Do Unions and Collective Bargaining Impact Economic Inequality in OECD Nations?

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Abstract

The decline of unionization has coincided with a dramatic increase in income and wealth inequality within countries across the world. Many theories in the existing literature have been proposed to explain both trends, including technology/automation, globalization and shifts in public policy. I analyze the impact of collective bargaining rates and union density on economic inequality.

To test the connection between collective bargaining, labor unions and inequality, I use a series of statistical tests, including basic correlation tests, as well as a series of linear regression tests with Gini, union density, collective bargaining among other variables.

The results show a moderately strong correlation between both union density and Gini and between collective bargaining coverage and Gini in OECD nations. In bivariate analysis collective bargaining is shown to have a stronger impact on inequality, however when alternative variables are added to the test, union density consistently has a stronger impact on Gini.

These results suggest that if we seek to reduce inequality and likely the polarization that stems from it, that not only is it important to have strong collective bargaining agreements, but it is more important is to have an organized labor movement.

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Introduction

Union density and the strength of labor has been declining over the past four decades across the OECD. At the same time, we have seen economic inequality within nations rise dramatically. The purpose of this paper is to determine the impact that lower union density and lower collective bargaining rates have on the rise of inequality that we have seen in recent history. This trend against labor has begun to turn, as labor unions have become more popular than at any point in history, especially in the United States. This recent revival of the labor movement has been led by a new generation of labor leaders like Shawn Fain in the United Auto Workers (UAW), Sean O'Brien in the Teamsters Union and Chris Smalls of the newly created Amazon Labor Union. This development has led many to reconsider labor's role in the economy and could lead to a second renaissance for labor across the world.

Literature Review

Decline of Labor Unions:

Union density across OECD nations has varied greatly. Unionization rates in the United States have declined since the beginning of the 1970s (Western & Rosenfeld, 2011). Scandinavian countries have always had and still do have some of the highest rates of unionization in the OECD while countries like the United States and Japan have historically had lower rates of unionization (Western, 1993). While there have been a few European nations (mostly in Scandinavia) that have bucked the trend of declining union density, the past forty years has seen a strong downward trend of labor organizing and union representation.

The factors for this decrease have been widely debated by labor economists. One theory is that a decline in labor unions is attributable to globalization and an increase in trade (Western, 1995). Globalization allows investors to invest around the world. This has freed up capital to offshore industries in wealthier countries that are traditionally unionized labor like manufacturing. As these heavily unionized industries were offshored, they were typically replaced with white collar or service work that is not typically unionized.

Research suggests that nations with more centralized collective bargaining can maintain unionization rates better than less centralized collective bargaining systems (Western, 1995). The roles and responsibilities afforded to labor unions by governments is also an important factor. In some countries where the government places unions in charge of managing and distributing unemployment benefits to workers, unionization rates held steady compared to nations that grant that responsibility to a different authority – typically a government agency – in those countries unionization rates typically declined (Scruggs, 2002).

Changing demographics have also been studied in relationship to labor union decline. The impact of immigration and refugees on unions in Europe has also been studied. Foreign workers typically have less of an ability to organize and are less likely to join unions than domestic workers (Finseraas, Roed, & Schone, 2019). This likely contributes to some extent the anti-immigrant attitudes of Europeans and Americans. While this is the case, research also suggests that unions reduce income disparities between different races (U.S. Department of the Treasury, 2023).

Elections also impact unions. The left of the political spectrum tends to favor labor unions and the right of workers to organize, while the right-wing tends to side with business

owners. Some research has been done to test this idea and shows that the prominence of left-wing politics has a positive impact on unions (Brady, 2007).

Rising Economic Inequality:

Within nations, economic inequality has been rising since the 1980s. Statistics from the International Monetary Fund suggests that 76% of wealth is currently owned by the richest 10% of the global population, while they currently take in about 52% of global income (Stanley, 2022). Economists posit a wide range of theories to explain this trend such as: (1) globalization, (2) shifting tax policy, (3) decline in labor unions (and labor power), (4) The widening gap between the returns from capital income compared and labor income, (5) technology and automation.

