

# COMPULSORY UNIONISM AND THE FREE-RIDER DOCTRINE

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## I. Introduction

Section 9(a) of the National Labor Relations Act of 1935 provides that a union, established by a majority vote of the employees in a bargaining unit, must accord all employees in the unit the benefits of union representation. Many students of the American union movement interpret this legal obligation as potentially threatening union security because of the free-rider phenomenon. Typically, they argue that since an employee receives union benefits regardless of his membership status, economic self-interest will lead him to accept the benefits without incurring the pecuniary and non-pecuniary costs of joining and supporting the union. The employee becomes a free rider.

From the individual employee's viewpoint, he can be in one of three situations (from best to worst): (1) free ride in an organized shop; (2) join and support the union; or (3) work in an unorganized shop. The perverseness of the incentive system under Section 9(a) is that the pursuit of (1) leads to (3). The free rider has an incentive to vote for the establishment of a union, but no incentive to support it. In other words, the individual employee has little incentive to consider the costs he imposes on fellow workers when he becomes a free rider. He looks only to his self-interest, which is served by avoiding union affairs and paying dues. According to Olson:

... a labor union working in the interests of a large group ... of workers in some industry would get no assistance from rational,

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self-interested individuals in that industry. This would be true even if everyone in the industry were absolutely convinced that the proposed program was in their interest.<sup>1</sup>

Because this incentive to ride free applies to each employee, presumably the union would face the gradual erosion of members and support. Over time the union would become less effective. At some point, the loss of effectiveness would lead to a deterioration in the quality of union services and in its ability to negotiate and administer contracts. Employers, sensitive to the union's loss of members, could exacerbate the situation by becoming increasingly adamant at the bargaining table and in settling contract grievances. This cumulative process then accelerates the demise of the union. Thus, when all the relevant costs and benefits to the employees in a bargaining unit are reckoned, there is insufficient support for the union *in the absence of coercion*. Union security depends on compulsory unionism. This conventional conclusion is enshrined in Section 8 (a)(3) of the Labor Management Relations Act of 1947.

Unfortunately for public policy, this rationalization for compulsory unionism rests on several assumptions that are rarely made explicit and rarely subjected to careful analysis. The purpose of this essay is to logically dissect the free-rider doctrine. We proceed on the assumption that unions do generate net benefits for the employees they represent. However, since this is itself a dubious assumption, the empirical evidence concerning the union generation of employee benefits is reviewed briefly in section four.

## II. The Free-Rider Doctrine

The analytic core of the free-rider doctrine is provided by the theory of public goods. According to this view, union benefits are analogous to a public good and, therefore, the theory of public goods clarifies the nature of the possible market failure manifested in the behavior of free riders. Formalized in two papers published in 1954 and 1955 by Paul Samuelson,<sup>2</sup> the theory attributes two characteristics to public goods that distinguish them from private goods—non-excludability and joint consumption.

Non-excludability means it is economically infeasible for the supplier of a good to exclude others from its consumption, regardless of

<sup>1</sup>Mancur Olson, *The Logic of Collective Action* (Cambridge, Mass.: Harvard University Press, 1965), p. 11.

<sup>2</sup>Paul A. Samuelson, "The Pure Theory of Public Expenditures," *Review of Economics and Statistics*, November 1954; and "Diagrammatic Exposition of a Theory of Public Expenditures," *Review of Economics and Statistics*, November 1955.

whether or not they have contributed to the costs of its production. And joint consumption means the benefits obtained by any single individual in consuming the good in no way reduces the consumption benefits available to others from the same commodity; i.e., consumption is non-rival.

Clearly a private good possesses neither of these characteristics. Consider a trivial case. If Wilson sells apples, he can easily exclude others unwilling to pay the unit costs of production from consuming his apples. When Brown purchases and eats one of Wilson's apples, it is no longer available for consumption by another individual. The exchange between Wilson and Brown confers no benefits nor imposes any costs on third parties to the transaction. All the relevant costs and benefits are taken into consideration by both parties to the exchange; none are external to the exchange decision. For private goods, exclusion is both technically feasible and economic, and consumption is rival. Under such circumstances, the market allocates resources optimally because at the margin, voluntary exchange equates benefits and costs; i.e., those receiving the benefits of the good bear the full costs of its production.

