

Unions and Upward Mobility for Young Workers

John Schmitt

October 2008

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About the Author

John Schmitt is Senior Economist at the Center for Economic and Policy Research in Washington, DC.

Acknowledgments

The author thanks Hye Jin Rho and Matt Sherman for research assistance. The Center for Economic and Policy Research gratefully acknowledges financial support for this project from the Arca Foundation and the Ford Foundation. The findings and conclusions presented in this report remain those of the author alone and do not necessarily reflect the opinions of these foundations.

Executive Summary

Young workers – those age 18 to 29 – have been the hardest hit by the stagnant wage growth over the last three decades. After adjusting for inflation, the wage of the typical 18 to 29 year old worker was about 10 percent lower in 2007 than it had been in 1979.

This paper examines the impact of unionization on the pay and benefits of young workers. The most recent data suggest that even after controlling for differences between union and non-union workers – including such factors as age and education level – unionization substantially improves the pay and benefits received by young workers.

On average, unionization raised young workers' wages 12.4 percent – or about \$1.75 per hour – relative to young workers with similar characteristics who were not in unions.

The union impact on health insurance and pension coverage was even larger. Young workers who were in unions were about 17 percentage points more likely to have employer-provided health insurance and about 24 percentage points more likely to have a pension plan than similar non-union workers.

The benefits of unionization were also high for young workers in typically low-wage occupations. Young workers in unions in otherwise low-wage occupations earned, on average, 10.2 percent more than their non-union counterparts. Unionized young workers in low-wage occupations were also 27 percentage points more likely than comparable non-union workers to have employer-provided health insurance, and 26 percentage points more likely to have a pension plan.

The findings demonstrate that young workers who are able to bargain collectively earn more and are more likely to have benefits associated with good jobs. The data, therefore, suggest that better protection of workers' right to unionize would have a substantial positive impact on the pay and benefits of young workers.

Introduction

Young workers – those age 18 to 29 – have been the hardest hit by the stagnant wage growth over the last three decades. After adjusting for inflation, the wage of the typical 18 to 29 year old worker was about 10 percent lower in 2007 than it had been in 1979 (see **Figure 1**).¹ This decline in real wages took place despite a substantial increase in the educational attainment of young workers: between 1979 and 2007, the share of 18 to 29 year olds with a four-year college degree or more increased from 16.1 percent to 22.4 percent; over the same period, the share of young people without a high-school diploma fell from 14.1 percent to 10.6 percent.²

Young workers suffer most in a poor economy because they are the most vulnerable to the forces that have put downward pressure on wages over the last 30 years. The erosion of the inflation-adjusted value of the minimum wage has been particularly bad for younger workers. But, the broader range of political and economic forces – including the sharp decline in unionization, increased international competition connected to globalization, the deregulation of many industries (airlines, trucking, finance, and others) and privatization of many state and local government functions, and macroeconomic policies that kept the unemployment rate high for much of the 1980s and 1990s – also have a large effect on younger workers, too. Often the impact of these policies on younger workers exceeds the impact on older workers. Younger workers not only feel the direct effects of such policies, but also find themselves competing in the labor market with older, more experienced workers who themselves are coping with the negative economic impacts of these same policies.

For younger workers, as for the workforce as a whole, unions are one of the most important institutional features of the labor market that offer a degree of protection from an unregulated labor market. One factor contributing to the absolute and relative decline in the wages of young workers is the steep drop over the same period in their unionization rate. In 1983 (earliest year available), 16.0 percent of young workers were in a union; by 2007, the figure had fallen by almost half to 8.2 percent.³

This paper uses the most recent data available to examine the impact of unionization on the pay and benefits of younger workers. The data suggest that even after controlling for systematic differences between union and non-union workers, union representation substantially improves the pay and benefits received by young workers.⁴ On average, unionization raised young workers' wages by 12.4 percent – about \$1.75 per hour – compared to non-union young workers with similar characteristics.⁵ The union impact on health-insurance and pension coverage was even larger. Among young workers, those in unions were about 17 percentage points more likely to have

1 Author's analysis of CEPR's extract of the Outgoing Rotation Group (ORG) of the Current Population Survey (CPS). Median wage growth was poor, but positive, for 30-to-64 year olds (see Figure 1).

