ALLEGHENY INSTITUTE FOR PUBLIC POLICY

UNIONISM AND ECONOMIC PERFORMANCE: PENNSYLVANIA AND PEER STATES

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Key Findings

- The level of "union density," defined as the percentage of total non-farm workers subject to union work rules, bears no positive relationship to economic well being as evidenced by job growth, growth in personal income, or changes in relative levels of poverty among the peer states.

- In fact, the evidence for certain of these economic well being indicators appears to demonstrate a negative relationship between the level of union membership and such factors as job growth and personal income growth.

- The percentage total growth in personal income between 1969 and 2000 tells an interesting story. The average growth in personal income among the four least unionized states in that period was 1,078%. That rate was 1.5 times the average growth in the four most highly unionized states during the same period.

- We suggest that the fiscal problems facing Pennsylvania and other highly unionized states are due, at least in part, to a structural lag in economic growth over the past three decades. For instance, had Pennsylvania experienced North Carolina's growth rate in personal income between 1969 and 2000, an additional $228 billion in personal income would have been generated in 2000, producing, in turn, an additional $6 billion in state revenues at current tax rates. What's more, greater economic growth rates pave the way for maintenance of essential government services while enabling *lower* tax rates.

- Our findings indicate that the same inverse relationship between unionization and income growth holds for the peer states metropolitan areas as well. West Virginia, Ohio and New York had the lowest income growth rates in their metropolitan areas, while North Carolina, Tennessee and Virginia's metro area growth rates ranked first, second and third respectively.

- Between 1983 and 2000 the top four states in non-farm job growth were the four least unionized states. The four most highly unionized states ranked 12th, 9th, 8th and 7th.

- Between 1969 and 1989, the states with the highest levels of union representation fared worst in terms of reducing poverty, while the least unionized states did the best. And, whether one measures success in fighting poverty by the absolute level of poverty, or by the actual reduction in poverty over the period under study, one finds that there is no support for the contention that union membership levels have a positive effect.

Background

> *You can improve your standard of living when you belong to a union because under a union contract you receive better benefits, enjoy better working conditions and earn better wages. Also, you will be treated with dignity, justice and respect on the job; there is a grievance system to rectify any situation.*

The paragraph above is taken from the web site of the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union. We often hear the claim repeated that union membership brings significant benefits, not just to the individual worker, who allegedly receives higher wages, better benefits, and "justice and respect in the workplace," but to communities and entire states.

This paper tests this proposition. The report examines comparative data for several states often cited as "competitors" with Pennsylvania or "peer states" because of the similarity of their underlying economies, or the fact that their contiguous or near-contiguous location to Pennsylvania makes them logical substitutes for businesses seeking to locate or expand operations. We found statistics regarding the level of unionization in the states, and then as well in the major metropolitan areas in those states.

Personal Income Growth and Union Density

The states most frequently cited in "peer studies" with Pennsylvania are the following: Illinois, Indiana, Kentucky, Maryland, New York, New Jersey, North Carolina, Ohio, Tennessee, Virginia and West Virginia. Thus, the sample for this study consists of these eleven states plus Pennsylvania.

Statistics regarding personal income growth in the "peer states" were obtained and analyzed. The results are interesting. It can be broadly concluded that states with the highest rate of unionization generally fared poorly in terms of income growth when compared to their "peers" with lower levels of unionization.

Information was obtained showing relative "union density" for the peer states in 1964, 1984 and 2000. These data provide rather clear support for the contention that unionization rates among the peer states have been consistent over the period under study.

And, we reviewed data regarding job creation among the "peer states."

Peer State Review

Looking at North Carolina, for example, we find that the state has the absolute lowest percentage of workers covered by collective bargaining, 4.4% as of 2000. Meanwhile , New York has the highest percentage of its workers subject to union work rules, at 26.5% with an astounding 72.3% of public sector employees subject to union labor agreements.

North Carolina enjoyed the highest average annual percentage change in real per capita personal income for the period under study. New York ranked 11th out of the 12 peer states in that regard.

