Book Review

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What Do Unions Do?, by Richard B. Freeman and James L. Medoff. New York: Basic Books, 1984. 293 pp. $22.95

This book synthesizes and summarizes ten years of accumulating and often ground-breaking research on the economic role and impact of unions in the American economy. Much of the research reported in *What Do Unions Do?* has been conducted or supervised by the two authors, two leading labor economists from the Harvard economics department. The book is written for all audiences interested in union–management relations, not just academics or the like who are comfortable wrestling with economic theory and statistical inference. Its focus is not, however, on prescribing good management or union practices nor on describing the wide diversity of firm-specific and union-specific behavior and outcomes. Nor is it of the easy reading genre of so many popular books on management. What the reader can expect to gain instead is a cold, fair, and dispassionate general assessment of the economic impact of unions on employment related outcomes.

However, given the widespread ideological or political emotion that appears to underlie the topic of unionization (one that can be typified by the old saw "you're either for 'em or agin 'em"), the intended dispassionate analysis by the authors regrettably will irk those readers with strong predilections that unions are either generally bad for business and the American economy or have finally out-lived their day. I say this because Freeman and Medoff conclude, "On balance, unionization appears to improve rather than harm the social and economic system."

Such a general conclusion is controversial and provocative; not only for the general reader but also for the traditional neoclassical economist who has embraced the notion that unions utilize monopoly-like power disruptive to the functioning of competitive labor markets. Freeman and Medoff challenge this limited view of what unions are like and what they do. Their challenge is couched in terms of a "collective voice/institutional response" role for unions. That is, a union is viewed as a collective voice channel for worker interests and union leaders orchestrate the voice of their constituents in the negotiation and administration of labor contracts and in the political arena. Unlike monopoly-like effects of unions, the voice effect yields more positive economic and noneconomic outcomes. Freeman and Medoff metaphorically refer to the "two faces" of unionism—that of the monopoly and that of the collective voice. In

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their book they examine these two faces and ask: Does the frown of the monopoly face dominate the grin of the voice face?

Before highlighting the key findings of the impact of unions, we need to put the research methodology in its appropriate context. As the authors discuss, most research in the social sciences is non-experimental and this causes a multitude of research design problems. Since workers and managers cannot be treated as rats in a maze, in which all conditions are fully controlled or held constant, we cannot directly or readily examine how workers behave and managers respond once unionization is introduced to the experimental maze. Instead, we rely on theory (i.e., sophisticated conjecture) to specify the salient factors to be held constant in some form of multivariate statistical analysis. We then compare the statistical association between (in this case) union and non-union establishments and various outcomes; for example, wages, productivity, profits. In short, we try to replicate a true experiment through the use of theory, appropriate data collection, accurate measurement of variables, and sophisticated statistical analysis. The less rigor applied to any of these components of the analysis, the less likely any inferences drawn truly depict cause–effect relationships. Since most statistical analyses are sensitive to differences in data bases, variable measurement, and the specification of statistical models, the level of confidence we have in any set of findings depends on the findings' statistical robustness. Or in other words, we want to know whether or not our non-experimental tests hold up as they are subjected to alternative data bases, variable measurement, and model specification and subjected to cross-sectional, time-series, and before-and-after analyses. The greater this kind of subjection and the more consistent the results, the greater confidence one can have in the results. In addition to all this, however, we still come back to inferring any cause–effect relationships, which is dependent on the theory espoused.

Freeman and Medoff's efforts in handling these statistical issues is excellent and, frankly, uncommon.

With this research context in mind, we can turn to a brief summary of the authors' key conclusions. For the sake of brevity, I have done some injustice to the richness and complexity of the findings.

- The union–nonunion hourly wage differential generally averages between 10 and 20 percent.
- The union–nonunion hourly fringe benefit differential generally averages between 20 and 30 percent. Furthermore, the fringe benefit share of total compensation is higher under unionization.
- Wage differentials between workers who differ in terms of race, age, years of service, skill level, and education are generally more compressed in unionized companies than in nonunion companies.