Now consider the case of a public good. Suppose that in a hypothetical country, it was decided that national defense would be financed by voluntary contributions. Further assume that each citizen desires an effective defense system and appreciates its benefits. According to the theory of public goods, each citizen has an incentive to understate his demand for national defense because each realizes that if his countrymen provide for defense, he will receive the benefits regardless of whether he makes a contribution (non-excludability). In deciding how much to contribute, or whether to contribute at all, the rational citizen looks only to his self-interest without taking into consideration the benefits that would be conferred on fellow citizens by his contribution. Further, the protection afforded an individual citizen by a national defense system in no way diminishes the protection available to other citizens (joint consumption). Thus, under a voluntary market for the provision of national defense, those receiving benefits do not necessarily bear the costs, and not all benefits are included in the calculus of self-interest. For these reasons, a decentralized market system theoretically may fail to provide the optimal quantities and qualities of some public goods. The conventional conclusion is that the provision of such goods is assured only if they are financed through compulsory tax collection.

Many economists assert that like a public good, the provision of union services entails non-excludability and joint consumption.<sup>3</sup> This

<sup>3</sup>See Olson and Samuelson for examples of this view.

view is put forth most forcefully by A. G. Pulsipher in an article entitled: *The Union Shop: A Legitimate Form of Coercion in a Free-Market Economy*, in which he argues that union services precisely fulfill the criteria of public goods.<sup>4</sup> To analyze this thesis, we shall first categorize union services and then determine their conformity with the public-good criteria.

Union services include: (a) higher wages and more generous fringe benefits; (b) assistance in the settlement of grievances; (c) better working conditions – including more easily operated and safer machinery, clean lavatories, and better health centers; (d) insurance; (e) sponsorship of social events, conventions, and union newspapers; (f) retirement homes for former members; and (g) charitable contributions and support for “friendly” political candidates and “pro-union” legislation. The relevant question is: Which of these services are public goods and which are private goods?

*Non-excludability*

On the criterion of non-excludability, categories (d), (e), and (f) present no difficulties. Members who choose not to pay insurance premiums, or purchase tickets to social events, or subscribe to union newspapers, or pay an admission fee to a union retirement home will not receive the service. Nor does union subsidization of these services modify the analysis, for the fact remains that it is economically feasible to exclude employees with a fee system tied directly to the costs of providing these services. Judicial interpretation of Section 8(a)(3) supports this contention by excusing non-member union affiliates from paying dues covering the costs of such services.<sup>5</sup>

Charitable and political contributions, item (g), potentially give rise to two distinct kinds of benefits. The first is the recognition benefit accruing to an individual because it is known that he made a donation to a charitable or political cause. Unionists typically argue that if the union makes such a donation all members of the union obtain recognition benefits regardless of whether or not they have contributed. Therefore, the argument concludes that all members should pay mandatory assessments. This argument is bogus. The union could solicit voluntary contributions and exclude non-donors from recognition benefits through the simple expedient, widely used

<sup>4</sup>A. G. Pulsipher, “The Union Shop: A Legitimate Form of Coercion in a Free Market Economy,” *Industrial and Labor Relations Review*, July 1966.

<sup>5</sup>Thomas R. Haggard, *Compulsory Unionism, The NLRB, And The Courts* (Philadelphia: Industrial Research Unit, University of Pennsylvania, 1977), p. 78–93.

under such circumstances by other private organizations, of maintaining and publicizing donor lists.

A second kind of benefit may arise particularly from political contributions. Suppose, for example, union support of a lobbying effort leads to a more favorable legal environment within which the union operates. Presumably all union members would benefit, contributors and non-contributors alike. Several observations are in order: (1) in most cases, the thread from the individual's contribution through the union to the recipient organization and finally through the benefit-generating process seems tenuous in terms of concrete benefits to an individual; (2) such benefits may not be perceived as beneficial by every union member; and (3) any externalities arising here have nothing to do with *union* administration of such donations. Many private organizations rely on voluntary contributions, which in turn are used to influence legislation. Unions are hardly unique in this respect. Thus, these externalities do not justify mandatory assessments for political causes. The courts already exclude affiliates from making compulsory prorated payments for such purposes and excuse dissenting union members.<sup>6</sup> Not only is exclusion feasible, there is evidence that many union members object to union involvement in political activities.<sup>7</sup> Such activities can hardly be thought of as collective goods to those employees who object to them.

