

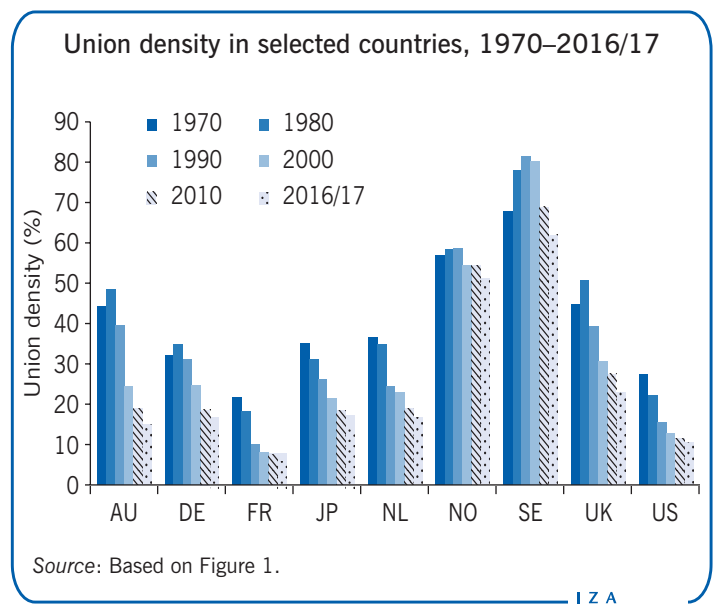
# The consequences of trade union power erosion

Declining union power would not be an overwhelming cause for concern if not for rising wage inequality and the loss of worker voice

Keywords: union density/coverage, bargaining structure, coordination, macro/micro performance, redistribution, voice

## ELEVATOR PITCH

The micro- and macroeconomic effects of the declining power of trade unions have been hotly debated by economists and policymakers, although the empirical evidence does little to suggest that the impact of union decline on economic aggregates and firm performance is an overwhelming cause for concern. That said, the association of declining union power with rising earnings inequality and the loss of an important source of dialogue between workers and their firms have proven more worrisome if no less contentious. Causality issues dog the former association and while the diminution in representative voice seems indisputable any depiction of the non-union workplace as an authoritarian “bleak house” is more caricature than reality.



## KEY FINDINGS

**Pros**

- + Trade unions under certain bargaining structures can have favorable macro consequences by being less aggressive in their wage bargaining.
- + Trade unions can have favorable micro outcomes by stimulating worker voice.
- + Where there are benefits to a long-term relationship between the employer and the worker, trade unions can facilitate contracting.
- + Trade unions have historically reduced wage inequality.

**Cons**

- Trade union monopoly power is bad, and its exercise may lead to a misallocation of resources.
- The basis of pro-productive union effects is vague while there exist alternative, non-union voice mechanisms.
- Governance procedures are not exclusive to union regimes and by design may lower rent-seeking behavior injurious to firm performance.
- Unions may no longer reduce wage inequality or support redistributive policies.

## AUTHOR’S MAIN MESSAGE

To the extent that unions have been found to have negative effects on net, their decline might be deemed no cause for concern. However, even in these circumstances, “on net” is not a sufficient guide for policy. Rather than a hands-off approach, the general goal should be to stimulate value-enhancing choices by firms and workers, while limiting the downside of rent-seeking.