Per Capita Annual growth Rate 1970 - 2000

Peer Rank		Rate	National Rank	Peer Rank		Rate	National Rank
1	North Carolina	2.59	5				
2	Tennessee	2.56	8				
3	Virginia	2.55	9	8	Pennsylvania	2.15	28
4	New Jersey	2.35	18	9	New York	2.06	35
5	Kentucky	2.31	19	10	Illinois	1.97	40
6	Maryland	2.24	22	11	Indiana	1.96	41
7	West Virginia	2.16	25	12	Ohio	1.88	44

Perhaps one cannot state conclusively that personal income growth rates and per capita income growth rates among the peer states, and including their metropolitan areas are inversely related to the level of unionization in the states and their metropolitan areas. However, one can state conclusively that a high rate of unionization does not contribute to superior growth in either personal income or per capita income over the sustained period reviewed. The table below shows the Growth in Total Personal Income between 1969 and 2000 among the peer states. It also shows their relative rank in 1969 and again as of 2000:

State Personal Income ($000)	Rank 1969	1969	1979	1989	2000	Rank 2000
Illinois	2	48,061,591	117,000,431	224,024,335	401,030,064	2
Indiana	6	19,098,537	48,255,514	92,629,883	165,814,901	9
Kentucky	11	9,502,825	27,838,355	53,695,507	98,124,599	11
Maryland	8	16,281,123	42,380,883	104,005,033	180,352,919	8
New Jersey	5	32,106,182	77,187,623	182,297,652	317,345,514	5
New York	1	83,346,312	175,040,414	395,022,081	664,927,390	1
North Carolina	9	15,351,146	43,288,100	108,584,976	218,536,857	7
Ohio	4	41,555,361	99,899,022	193,034,664	320,377,074	4
Pennsylvania	3	44,796,309	109,533,175	222,195,142	364,953,334	3
Tennessee	10	11,563,378	34,534,596	77,104,679	150,344,413	10
Virginia	7	16,418,251	47,893,975	121,057,682	222,497,698	6
West Virginia	12	4,885,723	14,411,351	24,440,400	39,505,668	12

An Inverse Relationship Between Level of Unionization and Income Growth

The information in the following tables appears to demonstrate an inverse relationship between the growth in personal income and the level of unionization of workers in the peer states. New York, for example, ranked first in unionization with 26.5% of workers subject to union agreements in 2000. On the other hand, it ranked 11th of the 12 states in terms of the rate of growth in personal income.

State	Total $ Growth 1969-2000	Rank	Total %Growth 1969-2000	Rank
Illinois	$352,968,473	2	734%	8
Indiana	147,716,364	9	768%	7
Kentucky	88,621,774	11	833%	5
Maryland	164,071,796	8	908%	4
New Jersey	285,239,332	4	788%	6
New York	581,581,078	1	598%	11
North Carolina	203,185,711	7	1,224%	1
Ohio	278,821,713	5	571%	12
Pennsylvania	320,157,025	3	615%	9
Tennessee	138,781,035	10	1,100%	3
Virginia	206,079,447	6	1,155%	2
West Virginia	34,619,945	12	609%	10

States Ranked By Unionization (% of workers, 2000)

		Pct	Income % Growth Rank	Quartile Average % Growth Rank
1	New York	26.5	11	
2	New Jersey	21.8	6	
3	Illinois	19.5	8	8.33
4	Ohio	18.8	12	
5	Pennsylvania	18.0	9	
6	Indiana	17.1	7	9.33
7	Maryland	16.7	4	
8	West Virginia	15.5	10	
9	Kentucky	13.6	5	6.33
10	Tennessee	10.0	3	
11	Virginia	07.1	2	
12	North Carolina	04.4	1	2.0

To provide some historical perspective on the relative unionization of the peer states, it is useful to view the next table. It is constructed using data that shows the relative "union density" of the respective states. Union density is calculated by dividing the number of union members in a particular state by the total nonagricultural employment for each year in the study.

This is again supportive of the contention that low unionization and high unionization have been consistent factors in the peer states under review, and that the states that ranked consistently low in unionization have enjoyed superior economic growth. For instance, Pennsylvania ranked 3rd highest in terms of union density in 1964 and again in 1984, while New York went from 7th highest in 1964 to first place in 1984 and 2000. On the other hand, Kentucky, Tennessee, Virginia and North Carolina have nearly consistently ranked 9th, 10th, 11th and 12th --the lowest four positions in terms of unionization since 1964. And, as is shown immediately below the table, the latter four states have achieved remarkably greater growth rates in personal income than has Pennsylvania.

Estimates of Union Density By State, Source: Barry T. Hirsch, David A. MacPherson, Wayne G. Vroman, Monthly Labor Review, July 2001

	1964	Rank	1984	Rank	2000	Rank	Overall Rank
Illinois	35.6	6	22.6	7	18.7	3	4
Indiana	40.9	1	25.4	2	15.7	6	3
Kentucky	25.0	8	17.3	9	12.2	9	9
Maryland	24.7	9	18.4	8	14.7	7	8
New Jersey	39.4	2	25.0	3	20.9	2	1
New York	35.5	7	32.3	1	25.7	1	2
North Carolina	8.4	12	7.5	12	3.7	12	12
Ohio	37.6	4	23.9	6	17.5	4	6
Pennsylvania	37.7	3	25.0	3	17.0	5	5
Tennessee	22.1	10	13.5	10	8.9	10	10
Virginia	15.8	11	10.8	11	5.7	11	11
West Virginia	36.5	5	24.1	5	14.4	8	7

Of course, as we have pointed out previously, there is the chicken or egg issue of whether growth generates, or is it generated by superior public policies. We have shown that states with right to work have demonstrated job growth and economic well being over any period studied that is superior to those states where unionization is ascendant.

