Prepared by Alex Domash

ASSESSING HOW COLLECTIVE BARGAINING REFORM CAN RESTORE LABOR'S SHARE OF INCOME AND INCREASE WAGES

Since the 1980s, workers' bargaining power has significantly eroded in the United States. Union membership, which has traditionally given workers the opportunity to bargain collectively with employers, has drastically declined, while structural changes in the economy, such as the proliferation of outsourcing and sub-contracting work, has made it increasingly difficult for workers to organize and collectively bargain over wages. The result has been a falling labor income share, stagnating real wages, and soaring income inequality in the United States. This issue brief presents new analysis showing that the dual problems of the declining labor share and broad wage stagnation are most profound in countries where collective bargaining is done at the firm level (enterprise bargaining). Our recommendation is that the U.S. should eventually move towards a system of sectoral bargaining, and in the short-run, can lay the groundwork for such a regime to emerge by 1) extending formal bargaining rights to workers excluded from the NLRA, 2) protecting the rights of workers to organize, and 3) experimenting with federal tripartite wage commissions in several low-wage sectors.

Overview of the Problem

Since the early 1980s, labor's share of national income has fallen in the United States, from an average of 64 percent between the postwar period to the early 1980s, to 58 percent in 2016 (Bureau of Labor Statistics, 2017). Over the same period, the United States has seen a growing gap between worker productivity and workers' wages: from 1979 to 2018, net productivity (output less depreciation per hour worked) rose by nearly 70 percent, while workers' real hourly compensation increased by only 11 percent (Economic Policy Institute, 2019). The declining labor share and corresponding broad wage stagnation directly undermines the growth in living standards for middle class Americans. Among the bottom 90 percent of American households, labor income – including wages and wage-related income – comprises an average of 86 percent of total household income (Gould, 2019).

The decline in the labor share has been driven in part by the erosion of workers' bargaining power. The percentage of workers covered by a union in the U.S. has fallen from nearly one third of the workforce in the late 1950s to only 10.5 percent in 2018, including a mere 6 percent of private sector workers (Bureau of Labor Statistics, 2018). This decline can be attributed to three main factors:

1) **Institutional antagonism towards unions**, including the expansion of "right-to-work" laws in 28 states.
2) **Increases in shareholder power**, leading to a large increase in outsourcing and subcontracting labor, and
3) **Structural changes in the economy**, including intensified globalization and automation

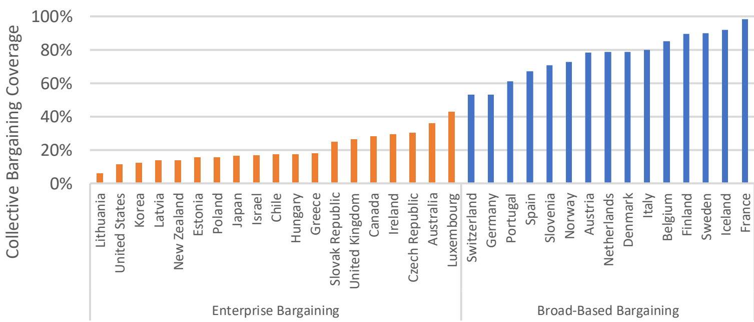
The cornerstone of U.S. labor law, the National Labor Relations Act (NLRA), was passed in 1935 to safeguard workers' right to organize and bargain collectively – but it fails to fulfill its objective in today's economy. Even at the time of its adoption, the NLRA only extended collective bargaining rights to statutorily defined employees – which excluded domestic workers and agricultural laborers from the Act's coverage. Today, that exclusion also restricts independent contractors and other gig-economy workers from having any collective bargaining rights. In total, roughly 20% of private-sector workers are denied collective bargaining rights (Block and Sachs, 2019). Even where workers' bargaining rights are statutorily covered, the fundamental changes in the structure of the economy since the 1930s have left an ever-increasing number of American workers without any effective means to collectively bargain. In 2017, only 10 percent of all workers were covered by a collective bargaining agreement – the second lowest coverage rate across the OECD.

The enterprise-based bargaining system in the U.S. is fundamentally broken and should be reformed to fulfill the original purpose of the NLRA. While most industrial democracies empower unions to negotiate for workers on a sectoral or regional basis, U.S. labor law channels negotiations to the firm level. Enterprise-based bargaining has the following three structural defects: 1) it leaves millions of workers without any collective bargaining coverage, 2) it is unresponsive to the changing structure of the labor market, characterized by subcontracting labor and globalization, and 3) it incentivizes conflict in the workplace by creating a competitive disadvantage for employers.

