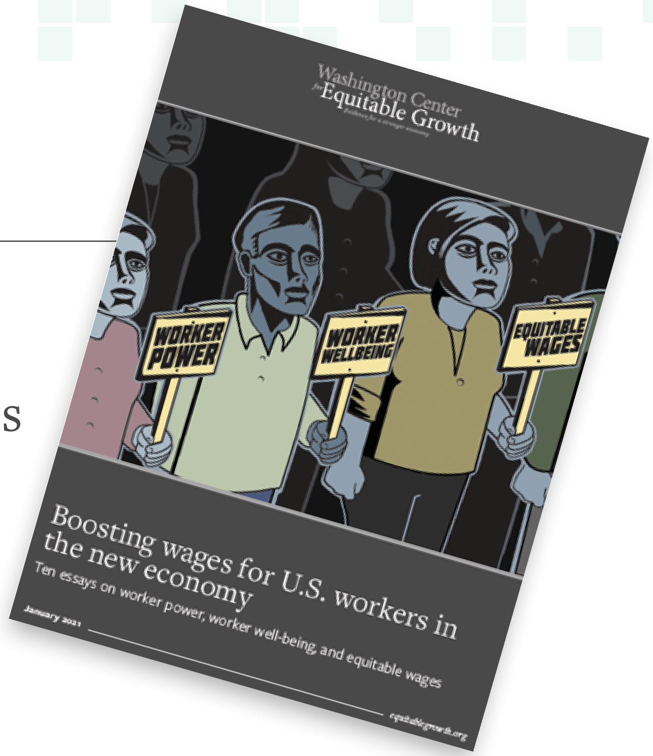
Washington Center for Equitable Growth
Evidence for a stronger economy

Collective bargaining as a path to more equitable wage growth in the United States



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Overview

The distribution of income among U.S. employees is increasingly unequal even though, on average, wages have held up well with productivity growth. This is because the median (midpoint) wage in the United States is not keeping pace with the mean (average) wage—a trend increasingly evident over the past five decades.

Moreover, the United States performs worse in this regard than many of its international peers. The annual compensation of chief executive officers in the United States, for example, rose by more than 1,000 percent between 1978 and 2017, compared to 11 percent for private-sector workers, after accounting for inflation.[1]

One reason for this divergence might be the different roles that formal institutions play in wage setting in different countries. Evidence from other counties and the experiences of U.S. states with wage boards—institutions that set wage "floors" for workers across an industry or occupation—suggests that collective bargaining at the sector or regional level may be the most effective focus for policymakers in the United States to tackle wage inequality.

This factsheet outlines some of the relevant research on wages and collective bargaining, based on the essay "Collective bargaining as a path to more equitable wage growth in the United States," by the economist Benjamin Schoefer at the at the University of California, Berkeley. The essay is part of *Boosting Wages for U.S. Workers in the New Economy*, a compilation of 10 essays from leading economic thinkers who explore alternative policies for boosting wages and living standards, rooted in different structures that contribute to stagnant and unequal wages.

The decoupling of wage growth and productivity growth: Mean vs. median wages

Growth in mean wages remains tightly linked with productivity in the United States and most advanced economies represented in the Organisation for Economic Co-operation and Development. In contrast, growth in median (midpoint) wages is increasingly decoupled from productivity growth, as well as mean wage growth. This divergence between mean and median wage growth reflects greater wage inequality.

While the U.S. economy is not the only one dealing with wage inequality, the United States experienced a more dramatic decoupling of median wages from mean wages and productivity than most OECD countries over the past five decades. Germany and France also experienced the decoupling of wages and productivity growth, although to a far lesser extent. Furthermore, their patterns of wage growth and inequality are different than those of the United States, and they experienced different evolutions of wage-setting institutions. The fact that some OECD nations display less wage inequality than others helps provide U.S. policymakers some points of comparison for potential policy remedies.

The role of collective bargaining in equitable wage growth

It remains an open question which factors explain the differences in the gap between the growth in mean wages and median wages across countries, and specifically which policy factors may have been mediating or causal factors. Still, formal institutional factors in wage setting in the research literature demonstrates a plausible key explanation of the heterogeneity of the evolution of this median-mean wage gap.

One piece of evidence is the dramatic decoupling in Germany, which arguably reflects the contemporaneous decline in sectoral bargaining toward an environment with more decentralized wage setting.[2] In Germany, firms increasingly opted out of or did not opt into collective bargaining agreements. This argument is consistent with the increased dispersion in the wages that different firms pay to similar employees in Germany, which has accounted for a large share of the increase in pay inequality.[3]

In contrast is the French experience, where median wages held up well, with average wages and productivity trends more tightly linked, arguably due to policy choices that maintained sectoral collective bargaining.[4] Similarly, a recent OECD report substantiates these international insights, documenting that more centralized wage setting is associated with lower wage dispersion, and also documenting an association with the link between wage growth and productivity growth.[5]

Taking a broader view is Arindrajit Dube, a University of Massachusetts Amherst economist and member of Equitable Growth's Research Advisory Board. He reviews the Australian context, where collective bargaining covers around a third of the workforce. For around a quarter of the Australian workforce that is otherwise not covered by collective bargaining, wage floors are still set predominantly by industry, skill, and experience group, with some set by occupation. As Dube's research shows, Australian mean and median wages grew strikingly similarly.[6]

Potential policy routes for more equitable wage growth in the United States

The decline of unionization in the United States means the continued decentralization of wage setting.[7] This trend is accompanied by an increase in between-firm wage inequality.[8] These two factors broadly mirror the trends in countries where the decentralization of wage setting is believed to have played a crucial role in the growth of wage inequality, such as in Germany.

