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# BOOK REVIEW

## WHAT DO UNIONS DO?

By Richard B. Freeman and James L. Medoff

New York: Basic Books, 1984, \$22.95 Pp. ix, 246, index, hardcover.

Reviewed by *Teresa Ghilarducci*\*

Harvard economists Richard Freeman and James Medoff address one of the most contentious issues of the post-World War II era in their straightforwardly-titled book *What Do Unions Do?* The diversity of opinions on this question has motivated labor law amendments, employers' anti-union campaigns, "right-to-work" statutes, court injunctions, and various other policies affecting workers in the United States. Freeman and Medoff attempt to untangle the politics and emotions from the facts in order to formulate conclusions based on statistical analysis and economic theory. Their major conclusions are first, that unions make both management and workers more productive and second, that unions promote a more equal distribution of income.

Freeman and Medoff use a relatively new concept in economic theory, the "exit versus voice" response, to interpret their statistical results. The theory rests on the premise that economic agents — individuals in a market — can register displeasure by either of two means. First, they can exit a market — "vote with their feet." Second, they can use existing institutions to modify the market; they can use "voice" instead of exit. Freeman and Medoff conclude that union workers keep their jobs longer than nonunion workers. Instead of quitting when dissatisfied, union members are able to influence their working conditions via collective bargaining, grievance procedures, and strikes. In other words, union members have "voice," so they do not use "exit" to protest undesirable working conditions. The authors contend that longer job tenure makes union workers more productive. While their statistical findings, based on fourteen data sets and many interviews, do not contradict their theory, neither do their findings prove it.

Freeman and Medoff note that unions traditionally demand higher wages, more fringe benefits, and protection for workers who protest hazardous conditions. In addition, unions seek to substitute seniority and other formal rules governing promotion and layoff in place of arbitrary management decisions. These demands, Freeman and Medoff conclude, cause unions to effectively raise labor costs of union workers and to cause personnel practices to become more formalized. The authors reason that union impact on wages tends to encourage unionized employers to substitute capital for union labor (unionized employers are likely to automate—replace union workers with machines). In addition, the union's impact on management practices tends to make unionized employers more professional. Thus, Freeman and Medoff suggest, diminished employer prerogative and an increase in the capital/labor ratio tend to improve both management and worker productivity in the union sector. This enables unionized employers to pay higher wages.

The authors observe that unions usually concentrate on raising the wages of

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workers at the bottom of the pay scale. Their data also suggest that after a firm becomes unionized the spread between the highest and lowest wage in a firm narrows. They attribute this improvement in wage equality to union wage policies. Similarly, they conclude unions are responsible for the existence of narrower wage differentials between blue and white collar workers in unionized as compared to nonunionized firms. Furthermore, the authors indicate that workers similarly employed throughout unionized firms are more likely to be paid the same wage than workers holding the same job within nonunionized firms. Freeman and Medoff assert that this parity results from the unions' willingness to promote equal pay for equal work. The authors note that the full measure of union influence on wage equity may be underestimated because nonunion employers frequently adopt union wage policies just to discourage unionization. This impact, though real, would not be manifested within the authors' statistical sample.

Freeman and Medoff found unionized firms' profits are lower than those of similar, nonunionized firms. This observation and all their other evidence support one of their two major conclusions—union policies cause income to be more equally distributed among all workers and between workers and those who derive income from profit.

The chief strength of Freeman's and Medoff's book is that it provides a comprehensive summary of their own and other researchers' statistics on the differences in union and nonunion wages, profits, worker attitudes, fringe benefits, unemployment, and productivity rates between the union and nonunion sectors. The book's major weakness is the authors' attempts to interpret this data and make predictions based upon their interpretations. This particular problem stems from their reliance on the exit-voice theory.

