Monthly Labor Review
January 2019

Can unions significantly reduce wage inequality? Depends on whether you're in the public or private sector

Maureen Soyars Hicks

As income inequality has increased in many developed countries, economists have been confronted with a question: what is causing the wide gap in wages between the rich and everyone else? One common line of inquiry has been whether there is any link between the decline in union membership and the rise in income inequality. According to "Unions and wage inequality: the roles of gender, skill, and public sector employment" (*National Bureau of Economic Research*, Working Paper 25313, November 2018), there is not a simple answer to such a complex issue. Economists David Card, Thomas Lemieux, and W. Craig Riddell find that "there are striking differences between the private and public sectors in the effects of unionization on male and female wage inequality"—differences that have become more pronounced over time as private and public sector unionization have diverged.

Using the U.S. Current Population Survey and the Canadian Labour Force Survey together with supplements to these surveys, the authors observed that in the United States, the rate of unionization has fallen in the private sector (to 7 percent in 2017), while the rate in the public sector has increased (to 39 percent in 2017). These trends were essentially the same in Canada: private sector unionization has been dropping for decades and was just 16.4 percent in 2017, while public sector unionization has risen and was 75.5 percent in 2017. The authors note that with the steady decline in private sector unionization and rising influence in the public sector, half of all unionized workers are now in the public sector.

This shift has also led to profound changes in the composition of the unionized workforce. Whereas union jobs were historically concentrated among low-skilled men in private sector industries, recent years have shown a noteworthy increase in the share of women among unionized workers. Currently, approximately half of union employees in the United States and Canada are women. For example, in the United States, the percentage of males in private sector labor unions fell from 31 percent in 1973 to 9 percent in 2015, while it rose in the public sector from 29 percent to 43 percent over the same period. Similarly, the percentage of women in private sector unions declined from 13 percent in 1973 to 6 percent in 2015, while the rate in the public sector rose from 18 percent to 41 percent.

So what effect have these changes in unionization had on wage inequality? The authors note that, on the whole, unions reduce economy-wide wage inequality by less than 10 percent. However, union impacts on wage inequality in the public and private sectors differ quite a lot. In the private sector, distributions of union and nonunion wages are very similar. On average, private sector unions reduce male inequality by 1.5 percent in the United States and 4.8 percent in Canada, and reduce female inequality by 0.6 percent in United States and 2.5 percent in Canada. In

the public sector, however, unions reduce wage inequality by 16.2 percent for U.S. males and by 48.5 percent for Canadian males. And unions reduce wage inequality by 10.7 percent for U.S. women and by a full 50 percent for Canadian women.

This study contributes an interesting perspective to the academic literature surrounding wage inequality in the United States and Canada.