Unions could also exclude members and affiliates from using the union-administered grievance procedure by returning a portion of their dues and allowing them to represent themselves or by charging a fee for setting up a grievance procedure based on hours of shop stewards' time involved, for example. The latter might work better than the present system, since an individual with a minor complaint, or a grievance without merit, would be less likely to waste union officials' time, while an employee who feels strongly about his case could purchase additional assistance. Such a pricing system would allocate the optimal amount of assistance to each employee.

The reason unions do not charge a grievance procedure fee is not that the service represents a public good, but because it allows the union to discriminate among employees and to discipline those out of favor with the union leadership.

A stronger case can be made that *non-excludability* is a characteristic of improved working conditions. If a union insists, for example,

<sup>6</sup>See *International Association of Machinists v. Street*, 367 U.S. 740 (1961) and *Sealy v. McDonnell Douglas Corp.*, 427 F.2d 996 (9th Cir. 1970), at 1000-1001.

<sup>7</sup>Robert W. Miller, et. al., *The Practice of Local Union Leadership* (Columbus: Ohio State University Press, 1965), p. 168-169.

that better lighting fixtures be installed, all employees in the shop benefit. Yet even here the argument faces difficulties: (1) the benefits attributable to union action are likely to be trivial; (2) at most, it makes a case for minimum health and safety standards, not compulsory unionism; (3) union job assignment discretion whereby workers are assigned to newer, easier to operate, and safer machines, vitiates the argument that such benefits are available to all workers; and (4) competitive market pressures tend to insure that the employer will install equipment and maintain general working conditions that are optimal from the employees' viewpoint.

Finally, there are the benefits generated by collective bargaining over wages, hours, fringes, and working conditions—categories (a) and (c). Judicial interpretation of present labor law is predicated on the assumption that non-excludability is a characteristic of union representation. This interpretation, which is widely held among scholars, is incorrect for two reasons. First, unions legally represent all employees in a bargaining unit, because such representation is mandated by Section 9(a) of the NLRA, not because exclusion is technically or economically infeasible. The union need only bargain and enforce contracts on behalf of its members, leaving all other employees to negotiate and enforce their own agreements. *The free-rider rationale of compulsory unionism fails if it is a problem born of law and not economic conditions in labor markets.* To argue otherwise is to argue that a defective law (Section 9(a) – the exclusive representation principle), which abridges the contract rights of employees, creates a problem (the free rider) and that this problem justifies another law (Section 8(a)(13) – compulsory unionism), which further restricts the rights of employees. The linch pin in the argument is the necessity of exclusive representation. Advocates of compulsory unionism have the unenviable task of documenting the necessity of exclusive representation in the face of contrary evidence from other countries.<sup>8</sup>

Second, those who argue that union representation is characterized by non-excludability implicitly assume that the benefits of collective bargaining are distributed equitably among employees. A widely accepted standard of wage equity is that an individual's hourly earnings be tied to his productivity. But this is the exception, not the rule, in organized shops. Super-seniority for union officials; wage rates based on seniority diverging from measured productivity; the determination of job assignment, job-bumping rights, job security, and

<sup>8</sup>Everett M. Kassalow, "Will West European Unions Embrace the Union Shop?," *Monthly Labor Review*, July 1979.

assignment to overtime all by seniority; compressed wage differentials negotiated by the union; and union resistance to job evaluation all tend to sever the link between effort and reward. This pattern of wage, job assignment, and job security determination is endemic to collective bargaining even in the absence of conscious union discrimination against disloyal employees.

### *Joint Consumption*

Not only do most union services fail to satisfy the non-excludability criterion, they also fail to satisfy the criterion of joint consumption. Union insurance, retirement homes, newspapers, plant infirmary services, and safer machinery are not jointly consumed. Worker A's insurance policy protects himself and his beneficiaries; Worker B's moving into a union retirement home means that another worker cannot occupy that suite; and the attention given Worker C by a nurse in the plant infirmary means that her services are not available to other workers during that period. *The individuals appropriating the benefits of these services are readily identifiable and can be made to bear the cost of the services.*

Some union services, including the sponsorship of social events, charitable and political donations, safer machinery, and better lighting and ventilation, may involve an element of joint-consumption, but none are pure public goods and do not justify compulsory unionism. In the case of social events, the beneficiaries are identifiable and the good cannot be jointly consumed beyond the capacity of the facility housing the affair. Charitable and political contributions, meanwhile, impose psychic costs on employees who object to them (a view upheld by the courts). Safer machinery does not qualify, because of union job assignment discretion. Finally, better working conditions, while they qualify as collective goods, do not justify compulsory unionism for the reasons offered earlier.

