Center for American Progress Action Fund

AMERICAN WORKER PROJECT

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Unions Make the Middle Class

Without Unions, the Middle Class Withers

David Madland, Karla Walter, and Nick Bunker April 2011

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The subjects in the cover photo are models and the image is being used for illustrative purposes only.

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Introduction and summary

Why should anyone—especially those who are not union members—care that union membership is at record lows and likely to fall even further? Because if you care about the middle class, you need to care about unions.

Critics of unions claim they are unimportant today or even harmful to the economy, but unions are essential for building a strong middle class. And rebuilding the middle class after decades of decline and stagnation is essential for restoring our economy.

Unions make the middle class strong by ensuring workers have a strong voice in both the market and in our democracy. When unions are strong they are able to ensure that workers are paid fair wages, receive the training they need to advance to the middle class, and are considered in corporate decision-making processes. Unions also promote political participation among all Americans, and help workers secure government policies that support the middle class, such as Social Security, family leave, and the minimum wage.

But as unions became weaker over the past four decades, they are less and less able to perform these functions—and the middle class withered. The percentage of workers in unions steadily declined largely because the legal and political environment prevents private-sector workers from freely exercising their right to join or not to join a union. Membership in private-sector unions stands at less than 7 percent today, from around 30 percent in the late 1960s.[1] Public-sector unionization remained stable for decades—it was 37 percent in 1979 and is 36 percent today—but is now under significant threat from conservative political opposition and could start declining as well. All told, less than 12 percent of the total workforce is unionized, and this percentage is likely to continue falling.

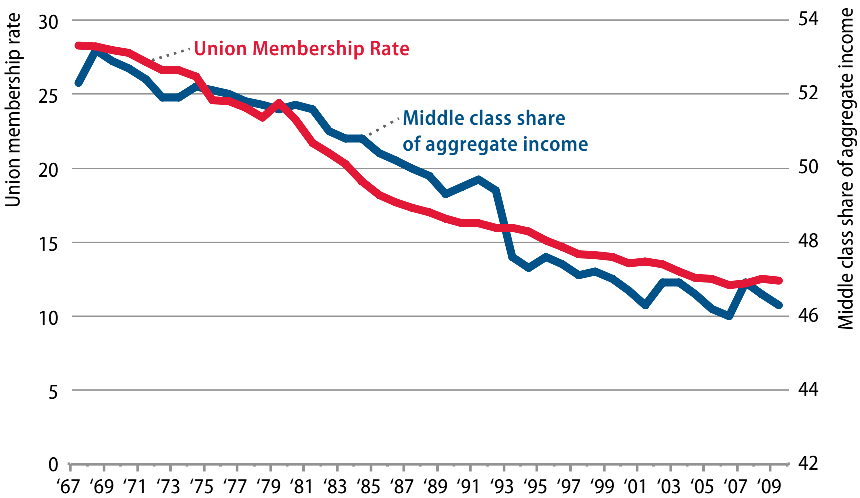
Without the counterbalance of workers united together in unions, the middle class withers because the economy and politics tend to be dominated by the rich and powerful, which in turn leads to an even greater flow of money in our economy to the top of income scale. As can be seen in Figure 1, the percentage of unionized workers tracks very closely with the share of the nation's income going to the middle class—those in the middle three-fifths of income earners.

In recent years, the middle class accounted for the smallest share of the nation's income ever since the end of World War II, when this data was first collected. The middle three income quintiles, representing 60 percent of all Americans, received only 46 percent of the nation's income in 2009, the most recent year data is available, down from highs of around 53 percent in 1969.

The middle class weakened over the past several decades because the rich secured the lion's share of the economy's gains. The share of pretax income earned by the richest 1 percent of Americans more than doubled between 1974 and 2007, climbing to 18 percent from 8 percent.[2] And for the richest of the rich—the top 0.1 percent—the gains have been even more astronomical—quadrupling over this period, rising to 12.3 percent of all income from 2.7 percent.[3]

Ties that bind

As union membership decreases, middle class income shrinks



Sources: Authors' analysis. Union Membership rate is from Barry T. Hirsch, David A. Macpherson, and Wayne G. Vroman, "Estimates of Union Density by State." Middle Class Share of Aggregate Income is from United States Census Bureau.

In contrast, incomes for most Americans have been nearly flat over this same time period, and median income after accounting for inflation actually fell for working-age households during the supposedly good economy in the recovery between 2001 and 2007.[4] The importance of unions to the middle class is not just a historical phenomenon, but is relevant to our lives today. To be sure, not everything unions do benefits the broad middle class, but unions are critical to defending the middle class, and their resurgence is key to rebuilding the middle class.

Indeed, it is hard to imagine a middle-class society without a strong union movement.

Across the globe, the countries with the strongest middle classes all have strong union movements.[5] And in America today, states with higher concentrations of union members have a much stronger middle class. The 10 states with the lowest percentage of workers in unions all have a relatively weak middle class, with the share of total state income going to households in the middle three-fifths of income earners in these states below the average for all states.[6]

Our analysis, more fully described in the body and appendix of this report, indicates that each percentage point increase in union membership puts about $153 more per year into the pockets of the middle class—meaning that if unionization rates increased by 10 percentage points (about the level they were in 1980)—then the typical middle class household would earn $1,532 more this year. This figure indicates how much better off all members of the middle class would be—not just those who are union members— if unions regained some strength. And these gains would continue year after year. To put these results in context, our analysis indicates that increasing union membership is as important to rebuilding the middle class as boosting college graduation rates, results that while shocking to some, are consistent with previous research.[7]

In our democracy, when workers are joined together in unions they are able to more forcefully and effectively speak for their interests. Unions give workers a greater voice not only by promoting political participation among all Americans—ensuring that more of the middle class vote and get involved in politics—but also by being an advocate on behalf of the middle class in the daily, inner-workings of government and politics.

This provides a check on other powerful political interests, such as corporations and the very wealthy, and ensures that our system of government has the balance of interests that James Madison, a chief framer of our constitution, thought necessary to properly function. This counterbalancing role is essential for democracy to function properly and respond to the interests of all Americans.

