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Unions, government employment, and the political economy of income distribution in metropolitan areas

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Abstract

Long-term declines in union membership and the ascendance of neoliberal government policies may have weakened the potential for unions and government employment to reduce income inequality. Using data on 160 metropolitan statistical areas (MSAs) from the 2000 census, this research examines how quintile shares of size-adjusted family income are impacted by union density and federal, state, and local government employment. Importantly, the use of quintile shares of income allows this study to reveal a more nuanced picture of how unions and government employment influence the distribution of income. The principal findings of this study are: (1) union density has a progressive effect that benefits middle and upper-middle income families, (2) federal government employment has a strong progressive effect on the entire income distribution, (3) state government employment has a progressive effect on middle and upper-middle income families, and (4) local government employment mainly impacts families in the bottom forty percent of the income distribution. Although there have been long-run declines in regulatory labor market institutions, unions and government employment are still important components of the political economy of social stratification in U.S. metropolitan areas.

Keywords: Income inequality; Unions; Government; Neoliberalism

1. Introduction

The institutional arrangements around which U.S. labor markets are organized have undergone a dramatic change in the last thirty years. A capital-labor accord in which workers received higher wages, seniority rights, pensions, and employment security in exchange for relinquishing control over the labor process has given way to a neoliberal climate characterized by the deregulation of labor markets, public disinvestment, and increased capital mobility (Bluestone & Harrison, 1982; Grant, 1995; Brady & Wallace, 2000; Campbell & Pedersen, 2001; Fantasia & Voss, 2004; Kotz, 2003; Prasad, 2006). These changes have left labor in a weakened position and capital in a more powerful position.

One of the central manifestations of the declining of the capital-labor accord is the vanishing share of labor union membership in the United States (Bowles, Gordon, & Weisskopf, 1990; Clawson, 2003; Lippit, 1997; Nelson, 1995; Wallace, Leicht, & Raffalovich, 1999). Union membership declined from a high of 35.5 percent of the labor force in the 1940s to about 14 percent by the end of the 1990s (Cornfield & Fletcher, 2001) and to about 12.5 percent by 2005 (c.f. Hirsch & Macpherson, 2003). Such declines signify the ascendancy of capital over labor in the U.S. labor market and are likely to have profound consequences for the distribution of income.

In this same neoliberal climate, business-friendly tax policies and widespread public disinvestment have also become more prevalent. Given such a state of affairs, government employment, one of the largest fractions

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of public expenditure, may be less effective at reducing income inequality than it was in the past (Lobao & Hooks, 2003). The "social equity function" promoted by government employment may have been subverted by the neoliberal assault on big government beginning in the late 1970s and early 1980s (Stever, 1988). Given the decline of labor market institutions and the rise of neoliberal approaches to the labor market, labor unions and government sector employment may be less effective at reducing income inequality than in the past.

This paper attempts to answer the basic question of whether or not the rise of neoliberalism has undermined the ability of these regulatory labor market institutions, unions and public employment, to reduce income inequality. To determine if such institutions remain effective, I examine the effects of union membership and government sector employment at the federal, state, and local level on the distribution of income in 160 U.S. metropolitan statistical areas (MSAs) with 2000 census data. While this is an historical claim, I use cross-sectional data to test whether the relationships hold at the end of the 1990s, a point of significant union decline and government privatization.

A novel aspect of the research design is the use of quintile shares of size-adjusted income as the dependent variables. This research design allows for a more complex, but precise, illustration of the effects different factors have on the income distribution in MSAs. In the next sections, I discuss literature on union decline and theoretical reasons for why unions and government sector employment promote a more equitable distribution of income.

2. Union effects on income distribution

To reiterate, the contemporary period is characterized by a long-run breakdown of the capital-labor accord, a breakdown that originated in the early 1970s. This is in contrast to the capital-labor accord achieved during the 1940s through the 1970s whereby labor accepted the introduction of new technologies and allowed for greater management intervention in the labor process (Kotz, McDonough, & Reich, 1994; Kotz, 2003). In exchange for accepting such an institutional arrangement, workers received union recognition, seniority rights, pensions, and wage increases linked to productivity. The current state of capital-labor relations reflects the breakdown of this accord. At the end of the twentieth century the institutional arrangements were such that, "... capital achieved a clear supremacy over labor," (Lippit, 2004, p. 337). Thus, labor has clearly been placed in a weakened position and such observations imply that labor unions may have become less effective at reducing income inequality than in the past.

As noted above, many observers have documented declining labor union membership among U.S. workers (Bowles et al., 1990; Farber & Western, 2001). Economists have calculated that wage inequality would not have increased as much had union membership remained constant (Freeman, 1993). Furthermore, as union membership has declined, it is possible that the redistributive effects of unions have become weakened or even non-existent. One recent time-series study found that the positive effect of unions on labor's share of income disappeared between 1980 and the early 1990s (Wallace et al., 1999). Even if labor unions have declined in effectiveness, there are still good theoretical reasons to think that unions reduce income inequality.

As collective representatives of the local labor force, unions push for wage policies that benefit the majority of the workforce. Labor unions have it in their interest to promote such policies as it may be one way of effectively recruiting new members into their ranks. By institutionalizing the setting of wages, unions contract to attach wage rates to jobs as opposed to letting employers attach wages to individual workers. Unions are able to effectively coordinate the setting of wages, which can minimize the amount of variance in pay and raise earnings for otherwise low-wage workers. By standardizing rates of pay for jobs, unions may indirectly reduce income inequality as unions reduce the number of categories on the pay scale.

Sociological researchers have advanced arguments and evidence concerning union threat effects (e.g., Freeman & Medoff, 1984; Leicht, 1989). "Threat effects" refer to the tendency of non-union employers to pay higher wages when the surrounding context is heavily unionized. In his study of seven Indianapolis manufacturing industries, Leicht (1989) found that unorganized workers' wages increased in response to increases in the proportion of their plant workforce that was unionized. Thus, the local presence of labor unions may influence the distribution of family income as union threat effects may indirectly raise the incomes of families with and without union members.

Marxist sociologists have argued for a slightly more complex effect. Unions may not be able to act in the interests of all workers and in attempting to represent the interests of all workers may effectively benefit some workers at the expense of others. Rubin (1988) found that unions function to reduce inequality but their effect was not universally redistributive. That unions may not benefit all segments of the working class suggests that "... unions *cannot act in the interests of the working*