

MARCH 2017 | NUMBER 71

## The Effects of Public Unions on Compensation

Evidence from Wisconsin

By Andrew Litten, University of Michigan

**M**y research seeks to identify the compensation premium associated with public-sector unions. In 2011 Wisconsin passed a landmark law (Act 10) that significantly lowered the bargaining power of public-sector unions in the state. I exploit timing differences, based on contract renewal dates, that caused districts to be first exposed to the new regulations in different years. I exploit these timing differences to estimate the causal effect that limiting public-union power had on teacher compensation.

The size or even existence of the union wage premium is an empirical question. The canonical model of rent-seeking suggests that labor unions organize to use market power to shift management choices toward member preferences for higher worker pay. There remains, however, several reasons why unions might fail to increase wages. One possibility is that unions care more about working conditions than wages. For teachers' unions, they might act to offset regulatory capture from administrators or be more motivated by student performance. In general, the broad "Voice" model can describe unions who simply have different information than management.

The union wage premium is still an open empirical question. A number of well-identified, quasi-experimental studies have suggested that unions have little impact on wages. Alternatively, a broad survey of 75 studies concludes

that public-sector union wage gap is 8–12 percent. Given this range of prior estimates, it is important to consider how the union compensation premium may be sensitive to institutional context.

This question has particular importance in the public sector, which is more heavily unionized and more active in terms of policy than the private sector. Private-sector unionization has been falling and public-sector unionization has been growing within the United States since the late 50s. As of 2016 unions represent 35 percent of workers in the public sector, relative to just 6.7 percent of workers in the private sector. In addition, while private-sector unions face a single national regulatory system, governed by the National Labor Review Board, public sector unions are governed at the state level. Taxpayers and government watchdogs have had an interest in more closely regulating public unions in pursuit of potential savings for some time, and state and local budget crises following the Great Recession have only served to increase this interest.

While Wisconsin is one of the most dramatic examples of a renewed regulatory focus on public-sector unions, it is part of an ongoing trend rather than a one-off event. One example of this is the charter school movement, which is partially motivated by the ability of charter schools to make hiring and compensation decisions unconstrained

by teachers' unions. Other examples include New Mexico, which had its teachers' bargaining rights lapse and subsequently restored between 1999 and 2003. Indiana restricted state union bargaining by executive order in 2005 and passed a set of reforms similar to those in Wisconsin in 2012. Ohio signed a similar set of regulations into law, but the provisions were defeated by a last-minute ballot initiative before going into effect. Following Wisconsin's Act 10 and Ohio's referendum, other states passed more limited measures such as right-to-work legislation, which affected Indiana (2012), Michigan (2013), and West Virginia (2016).

Looking within public unions, teachers' unions are a useful sub-group to examine. First, teachers' are widely employed in every state and local region of the country. Second, teachers' are highly unionized. Current Population Survey data shows teachers are almost 50 percent unionized nationally as of 2015. Third, the political and financial structure of school districts make teachers a convenient group to study in order to understand the secondary effects of the wage premium. The single-purpose of school districts makes it transparent how this price change causes substitution across other goods.

I contribute to the literature's understanding of the public union compensation premium in a modern context, looking at policy changes that are not only distinct from those which have occurred historically, but more

similar to those most likely to be considered going forward. I address the key three challenges in the public union literature—measurement, endogeneity, and data quality—by using hand-collected contract data, plausibly exogenous contract termination dates, and rich administrative records on school operations and teacher-level pay.

I find that the reduction in union bargaining power in Wisconsin is associated with an 8 percent reduction in total compensation, and that this effect is primarily driven by reductions in pay at the upper end of the income distribution. Overall, my estimates are larger than prior causal studies of the effects of unions on teacher unions. This is in part because my data includes the value of fringe benefits. While compensation is important, both from the perspective of taxpayers and teachers, a great deal of additional work is needed to fully understand all aspects of Act 10. Ultimately a deeper understanding of how these payroll savings translated into either other inputs or student learning is necessary to both understand the program itself, and to understand the behavior of public-sector unions more broadly.

## NOTE:

This research brief is based on Andrew Litten, "The Effects of Public Unions on Compensation: Evidence from Wisconsin," December 2, 2016, [https://drive.google.com/file/d/0BwL-PvOgW\\_Ordzk5QXloZGM1d1k/view](https://drive.google.com/file/d/0BwL-PvOgW_Ordzk5QXloZGM1d1k/view).