Globalization has allowed businesses to increase profits by offshoring middle-income jobs from wealthy countries to countries in the developing world. The jobs that replace the offshored jobs are typically low-income jobs in the service sector (Mills, 2008).

Since the 1980s, nations across the world have been implementing tax reforms that restructure tax codes. These tax reforms have shifted or reduced the tax burden of high-income earners. Many advanced nations struggle with tax enforcement and preventing wealth individuals from shifting their wealth into a global web of tax havens. All these impact inequality as it strains the finances of essential social services that poorer people rely on and reduces the burden on wealthy individuals. Decreases in Corporate Income Tax rates in both developed and developing nations has also increased inequality (Faccio, 2022).

A nation's share of income is typically divided into two categories, labor's share (wages, salaries, compensation) and capital's share of income (profits, dividends, capital gains). Research

shows that labor's share of income has been declining rapidly over the past forty years. This shift increases inequality because most the capital is owned by the top 10% of income earners, while the earnings of the bottom 90% of earners is primarily labor income (Dao, Das, Koczan, & Lian, 2017).

Labor Unions and Inequality:

Labor Unions have declined while we've seen economic inequality rise over the past forty years. Research suggests that a decline in unions can explain up to 30% of the increase in wage inequality in the United States (Western & Rosenfeld, 2011). Research also suggests that the decline in unionization has a greater impact on wage inequality between men (Card & Lemieux, 2020). Recent research suggests that for every 10% increase in union density results in a 2% compression of the wages between the top 10% of income earners and the bottom 90% of income earners (U.S. Department of the Treasury, 2023).

While labor unions have historically been seen to reduce inequality between union workers and increase inequality between union workers and non-union workers, this has been challenged somewhat as more research is conducted. The reasons for this is twofold, in many OECD countries, union wages are extended to non-union workers and in countries that don't extend union wages to non-union workers, employers are incentivized to increase the compensation of non-union workers to compete with union wages in order to make joining a labor union less attractive to workers in a given workplace (Ahlquist, 2017).

Unions can also have indirect impacts on inequality. Unions and their members are often seen as an important constituency within their respective countries. Politicians will often speak with union leaders and union members to try to court their votes. Unions often promote

redistributive policies that lower inequality (Herzer, 2016). Research also suggests that unions have a cultural impact that affects economic inequality. By creating societal norms around compensation and benefits, that pressures employers and investors to pay livable wages (Perron, 2023).

Union Membership and Collective Bargaining Coverage:

The difference between union membership and collective bargaining coverage can be minimal, however the distinction is important. A member of a union pays dues, votes on contracts and has a relationship with the union representing them. Workers in a union are subject to collective bargaining agreements, however depending on the terms of collective bargaining agreements, not all people covered by the collective bargaining agreements are members of the unions that negotiated those agreements. Unions that have the power to set terms on a sectoral basis will often negotiate on behalf of employees that aren't unionized. While collective bargaining coverage and trade unions are related, the differences between union density and collective bargaining coverage within a given country.

Higher collective bargaining rates aren't always good for unions. The "free riding" problem with unions suggests when union wages and benefits are extended to non-union workers, unions lose a lot of ability to pull new members into their union (Traxler, 1996).

Contemporary Challenges

Public Support for Labor Unions:

Labor unions have been gaining popularity over recent years. This trend has been prominent in the United States where public approval for labor unions is tracked by Gallup

Polling. The most recent data by Gallup suggests that 71% of Americans approve of labor

unions, this includes 91% of Democrats, 69% of independents and even 52% of Republicans

polled. This is a dramatic rebound from the lows of 2009 when union approval bottomed out at

48% (Gallup, n.d.).

COVID-19 & Labor Shortages

The unprecedented nature of the Coronavirus pandemic forced national governments

around the world to reckon with the temporary shuttering of large portions of economic activity.