In addition, though U.S. industrial relations are characterized by firm-level unionization,[9] there is little empirical evidence for any firm-specific form of worker organization to measurably raise firm-level wages, reduce wage inequality, or raise the share of profits going to workers at the firm level.[10]

Rather than firm-level bargaining, then, pursuing more equitable wage growth through above-the-firm-level collective bargaining—such as at the sector or regional level—may be the most effective focus for policymakers in the United States.

Unlike in many OECD countries, the U.S. labor relations system lacks a formal mechanism for sectoral collective bargaining or to mandate the extension of existing collective bargaining agreements to an entire labor market. The main tool for wage-setting regulations are federal and local minimum wages, which only affect, at most, the bottom fifth of wage earners.

In an intriguing essay, U-Mass Amherst's Dube sketches the economics of a wage-setting institution for the United States resembling the Australian set up of wage "awards" discussed above.[11] Dube's proposal would extend granular wage floors by industry, skill, and experience level to workers otherwise not covered by collective bargaining agreements.

In a 2020 essay for Equitable Growth, Dube further details why "wage boards" are a U.S. institution that may mimic these functions, with five states—Arizona, Colorado, California, New Jersey, and New York—already featuring the legislative basis for such occupation/industry-specific wage floors, though with little use so far.[12]

Even this intervention would leave a significant gap between productivity and mean and median wages, albeit much larger than the boost to wages that would result from increasing the labor share of Gross Domestic Product, as described above. Ultimately, the growing wage inequality experienced by workers in the United States leading to ever-growing income inequality cannot be easily remedied without policy experiments in the ways that other nations have tackled this problem. The evidence from the U.S. states with some form of wage boards on the books might be one place for the federal policy debate to start.

Read the full essay

"Collective bargaining as a path to more equitable wage growth in the United States," by **Benjamin Schoefer**

This essay is part of Boosting Wages for U.S. Workers in the New Economy*, a compilation of 10 essays from leading economic thinkers who explore alternative policies for boosting wages and living standards, rooted in different structures that contribute to stagnant and unequal wages.*

Endnotes

1 David H. Autor, Alan Manning, and Christopher L. Smith, "The Contribution of the Minimum Wage to US Wage Inequality over Three Decades: A Reassessment," *American Economic Journal: Applied Economics* 8 (1) (2016): 58–99, available at https://economics.mit.edu/files/3279.

2 For a recent study of wage compression guiding firm-level wages, see Emmanuel Saez, Benjamin Schoefer, and David Seim, "Payroll taxes, firm behavior, and rent sharing: Evidence from a young workers' tax cut in Sweden," *American Economic Review* 109 (5) (2019): 1717–63.

3 David Card, Jörg Heining, and Patrick Kline, "Workplace heterogeneity and the rise of West German wage inequality," *The Quarterly Journal of Economics* 128 (3) (2013): 967–1015.

4 Alice Kügler, Uta Schönberg, and Ragnhild Schreiner, "Productivity growth, wage growth and unions" (Frankfurt: European Central Bank, 2018), pp. 215–247.

5 Organisation for Economic Co-operation and Development, *Negotiating Our Way Up: Collective Bargaining in a Changing World of Work* (Paris: OECD Publishing, 2019).

6 Arindrajit Dube, "Using Wage Boards to Raise Pay," *Economics for Inclusive Prosperity* 4 (2019). For an empirical study of the Australian awards system, see James Bishop, "The Effect of Minimum Wage Increases on Wages, Hours Worked and Job Loss," Research Discussion Paper RDP 2018-0 (Reserve Bank of Australia, 2018).

7 Henry Farber and others, "Unions and inequality over the twentieth century: New evidence from survey data." Working Paper (National Bureau of Economic Research, 2018).

8 Jae Song and others, "Firming up inequality," *The Quarterly Journal of Economics* 134 (1) (2019): 1–50.

9 John DiNardo and David S. Lee, "Economic impacts of new unionization on private sector employers: 1984–2001," *The Quarterly Journal of Economics* 119 (4) (2004): 1383–1441.

10 For example, see Simon Jäger and others, "Wages and the Value of Nonemployment," *The Quarterly Journal of Economics* 135 (4) (2020): 1905–1963; Simon Jäger, Benjamin Schoefer, and Jörg Heining, "Labor in the Boardroom," *The Quarterly Journal of Economics* 136 (2) (2021): 669–725; Jarkko Harju, Simon Jäger, and Benjamin Schoefer, "Voice at Work." Working paper (2021).

11 Dube, "Using Wage Boards to Raise Pay."

12 Arindrajit Dube, "Rebuilding U.S. labor market wage standards" (Washington: Washington Center for Equitable Growth, 2020). For a thorough review of the legal aspects of this potential institution, see Kate Andrias, "The New Labor Law," *The Yale Law Journal* 126 (1) (2016): 76. For a more policy-focused discussion, see David Madland, "Wage Boards for American Workers: Industry-Level Collective Bargaining for All Workers" (Washington: Center for American Progress, 2018).

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