In the workplace, workers who join together in unions are able to negotiate on more equal footing with their employers, providing a check on the inherently unequal relationship between employer and employee.[8] As George Shultz, secretary of labor during the Nixon administration and secretary of state during the Reagan administration argued in support of trade unions, in "a healthy workplace, it is very important that there be some system of checks and balances."[9]

Indeed, the ability of workers united together to provide a check on corporate power was the very reason Congress guaranteed private-sector workers the right to join a union, writing in the findings section of the National Labor Relations Act of 1935:

> *The inequality of bargaining power between employees who do not possess full freedom of association or actual liberty of contract and employers who are organized in the corporate or other forms of ownership association substantially burdens and affects the flow of commerce, and tends to aggravate recurrent business depressions, by depressing wage rates and the purchasing power of wage earners in industry and by preventing the stabilization of competitive wage rates and working conditions within and between industries.*[10]

And government employers, like corporations, sometimes need to be reminded by organized workers to treat their employees fairly. That's why Dr. Martin Luther King Jr. traveled to Memphis in 1968 to help city sanitation workers gain recognition for their union as they faced low pay, terrible working conditions, and racist supervisors.[11] Even the conservative icon Ronald Reagan recognized that public-sector workers should be able to join unions and collectively bargain. Reagan signed a bill to grant municipal and county employees the right to do so when he was governor of California.[12]

Critically, the benefits of workers having a voice in the economy and in democracy spill over to all of society. In these ways, unions make the middle class. The challenge of rebuilding the middle class will take a long time, but would be impossible without a clear understanding of what makes the middle class strong. This paper will explore in detail why we need to do this and how we need to go about it. To rebuild America's middle class, we need to rebuild the labor movement. It's that simple—and that challenging.

Unions help make the market work for the middle class

Unions—as actors within our market economy—create a more prosperous middle class by ensuring that workers are fairly compensated, are considered in corporate decision making processes, and by providing career ladders to the middle class. This section of our paper will examine each of these three critical functions of unions in modern day society.

Unions raise workers' wages and improve benefits

Unions raise wages and benefits by enabling workers to negotiate with their employers on relatively equal footing. When workers join together and bargain collectively with their employer they have more market power to ensure that they are rewarded with a fair share of the wealth they help create, and bear only their fair share of the burden when times are tough. In this way, unions not only directly effect the compensation of unionized workers, but these gains spread to the wages and benefits on nonunion workers.

Union workers earn significantly more on average than their nonunion counterparts. Unionization—even when controlling for other factors such as education, race, and gender—is associated with about a 15-percent increase in hourly wages in the typical state, according to a study by the Center for Economic and Policy Research that looked at the wage benefits of union membership in all 50 states.[13] That means, all else equal, workers that join a union will earn 15 percent more—or $2.50 more per hour—than their otherwise identical counterparts.

Numerous other studies have confirmed the positive effect of unions on workers' wages and found similar effects for women and workers of color.[14] And in specific job categories, such as carpentry, union workers enjoy middle-class wages while nonunion workers struggle with poverty level wages.[15]

Moreover, unionized workers are more likely to receive benefits, and their benefits are often of better quality than nonunion workers. Union membership is associated with about a 19 percentage point increase in the likelihood of having employer-provided health insurance, and a 24 percentage point increase in the likelihood of having employer-sponsored retirement plans.[16] And union employers often provide better health insurance benefits than nonunion employers, paying an 11 percent larger share of single worker coverage and a 16 percent greater share for family coverage—as well as better pension benefits, spending 36 percent more on defined benefits plans than nonunion employers.[17]

Unions can also have a significant and positive effect on the wages and benefits of nonunion workers, both by setting standards that gradually become norms throughout industries and by serving as "threat" to nonunion employers in highly unionized industries.[18] The so-called "threat" of unionization encourages employers in industries and markets where unions have a strong presence to pay their workers higher wages and these benefits spread throughout the economy. In this way, unions help set the standard for all employers to follow.

A 1999 study of the supermarket industry estimated that a 10 percent increase in union density would increase the wages on union employees by 5.3 percent, and nonunion employers by 1.2 percent.[19] Princeton University Economics Professor Henry Farber found that the combined wage gains for all nonunion workers from this threat effect was nearly as big as the total wage gains union members are able to secure for themselves, indicating that the benefits of unionization are widely spread across all workers.[20]

Critically, unions have pioneered benefits practices that are now widespread throughout the American workforce. Unionized employers first provided fringe benefits such as health insurance and employer-sponsored retirement programs as part of collective bargaining agreements. Over time these benefits became commonplace in American workplaces. More recently, unionized employers have instituted innovations in benefits provisions such as child care benefits and work-hours flexibility, which will hopefully spread though the country.[21]

When unions were stronger they helped to set standards that other companies closely followed, even in lightly unionized industries where the threat of unionization is remote. A 1980 study of pay practices of large, nonunion firms found that "Demonstrating equity generally means that a company's pay rates compare favorably with those of unionized companies. … in other words, unions are doing much good for people who do not pay them any dues."[22]

In the absence of strong unions, workers' compensation tends to remain low—even if they are creating profits and helping the economy grow by becoming ever more productive.

Over the past 30 years American workers have become ever more productive, yet their wages have hardly increased at all. In contrast, throughout the middle part of the 20th century—a period when unions were stronger—workers were rewarded for their productivity increases with higher wages on a roughly one-to-one basis, meaning that as they become more productive they received a corresponding increase in compensation.

But this link is now broken. Between 1980 and 2009 nationwide worker productivity grew by 80 percent, while workers' inflation-adjusted median wages increased by only 12 percent, which means that workers were compensated for only 15 percent of their productivity gains.[23] If American workers were rewarded for 100 percent of their increases in labor productivity between 1980 and 2009—as they were during the middle part of the 20th century—then median wages would be $31.98 per hour, or 61 percent higher than the average real wage in 2009.[24]

This relationship between the decline in union density and stagnant wages can also be seen by looking across states. In states that have passed laws restricting workers' ability to organize unions we see that workers' wages are lower. State right-to-work laws severely restrict worker organizing by prohibiting collective bargaining agreements from requiring everyone who benefits from a union contract to pay their fair share of the costs of providing those benefits.