Non-essential workers were granted access to some of the most generous unemployment benefits

while workers deemed as "essential" continued working. The idea of "essential workers" is

important because for the first time in modern history, employees who have been viewed by

general society as "low-skill workers" (for example: Amazon workers, meat-packing workers)

who were disposable to the companies they worked for were now seen as essential to the

continuation of economic activity. This notably shifted the perspective of many of these workers

who were sick of working low-wage jobs. This realization, along with unprecedented support

from federal governments created a labor shortage that gave workers leverage to demand wage

increases (Greenhouse, 2021).

A New Generation of Labor

The new generation of labor organizing has been demonstrated by the efforts underway at

Starbucks and Amazon. Organizing at Starbucks has been led by Workers United, a union

representing workers from a wide array of industries (Starbucks Workers United, n.d.). The

Starbucks division of Workers United was formed in 2021 upon the first successful unionization

efforts in Buffalo, New York. Since this initial victory, SWU has expanded to over 350 locations and now represents approximately 9,000 Starbucks workers (Durbin, 2023). Like the SWU, the recently formed Amazon Labor Union is seen as the new generation of labor, led by young people, who are the most pro-union generation according to a report from the Center for American Progress (Glass, 2023).

This new generation of labor leaders aren't just composed of young people. Shawn Fain, leader of the United Auto Workers has been notably more militant and class-oriented than UAW leaders of recent. Even going as far as to say that "Billionaires shouldn't exist" (Hagy, 2023). Teamsters president Sean O'Brien is also considered to be a part of this new generation of labor, who was elected by the Teamsters after a multi-decade reform effort from within the union (Burns, 2023).

Wave of Strikes

In many ways it could be said that 2023 was the year of strikes and while the number of strikes in 2023 wasn't record breaking, it was the largest number of strikes in any year since 2000 (Mutikani, 2024). What really made 2023 the year of strikes is the number of simultaneous, high-profile strikes.

The United Auto Workers held an unprecedented strike against all three major auto companies (Ford, General Motors & Stellantis), led by union leader Shawn Fain. This strike was supported by 75% of those polled by Gallup (Gallup, n.d.). Another major strike involved the entertainment industry in which actors and writers both went on strike at the same time and unlike the previous strike over a decade ago, won real concessions from the corporations effected by the strike. 67% of people polled by Gallup supported the actors and 72% supported the

writers (Gallup, n.d.). A historic international strike against Tesla by Danish and Swedish unions in Tesla's supply chain in response to Elon Musk's anti-union rhetoric and the company's resistance to unionization efforts in the U.S. and abroad (Makooi, 2023).

Methods & Analysis

The data used to analyze my three hypotheses come from the OECD and Countries of the World Dataset. Certain countries from both datasets were excluded due to a lack of comparable data. The union density data includes 26 countries from three continents and the collective bargaining data includes 24 countries from three continents.

All tests ran for these hypotheses utilize the Gini index as the dependent variable. It is a measure of resource inequality that is typically utilized for income and wealth inequality. The Gini coefficient ranges between 0.00 and 1.00. For the purpose of our tests, 0.00 would be no disparities in income and a score of 1.00 would occur if one person had all of the income and everyone else would have no income.

The first two hypotheses utilize correlative statistics to measure and demonstrate the connection between collective bargaining and union density on economic inequality. I think it is important to make some clarifications about the limits of correlation when making conclusions about causation.

Hypothesis 1:

My first hypothesis is that countries with a higher level of union density will have lower levels of economic inequality. To measure this, I collected data from the OECD on union density and

GINI for each country that has data for these two statistics. When looking at Gini, it is important to understand that as the Gini decreases, so does economic inequality.

The form of analysis I used was a basic correlation between the two variables. Since we are measuring the impact of unions on inequality, the Gini is our dependent variable and union density is our independent variable. The Pearson r for this correlation measurement is -0.597 which suggests a moderately strong, negative correlation (which is expected) between these two variables. The data has a 2-tailed significance figure of 0.001, which would suggest that the relationship is statistically significant. The linear r^2 number for this correlation is 0.357. Table 1 shows these results. I then created a scatterplot to visualize this correlation with a data point representing each country measured. Figure 1 shows this scatterplot with a line of fit and data labels. This data would suggest that my hypothesis that economic inequality is higher in countries where union density is lower, is generally correct.