Analysis and Key Findings

Across the OECD, countries with enterprise based bargaining systems have uniformly lower bargaining coverage rates than countries with broad-based bargaining systems (where bargaining happens at the sectoral, regional, or national level). In 2017, the United States had the second lowest coverage rate among OECD countries, at 11% of all workers (Figure 1).

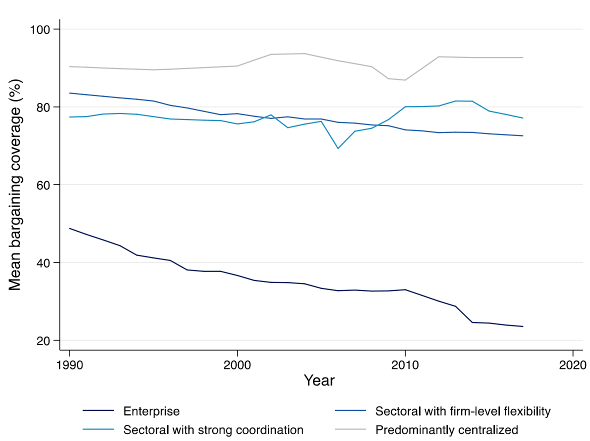
Figure 1: Collective bargaining coverage by country, 2017



Source: Own calculations based on data from the Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS) database

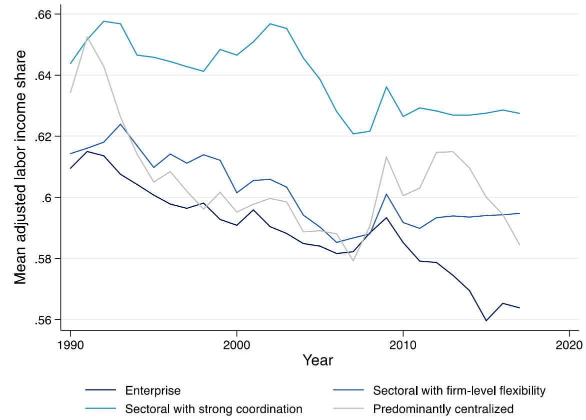
Since the 1980s, collective bargaining coverage and labor income shares have decreased the most in countries with enterprise based bargaining systems. For our analysis, we classify countries' bargaining arrangement in each year according to one of four classifications: 1) enterprise bargaining, 2) predominantly sectoral bargaining with firm-level flexibility, 3) predominantly sectoral bargaining with strong coordination across bargaining units, and 4) predominantly centralized bargaining. Figure 2 shows that countries with enterprise bargaining systems have experienced the largest decline in bargaining coverage, from an average of 50% of workers in 1980 to an average of 23% in 2017. Figure 3 shows that countries with enterprise bargaining systems have also experienced the greatest decline in labor income shares, from an average of 61% in 1980 to 56% in 2017. We also find a strong and significant correlation between a countries' collective bargaining coverage and a countries' labor income share.

Figure 2: Collective bargaining coverage by taxonomy, 1980-2017



Source: Own calculations based on ICTWSS data

Figure 3: Labor shares by bargaining taxonomy, 1980-2017



Source: Own calculations based on UN National Accounts and ICTWSS data

Our empirical results show that sectoral bargaining systems are associated with significantly higher labor income shares and real compensation growth per capita than enterprise bargaining systems. We exploit time variations in the classifications of bargaining systems within countries to estimate the effect of bargaining arrangements on labor market outcomes. We find that sectoral bargaining systems are associated with a 4 percentage point increase in the labor income share, and a 3.5 percentage point increase in the growth rate of real compensation per capita. We also find that sectoral bargaining systems are associated with a 2 percentage point increase in employment, a 1 percentage point decrease in unemployment, and significantly higher self-reported job quality.

Policy Recommendations

Based on our research findings, our long-term recommendation is to establish a sectoral bargaining regime on top of existing labor law, which would provide workers the power to negotiate for minimum wages and labor standards at the industry level. Our findings present empirical evidence that sectoral bargaining can vastly extend bargaining coverage to American workers, while increasing labor's share of income and raising median wages. In the short-term, policymakers can lay the groundwork for an effective sectoral bargaining regime by:

1) Extending legal bargaining rights to workers excluded from the NLRA. Sectoral bargaining should work as a complement to enterprise bargaining, which means coverage should be extended to workers not covered under the NLRA.

2) Strengthen the capacity of organized labor. Sectoral bargaining must be built on an already strong labor movement to ensure workers have fair representation and sufficient power in negotiations. We recommend passing legislation that extends added protections to workers who want to organize.

3) Experiment with federal tripartite wage commissions. Federal wage-boards that have representation from workers, employers, and the public can bolster wages in several low-wage sectors in the near term, while laying the groundwork for sectoral bargaining panels to emerge.