Studies consistently find that these laws are associated with decreases in per capita personal income, and decreases in wages and salaries.[25] Claims that right-to-work laws help spur employment growth are overblown. States with these laws have not experienced high job growth than other states once other economic factors are considered.[26] Instead, these laws tend to boost incomes for those at the very top, while undercutting the middle class. Studies find that right to work laws increase owners average income, but there is little "trickle-down" to the workers in these states.[27]

Similarly, as union density declined in the United States, employers became less likely to provide good benefits. One study found that unionization in a typical state is associated with a 19 percentage point increase in the likelihood of having employee-sponsored health care, and a 24 percentage point increase in the likelihood of having an employee-sponsored retirement plan.[28]

This ability of unions to raise wages and benefits has long been understood, and sadly it often results in employer opposition to workers exercising their basic right to freely join a union. As 18th century economist Adam Smith explained:

> *"Masters are always and everywhere in a sort of tacit, but constant and uniform combination, not to raise the wages of labour above their actual rate… [But when workers combine, masters] … never cease to call aloud for the assistance of the civil magistrate, and the rigorous execution of those laws which have been enacted with so much severity against the combinations of servants, labourers, and journeymen."*[29]

Despite claims by some critics that unions are a historic anachronism, Adam Smith's words couldn't be more relevant today.

Unions ensure middle-class workers are considered in corporate decision making

By giving workers a stronger voice in the workplace, unions help ensure that the employee perspective is considered when companies make decisions. This can help create a situation where company executives view employees as stakeholders rather than just a cost to minimize—and consider how middle-class workers are affected when making major decisions and come up with solutions that work for both owners and workers.

Though the American system of labor relations is sometimes described as adversarial, our system was designed to be cooperative.[30] Sen. Robert Wagner (D-NY), an architect of the National Labor Relations Act 1935, which provided private-sector workers with the right to organize and bargain collectively, and designed the American system so that strong labor unions could negotiate on equal footing with management and thereby encourage cooperation.

Imbalance between the negotiating parties reduces the effectiveness of the system. As Robert Rubin, a former chairman of Goldman Sachs Group Inc. and Citigroup Inc., as well as Treasury secretary during the Clinton administration explained, "If you believe in a market-based system, the system is a negotiation between two people who can really negotiate with each other. If one side has no negotiating power, that isn't really a market-based system. It's an imposition of one on the other."[31] And because unions give workers the ability to negotiate with their employers, this can help create a culture of cooperation—or at least a culture of negotiation.

When unions were strongest in this country—during the middle part of the last century—this system of checks and balances ensured that employees had a stronger workplace voice. Far more companies acted on the assumption that firms were social institutions and had responsibilities not only to shareholders, but also to employees, customers, and communities.[32] Stable relationships with organized labor were critical to corporate success at unionized firms, and many nonunion companies elevated workers' status as a way to avoid unionization. Corporate executives more often took workers into account when making major decisions, and boosted human resources department's status internally.[33] Human resources departments, in turn, often functioned as an independent advocate for workers from within the corporate structure.[34]

But as organized labor's power declined, and corporations increasingly focused on short-term profits and the interests of stockholders rather than balancing these goals with community and workforce interests. Too many corporations now view employees as costs, rather than assets in which the company has a responsibility to invest.[35] Human resources department's status within corporations has diminished as well.[36] And instead of serving as an internal advocate for workers, HR departments emphasize their role as strategic business partners and contribution to firms' cost-cutting strategies, with tactics that include outsourcing and staff reductions.[37]

Certainly many union and nonunion companies today consider the needs of the workers in company decision making, and some of today's high-performance workplace practices give workers a voice that is as good as or better than anything from the middle of the past century. Indeed, every year American Rights at Work, a nonprofit group that advocates for workplace rights, compiles a list of dozens of "Partnerships that Work" describing unionized companies that collaborate with their workers to produce results for both the company and workers. These companies span across industries, including grocery stores, health care providers, and renewable energy companies.

Just one case in point is United Streetcar LLC, a unit of Oregon Iron Works Inc., a metals manufacturing company. United Streetcar boasts a strong relationship with its unions, the International Brotherhood of Electrical Workers and the Ironworkers union. United Streetcar also encourages employees to give feedback on improving products and company procedures, which has made it "better, stronger, and more cost effective" according to its president.[38]

Still, it seems very likely that if unions were stronger today, more corporate decision making would recognize workers as the important stakeholders they are. Today, for example, the U.S. economy is recovering from the Great Recession of 2007-2009, yet workers are largely excluded from corporate decision making—and consequently the financial resurgence. Corporate profits are making a comeback but workers are not. Profits have risen 12 percent since 2007, but companies are not rehiring laid off workers and the unemployment rate has stagnated at nearly 10 percent. [39]

Compare this to countries with higher unionization rates such as Canada and much of Europe. Corporate profits have not recovered to pre-recession levels but government, unions, and employers are together adopting strategies to lessen the burden on workers.[40] In Germany and Canada, for example, companies and workers have avoided large-scale layoffs by agreeing to cut everyone's hours and consequently pay—providing a solution that works for both parties. Companies get lower costs and maintain a skilled workforce while workers maintain their jobs and the knowledge that when the economy picks back up so will their hours and compensation.

Indeed, many attribute the economic success of countries such as Germany that have significant trade surpluses to the respected position that workers have within firms, as a partner rather than a cost. This reciprocal relationship can be a competitive advantage. As Tom Geoghegan, the author of *Were You Born on the Wrong Continent*, argues:

> *German worker control contributes to a group interaction that over time not only builds up but also protects a certain amount of human capital, especially in engineering and quality control. This kind of knowledge is not just individual but also group knowledge. It's the kind of group knowledge that our efficient, "flexible" labor markets so readily break up and disperse.*[41]

This is precisely the kind of worker input U.S. companies need to remain competitive in the 21st century—for the good of their shareholders, their workers, and broad-based economic prosperity in our country.