2 Author's analysis of CEPR ORG extract.

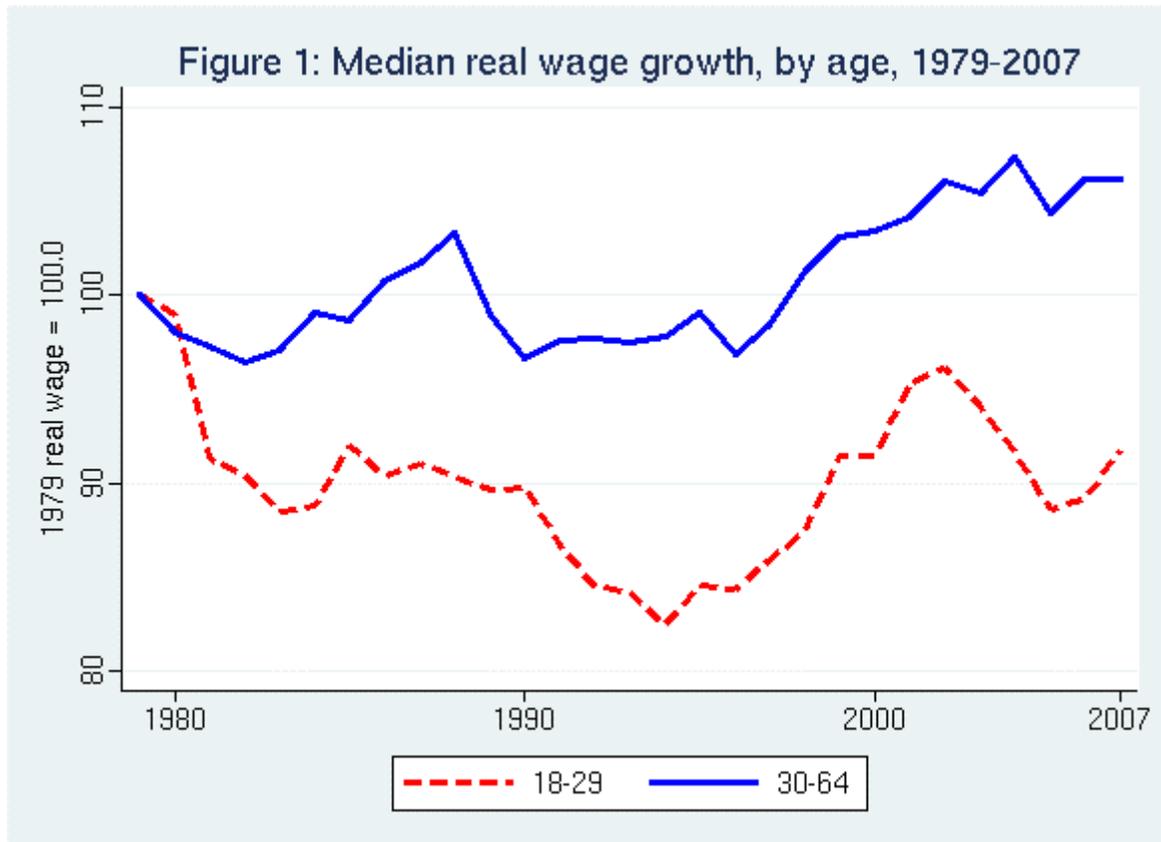
3 Author's analysis of CEPR's CPS ORG extract. The CPS ORG did not begin to ask workers about their union membership or union coverage until 1983.

4 Earlier research finds substantial union effects on wages and benefits for workers overall; among many others see Blanchflower and Bryson (2007), and Schmitt (2008).

5 Over the period 2004-2007, the average wage of young workers, in constant 2007 dollars, was \$13.87 per hour. The union wage premium at the mean wage estimated here is 12.4 percent, or \$1.72 per hour.

employer-provided health insurance,⁶ and about 24 percentage points more likely to be in an employer-provided pension.⁷

These union effects are large by any measure. For example, between 1994 and 2002, a period of low unemployment that helped to produce the best wage growth in the last three decades for young workers, the real median wage of 18 to 29 year old workers increased about 16.6 percent.⁸ The union wage effect estimated here is the equivalent, therefore, of about six years of wage growth at the fastest pace seen since the end of the 1970s.



6 An employer- or union-sponsored plan for which the employer paid at least a portion of the insurance premium. To be clear, we believe that universal health care, where eligibility is not connected to an individual's employment status or particular employer, would be a substantial improvement over the current system, which leaves many workers and their children without health insurance.

7 The employer- or union-provided pension may or may not include an employer contribution to the plan.

8 Author's analysis of CEPR's CPS ORG extract. For a discussion of the economic and social benefits of sustained low unemployment, see Bernstein and Baker (2003).