Despite the evidence, union leaders continue to claim that union members benefit from higher wages and superior benefits to those of their non-union peers in various industry groups. That may indeed be true if one compares, say, the wages of unionized carpenters versus non-unionized carpenters in general, or in specific locations. However, as to claiming that unionization benefits entire communities, or regions or states, empirical evidence is not supportive.

Metropolitan Growth Rates

We also sought to compare the income growth rates of the metropolitan areas within the peer states, and then relate, as well, the level of unionization in the Metropolitan areas of the peer states. The rankings follow:

Unionization Rates of Peer States Metropolitan Areas (average pct)		Peer State Metro Area Rank in Personal Income Growth (average)	Quartile Average Income Growth Rank
New York	26.8	10	
New Jersey	24.2	5	
Ohio	19.3	11	8.67
Illinois	19.2	9	
Indiana	17.1	7	
West Virginia	16.5	12	9.33
Pennsylvania	16.3	8	
Maryland	15.3	6	
Kentucky	13.7	4	6.0
Tennessee	10.7	2	
Virginia	9.5	3	
North Carolina	4.0	1	2.0

Metropolitan Areas as 'Communities'

Examining the income growth of metropolitan areas against their level of unionization allows us to test the proposition that unionization leads to a higher standard of living in those communities with the highest rate of union membership in the workforce. Unionization rates in major metropolitan areas do not differ markedly from the overall state unionization rate in most instances. But what the information clearly does is debunk the idea that unionization is related to superior performance in terms of personal income growth in either the peer states or their major metropolitan areas. Instead, we find that it is possible to generalize to the contrary: Those states with lower rates of unionization have enjoyed markedly superior growth in personal income during the period 1969 through 2000. What's more, whether one considers growth at the state level, or in major metropolitan areas, such as Pittsburgh, economic growth in jobs and in personal income is occurring at a faster rate in those areas where unionization is least. As we have already seen, when we compare growth rates in per capita income, the results are much the same.

Unionization and Economic Progress

There may remain some room for debate as to the best measure of economic progress. However, superior job creation performance--as we have previously demonstrated has occurred in states with low rates of unionization versus states with high unionization--coupled with superior performance in personal income and per capita income growth over the last three decades, is a harsh indictment of the concept that unionization provides an improved standard of living.

As the following table shows, superior job growth rates correspond quite directly to a low rank in union density. As the job growth rate declines among the 12 states in the table, so does the corresponding unionization ranking rise:

Peer States Ranked By Job Growth Between 1983 - 2000(pct)		**Union Density Ranking**	**Quartile Average**
Kentucky	56.4	9	
North Carolina	55.5	12	
Virginia	55.4	11	10.33
Tennessee	53.1	10	
Maryland	40.2	7	
Indiana	39.9	6	7.67
Ohio	32.1	4	
Illinois	28.6	3	
New Jersey	23.7	2	3.0
West Virginia	23.6	8	
Pennsylvania	22.9	5	
New York	14.6	1	4.67

Apparent Strong Inverse Relationship Between Unionization And New Job Creation

No matter what the period, it seems, states most highly unionized fare the worst in terms of new job creation. Such a relationship is, perhaps, easily comprehendible. If one recognizes that the primary purpose of labor organization is to ration the supply of labor, thereby raising the price of labor along any given demand curve for that commodity. Most alarming, perhaps, is that the inverse relationship between unionization and job creation grew stronger during the 1990s as shown in the table below:

Peer States Ranked By Job Growth 1991 - 2000		Union Density Ranking	Quartile Average
North Carolina	28.7%	12	
Tennessee	25.2%	10	
Virginia	25.2%	11	11
Kentucky	23.0%	9	
Indiana	19.4%	6	
Maryland	18.9%	7	7.33
Ohio	17.4%	4	
West Virginia	16.9%	8	
New Jersey	16.0%	2	4.67
Illinois	15.5%	3	
Pennsylvania	13.0%	5	
New York	11.6%	1	3.0

One fact discovered in our research is that states such as New York, Pennsylvania and New Jersey have historically been highly unionized; whereas, states like Tennessee, Kentucky and North Carolina never reached comparable levels of unionization. And, in those states where unionization is "entrenched," organized labor is often able to wield political power, holding the economy captive to the interests of the status quo. Such concepts as "job retention," "living wage" and "project labor agreements" are designed to ensure that first and foremost, work is limited to projects and carried out under conditions that conform to "union standards." And in the process of undermining market forces, conditions arise that actually discourage income growth and job creation.