Unions build career ladders to the middle class

In our dynamic economy, it is more important than ever that workers are able to acquire the skills, information, and certifications they need to transition to new and better jobs throughout their careers. Especially in recent decades, unions have played an important role in advancing workers' careers and improving work stability.

Labor unions are increasingly involved in the design of work processes and training programs that affect employment stability and advancement opportunities, as well as providing workers access to important information on industry trends.[42] According to a 2006 federal government survey of private-industry establishments, 57 percent of unionized workers have access to work-related education assistance, compared to 48 percent of nonunion workers.[43]

Training is often of higher quality when unions are involved. Nonunion, employer-sponsored training in highly competitive industries is often narrowly-focused on firm-specific tasks, rather than general, transferable skill development.[44] Employers, especially in high-turnover industries, hesitate to invest in workers that could be "poached" by their competitors.

In contrast, joint union-management training programs provide opportunities for workers to gain and upgrade their skills in a way that enhances employment security, contributes to firm productivity and performance, and eliminates competitive disincentives not to invest in workers. These training opportunities help workers advance their careers by focusing on development of career specific skills and valuable general skills—such as English as a second language.[45]

Take the Wisconsin Regional Training Partnership, which has offered training in manufacturing, construction, and health care since the 1990s. It is structured as a membership organization between area employers and unions, and has a proven record of increasing training participant pay and benefits.[46] The partnership works as an intermediary, using its knowledge and networks within the industry to identify labor demand and training partners. Over a two-year study period, WRTP training participants earned 24 percent (or $6,255) more than control group members, and program completion was associated with a 12 percentage point increase in the likelihood of working at a job that offered benefits.[47]

Similarly, unions in Las Vegas have collaborated with hotel industry employers to create "The Culinary Training Academy," which offers training programs that increase the skills of entry-level workers and provide job stability and advancement opportunities for incumbent workers.[48] The CTA benefits workers and employers: turnover rates among the training graduates are about 50 percent lower than rates of nongraduates in the same jobs.[49]

Union training programs are also focused on emerging industries and are well-suited to the conditions of the new economy. Building trade unions are increasingly using training to prepare workers for the green economy. The Laborers' International Union of North America, for example, has developed a residential construction and weatherization training program that is geared towards existing union members and residents of low-income communities, and could accredit up to 10,000 workers nationwide in its first three years.[50]

And because unions have a broader interest in helping workers upgrade their skills—to allow for occupational advancement across multiple employers—these programs are attractive to young workers who do not anticipate staying with one employer for the length of their career.[51]

WashTech/CWA—an association of high-tech contract workers—opened a regional training center in Seattle in 2001. These highly-skilled contingent workers need to upgrade their skills frequently in order to remain competitive in a rapidly changing industry and have access to better paying jobs. Since these contracted workers cannot count on a single employer to invest in meaningful skills upgrading, the training provided by the association is critically important.[52]

Unions help make democracy work for the middle class

In addition to their effect on the market, unions also impact governmental policies that affect the middle class. Unions give workers a voice in our democracy, which ensures that the interests of the middle class are at least considered in political decisions.

Our democracy is based on checks and balances, and works best when the full variety of political interests are able to be adequately represented. This encourages negotiation and compromise, and helps ensure that there is a fair political fight that leaves all parties able to fully engage in the next political issue when there are remaining disagreements.

As James Madison, the primary framer of the U.S. constitution, argued, "the most common and durable source of factions has been the various and unequal distribution of property."[53] His solution to the problem of factions was to ensure that all interests are able to participate in the democratic process to provide a check on the other, writing that with "a greater variety of parties and interests; you make it less probable that a majority of the whole will have a common motive to invade the rights of other citizens." But when one interest or faction isn't represented, or is only weakly represented, there isn't really a fair fight, the checks and balances of the system fail and one side dominates at the expense of the other.

In short, without strong unions, government tends to be dominated by the rich and powerful. But when unions are strong, workers can also have a seat at the table and ensure that the interests of the middle class are at least considered.

When unions are strong, unions and the workers they represent do not win everything they desire, nor are they necessarily on the right side of every issue. But unions help workers engage with government on relatively equal footing with business interests. This counterbalancing role is essential for democracy to function properly and respond to the interests of all Americans.

Unions give workers a greater voice not only by promoting political participation among all Americans—ensuring that more of the middle class vote and get involved in politics—but also by being an advocate on behalf of the middle class in the daily inner workings of government and politics. Through these sustained advocacy efforts, unions are uniquely able to ensure that elected officials fulfill their campaign promises to voters and are less swayed by corporate lobbyists and interest groups.

Indeed, the existence and structure of the U.S. social safety net—from Social Security to Medicare, and from unemployment insurance and many, many other programs—is due in large part to the efforts of unions. As the veteran reporter David Broder explained, when organized labor had greater influence:

> *It did not confine itself to bread-and-butter issues for its own members. It was at the forefront of battles for aid to education, civil rights, housing programs and a host of other social causes important to the whole community. And because it was muscular, it was heard and heeded.*[54]

But as unions have lost strength, the voices of ordinary workers have increasingly been left out of the debate. Corporations can always significantly outspend ordinary workers and their union representatives in trying to influence the political system, but the differences in spending and influence are now staggeringly unequal. And there is no other highly organized and well-funded interest group that helps middle-class citizens advocate directly for their economic interests or speaks on behalf of workers' needs.

As a result, the political process today mostly represents the interests of the wealthy and powerful rather than the middle class. Yet despite their declining power, unions remain an indispensible political player for ordinary workers and still exert significant influence on behalf of the middle class.