That leaves for our consideration the major benefits of collective bargaining—higher wages and fringe benefits. To the extent that a union raises wages above those that would be paid in a competitive labor market, some workers will fail to gain employment in the affected industry and some current employees will be discharged. The necessary and sufficient condition for this result is a downward sloping demand curve for labor with respect to the wage rate, i.e., *ceteris paribus*—the higher the wage the lower the quantity of labor services demanded. (The *ceteris paribus* condition is satisfied because by assumption the union is responsible for the higher wage.) In other words, some subset of the original work force, those who remain employed, may enjoy the increased benefits of collective bargaining,

but only at the expense of lost jobs for fellow union members and potential employees. When a faction within a union pushes for higher wages resulting in the loss of jobs for members with low seniority, or when older union members insist on a more generous pension program resulting in a smaller increase in other benefits for younger members, or when the skilled members of a local obtain a wage differential adversely affecting the wages of unskilled members, then the benefits of collective bargaining *do not* involve joint consumption. But these are precisely the tradeoffs union officials are pressured into negotiating by competing factions within the union. At any given time, a majority, or even an influential minority, of union members can win benefits through collective bargaining, but these benefits will not and cannot be jointly consumed by all members and affiliates of the union. Affiliates, compelled to pay dues, do not even have a voice in the design of union policy. Collective bargaining redistributes labor income among organized employees and between organized and unorganized workers. The redistributive effects of collective bargaining violate the joint-consumption characteristic of a collective good.

The free-rider rationale for compulsory unionism depends on the crucial analogy between union services and public goods. A careful analysis of the services provided by unions demonstrates that: many of the services do not exhibit public good characteristics; those that do, involve trivial benefits that are satisfactorily provided in competitive markets because all relevant costs and benefits are internal to the firm, or, barring that, justify, at most, minimum health and safety standards, not compulsory unionism. Finally, the excludability from and the redistributive effects of union wage benefits disqualify them as collective goods. In short, the free-rider problem is the consequence of existing labor law that is based on a fundamental misunderstanding of the nature of union services.

#### *Dues and Costs*

The free-rider argument contains another analytic flaw. It implicitly assumes that the cost of providing union services determines the level of dues employees are compelled to pay. For example, in interpreting Section 8(2)(3), the court reasons from appropriate union services to the objective costs of providing those services to the obligation of employees to pay a reasonable level of dues. Even if the court does not actually engage in cost accounting, the reasoning is from costs to dues, or, higher costs justify higher dues. The reverse relationship is more nearly correct: Revenues generated by compulsory dues and fees determine the costs of union services.



## COMPULSORY UNIONISM

Unions are nonprofit organizations. Their operations, like those of the Lions Club, the Educational Testing Service, and the Ford Foundation, generate revenue, none of which can be distributed to the owners of the organization but must be spent on the organization's activities. Since there is no market for union services in the sense that unions regularly compete for members by offering them alternative benefit packages, union officials are in an ideal position to exercise discretion in determining the level of dues and the composition of union expenditures. Thus they are able to appropriate at least some of the benefits of an increased flow of revenue to the union. *They dare not attempt to appropriate all or even most of the benefits for higher salaries, for instance, without running the risk of generating a reform movement among the rank and file.* New expenditures more typically fund improvements at union headquarters, expanded membership drives, more generous strike benefits, enlarged union staffs, country club memberships for high-ranking union officials, more frequent attendance for a larger number of officers at international union conventions, and more generous expense accounts. By talking about a nicer headquarters building, the importance of new members, and the cost of better legal advisors, union leaders can more readily justify a hike in dues.

None of this is or should be illegal. Except in the case of fraud, the legislature and court have no special competence in determining the categories, quality, and quantity of appropriate union services. But the point remains that union officials can enlarge the benefits of leadership by effectively compelling employees to pay higher dues and then influencing the way in which the new revenues are spent.