- The quit rate is substantially lower for union than similarly situated nonunion workers. This result holds true even when compensation is held constant.
- There is considerably more cyclical labor force adjustment through temporary layoffs in unionized firms than in otherwise comparable nonunion firms.
- Unionized establishments are run more by rules, with greater rigidity in the scheduling of hours and less worker flexibility than in nonunion establishments.
- Union members state that they are more satisfied with their wages and fringe benefits, but less satisfied with work conditions and supervision than nonunion workers. However, the outside wage offer required to induce a job change is higher for union members than for otherwise comparable nonunion workers.
- Unionized firms in manufacturing, construction, and underground bituminous coal have higher capital–labor ratios than similar nonunion firms.
- In manufacturing, construction, and in the underground bituminous coal industry in nonturbulent times, unionized enterprises appear to have greater productivity than those that are nonunion, all else equal.
- The rate of profit per unit of capital is lower in unionized than in nonunion companies. However, loss in profitability is primarily at the expense of generally highly profitable sectors of the economy.

In addition to the above conclusions, the authors also conclude that stepped-up employer resistance, both legal and illegal (e.g., through discrimination against union activists), accounts in large part for the decline in union success in organizing: that the characterization of unions as undemocratic and union leaders as generally corrupt is a myth; and that big labor has been relatively successful in getting legislation passed that helps workers generally but has not been very successful in the last 50 years in getting legislation passed that would be specifically helpful to unions.

Most of the research conducted subsequent to the time the work on this book had been completed consistently bears out and embellishes the general conclusions of the authors. However, in one important topic—productivity—much of the ongoing research suggests that productivity differences between union and nonunion establishments do not exist. If there are productivity differences, they are modest, in either direction. As this new research becomes published and further research is pursued, a subsequent edition of *What Do Unions Do?* may come to report a different conclusion. But as the authors have emphasized, the level of productivity is going to differ depending on how well managers and union leaders work together. If they cannot work well together, there are likely to be few productivity gains, and in some cases unnecessary negative effects on productivity.

The greatest challenge facing this new broader theoretical view of the two faces of unionism is to unravel the voice/response mechanism. Presently, the voice/response proposition is in its infant stage and it needs to grow up. We need to take a close look inside the large black box encompassing this voice mechanism and learn how it really works, or where and why it goes awry. We need to ask, for example, the following kind of questions. Are union leaders the agents representing a collection of principals, with the aim of maximizing the welfare of those principals? Where does the union leadership fail to effectively orchestrate the interests of workers and why? What kind of tradeoffs are made between competing groups or individuals within a union in the negotiation and administration of labor contracts? Where does internal union democracy and bureaucracy come into play? How do employers respond to unions as they voice the collective interests of workers, and why? Where do the interests of union leaders compete with those of the membership? What makes some unions more effective than others? My own view is that the theoretical development of voice/response theory will eventually come and Freeman and Medoff have pointed us in a very fruitful direction. We do have a long way to go, however.

For the non-economist or the non-researcher attempting to get a fair and dispassionate analysis of the economic impact of unions, *What Do Unions Do?* is by far the most thorough, objective, and important summary of its kind. If the reader finds the book challenges his or her impressions or predilections about unions, one should think twice before dismissing it. Indeed, one of the many lessons the book provides is that both managers and union leaders need to objectively rethink the consequences of their actions, especially in this current period of hard times for much of the unionized sector. Union leaders and their members must become more sensitive to the negative monopoly face effect of their demands, with an eye toward reducing these negative effects and an eye toward increasing positive voice/response effects. Unions can remain attractive to current members and perhaps become more attractive to potential members with such a change in emphasis.

Likewise, the research findings reported by Freeman and Medoff should cause many managers to rethink their ideological (sometimes knee-jerk) opposition to unions, giving more serious thought to the positive voice effects of unions. Indeed, the research strongly supports the notion that a more cooperative, yet firm, approach to management can increase the positive outcomes attributable to the voice role of unions.

For many unionized companies, the fundamental lessons of the research reported by Freeman and Medoff have not been lost in the last half dozen years, as we have witnessed unprecedented concession bargaining and reduced demands by unions. We have also witnessed an unprecedented movement (but not necessarily a permanent one) toward union–management cooperative efforts to increase productivity, improve product and service quality, and to make day-to-day operations less adversarial and more efficient.

In conclusion, *What Do Unions Do?* is already a classic and the reader should find it stimulating, challenging, and provocative. Given the painful adjustments being experienced in today's economy, Freeman and Medoff have provided a timely analysis.

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