Unions promote political participation

Unions help ordinary citizens participate in government in a number of ways. In order to take political action, people must think it is worthwhile, that the benefits are greater than the costs. But, the costs of action—time, money, and energy—are sometimes higher than the benefits of action. This is especially true with actions such as writing a letter to the Member of Congress or tracking the progress of a bill, but can hold true even for an action as simple as voting. Therefore, in many cases, people rationally decide that they are better off doing nothing, which in turn often means they don't vote or take other political actions.[55]

But unions can help decrease the costs and increase the benefits of participation so that more people get involved. They can do this in a number of ways—from simply letting people know about an election, to providing information about an issue, to helping people get to the polls or write a letter, to making people feel more powerful and thus likely to succeed. Relatively few people participate spontaneously in politics, but rather most people participate when groups, such as unions, mobilize them to take part.[56]

Perhaps the best studied of the ways that unions increase participation is on voting. Unions significantly increasing voting rates—mobilizing both union members and nonmembers to vote. An analysis of voting in both presidential and midterm elections in every American state found that for every 1 percentage point increase in union density, voter turnout increased by 0.2 to 0.25 percentage points.[57] This means that if unionization rates were 10 percentage points higher during the 2008 presidential election, 2.6 million to 3.2 million more citizens would have turned out to vote.[58]

These effects are especially strong for nonwealthy and nonwhite voters. Self-identified "working-class" citizens are just as likely to vote as all other people in congressional districts where unions have active campaigns to increase political activity, but in districts without such campaigns, working-class citizens are 10.4 percent less likely to vote than other respondents.[59]

Similarly nonwhite citizens are just as likely to vote as white citizens in districts where unions have campaigns to increase political activity, but in districts without such campaigns, the probability of whites voting was 9.3 percent higher than nonwhites.[60]

Unions also affect how their members vote. Joining a union makes members more likely to vote for Democratic candidates. According to one study, union members are 6 percentage points more likely to vote for a Democrat compared to demographically similar voters. [61] This effect accounts for the fact that some union members are already predisposed to support Democrats.

Unions, as democratic organizations themselves, also provide a training ground for workers to learn about and participate in all facets of the democratic process—from elections, to candidate recruitment, to issue advocacy.[62] In short, unions help provide ordinary workers with agency— creating active, democratic citizens. Consequently, when unions are strong, elected officials tend to understand that they are accountable to middle and working class voters. [63]

In sum, unions are a vital element of civil society, giving citizens space, motivation, and agency to create the kind of society they want.

Unions advance government policies that support the middle class

Having influence over what policies are actually debated, their final structure, and whether they pass or not requires expertise and sustained attention as well as resources and the ability to mobilize them at the right time.[64] Yet these tasks are near impossible for unorganized citizens to perform. As a result, as individuals, ordinary citizens have a very hard time actually influencing policy debates—even when their preferred candidate wins.

Unions play a critical role in translating worker's interests to elected officials and ensuring that government serves the economic needs of the middle class. They do this by encouraging their members and the general public to support certain policies as well as by directly advocating for specific reforms. Unions provide legal and regulatory expertise, create space for collaborative negations, ensure effective implementation of policies, mobilize members at key points in the legislative process, and, generally act as a strong counterbalance to powerful interest groups that support policies that would harm the middle class.

Historically, and today, unions are one of the few organized interests that have the capacity and the mission to launch sustained and successful policy campaigns during drawn out political battles.

To be sure, not every policy unions support clearly benefits all of the middle class—some favored policies have been more narrowly targeted to benefit their membership—but as a general rule most of what unions support is about promoting a strong middle class. As Nobel-laureate economist Paul Krugman, argues, during the middle part of the last century in the United States, "government policies and organized labor combined to create a broad and solid middle class."[65]

Social scientists have consistently shown that strong labor unions are closely associated with low levels of inequality and more generous social programs that benefit the middle class.[66] Indeed, University of Wisconsin political scientist Graham K. Wilson argues that unions in the United States have had more political success promoting broad social measures, such as the Civil Rights Act of 1964, than they have promoting measures more strictly tied to their membership.[67]

A closer look at the role of organized labor's engagement in the policy process clearly shows a strong concern about the prosperity of the middle class, and indicates that though their ability to influence policy has diminished, unions continue fighting for the middle class and their efforts make a big difference. When labor unions were at their most influential, our government passed numerous foundational policies to ensure that workers had a pathway to the middle-class. In the early years of the Franklin D. Roosevelt administration—when unions were growing rapidly and workers were galvanized around economic issues—government enacted the nation's first minimum wage, laws to protect workers' rights to collectively bargain, the Social Security Act, and the Fair Labor Standards Act to ensure that workers were paid the wages owed to them. New Deal policies from this era also raised taxes on the most wealthy. President's Roosevelt's goal was to compress the income distribution and build a strong middle class.[68]

Labor unions also championed Worker's Compensation and Unemployment Insurance laws at the state level and were instrumental to their creation. In states where labor unions are stronger, these safety net programs are also stronger and more inclusive for all workers.[69] And during the middle to late part of the 20th century, union support was key to passing the Equal Pay Act of 1963; the Social Security Act of 1965, which created Medicare; the Voting Rights Act of 1965; the Occupational Safety and Health Act of 1970; and the Family and Medical Leave Act of 1993, among other essential protections for middle class workers.[70]

Indeed, it would be hard to exaggerate the influence that the labor movement has had on creating and maintaining that social safety net that undergirds the American middle class. Thomas Edsall, a veteran journalist and author of *The New Politics of Inequality*, explains:

> *Labor has not been the only force behind the enactment of this legislation, nor has it been the principal force in every case. It has been, however, an essential base of support, not only for these programs but in the drive to enact the civil rights legislation of the 1960s and in the passage of all tax legislation from 1935 to 1976 aimed at maintaining the progressivity of the individual income tax system.*[71]

Protecting the unemployed

Labor's role in ensuring unemployment insurance for American workers

Unions helped create our unemployment insurance laws in the early 1900s and continue to ensure that these laws provide workers with the basic protections they need.