Young Workers in Unions Earn More, More Likely to Have Benefits

Over the period 2004-2007, in the workforce as a whole, about 13.5 percent of all workers were unionized. Over the same period, as Table 1 shows, only about 7.3 percent of young workers were in a union or represented by a union at their workplace (see row 1). Unionized younger workers typically earned substantially more than their non-union counterparts. In 2004-2007, the median unionized 18 to 29 year old earned about \$15.57 per hour, compared to \$11.00 per hour for the median non-union worker of the same age. Unionized younger workers were also much more likely to have health insurance (65.6 percent) than younger workers who weren't in unions (38.4 percent), and also much more likely than younger non-union workers to have a pension plan (58.4 percent, compared to 25.6 percent).

For younger workers, wages and benefit coverage vary substantially by gender and union status. In 2004-2007, young men were somewhat more likely to be unionized (7.7 percent) than young women were (6.7 percent). On average, young men in a union earned substantially more (\$15.93 per hour) than their non-union counterparts (\$11.68 per hour), and were much more likely to have health insurance (67.7 percent) and a pension (57.8 percent) than if they were not in a union (37.6 percent for health insurance, 25.7 percent for pension coverage). Young women in unions also earned more (\$15.37) than those who were not in unions (\$10.62), and were also much more likely to have health insurance (62.9 percent) and a pension (59.2 percent) than young women who were not in a union (39.2 percent for health insurance and 25.6 percent for pension coverage).

The data presented in the first three rows of Table 1 cover all young workers, including those at the bottom, middle, and top of the wage distribution. The last row of the table looks only at young workers in the 15 lowest-wage occupations.⁹ As was the case for the young work force as a whole, unionized younger workers in low-wage occupations earned substantially higher salaries and were much more likely to have health insurance and a pension plan than were their non-union counterparts in the same occupations. The median young union worker in a low-wage occupation (\$10.62) earned almost two dollars per hour more than the median non-union young worker (\$8.74). Unionized young workers in these same low-wage occupations also had large advantages over non-union young people with respect to non-wage benefits. About 40 percent of unionized young workers in low-wage occupations had health insurance, compared to less than 20 percent of the non-union young in the same occupations. For pension plans, the union gap was also substantial: 29.0 percent of unionized young workers in low-wage occupations had a pension, compared to only 11.2 percent of their non-union counterparts.

The data in Table 1, however, may overstate the union effect because union workers may be more likely to have characteristics associated with higher wages such as being older or having more formal education. In Table 2, therefore, we present a second set of results using standard regression

⁹ The 15 low-wage occupations are: food preparation workers, cashiers, cafeteria workers, child-care workers, cooks, housekeeping cleaners, home-care aides, packers and packagers, janitors, grounds maintenance workers, nursing and home-health aides, stock clerks, teachers' assistants, laborers and freight workers, and security guards. Together, these occupations represent about 15 percent of total U.S. employment. See the data appendix and Schmitt, Waller, Fremstad, and Zipperer (2008) for a complete description of the occupations.

techniques to control for these potential differences in the union and non-union workforces.¹⁰ Controlling for these other effects does reduce the union wage and benefit effect, but the effect of unionization on the wages and benefits of young workers remains large.

TABLE 1
Hourly wages and union share for young workers, 2004-2007

	Union share (percent)	Median hourly wage (2007\$)		Health-insurance (percent)		Pension (percent)	
		Union	Non-union	Union	Non-union	Union	Non-union
All	7.3	15.57	11.00	65.6	38.4	58.4	25.6
Men	7.7	15.93	11.68	67.7	37.6	57.8	25.7
Women	6.7	15.37	10.62	62.9	39.2	59.2	25.6
In low-wage occupations	6.3	10.62	8.74	40.9	17.8	29.0	11.2

Notes: CEPR analysis of CEPR extract of the Current Population Survey Outgoing Rotation Group and UNICON extract of March Current Population Survey data. Union refers to union membership or union coverage. Health insurance refers to participation in an employer- or union-sponsored plan where the employer pays some or all of the premium. Pension refers to participation in an employer-sponsored plan, with or without employer contribution. See Appendix Table for further details on sample. Health and pension coverage refer to 2004-2006; wages refer to 2004-2007. Ages 18-29.

