"What do Unions do? Wages, Incentives, and Investments."



Presented by Liu Yang
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Join Us!

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Abstract: We show that unions have two effects: they increase labor costs and reduce firms' ability to incentivize their employees optimally. Using plant-level data from the Census Bureau on U.S. manufacturing industries, we show that unionized plants have less effective incentives and pay higher wages. As a result, unionized plants grow slower, have lower total factor productivity, and invest less. Lower incentives decrease the productivity of unionized plants and cause firms to substitute capital for labor. These effects are economically significant, causing a sizable drop in employment relative to non-unionized plants. These effects are mitigated in concentrated labor markets, where unions may act as a counterweight to monopsonistic employers. We also find spillover effects, such that unionized firms pay higher wages and have less effective incentives in their non-unionized plants than their peers. Using the recent events of change in state-level right-to-work (RTW) laws, we show that states that recently passed RTW legislation experience more growth in employment and investment compared to nearby regions without the law change.