In 1928, after a four-year campaign, the Amalgamated Clothing Workers Union won an industry-wide agreement with New York City clothing manufacturers to set up an unemployment benefit program for over 400 firms and 22,000 union members, a model of one of the first unemployment systems.[73] Unions also played a critical role in the passage of Wisconsin's unemployment insurance law—the first ever enacted—in 1932. The state labor federation's support helped keep the bill on the legislative agenda in the face of opposition from the Wisconsin Manufacturers Association and facilitate its passage.[74]

In both New York City and Wisconsin, employers initially resisted unemployment insurance, but many reversed their positions after implementation, recognizing that the programs inhibited competition on the basis of workers' benefits and helped to stabilize industry.[75] And passage of these policies—as well as local business communities' after-the-fact support—emboldened federal leaders to pursue national reforms even in the face of organized business opposition.[76]

Moreover, the American Federation of Labor played an important role in federal advocacy, working for a predecessor bill with provisions that foreshadowed the unemployment insurance provisions in the Social Security Act.[77] And since that law left states in charge of these benefits and administration, state labor federations were also able to affect the form of insurance enacted. In states where unions were strong, had close ties to politicians, and came out early in support of unemployment insurance, insurance programs were crafted to be more favorable to the needs of workers.[78] State labor leaders in New York, for example, worked within a democratic alliance to craft one of the nation's most pro-worker insurance programs.[79]

But these victories of the past wouldn't mean much if unions weren't able to protect unemployed workers during the Great Recession and the subsequently tepid recovery—something that very likely would have happened without the efforts of labor unions. Over the past several years, the unemployment level has hovered at nearly 10 percent, and the ranks of the long-term employed has stayed at record levels. During this time, unions have been strong and successful advocates for extending the length of unemployment benefits coverage as they always have been in every previous economic downturn.

During the summer and winter legislative fights of 2010, unions pursued multiple strategies to fight claims that the unemployment insurance benefits extension was an unnecessary budgetary burden and ensure that policy makers supported the extension of unemployment benefits.[80] Unions organized their members and the general public to lobby elected officials through visits to the capitol and online campaigns.[81] Also, labor leaders used the media as a bully pulpit to call on congressional leaders to support the extension and identified political candidates' support for the benefits extension as a litmus test of whether to support their electoral bids.[82]

In addition, unions continue to protect the unemployed through various outreach programs and ongoing efforts to protect state-level UI administration. The International Association of Machinists and Aerospace Workers, for example, has created "Ur Union of the Unemployed"—or UCubed—to multiply the economic and political power of unemployed workers.

These efforts have helped ensure that the U.S. unemployment system continues to provide expanded benefits during the current hard economic times.

Just as critically, unions have helped make sure this safety net actually works. Unions ensure that people can have a safe workplace and use social insurance programs such as unemployment insurance and workers compensation when they need them.[72] (see box) They do this by informing workers of the laws and providing some protections for workers who exercise the rights under the law.

Even in recent years, when unions have had less power than they once did, organized labor remains integral to the passage of legislation that benefits all working families. This includes wage-standards legislation—federal, state,and local minimum wage and living wage laws that ensure that workers are paid family-supporting wages—as well as federal policies such as recent financial regulatory reforms as well as the Affordable Care Act of 2010, which ensures that all Americans will have access to health insurance.

Unions advocated for these policies by launching campaigns that organized working men and women to support their passage. Unions led marches on Wall Street and in Washington, D.C. to support stronger regulations for major financial institutions after the bank bailout, and conducted call-ins to members of Congress and door-to-door canvassing efforts to encourage citizens to express their support of health care reform.[83] The labor movement was one of the strongest advocates for health care reform, with one union employing over 400 workers on the campaign to push federal legislation and helping organize public action in support of reform.[84]

But beyond this role as an organizer of workers' voices, labor unions today influence policy outcomes by:

- Helping develop policy solutions for pressing issues facing our country
- Funding major efforts to sway policymakers
- Gaining access to government's power brokers

Richard Trumka, president of the AFL-CIO, and Anna Burger, former secretary treasurer of Services Employees International Union, sat on the President's Economic Recovery Advisory Board—along with members of the business community and nongovernmental experts—which reported regularly to President Obama and his economic team on ways to promote the growth of the economy, establish a sound financial and banking system, and create jobs. And SEIU's former president Andy Stern was the most frequent visitor to the White House while the health care package was being debated.[85]

Getting harder and harder to provide a check on corporate power

Unfortunately, labor union's power to represent workers on economic issues has been eclipsed by the money power of corporations and the very wealthy. There are a number of ways that money can be spent to try to influence policy—from political action committee spending in elections to issue advocacy and lobbying. Keeping track of all of these different avenues of spending is nearly impossible, but it is clear that by any measure, corporate spending dominates that of labor unions.

In the 2010 elections, corporate and trade association PACs—organizations that contribute funds and campaign services to federal candidates—outnumbered labor-union PACs by 12 to 1, and their net advantage in direct contributions to candidates was approximately five to one.[86] In total, in the 2010 election, corporate and trade association contributions accounted for 72 percent of all PAC contributions while labor unions accounted for 15 percent of all PAC contributions, with business-related PAC spending at $277 million and labor PACs spending $59 million—a gap of $218 million. [87]

When you throw in lobbying expenses, the gap grows even bigger. Corporations and industry trade associations accounted for all but one of the top 20 spenders to lobby the federal government in 2010—and spent over $2.8 billion on lobbying, compared to labor, which spent less than $47 million.[88] Spending on elections may get more attention from the public, but the effect of increased business lobbying compared to that of labor is of large concern for our political system. Increased lobbying allows business to keep tabs on the behind-the-scenes issues in legislation and regulations. Without a counter in the form of labor, the business community can have a significant effect on the out of sight, but important, parts of our political system.[89]

And PAC contributions and lobbying are just the tip of the iceberg of corporate political contributions, especially now that the Supreme Court in a recent ruling legalized virtually unlimited corporate spending on campaigns. A small network of hedge fund executives, for example, pumped at least $10 million into Republican campaign committees and allied groups during the 2010 elections through a range of strategies.[90] According to the Center for Responsive Politics, the Chamber of Commerce was the top outside spender in the 2010 elections, excluding party committees, contributing $32.8 million.[91]

When unions were stronger, the gap in spending was significantly smaller—and thus workers voices were on a more even playing field with. But over time, as labor union density declined and campaign costs steadily increased, the gap in spending between labor unions and corporations widened significantly. Consider the comparative spending levels in recent election cycles:

- In the 1977-78 election cycle, corporate PACs contributed $5.6 million more than labor union PACs.
- In 1979-80 the gap grew to $17 million, with labor union PACs contributing $26.4 million and corporate PACs contributing $31.8 million.[92]
- In 1993-94 the gap in PAC spending between the two was $60 million.
- In the 1995-96 election cycle, the gap rose to $68 million.[93]

As discussed previously, the gap in PAC spending today is over $200 million. It is clear that corporations rather than the voices of middle class too often dominate electoral discourse in our country today.