Three conditions make this indirect strategy feasible: the lack of competition in the provision of union services, the absence of claims on the net revenue of union operations, and the impossibility of direct appropriation of the net revenue by union officers. The only benefits appropriable from the net revenue lie in determining how they will be spent. The latter is true of any nonprofit organization, but, in this instance, the difference is that the union can compel support. Under these circumstances, there can be no presumption that the composition or quantity of union services provided are optimal from the viewpoint of the rank and file; nor is the court or the NLRB competent to determine *ex cathedra* what would be optimal. The discretion of union leadership in setting dues and influencing the composition of union expenditures undermines the view that the law merely compels those who would otherwise be free riders to pay their fair share of the objective costs of appropriate union services. Here, as else-

where in the absence of competition and profit taking, revenues determine costs.

*Free Riders and Forced Riders*

The image of a free rider is that of a cynical opportunist capable of grabbing the benefits the union is compelled to extend without supporting the organization. A somewhat skeptical note about this view is sounded by Earl Brubaker.

From one point of view the orthodox assertion of the eminence of the free rider seems to resurrect the old image of economics as the dismal science, for it seems to stress the corruptibility of man. Free-rider behavior involves, after all, what is frequently referred to as cheating strategy. Each individual betraying the confidence of his community, engages in deceit to avoid paying the price that he himself regards as an appropriate measure of its value.<sup>9</sup>

Do individuals who stand to gain from union activity, who share a common experience with fellow workers, who number among their friends at least some of the "guys down at the plant," hypocritically exploit those same fellow employees? Are individuals in such circumstances more likely to empathize with fellow employees and join in common causes or remain outside the group and run the risk of being labelled an outsider, hypocrite, adversary, and free rider? Does peer pressure, well short of coercion, mean nothing? What seems more probable is that those who refuse to support the union (if given the opportunity) do so either because of genuine philosophic reservations or because they expect to suffer economically as a result of union action. Coercing an individual into expressing support for something he does not want or regards as harmful is repugnant to our sense of fair play, violates our cherished belief in freedom of choice, and is fundamentally demoralizing.

Only the individual can assess the subjective benefits of union membership; no outside, objective measure of these benefits exists to be imposed on individuals without giving rise to unintended and detrimental side effects, e.g., rank and file apathy toward the union, corruption, and employer-union leadership discrimination against employees. Little attention has been focused on the welfare implications of the "forced rider." How do the benefits unions accord the majority of their members compare with the costs imposed on a minority by forcing them to support the union? No detailed answer can be given here, but two things are clear. The majority need not

<sup>9</sup>Earl D. Brubaker, "Free Ride, Free Revelation, or Golden Rule," *Journal of Law and Economics*, April 1975, p. 153.

lose their benefits when they free the dissident minority of its obligation to support the union, and it is highly unlikely that compelling all workers in a bargaining unit to support the union maximizes employee welfare. Consider our judicial system. "A man is presumed innocent until proven guilty" on the basis of "evidence beyond a reasonable doubt." Such a system goes to extraordinary lengths, even allowing some criminals (read: cynical opportunists) to go free, in order to protect the innocent (read: those harmed by the union or having philosophic reservations about unionism). Incarcerating all individuals who may have been involved in a crime or forcing all employees in a bargaining unit into a union is not optimal on welfare grounds. The rights of dissidents matter in the design of public policy.

### III. Useful Applications of the Theory of Public Goods to Union Conduct

The theory of public goods applies accurately to union behavior in two instances. To the extent that current labor law confers monopoly power on unions, it creates a public "bad."<sup>10</sup> Unions do not take into consideration all the negative third-party effects, such as lost production, higher consumer prices, and increased structural unemployment, resulting from their conduct. As Professor Stigler observed, "The major modern non-competitive force on wages is the labor union. The labor union is to the labor market the equivalent of the cartel in the product market."<sup>11</sup> And as Barbara Woolton approvingly noted, "It is in fact the business of unions to be anti-social; the members would have a just grievance if their officials and committees ceased putting sectional interests first."<sup>12</sup> The theory of public goods calls into question any law preserving the monopoly power of a special interest group. On this score, it seems applicable to labor unions.