Now, I don't think this proves that union density necessarily has significant direct impact on inequality by virtue of their presence, however research suggests that nations with higher levels of union density tend to have a stronger welfare state with higher levels of redistribution. Labor Unions also create a culture of class consciousness within their membership. These are possible explanations for the results we see.

Hypothesis 2:

My second hypothesis is that countries with a higher level of collective bargaining coverage will have lower levels of economic inequality. To measure this, I collected data from the OECD on collective bargaining coverage and Gini for each country that has data for these two statistics.

The form of analysis I used was a basic correlation between the two variables. It is shown in Figure 2. Since we are measuring the impact of collective bargaining coverage rates, the GINI is our dependent variable and collective bargaining coverage is our independent variable. The Pearson r for this correlation measurement is -0.652 which suggests a moderately strong, negative correlation (which is expected) between these two variables. The data has a 2-tailed significance figure of <0.001, which confirms that the data is statistically significant. The r^2 number for this correlation is 0.425. Table 1 shows the regression results.

A scatterplot helps to visualize this correlation with a data point representing each country measured. Figure 2 shows this scatterplot with a line of fit and data labels. This data would suggest that economic inequality is higher in countries where collective bargaining coverage is lower.

Hypothesis 3:

My third hypothesis is that collective bargaining will have a stronger impact on economic inequality than union density. My theory is that collective bargaining would have a greater impact on inequality because if the higher wages that union provide are granted to more people than that should in turn reduce inequality more. However, when you factor in the free-riding phenomenon where collective bargaining is granted to employees not in a union, that could disempower union movements and hamper the ability of unions to recruit new members and negotiate for the best possible agreement. This could also compromise unions strike activity as fewer union members means that the union has less leverage over employers when negotiating new contracts.

Using the data we already have we know that the correlation between economic inequality and collective bargaining coverage (r = -0.652) is stronger than the correlation between economic inequality and union density (r = -0.597).

I used a linear regression model to explore the impact of both variables on economic equality. As Table 2 shows, collective bargaining coverage explains more of a change in the GINI than union density. The standardized coefficient for collective bargaining is -0.444 which means that for every 1% change in collective bargaining coverage, amounts to a -0.444 change in Gini. The standardized coefficient for union density is -0.347. Which means that for every 1% change in union density amounts to a -0.347 change in Gini. In other words, it seems like as a country's collective bargaining coverage rate and union density increases, the GINI in that country is lower.

This would suggest that when looking at just the two independent variables of our third hypothesis, that collective bargaining has a stronger impact on economic inequality than union density. The adjusted r^2 for both variables is 0.455 meaning that these two variables explain about 45.5% of the change in Gini.

However, when we use linear regression analysis and begin to add new variables, the picture isn't as clear. Depending on the variables we insert, the value of both variable's changes. Utilizing data from the Countries of the World Dataset, I added three new potential predictors to our analysis: International trade (as a percentage of GDP), Gender Inequality Index and government effectiveness scale. The Gender Inequality Index is based on the differences between men and women in three different categories: reproductive health, how many seats of parliament are held by women and women's participation in the workforce. The government

effectiveness scale measures the perceived quality of public services, civil services and the level of political independence of government workers.

The results when these additional variables, as shown in Table 3, are added union density has a higher impact on economic inequality than collective bargaining coverage, in fact the impact of collective bargaining on economic inequality almost entirely disappears. These five variables have an adjusted r^2 of 0.687, meaning that these five variables explain about 68.7% of the change in Gini. The results may lead some to question why Gender Inequality index is positive, this is likely because like Gini but unlike union density or collective bargaining levels, having a lower Gender Inequality Index is better than having a higher Gender Inequality Index.