Economists commonly offer one all-encompassing theory to disprove other all-encompassing theories. Freeman and Medoff contrast their exit-voice theory with the mainstream "union-as-monopoly" view, first proposed by Milton Friedman.<sup>1</sup> Freeman and Medoff justify union members' higher wages by citing the higher productivity of both unionized workers and their management. In contrast, Friedman's theory concludes that unions reduce production in the union sector and crowd the non-unionized sector with unemployed ex-union members, thus driving wages down. Thus, Friedman explains the higher wages for remaining union workers as having been achieved at the expense of nonunion workers. Both views recognize unions as the driving force behind all the significant differences between union jobs and nonunion jobs. Nevertheless, as with other economic theories based on "golden rules" both theories tend to oversimplify the labor market.

Friedman ignores union effects on productivity and profits. In his world the unions obtain high wages by creating unemployment in the nonunion sector. On the other hand, Freeman and Medoff assume there are two kinds of workers: those who can protest adverse working conditions with voice and those who can protest with exit. Accordingly, they conclude, the major function of unions is to provide voice. Freeman and Medoff analyze their data as if the labor market was always in a state of full employment.

In the real world some workers enjoy both voice and exit power, while others have neither. Workers with voice and exit power are likely to be highly paid, unionized, male, white, college educated, and likely to have little chance of ever being unemployed. In contrast, females and blacks are likely to be nonunion and face high unemployment rates. They are extremely reluctant to leave even a bad

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1. See Friedman, *Some Comments of the Economic Significance of Unions for Public Policy*, in *THE IMPACT OF THE UNION* (Wright, ed. 1956)

job. This group has neither voice nor exit power. Thus, union status, unemployment, and workers' demographics may explain differences among jobs. Ignoring any of these factors in a labor market theory will inevitably lead to distorted policy recommendations.

In the policy section of their book, Freeman and Medoff urge legislators to support unions because unions increase productivity and equalize income distribution. Furthermore, they argue that because union workers have relatively better health insurance, better fringe benefits, and greater protection from arbitrary personnel practices and health and safety hazards, unionization should be encouraged. However, can even the strongest labor union movement offset the loss in exit power caused by high unemployment? Moreover, when some people must remain in nonunion jobs and must continue to face high unemployment, should we rely on unions alone to equalize living standards and induce higher productivity? Despite the authors' optimistic projections, a government which places a high priority on good working conditions for all workers should not rely solely on unionization. Instead, statutorily mandated improved minimum fair labor standards would help more workers directly.

In addition to ignoring unemployment and divisions by race and sex in the labor market, Freeman and Medoff ignore the legal origins of unions. What would Freeman and Medoff recommend if they found the union sector had lower productivity and made the distribution of income worse? Would they still suggest legal changes to make it easier for unions to organize? Freeman and Medoff present evidence that shows unions cause favorable economic outcomes. They conclude by recommending favorable public policy towards unions. Thus, they implicitly jump between "what unions do" and "what unions should do." Their support for unions is based on economic outcomes, not on the fulfillment of workers' legal rights.

During the 1950's, liberal economists justified unions because of their positive effects on the economy. Freeman and Medoff reiterate this position by suggesting there is an "optimal level of unionization." They comment "that current trends have brought union density below the optimal level." The authors fail, however, to define the optimal level. They apparently use economic outcomes to measure the "optimal" level of worker unionization. Yet, under the National Labor Relations Act of 1935, the degree of workers' aspirations to be organized defines the optimal level of unionization rather than economic results.

By protecting workers' rights to organize, American labor law seeks to protect industrial democracy in much the same fashion as other laws seek to ensure political democracy. Citizens can criticize the government without emigrating; unhappy workers can influence their working conditions without quitting. As Lloyd Ulman states, "first and foremost, collective bargaining was championed as an instrument to provide equal justice. . . in a market place where. . . competition frequently afforded inadequate protection against oppression."<sup>2</sup> Freeman, Medoff, and policy makers should recall the purpose of the National Labor Relations Act of 1935. The high costs of organizing should be lowered because workers have the right— regardless of economic consequences— to join unions unfettered by fear of employer reprisals.

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2. Ulman, *Introduction: The Problems in Historic Context*, in *CHALLENGES TO COLLECTIVE BARGAINING*, (Ulman, ed. 1967)