It is time for political leaders at both the state and local levels to reassess their staunch and unwavering support of everything pro-union, and instead consider passing the one type of legislation that is almost certain to boost economic activity in Pennsylvania--right to work. Over the last few decades an incessant negative message regarding business and economic opportunity in Pennsylvania has been sent. And the message has been clear, despite one of the strongest "pro business" efforts of any state in the country. Ideas like "Team Pennsylvania" and a plethora of other economic development initiatives have merely substituted for the essential changes required to move Pennsylvania toward the path that sees job creation and income growth occurring at much higher levels in other states.

But What About Poverty?

As a final test, we looked at poverty rates among the peer states, and compared the "progress" each has made in the "war on poverty" since the late 1960s. After all, it is the claim of those on the left that capitalism, hard work, economic freedom and individual effort are collectively powerless to reduce poverty:

"This is the utopian myth that drives capitalism: if you work hard enough, you will be provided for. It implies that the cheap and easy way to alleviate poverty is through growing the economy, creating new jobs, and lowering unemployment. This is, of course, the preferred method of conservatives, since it requires no new taxes and no redistribution of wealth; no giving 'our' money to 'them'. But the dirty little secret is that, in fact, capitalism does not provide for those at the bottom. Even in times of prosperity, and low unemployment, the wage gains of those at the bottom often do not bring them out of poverty. People making $6 an hour still live in poverty. The rising tide does not lift all boats.

Without government intervention (such as a higher minimum wage, a living wage, health care, or redistributive programs) low-skill jobs will continue to pay poorly, and the people at the bottom of our wage hierarchy will continue to live in poverty. Though the Right argues that minimum wage increases lead to unemployment, several studies have shown that there is no such correlation. Unionization can, of course, also increase wages at all levels of the wage scale, including the bottom. Organized labor's new efforts to unionize low-skill workers will do much, in fact, to bring up the lowest wages. Without these major changes, the fundamental contradiction of the "New Economy" will never be resolved; economic growth does not reduce poverty or raise the standard of living for working citizens."

--- Michael Rabinowitz, writing for The Activist

Even the Federal Reserve Bank of San Francisco seems to have bought into the concept that "wage inequality" and perhaps declining unionization are concerns: "*Recent analysis suggests that institutional changes may have contributed to growing wage inequality in the U.S. The key factors are the declining real minimum wage and declining union membership*." -- Robert Valletta, Senior Economist, in an Economic Letter from 1997.

Some have made it quite clear that they believe declining unionism is a factor in increased wage disparity and a direct cause of "growing" poverty. More unionism should, therefore, produce better results in the efforts to reduce poverty levels, and it would follow that those states with the highest absolute levels of unionism should have had the best results in reducing poverty rates between 1969 and 2001. Did they? Apparently they did not:

Union Density Rank	**Ranked By 1969-2001 Change In Poverty**	
10	Tennessee	- 8.3 pts
12	North Carolina	- 8.0 pts
9	Kentucky	- 7.1 pts
11	Virginia	- 5.9 pts
8	West Virginia	- 4.3 pts
7	Maryland	- 1.6 pts
6	Indiana	- 0.2 pts
5	(tie) New Jersey	+ 0.4 pts
	Pennsylvania	
3	Illinois	+ 0.5 pts
4	Ohio	+ 0.6 pts
1	New York	+ 3.5 pts

The table above shows a clear inverse relationship between the percentage unionization and the reduction in poverty among the peer group of states. This finding is not a surprise. Since the lower union states have faster job and income growth, there are far more opportunities to provide employment to lift people out of poverty. The fact that New York's poverty rate actually rose is a clear indictment of the political environment that subordinates economic progress to the politics of unionism and redistribution.

It seems safe to say that unionism is not a good tool if public policy makers are truly interested in achieving economic progress for their citizens.

Some People Are Getting It--Unfortunately They're Canadians:

According to Statistics Canada, there were just 1,800 jobs created in Saskatchewan over the past year – the second-lowest number of any province in the country. Saskatchewan Party MLA Wayne Elhard said the dismal job numbers are a direct result of high taxes and the anti-business climate created by the NDP.