I then began to question whether the results of collective bargaining were being cancelled out by union density because of how strongly related union density and collective bargaining coverage are to each other. So, I did two additional linear regression tests one with union density and the other with collective bargaining. But even when we test our data in this manner, we see that union density has a much larger impact on Gini than collective bargaining coverage. Based on the literature reviewed earlier, I would suggest that this is because labor unions have indirect impacts on economic inequality that collective bargaining coverage can't provide such as institutional support for redistributive policies. When union density is included and collective bargaining coverage is excluded, the adjusted r^2 is 0.661 meaning 66.1% of the change in Gini is explained by those four variables. When collective bargaining coverage is included and union density is excluded, the adjusted r^2 is 0.651 meaning that 65.1% of the change in Gini can be explained by those four variables. Nevertheless, the Standard Beta Coefficient is significantly higher for union density (-0.300) than for collective bargaining coverage (-0.114) as shown in Table 4 and Table 5.

While the results for this hypothesis are mixed, the tests with the most data should be prioritized. The tests shown in Table 3, Table 4 and Table 5, all suggest that union density has a larger impact on economic inequality than collective bargaining coverage rates. This would disprove my hypothesis that collective bargaining coverage has a greater impact on economic inequality than union density.

Discussion and Conclusions:

These results and past research tell me a few things. While both collective bargaining rates and union density correlate with a country's levels of inequality, union density (i.e. strength of organized labor) is far more important. This is likely because of the additional effects that unions have on a nation's inequality such as: advocating for redistributive policies and creating generally agreed upon societal standards for workers' wages, benefits and rights. Unions also organize and educate their members, benefits collective bargaining coverage on its own doesn't provide.

Additionally, collective bargaining without unionization can be damaging to workers interests. Allowing non-union workers to receive wages and benefits that they didn't negotiate and/or organize for, without paying the union dues that union members pay to ensure they get those benefits leads to less workers in the union which diminishes union power.

In conclusion, the research and results of this paper tells me that to reduce the unprecedented levels of economic inequality, unions will play an important role and will need to play increasing role in the economy of OECD countries.

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Charts & Tables

Table 1: Correlation Matrix between Gini, Union Density & Collective Bargaining Coverage

Multivariate correlation: Union Density, GINI and Collective Bargaining Coverage				
		Union Density	Gini	Collective Bargaining Coverage
Union Density	Pearson r	1	-.597[**]	.598[**]
	Sig. (2 tailed)		.001	.002
	N	26	26	24
Gini	Pearson r	-.597[**]	1	-.652[**]
	Sig (2 tailed)	.001		<.001
	N	26	26	24
Collective Bargaining Coverage	Pearson r	.598[**]	-.652[**]	1
	Sig (2 tailed)	.002	<.001	
	N	24	24	24

Table 2: Regression Analysis of Union Density & Collective Bargaining on Gini Index

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	38.208	1.518		25.167	<.001
	Union Density	-.076	.042	-.347	-1.809	.085
	Collective Bargaining Coverage	-.067	.029	-.444	-2.314	.031
a. Dependent Variable: Gini						

Table 3: Regression Analysis of Collective Bargaining, Union Density, International Trade as

Percentage of GDP, Gender Inequality Index and Government Effectiveness Scale

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	30.409	7.677		3.961	<.001
	Collective Bargaining Coverage	-.001	.028	-.006	-.032	.975
	Union Density	-.059	.033	-.269	-1.794	.090
	International trade as percentage of GDP	-.619	.630	-.118	-.983	.339
	Gender Inequality Index	25.906	9.973	.544	2.598	.018
	Government effectiveness scale	-.055	.062	-.169	-.888	.386
a. Dependent Variable: Gini						

Table 4: Regression Analysis of Union Density, International Trade as Percentage of GDP,

Gender Inequality Index and Government Effectiveness Scale

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	24.362	6.382		3.817	.001
	Union Density	-.065	.029	-.300	-2.248	.035
	International trade as percentage of GDP	-.799	.582	-.164	-1.374	.184
	Gender Inequality Index	30.692	8.232	.649	3.728	.001
	Government effectiveness scale	.000	.054	-.001	-.004	.997
a. Dependent Variable: Gini						

Table 5 Regression Analysis of Collective Bargaining, International Trade as Percentage of

GDP, Gender Inequality Index and Government Effectiveness Scale

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	32.478	8.021		4.049	<.001
	International trade as percentage of GDP	-.598	.666	-.114	-.897	.381
	Gender Inequality Index	24.317	10.497	.510	2.316	.032
	Government effectiveness scale	-.081	.064	-.247	-1.267	.220
	Collective Bargaining Coverage	-.022	.026	-.145	-.827	.418
a. Dependent Variable: Gini						

Footnote: Table 4 and Table 5 are a result of the close relationship between Collective Bargaining Coverage and Union Density. For that reason, I

felt that a more accurate portrayal of our results would occur if these tests were taken separately rather than together.