TABLE 2
Regression-adjusted union wage, health, and pension premiums for young workers, 2004-2007

	Union share (percent)	Union premium		
		Hourly wage (percent)	Health-insurance coverage (p.p.)	Pension coverage (p.p.)
All	7.3	12.4	17.0	23.8
Men	7.7	14.4	18.7	24.5
Women	6.7	10.2	15.0	23.0
In low-wage occupations	6.3	10.2	27.0	25.9

Notes: All regressions include controls for age, education, gender (where appropriate), state, and two-digit industry. Union wage premiums in percent are converted from log points; all are statistically significant at at least the one-percent level. Union-health insurance and pension coverage figures are the percentage-point (p.p.) increases associated with union coverage or membership; all estimates are significant at the one-percent level. See Appendix Table for further details about sample. Health and pension coverage refer to 2004-2006; wages refer to 2004-2007. Ages 18-29.

¹⁰ The regressions control for age (and age squared), education (five levels of educational attainment), gender (wherever observations for men and women appear in the same regression), state of residence, and two-digit industry. The wage regressions use ordinary least squares; the health-insurance and pension regressions are probits.

After controlling for workers' characteristics, the union wage premium for all young workers is 12.4 percent or about \$1.75 per hour.¹¹ For young workers, the union advantage with respect to health insurance and pension coverage also remains large even after controlling for differences in workers' characteristics. Unionized younger workers were about 17 percentage points more likely to have health insurance and about 24 percentage points more likely to have a pension than their non-union counterparts.

The union wage premium and health insurance and pension advantages are large for both men and women. The regression-controlled union wage premium is about 14 percent for men and about 10 percent for women. The union effect on health-insurance coverage for young workers is about 19 percentage points for men and about 15 percentage points for women; the union pension advantage for younger workers is about 25 percentage points for men and 23 percentage points for women.

The benefits of unionization are also large for young workers in low-wage occupations. For younger workers in the 15 lowest-paying occupations, unionization raises wages by about 10 percent. For the same group of workers, unionization is also associated with a 27 percentage point greater likelihood of having health insurance and an 26 percentage point greater likelihood of pension coverage.

11 These estimates of the union wage premium are likely to be underestimates of the true union effect on the wages of younger workers. Hirsch and Schumacher (2004) have documented that the procedure that the Census Bureau uses to impute wages for workers who fail to report wages in the CPS imparts a substantial downward bias in standard union wage-premium regressions such as the ones reported here.

Conclusion

Young workers have been the hardest hit by the stagnant wage growth over the last three decades. The inflation-adjusted wages of 18 to 29 year olds were about 10 percent lower in 2007 than they had been in 1979, despite substantial improvements in the educational attainment of younger workers.

Young workers have suffered most in recent decades because they are the workers most affected by the myriad of policy changes that have reduced the bargaining power of workers relative to their employers. The decline in the inflation-adjusted value of the minimum wage, widespread deregulation and privatization, economic globalization on terms that suit employers not workers, long periods of contractionary macroeconomic policy, and the steep decline in unionization have undermined the bargaining power of all workers, but especially younger workers with the weakest foothold in the labor market.

The most recent data suggest that even after controlling for differences between union and non-union workers unionization substantially improves the pay and benefits received by younger workers. After controlling for workers' characteristics, the union wage premium for all young workers is 12.4 percent or about \$1.75 per hour. The union advantage for younger workers is even larger with respect to health insurance and pension coverage. Unionized young workers were about 17 percentage points more likely to have health insurance and about 24 percentage points more likely to have a pension than their non-union counterparts.

The substantial wage and benefit advantages of unionization also apply to young workers in otherwise low-wage occupations. Among young workers in the 15 lowest wage occupations, after controlling for a host of differences in worker characteristics, unionization raised wages about 10 percent, the likelihood of having health insurance about 27 percentage points, and the likelihood of having a pension about 26 percentage points.

These findings demonstrate that young workers who are able to bargain collectively earn more and are more likely to have benefits associated with good jobs. The data strongly suggest that better protection of workers' right to unionize would have a substantial positive impact on the pay and benefits of young workers.¹²

12 For recent discussions of the benefits for workers and for overall economic inequality of unionization, see: Blanchflower and Bryson (2007); Freeman (2007); Levy and Temin (2007); Mishel, Bernstein, and Allegretto (2007); and Schmitt (2008).

