**Unions: Do They Help Or Hurt Workers?**

By [Brent Radcliffe](http://www.investopedia.com/contributors/242) AAA |

Employers and workers seem to approach employment from vastly different perspectives. So how can the two sides reach any sort of agreement? The answer lies in [unions](http://www.investopedia.com/terms/o/organizedlabor.asp). Unions have played a role in the worker-employer dialogue for centuries, but in the last few decades many aspects of the business environment have changed. With this in mind, it's important to understand how unions fit into the current business environment, and what role unions play in the modern economy.

**What Are Unions?**Unions are organizations that negotiate with corporations, businesses and other organizations on behalf of union members. There are trade unions, which represent workers who do a particular type of job, and industrial unions, which represent workers in a particular industry. The American Federation of Labor-Congress of Industrial Organizations (AFL-CIO) is a trade union, while the United Auto Workers (UAW) is an industrial union.

**What Do Unions Do?**Since the [Industrial Revolution](http://www.investopedia.com/terms/i/industrial-revolution.asp), unions have often been credited with securing improvements in working conditions and wages. Many unions were formed in manufacturing and resource companies, companies operating in steel mills, textile factories and mines. Over time, however, unions have spread into other industries. Unions are often associated with the "[old economy](http://www.investopedia.com/terms/o/oldeconomy.asp)": companies that operate in heavily regulated environments. Today, a large portion of membership is found in transportation, utilities and government. (Learn more about economic history, see [*An Exploration Of The Development Of The Market*](http://www.investopedia.com/articles/basics/03/071803.asp).)

The number of union members and the depth at which unions penetrate the economy varies from country to country. Some governments aggressively block or regulate a union's formation and others have focused their economies in industries where unions have not traditionally participated.

Industry [deregulation](http://www.investopedia.com/terms/d/deregulate.asp), increased competition and labor mobility have made it more difficult for traditional unions to operate. In recent decades, unions have experienced limited growth due to a shift from "old economy" industries, which often involved manufacturing and large companies, to smaller and medium-sized companies outside of manufacturing. In the recent past, potential union members have spread into a larger set of companies. This makes collective bargaining a more complicated task, as union leaders must work with a larger set of managers and often have a harder time organizing employees.

The evolution of the modern worker has also changed the role of unions. The traditional focus of union leaders has been representing workers when negotiating with managers, but when developed economies shift away from a reliance on manufacturing, the line between manager and worker becomes blurred. In addition, automation, computers and increased worker productivity results in fewer workers being needed to do the same job.

**How Do Unions Affect the Labor Environment?**The power of labor unions rests in their two main tools of influence: restricting labor supply and increasing [labor demand](http://www.investopedia.com/terms/d/demand_for_labor.asp). Some economists compare them to [cartels](http://www.investopedia.com/terms/c/cartel.asp). Through collective bargaining, unions negotiate the wages that employers will pay. Unions ask for a higher wage than the [equilibrium wage](http://www.investopedia.com/terms/e/equilibrium.asp) (found at the intersect of the labor supply and labor demand curves), but this can lower the hours demanded by employers. Since a higher wage rate equates to less work per dollar, unions often face problems when negotiating higher wages and instead will often focus on increasing the demand for labor. Unions can use several different techniques to increase the demand for labor, and thus, wages. Unions can, and do, use the following techniques:

* Push for [minimum wage](http://www.investopedia.com/terms/m/minimum_wage.asp) increases. Minimum wage increases the labor costs for employers using low-skilled workers. This decreases the gap between the wage rate of low-skilled and high-skilled workers; high-skilled workers are more likely to be represented by a union. (To learn more, see [*Exploring The Minimum Wage*](http://www.investopedia.com/articles/07/minimum_wage.asp)*.*)
* Increase the marginal productivity of its workers. This is often done through training.
* Support restrictions on imported goods through [quotas](http://www.investopedia.com/terms/q/quota.asp) and [tariffs](http://www.investopedia.com/terms/t/tariff.asp). This increases demand for domestic production and, therefore, domestic labor. (To read more about tariffs, read [*The Basics Of Tariffs And Trade Barriers*](http://www.investopedia.com/articles/economics/08/tariff-trade-barrier-basics.asp).)
* Lobbying for stricter immigration rules. This limits growth in the labor supply, especially of low-skilled workers from abroad. Similar to the effect of increases in the minimum wage, a limitation in the supply of low-skilled workers pushes up their wages. This makes high-skilled laborers more attractive.