In the second instance, the theory explains why, when a majority within the union favors deauthorization of the union security agreement (under Section 9(e)(1) of the LMRA, as amended) or even decertification, the union leadership has little to fear. The probability

<sup>10</sup>John Burton, "Are Trade Unions a Public Good/Bad: The Economics of the Closed Shop," unpublished paper, 1977. In addition, see Daniel Orr, ed. "Symposium on Economic Aspects of Union Membership: Free Riders or Paying Customers?," *Journal of Labor Research*, Fall 1980.

<sup>11</sup>George Stigler, *The Theory of Price*, 3rd ed. (New York: MacMillan Co., 1966), p. 267.

<sup>12</sup>Barbara Woolton, *Freedom Under Planning* (London: University of London Press, 1947), p. 97.

of action being taken is small because the expected costs imposed on the individual initiating, or even lending his name to, such actions far outweigh the expected benefits to that individual. Across all employees the benefits may be substantially greater than the costs of forcing a deauthorization or decertification election, but those benefits are dispersed throughout the membership, while the costs are borne by a small and vulnerable number of employees. In such a situation the unhappy majority is likely to remain passive and the benefits of an election lost. Their continued support of the union cannot be construed as revealing their true preferences. The theory explains why outspoken anti-union activists may not be the only employees trapped in an established union.

#### IV. The Magnitude of Union-Won Benefits

We have assumed that unions generate net benefits for their members in the form of higher wages and more generous fringe benefits. It is important to explore this assumption, because if unions obtain no net benefits or obtain them primarily via legally sanctioned monopoly power, the case for compulsory unionism is further weakened. While no comprehensive survey of the existing literature is attempted here,<sup>13</sup> a careful summary of the literature is instructive.

Since World War II economists have undertaken many studies estimating the impact of unions on wages (including fringe benefits) and wage structures. Not surprisingly, since the studies cover a variety of industries and time periods, some studies have found relatively large union-induced wage gains while others have found negligible or even negative effects on the net wages of union members. In his masterful book published in 1963, H. Gregg Lewis surveys the best studies available at the time, corrects the deficiencies he perceives in them, and presents his own union wage effect estimates.<sup>14</sup> The industry-wide studies reviewed by Lewis cover 17 industries, employ data from 1909 through 1957, and reveal relative wage effects running from a high of 25 percent for skilled construction workers (1939) and airline pilots (1956) to a low of negative 5 percent for steelworkers (1945–9 in Youngstown and Chicago). Lewis's own economy-wide estimates of union wage effects, for various periods from 1923 through 1958, similarly run from a high of 25 percent (1931–33) to less than 5 percent (1945–49).

<sup>13</sup>See C. J. Parsley, "Labor Unions and Wages: A Survey," *Journal of Economic Literature*, March 1980.

<sup>14</sup>H. Gregg Lewis, *Unionism and Relative Wages in the United States* (Chicago: University of Chicago Press, 1963).

From a review of these findings several observations can be made. First, for the most part, the estimated wage effects are small, say on the order of 10 percent. Second, in those exceptional cases where unions appear to have obtained substantial wage increases (15 percent and above) over competitive rates, market and institutional factors, quite apart from unionization itself, seem to explain the apparent success of the union. The skilled construction craft unions, for example, have been successful in large measure because they block entry into the construction trades and maintain preferential hiring halls. The airline pilots union, seafarers union, and transit unions have been successful because they have organized either regulated industries, where government rate-making rules permit firms to pass on higher labor costs without fear of interfirm competition, or government-owned enterprises, where political expediency militates against resisting union demands.

Third, in analyzing the relative wage differential between union and non-union workers, Lewis distinguishes between the relative wage increments won by unions for those employees they represent above the wages of all labor, and the union-induced wage cuts imposed on nonunion employees below the average wage of all labor. In other words, collective bargaining has twin effects. It raises the relative wage of organized labor while depressing the relative wage of non-unionized labor. The latter effect stems from the induced unemployment in the unionized sector spilling over into the nonunionized sector. Throughout the period Lewis examined, approximately 80 percent of the total union-nonunion wage differential represents a higher relative wage for organized labor, and 20 percent represents a depressed relative wage for nonunion labor.<sup>15</sup> Thus, casual inspection of the total wage differential overstates the net economic benefits that unions obtain for their members.

Rees, in a separate study, concluded that collective bargaining was not a significant factor in influencing wage increases in the steel industry after World War II.<sup>16</sup> Maher found that "... there are no significant differences in the wages of union and nonunion workers" in seven industries including paints and varnishes, hosiery, furniture, automotive parts, footwear, dresses, and cotton textiles.<sup>17</sup> For a cross-section of industries in 1966, Weiss found no statistically significant

<sup>15</sup>Ibid., p. 193.