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Appendix

In order to have a sample that is sufficiently large to analyze the unionized work force, our analysis combines data from consecutive years of the Current Population Survey (CPS), a nationally representative monthly survey of about 60,000 households. For wage-related data, we use the 2004 to 2007 merged Outgoing Rotation Group (ORG) from the CPS. The ORG includes a series of questions about the respondent's current job, asked of one-quarter of the monthly participants in the CPS. For health- and pension-related data, we use the March supplement to the CPS for the years 2005 to 2007. The March CPS survey asks respondents about their health- and pension-coverage in the preceding calendar year, so the health and pension data in the report refers to coverage during the calendar years 2004, 2005, and 2006. (The wage data refer to calendar years, 2004, 2005, 2006, and 2007; in both cases, we use the most recent data available as we write this report.)

Health

The March CPS asks whether an individual was covered by an employer-provided health-insurance plan and, if so, whether the employer paid all, part, or none of the premiums for that plan. We treat workers as having health-insurance coverage if their employer (or union) offered a plan and the employer paid at least part of the premiums associated with the plan. Respondents answer the health-coverage question in March of each year, but their response refers to their coverage status in the preceding calendar year.

Pension

The March CPS asks whether an individual's employer participated in an employer-sponsored pension plan. Unfortunately, the survey does not distinguish between defined-contribution and defined-benefit plans and does not ask if the employer makes a contribution to the plan. We treat workers as having pension coverage if their employer offered a retirement plan, whether or not the employer made a contribution to that plan. As with health-insurance coverage, respondents answer the pension question in March of each year, but their response refers to their coverage status in the preceding calendar year.

Union

The CPS ORG asks workers if they are a member of, or represented by, a union at their current job. We define a union worker as any worker who says that he or she is a member of or represented by a union. Unfortunately, the March CPS does not ask workers about their union status during the preceding calendar year. We use workers' union status in their current job in March of each year as a proxy for their union status in the preceding calendar year. Using workers' status in March has two drawbacks for our analysis. First, since we must rely on union status in March, which comes from the ORG for the same month, we are limited to only one-fourth of the full March CPS sample – the fourth of the full monthly sample that also participated in the ORG. The smaller sample reduces the precision of our estimates of the union effect on health and pension, making it more difficult for us to find a statistically significant union effect if one exists. Second, using union status in March as a proxy for union status in the preceding year introduces measurement error into the union variable in the health and pension regressions. Measurement error will bias the coefficient of the variable

measured with error toward zero, making it less likely that we will find a statistically significant union effect if there is one.

Low-Wage Occupations

Following Schmitt, Waller, Fremstad, and Zipperer (2008), Tables 1 and 2 present analysis of 15 low-wage occupations as defined by the “Standard Occupational Classification 2000” system used in the Current Population Surveys for 2004-2007. The specific occupations selected were the 15 occupations with the lowest non-union median wage meeting the following two criteria: first, the occupation had to be at least 0.25 percent of the total workforce over the combined period 2004-2007; and, second, the unionization rate had to be at least five percent over the same period.

The selected occupations include only one deviation from the above formula: the two lowest-wage occupations “combined food preparation and serving workers, including fast food” and “food preparation workers,” which are conceptually closely related and both of which, separately, met the selection criteria, were combined into a single occupation.

The final list of low-wage occupations were: food preparation workers, cashiers, cafeteria workers, child-care workers, cooks, housekeeping cleaners, home-care aides, packers and packagers, janitors, grounds maintenance workers, nursing and home-health aides, stock clerks, teachers’ assistants, laborers and freight workers, and security guards. See Schmitt, Waller, Fremstad, and Zipperer (2008) for more details.

Data

All data and programs used to produce this analysis are available upon request. The underlying CEPR extracts of the CPS ORG analyzed in this paper are available to download from <http://www.ceprdata.org>.

APPENDIX TABLE

Young sample sizes for regressions in Table 2

	CPS ORG	March CPS	
	Wages	Health	Pension
All	163,653	9,428	9,428
Men	84,599	4,805	4,805
Women	79,054	4,620	4,623
In low-wage occupations	33,727	1,273	1,273

Notes: The March CPS sample is smaller than the ORG sample because: (1) the CPS ORG is one-fourth of the full CPS for 12 months of the year, while the March CPS is the full CPS for only one month of the year; and (2) the March CPS has union affiliation in the current month for only one fourth of the participants in the survey that month. Union affiliation data from the March CPS refer to the respondent's job in March of each year, while health and pension benefits refer to the respondent's main job in the preceding calendar year, as a result the, union, health, and pension variables in Tables 1 and 2 are measured with error; the measurement error in the dependent variable in Table 2 will increase the standard errors of the coefficient estimates, but will not bias the estimates; the measurement error in the union variable will bias the estimated union effect toward zero. See text for further discussion.