The framers of our constitution warned that this sort of unequal power among interest groups would threaten our democracy. When James Madison warned of the "mischief of factions," he meant that the greatest threat of interest groups was for one or a few of them to wield so much power that they could overwhelm the levers of government and usurp the power of others.[94]

Unfortunately, other than unions, there is little organized expression of the economic interests of working and middle-class citizens to check corporate lobbying power. Many of the strongest organizations of the left—environmental organizations, women's rights groups, and civil liberties associations—focus largely on the social concerns rather than economic concerns, and often represent the interests of more affluent constituents.[95]

Political parties—and the politicians that represent them—are beholden to these coalitions of interest groups as well as to voters. And since voters have limited capacity to monitor and hold politicians and parties accountable, parties are more likely to broker policy deals that will satisfy the interest groups who lobby them.[96] As the power differential shifts between unions and corporations, increasingly politicians tend to align themselves with corporations rather than the middle class.[97]

As a result, bread-and-butter issues for the middle class that are advocated for primarily by unions—such as extension of unemployment benefits, modernization of labor rights laws, increasing the minimum wage, and promoting progressivity in our tax code—will have less likelihood of being enacted. As the columnist David Broder explains: "The link between the decline of progressive politics and with it the near-demise of liberal legislation, and the steady weakening of organized labor" is clear.[98]

Stronger unions would help increase the influence of the middle class on economic policies.

Putting it all together

Because of the impact working people have on the market and government when they join together in unions, the middle class is markedly stronger when the union movement is stronger. This effect can be demonstrated in a number of ways.

The chart on page 2 of this paper clearly indicates that as union membership declined in the United States over the past 30 years so too did the share of income going to the middle class. This relationship between unions and the middle class also holds when you look at other countries.

A study of several member countries of the Organization for Economic Co-operation and Development, an organization of developed economies, finds that unions strengthen the middle class directly by negotiating higher pay for low-wage workers, and indirectly by supporting parties of the political left, which institute policies that reduce inequality and create strong middle-class societies.[99] Other studies of advanced countries have similar findings. A working paper for the Luxembourg Income Study Project—a research organization that collects and analyzes data related to income distributions across countries—finds that increased unionization increased the size of the middle class's share of income, specifically among the third income quintile.[100]

Similarly, Vincent A. Mahler, David K. Jesuit, and Piotr R. Paradowski, of Loyola University Chicago, Central Michigan University, and the Luxembourg Income Study respectively, find gains in unionization increase the share of income going to the middle income quintiles through their effect on the market and government programs.[101]

But the relationship between strong unions and a strong middle class is not just something that happens in other countries or occurred in history. Rather, it still happens today in the United States. American states with stronger labor movements have a stronger middle class.

The strength of the union movement varies tremendously by state—from a high of 24.23 percent in New York to a low of 3.2 percent in North Carolina. If we look at the states with the lowest union densities we can see that they tend to have weak middle classes. Of the 10 states with the lowest percentage of workers in unions in 2009—North Carolina, Arkansas, South Carolina, Georgia, Virginia, Mississippi, Tennessee, Texas, South Dakota, and Oklahoma—all of them have a relatively weak middle class, with the share of total state income going to households in the second, third, and forth income quintiles in these states below the average for all states.[102]

And through a more thorough analysis, described more fully in the appendix on page 31, we find that union membership rates in the states and the middle class' share of annual aggregate income share a strong statistical relationship. Our analysis compares the share of income going to the middle class in each state with the union density in that state and controls for a host of factors, such as education, employment composition, and unemployment, which could also affect the strength of the middle class.

This analysis tests the broad impact that unions have on middle-class prosperity—capturing both the market and political effects. Most previous U.S. research focused only on market effects, giving only a partial picture of organized labor's economic impacts on middle class families, even though international research has studied the dual effect.[103] Our analysis finds that for every 1 percentage point increase in union membership, the share of aggregate income going to the middle class rises by $153.19 per middle-class household.[104]

The upshot: If unionization rates increased by 10 percentage points—about the levels they were in 1980—then every middle-class household's income would be about $1,532 per year higher than it is today, and as a whole, the American middle class would earn $104.43 billion more annually.[105] An additional $1,532 every year in the pocket of the typical American household would make a big difference in the strength of the middle class.

These results are quite consistent with other research showing that unions play a very important role in the distribution of a society's income. Federal Reserve Chairman Ben Bernanke, hardly a union advocate, argued in a 2007 speech entitled "The Level and Distribution of Economic Well-Being" that unions are a major force for reducing income inequality. He said that "The available research suggests that it [the decline in union membership] can explain between 10 and 20 percent of the rise in wage inequality among men during the 1970s and 1980s."[106]

Why unions matter

If union membership rates were higher, states' middle class would be more prosperous