Unions have a unique legal position and in some sense, they operate like a [monopoly](http://www.investopedia.com/terms/m/monopoly.asp) as they are immune to [antitrust laws](http://www.investopedia.com/terms/a/antitrust.asp). Because unions control, or can exert a good deal of influence on, the labor supply for a particular company or industry, unions can restrict non-union workers from depressing the wage rate. They are able to do this because legal guidelines provide a certain level of protection to union activities. (For more information on antitrust laws, read [*Antitrust Defined*](http://www.investopedia.com/articles/04/040704.asp).)

**What Can Unions Do During Negotiations?**When unions want to increase union member wages or request other [concessions](http://www.investopedia.com/terms/c/concession.asp) from employers, they can do so through collective bargaining. Collective bargaining is a process in which workers (through a union) and employers meet to discuss the employment environment. Unions will present their argument for a particular issue, and employers must decide whether to concede to the workers' demands or to present counterarguments. The term "bargaining" may be misleading, as it brings to mind two people haggling at a flea market. In reality, the goal of the union in collective bargaining is to improve the status of the worker while still keeping the employer in business. The bargaining relationship is continuous, rather than just a one-time affair.

If unions are unable to negotiate, or are not satisfied with the outcomes of collective bargaining, they may initiate a work stoppage or strike. Threatening a strike can be as advantageous as actually striking, provided that the possibility of a strike is deemed feasible by employers. The effectiveness of an actual strike depends on whether the work stoppage can actually force employers to concede to demands. This is not always the case, as seen in 1984 when the National Union of Mineworkers, a trade union based in the United Kingdom, ordered a strike that, after a year, failed to result in concessions and was called off.

**Do Unions Work?**Whether unions positively or negatively affect the labor market depends on whom you ask. Unions say that they help increase the wage rate, improve working conditions and create incentives for employees to learn continued job training. Union wages were 21% percent higher than non-union wages as of 2002, though this figure varies according to industry.

Critics counter the unions' claims by pointing to changes in productivity and a competitive labor market as some of the primary reasons behind wage adjustments.

If the labor supply increases faster than labor demand, there will be a glut of available employees, which can depress wages (according to the [law of supply](http://www.investopedia.com/terms/l/lawofsupply.asp) and [demand](http://www.investopedia.com/terms/l/lawofdemand.asp)). Unions may be able to prevent employers from eliminating jobs through the threat of a walkout or strike, which will shut down production, but this technique does not necessarily work. Labor, like any other [factor of production](http://www.investopedia.com/terms/f/factors-production.asp), is a cost that employers factor in when producing goods and services. If employers pay higher wages than their competitors, they will wind up with higher-priced products, which are less likely to be purchased by consumers. (For more on this, see [*Examining The Phillips Curve*](http://www.investopedia.com/articles/economics/08/phillips-curve.asp).)

Increases in union wages can come at the expense of non-unionized workers, who lack the same level of representation with management. Once a union is ratified by the government, it is considered a representative of the workers, regardless of whether all workers are actually part of the union. Additionally, as a condition of employment, unions are able to deduct union dues from employee paychecks without prior consent.

Whether unions were a primary cause of a decline in labor demand by "old economy" industries is up for debate. While unions did force wage rates upward compared to non-union members, this did not necessarily force those industries to employ fewer workers. In the United States, "old economy" industries have declined for a number of years as the economy shifts away from heavy industries. (To learn more about economic terms and theories, see the [*Economics Basics Tutorial*](http://www.investopedia.com/university/economics/).)

**Conclusion**Unions have undoubtedly left their mark on the economy, and continue to be significant forces that shape the business and political environments. They exist in a wide variety of industries, from heavy manufacturing to the government, and assist workers in obtaining better wages and working conditions. (To read more about economic history, check out [*State-Run Economies: From Public To Private*](http://www.investopedia.com/articles/economics/08/state-run-private-enterprise.asp).)