<sup>16</sup>Albert E. Rees, "Wage Determination in the Basic Steel Industry," *American Economic Review*, June 1951 and "Reply," *American Economic Review*, June 1958.

<sup>17</sup>John Maher, "Union Nonunion Wage Differentials," *American Economic Review*, June 1956, p. 352.

union wage effects after allowing for such labor force characteristics as age, education, race, job experience, and regional variables.<sup>18</sup> Fuchs found much the same thing for a cross-section of urban labor markets in 1967.<sup>19</sup> More recent studies by Eckstein and Wilson, Hamermesh, and Ashenfelter and Johnson found no significant union-induced wages effects.<sup>20</sup>

By contrast, Clover, Stafford, and Throop<sup>21</sup> did find relatively large wage effects attributable to union action. However, in a careful reexamination of their results Boskin concludes that their estimates are biased upward because of the use of aggregate earnings data, instead of wage rates, and of the omission of other relevant variables. Boskin's reestimation of their wage equations produced results "much closer to Lewis' original estimates and to those of Weiss."<sup>22</sup>

Another set of studies by Ashenfelter and Johnson, Schmidt and Strauss, and Lee<sup>23</sup> suggested why the above single-stage, least-square estimates of union wage effects may be biased upward. In short, these more recent studies all find that the degree of unionization, the quality of labor, and wage rates are jointly determined. They rejected a simple, unidirectional causal link between the degree of unionization and higher wages by demonstrating that high wages are an important factor in explaining unionization. The authors adduced a number of reasons for their findings which need not be summarized here. What is relevant is that their findings cast serious doubt on the

<sup>18</sup>Leonard W. Weiss, "Concentration and Labor Earnings," *American Economic Review*, March 1966.

<sup>19</sup>Victor Fuchs, "Hourly Earnings Differentials By Regions and City Size," *Monthly Labor Review*, January 1967.

<sup>20</sup>Otto Eckstein and Thomas Wilson, "The Determination of Money Wages in American Industry," *Quarterly Journal of Economics*, August 1962; Daniel Hamermesh, "White Collar Unions, Blue Collar Unions and Wages in Manufacturing," *Industrial Labor Relations Review*, January 1971; Orley Ashenfelter and George Johnson, "Unionism, Relative Wages, and Labor Quality in U.S. Manufacturing Industries," *International Economic Review*, October 1972.

<sup>21</sup>Vernon T. Clover, "Compensation in Union and Nonunion Plants," *Industrial and Labor Relations Review*, January 1968; F. Stafford, "Concentration and Labor Earnings: A Comment," *American Economic Review*, March 1968; A. Throop, "The Union/Nonunion Wage Differential and Cost Push Inflation," *American Economic Review*, March 1968.

<sup>22</sup>Michael J. Boskin, "Unions and Relative Real Wages," *American Economic Review*, June 1972, p. 466.

<sup>23</sup>See Ashenfelter and Johnson; Peter Schmidt and Robert P. Strauss, "The Effects of Unions on Earnings and Earnings on Unions: A Mixed Logic Approach," *International Economic Review*, February 1976; Lung-Fei Lee, "Unionism and Wage Rates: A Simultaneous Equation Model with Qualitative and Limited Dependent Variables," unpublished paper, University of Florida, 1976.

assumption that unions win significant benefits for their members beyond those offered in competitive labor markets.

The studies cited above deal with the relative wage differential between union and nonunion workers, but additional information is available about how unionization influences *changes* in wage rates over time. The first systematic comparison of union-nonunion wage changes was undertaken by Paul Douglas in 1930. He divided his data sample into organized and nonorganized industries. His findings were twofold: First, soon after initial unionization, union wages climbed more rapidly than nonunion rates, but, second, over the whole period (1890–1926) nonunion real wages rose 237 percent while union wages rose 205 percent.<sup>24</sup> In 1970, Maher reviewed the major studies comparing union-nonunion wage increases. With two exceptions, those studies found nonunion wages to be rising more rapidly than union wages.<sup>25</sup> In summarizing the then extant literature on the subject, Reynolds concluded, “Over longer periods, however, it is by no means clear that union wages rise any faster, on average, than nonunion rates.”<sup>26</sup>

