unionization would boost Indiana's annual state wages

Union employers are also significantly more likely to provide benefits to their employees. Union workers nationwide are 28.2 percent more likely to be covered by employer provided health insurance and 53.9 percent more likely to have employer-provided pensions compared to workers with similar characteristics who were not in unions.¹⁶

Conclusion

Nearly three out of five survey respondents from a Peter Hart Research Associates poll report that they would join a union if they could, but workers attempting to unionize currently face a hostile legal environment and are commonly intimidated by aggressive anti-union employers.¹⁷ The Employee Free Choice Act would help workers who want to join a union do so by ensuring fairness in the union selection process with three main provisions: workers would have a fair and direct path to join unions through a simple majority sign-up; employers who break the rules governing the unionization process would face stiffer penalties; and a first contract mediation and arbitration process would be introduced to thwart bad-faith bargaining.

Passing the Employee Free Choice Act and making it harder for management to threaten workers seeking to unionize would be good for Indiana's workers. It would help boost workers' wages and benefits. And putting more money in workers' pockets would provide a needed boost for Indiana's economy. Increasing unionization is a good way to get out of our current economic troubles.

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Annual state wages increase if unionization increased in Indiana

Wages earned statewide (in \$ billions)



Source: Authors' calculations based on CEPR estimates of the union premium from the Current Population Survey Micro-Data for all wage and salary workers 16 years and older; CAPAF analysis of the Current Population Survey and Current Employment Statistics Survey (National); and unionized workforce data from Barry T. Hirsch and David A. Macpherson, "Union Membership and Coverage Database from the Current Population Survey," available at <http://www.unionstats.com> (last accessed December 2008).

Note: Total wages collected includes all hourly wage and salary workers. Total wage data extrapolated from 2008 average state wage for wage and salary workers. The estimated total wages collected if unionization increased to the 1983 level does not include any estimate of the wage benefit to non-union workers. Estimated total wages would be higher if this benefit were included.

Endnotes

- 1 Jared Bernstein, "Compared to 1990s, middle-class working families lose ground in the 2000s," Economic Policy Institute, August 27, 2008, available at http://www.epi.org/economic_snapshots/entry/webfeatures_snapshots_20080827/ (last accessed February 2008). Analysis of real median income growth for households headed by someone less than 65 years old.
- 2 Data from Center for Economic and Policy Research analysis of Current Population Survey Micro-Data for all wage and salary workers 16 years and older. The 2004 to 2007 study period was chosen to allow a sample size large enough to conduct a statistically valid state-by-state analysis. The analysis controls for workers' age, sex, education level, and industry of employment; it includes observations where the Bureau of Labor Statistics has imputed missing wages, which imparts a downward bias on the effects of unionization. See Barry T. Hirsch and Edward J. Schumacher, "Match Bias in Wage Gap Estimates Due to Earnings Imputation," *Journal of Labor Economics* 22 (3) 2004: 689-722.
- 3 The hourly premium is based on the CEPR union wage premium and the 2008 real hourly earnings of all wage and salary workers from the Current Population Survey. In 2008, the average hourly wage of workers in Indiana was \$18.55.
- 4 Barry T. Hirsch and David A. Macpherson, "Union Membership and Coverage Database from the Current Population Survey," available at <http://www.unionstats.com> (last accessed February 2009).
- 5 U.S. Bureau of Labor Statistics, "Current Population Survey, Employed Wage and Salary Workers 16 years and over, represented by a union," available at <http://www.bls.gov> (last accessed February 2009).
- 6 Philip Dine, *State of the Unions* (New York: McGraw Hill, 2008).
- 7 U.S. Bureau of Labor Statistics, Major Sector Productivity and Costs Index, available at <http://www.bls.gov/lpc/> (last accessed February 2009) and Current Population Survey Micro-Data, all wage and salary workers 16 years and older. The gap between productivity growth and average wage growth is significantly smaller than the gap between productivity growth and median wage growth, reflecting growing wage inequality. Salaried workers at the very top of the income spectrum have pulled up average wages, but have relatively little effect on the wage median. For more see: Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *The State of Working America 2008-09* (Ithaca, New York: Cornell University Press, 2008).
- 8 *Ibid.* Productivity grew nationwide by 21.9 percent between 2000 and 2008, while real average wages and salaries in Indiana grew by 4.3 percent.
- 9 For a more thorough discussion of the relationship between wages and productivity see: Mishel, Bernstein, and Shierholz, *The State of Working America 2008-09*; Dean Baker, "The Productivity to Paycheck Gap: What the Data Show, Center for Economic and Policy Research Briefing Paper" (Washington, DC: Center for Economic and Policy Research, 2007); Ian Dew-Becker and Robert J. Gordon, "Where Did the Productivity Growth Go? Inflation Dynamics and the Distribution of Income" (Washington, D.C.: Brookings Papers on Economic Activity, 2005).
- 10 Baker, "The Productivity to Paycheck Gap."
- 11 U.S. Bureau of Labor Statistics, Major Sector Productivity and Costs Index, available at <http://www.bls.gov/lpc/> (last accessed February 2009). And Current Population Survey Micro-Data, all wage and salary workers 16 years and older.
- 12 Heather Boushey and Christian Weller, "What the Numbers Tell Us." In James Lardner and David A. Smith, eds., *Inequality Matters* (New York: The New Press, 2005); And Christian Weller and Amanda Logan, "America's Middle Class Still Losing Ground" (Washington, D.C.: Center for American Progress, 2008).
- 13 Authors' calculations based on CEPR estimates of the union premium, and CAPAF analysis of the Current Population Survey, the Current Employment Statistics Survey (National), and unionized workforce data from Barry T. Hirsch and David A. Macpherson, "Union Membership and Coverage Database from the Current Population Survey," available at <http://www.unionstats.com> (last accessed February 2009).
- 14 *Ibid.*
- 15 Lawrence Mishel and Matthew Walters, "How Unions Help All Workers" (Washington D.C.: The Economic Policy Institute, 2003).
- 16 Mishel, Bernstein, and Shierholz, *The State of Working America 2008-09*. National benefits union premium adjusts for establishment size, occupation, industry, and other factors.
- 17 Peter Hart Research Associates Poll, December 2006, cited in Harley Shaiken, "Unions, the Economy, and Employee Free Choice" (Washington, D.C., The Economic Policy Institute, 2007); And Gordon Lafer, "Neither Free Nor Fair, The Subversion of Democracy Under National Labor Relations Board Elections" (Washington D.C.: American Rights at Work, 2007).