"The NDP had a chance to address this problem in the spring session of the Legislature and what did they do? They raised the PST and brought in forced unionization legislation," Elhard said. "The NDP is sending a clear signal that they don't want new business and jobs in Saskatchewan. It's absolutely disgraceful." Elhard noted that over the past year, there were 12,600 new jobs created in Manitoba – a province roughly the same size as Saskatchewan.

"That's seven new jobs in Manitoba for every one new job in Saskatchewan – and they don't have the oil resources that we do," Elhard said. "This is a pretty clear signal that NDP economic policies are failing. "Saskatchewan has so much potential. We have natural resources. We have an excellent workforce. We have bright, capable people. But we also have an NDP government with an anti-business attitude that is scaring all the new jobs and investment and opportunities to other provinces.

"Saskatchewan is a great province with a bad government. It's time for a change."

--- A Saskatchewan Party Press Release, August 2000

Conclusion

Of course economic growth reduces poverty and raises the standard of living for working citizens. The problem is that as progress is made, and the tide indeed rises, the advocates of redistribution continually raise the bar, defining poverty upward. Presently "living in poverty" is officially (federal government definition) about $9,000 in annual income for a single person, and approaching $13,000 for a family of two. As recently as 1980, the individual poverty income level was $4,190 and poverty for a family of two was $5,363. The poverty threshold has gone up by slightly more than 115% since 1980. No wonder "the bottom of our wage hierarchy" continues to live in "poverty." None-the-less, it must be the policy of government--public policy--to encourage, rather than discourage economic growth and the resultant increases in wealth, personal income and our standard of living.

The information we have provided in this report demonstrates that, contrary to the assertions of organized labor leadership there is no positive relationship between the level of unionization of a state or region and the economic growth in terms of jobs, personal income or greater success in reducing the percentage of citizens living in poverty. Instead, the evidence presented seems to indicate the opposite. The greater the level of unionization, the worse the long term performance of states and regions in personal income growth and job growth and a slightly worse record in reducing poverty as well.

While we have shown fairly conclusively that total personal income and per capita personal income growth rates and the rate of growth in jobs are consistently higher in those peer states with the lowest rates of unionization, we expect that this "news" will remain hard to swallow for some. Campaigns to raise the minimum wage, to enact "living wage" legislation, and to strengthen, rather than weaken the grasp of unions on the labor market in Pennsylvania and the greater Pittsburgh region will probably continue. This is as much a philosophical battle over which is the correct approach--collective or free market--to be taken in things both social and economic. And the evidence we present debunking the contention that more unionization helps to reduce poverty will be equally unpersuasive on those dedicated to redistributive policies and socialism.

Continuation of policies designed to preserve, much less strengthen the power of organized labor will worsen, not improve the economic prospects of the state and the region. We are sympathetic to the sentiments expressed in the Saskatchewan Party press release above. It is, to a great extent, the climate created by the political leadership of a region that is most effective in encouraging, or discouraging economic growth.

If economic growth--growth in personal income, jobs, a vibrant private sector, and wealth creation--is the goal of Pennsylvania and the region, then the course is clear. Increased individual and economic freedom are in order, rather than more regulation and tighter rules and strictures on the conduct of business. Enactment of right to work legislation and the end of any semblance of a partnership between governments--state and local--and organized labor must be the order of the day.

Appendix of Data Sources

Data on Personal Income Growth comes from the following sources:

Bureau of Economic Analysis, at: http://www.bea.gov/bea/regional/reis/
U.S. Bureau of the Census, at: http://www.census.gov
U.S. Bureau of the Census, State and Metropolitan Area Data Book

Data on Union Membership comes from the following sources:

U.S. Bureau of the Census, State and Metropolitan Area Data Book
The Labor Research Association at http://www.laborresearch.org/
Union Membership and Coverage Database from the Current Population Survey, Barry Hirsch, Trinity University, David MacPherson, Florida State University at: http://www.unionstats.com
State-Level Estimates of Union Density, 1964 to Present, Hirsch, MacPherson and Vroman, at: http://www.pepperinstitute.org/workingpapers/WorkingPapers_files/00-57.pdf and: http://www.bls.gov/opub/mlr/2001/07/ressum2.pdf
U.S Bureau of the Census, *Poverty in the United States:1998, Series P-60, No. 207, and 2000*, Series P-60, No. 214

Data on Job Growth comes from the following sources:

U.S. Department of Labor, Bureau of Labor Statistics, Historical Data from "B" Tables, Employees on Non-farm Payrolls, at: http://data.bls.gov/labjava/outside.jsp?survey=sa