Figures

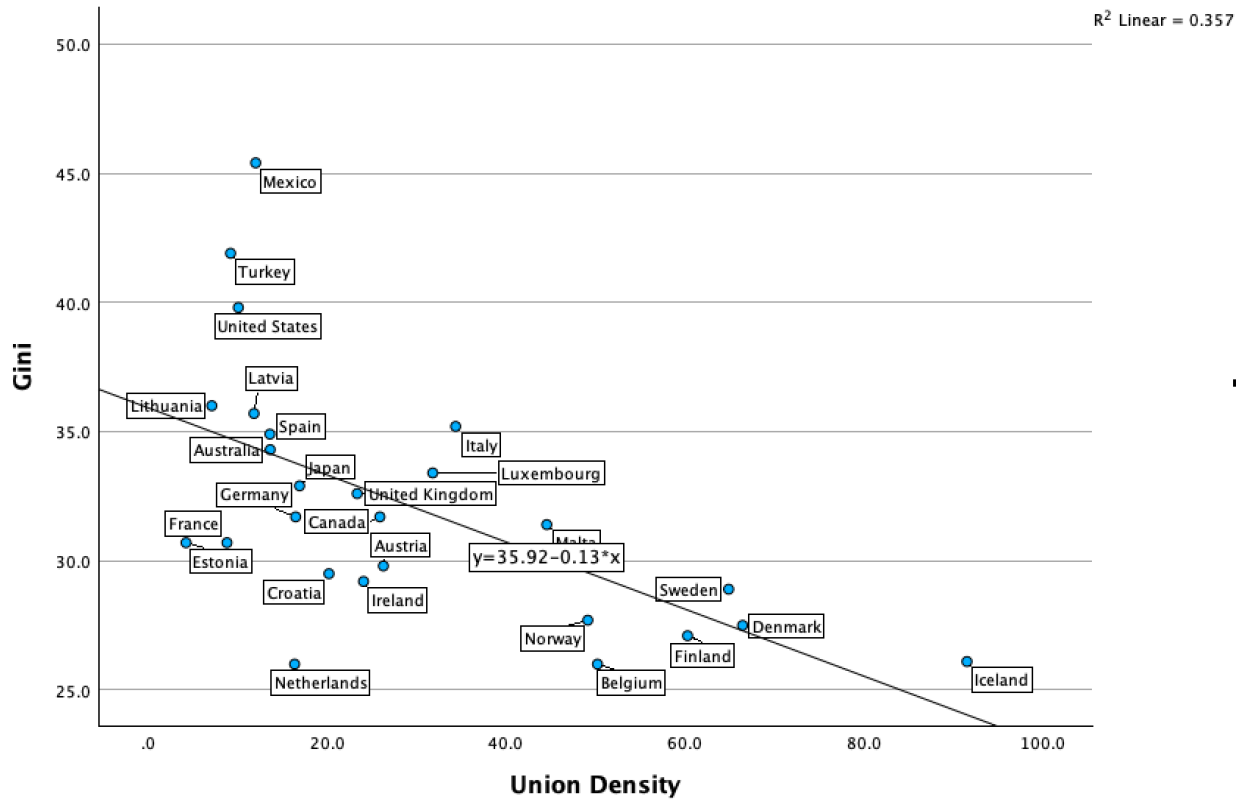Figure 1: Scatterplot Between Union Density & Gini in OECD Countries

Figure 2: Scatterplot Between Collective Bargaining & Gini in OECD Countries