To be sure, none of this implies that unionized workers do not enjoy higher wage levels. Rather it suggests that unionization may contribute to a permanent wage differential between union and non-union workers, differing in size across industries and over time depending on the state of the economy. After the establishment of the differential, however, the course of union and nonunion wages is remarkably parallel. This evidence is consistent with the monopoly explanation of union behavior. The introduction of union monopoly power represents a once-and-for-all structural shift in the relevant labor market, which manifests itself in an initial spurt in union wages. After the union-nonunion wage differential is opened up, the course of wages is largely determined by changes in productivity, technology, product demand, other input prices, and the general state of the economy. If the degree of unionization rises slowly, the time period of adjustment may be drawn out, as will the rise in union relative to nonunion wage rates. The benefits of monopolization come early; thereafter the monopolist fights a rear-guard action to protect his relative market position. Because of the historic pattern of unioni-

<sup>24</sup>Paul Douglas, *Real Wages in the U.S. 1890–1926* (New York: Houghton Mifflin Co., 1930).

<sup>25</sup>John Maher, “Unions and Wage Differentials,” in C. McConnell, ed., *Perspectives on Wage Determination* (New York: McGraw-Hill Co., 1970).

<sup>26</sup>Lloyd C. Reynolds, *The Structure of Labor Markets* (New York: Harper & Row, 1951), p. 236.

zation in the United States, many students of the union movement have overemphasized the benefits of unionization by focusing on the *initial* returns. Recent studies, however, suggest a more skeptical attitude toward the advantages of unionization from the employees' viewpoint.

The significance of this evidence is rationalized away by the unionists' contention that unions raise the wage level of nonunion employees. But Flanagan, addressing this contention, finds no evidence of spillover wage effects from the union to nonunion sector. Quite the contrary, he finds some evidence that competitive market pressures in the nonunionized sector, involving both wage hikes and cuts, influence union settlements. First-year union contract terms are particularly sensitive to nonunion wage changes. Flanagan explains this pattern of influence running from nonunionized labor markets to unionized markets by the relative inflexibility of union wage rates negotiated on a multi-year basis. He concluded:

. . . the importance of wage contagion is limited. The greatest impact of some highly visible collective bargaining settlements is on other industry negotiations by the same union . . . union wage gains do not appear to leak out onto the nonunion sector where wages are lower and more flexible.<sup>27</sup>

The evidence does not support the contention that union bargaining in key sectors forces nonunion wage rates upward over time. If anything, it points the other way. Migration of labor out of the unionized sector has a depressing effect on nonunion wage rates. Lewis provided empirical estimates of the migration from the unionized to the nonunionized sector. He found that

[i]f relative union wages rise 5 percentage points, with 25 percent extent of unionization in the labor force, union sector employment will decline 3.8 percent and nonunion sector employment will rise 1.3 percent.<sup>28</sup>

The magnitude of this effect depends crucially on the state of the economy, being more pronounced during downturns when union-enforced wage rigidity exacerbates unemployment in the unionized sector.<sup>29</sup>

This brief survey indicates that it is easy to exaggerate the net benefits won by unions for the employees they represent. For the

<sup>27</sup>Robert Flanagan, "Wage Interdependence in Unionized Labor Markets," *Brookings Papers on Economic Activity* #3 (1976), p. 673.

<sup>28</sup>Lewis, "Relative Employment Effects of Unionism," *Industrial Relations Research Association Proceedings*, December 1963, p. 112.

<sup>29</sup>Lewis, *Unionism and Relative Wages*, p. 191-194.



most part, the evidence suggests that unions win negligible benefits. In those exceptional cases where union-won benefits appear significant, the evidence is at least consistent with the thesis that unions exercise monopoly power. Both results weaken the case for a public-policy compelling employee support of unions.

### V. Conclusion

The free-rider rationale for compulsory unionism fails because it is rooted in an extraordinary view of human nature; because the free-rider problem is a product of the law and not economic conditions in the labor market; because union services are not public goods; because, in general, unions are not a source of significant benefits; and because the inequitable distributions of union benefits and union-induced unemployment give rise to forced riders. Myths matter. And no socio-economic myth has had greater influence in shaping labor law than the myth that compulsory unionism is necessary for union security and equitable for employees.