	Union rate now (2010) (%)	If union membership rates were 10 percentage points higher	
		Gain per middle-class household ($)	Gain in aggregate statewide middle-class income ($)
Alabama	10.2	$1,192	$1,322,074,644
Alaska	23.2	$1,749	$248,271,589
Arizona	6.4	$1,387	$1,894,196,632
Arkansas	4.1	$1,102	$743,645,292
California	17.8	$1,735	$12,715,143,629
Colorado	6.6	$1,580	$1,810,891,499
Connecticut	16.7	$1,992	$1,585,429,304
Delaware	11.5	$1,574	$308,995,043
Florida	5.6	$1,340	$5,619,708,872
Georgia	4	$1,384	$2,880,359,146
Hawaii	21.8	$1,703	$455,842,244
Idaho	7.4	$1,221	$408,990,497
Illinois	15.6	$1,575	$4,496,013,980
Indiana	11	$1,259	$1,872,241,347
Iowa	11.5	$1,314	$967,546,388
Kansas	6.9	$1,354	$897,507,954
Kentucky	9	$1,161	$1,179,820,959
Louisiana	4.4	$1,267	$1,283,184,489
Maine	11.7	$1,253	$409,499,632
Maryland	11.6	$1,951	$2,452,398,089
Massachusetts	14.5	$1,836	$2,726,542,633
Michigan	16.6	$1,290	$2,956,932,954
Minnesota	15.9	$1,531	$1,916,585,937
Mississippi	4.5	$1,080	$709,508,779
Missouri	10	$1,282	$1,799,292,033
Montana	13.1	$1,169	$263,302,487
Nebraska	9.4	$1,316	$561,703,523
Nevada	15	$1,473	$853,602,224
New Hampshire	10.2	$1,653	$502,223,430
New Jersey	17.1	$1,973	$3,734,700,836
New Mexico	7.4	$1,233	$549,094,947
New York	24.3	$1,716	$7,401,188,592
North Carolina	3.2	$1,282	$2,803,625,187
North Dakota	7.5	$1,337	$223,772,709
Ohio	13.7	$1,286	$3,491,806,898
Oklahoma	5.5	$1,219	$1,046,052,398
Oregon	16.5	$1,352	$1,205,050,287
Pennsylvania	14.8	$1,427	$4,210,929,460

(Continued)	Union rate now (2010) (%)	If union membership rates were 10 percentage points higher	
		Gain per middle-class household ($)	Gain in aggregate statewide middle-class income ($)
Rhode Island	16.4	$1,534	$373,903,291
South Carolina	4.7	$1,225	$1,271,649,141
South Dakota	5.7	$1,259	$239,248,841
Tennessee	4.7	$1,219	$1,789,929,995
Texas	5.5	$1,441	$7,373,961,728
Utah	6.6	$1,482	$767,355,173
Vermont	12	$1,393	$210,450,943
Virginia	4.7	$1,726	$3,076,724,703
Washington	19.8	$1,569	$2,408,975,497
West Virginia	14.8	$1,088	$488,542,004
Wisconsin	14.3	$1,365	$1,861,219,813
Wyoming	7.4	$1,415	$181,362,230
ALL STATES	12	$1,532	$104,429,588,978

Source notes: Union membership rates are from Hirsch, Macpherson, and Vroman, "Estimates of Union Density by State." Monetary gain figures are the authors' calculations using regression analysis results described in the appendix on page 31.

To provide additional context about the impact of unionization on the middle class, our analysis shows that reducing a state's unemployment rate by 3.9 percentage points—approximately the difference between the national average today (8.9 percent) and what it was at the start of the recession in December 2007 (5 percent)—would increase middle-class income by $746.80.

And perhaps most importantly, our analysis indicates that union membership is as important to the strength of the middle class as a college education. We find that a 10 percentage point increase in the percent of the population with a college degree (about the increase that occurred nationally between 1973 and 2009) would increase the income of the average middle class household by $1,422. This is slightly less than the $1,532 increase in middle-class income that would result from a 10 percentage point increase in union membership.

Again, this result is consistent with previous research. Harvard University's Bruce Western and University of Washington's Jake Rosenfeld studied the rise in inequality in the United States between 1972 and 2006 and found that: "Union decline explains one third of the growth in inequality—an effect equal to the growing stratification of earnings by education."[107]

Conclusion

Membership in labor unions is at record lows. If current trends continue organized labor is on course to largely vanish from the private sector. In the public sector, union membership remained steady for decades but is likely to start decreasing in the face of vigorous conservative political opposition seeking to take away union rights. Unfortunately, the decline of the labor movement has not often been seen as a problem by those who are not union members. But, for anyone who cares about the fate of the middle class, the decline of the labor movement is a fundamental problem.

Because of the weakness of the labor movement, the fate of the American middle class is now in jeopardy, with the middle class receiving the smallest share of national income in at least 50 years. Without unions our hope for a strong economy for all working families is dim. Indeed it is hard to imagine a vibrant middle-class society without a strong labor movement.

Unions are our primary hope for rebuilding the middle class. They provide a counterbalance to the rich and powerful to help ordinary workers get a fair shake. In the marketplace, unions help ensure that workers receive a share of the gains they help create. And in our democracy, unions help give workers the strong voice they need to represent their interests. In short, organized labor boasts a unique ability to create a strong middle class, something that is sorely needed at this moment.

Appendix

The argument presented in our paper is that a strong union movement helps create a strong middle class. The main text explains the economic and political channels through which unions foster a more equitable income distribution and provides a summary of our quantification of the strength of this relationship. Below we present a more complete description of the data and empirical methods which substantiate our quantitative claims.

Data

Our measure of the strength of the middle class is the share of aggregate income that is received by the middle 60 percent of the U.S. population. The data are from the Current Population Survey and American Community Survey data from the U.S. Census Bureau. The original sources provided the share of aggregate income earned by each quintile, and we added the second, third, and fourth quintiles together to create our measure. This series is available from 1977 to 2009, and is only available for households, not families. Preliminary regressions using the share of aggregate income going to the middle 20 percent found a similar relationship.

The unionization rates are from the work of Barry T. Hirsch, David A. Macpherson, and Wayne G. Vroman, and are available from 1964 to 2010.[108] We also ran regressions using the Hirsch and Macpherson data, which covers only the time period from 1983 to 2010, and found very similar results. By using the Hirsch, Macpherson, and Vroman data, however, we are able to test the relationship between union density and middle-class income share over the full period (1979 to 2009) that we have middle class share data.

Our choice of control variables largely follows the work of Mahler, Jesuit, and Paradowski[109] and Volscho,[110] who have analyzed the impact of unions on income distribution in OECD countries.

A large body of literature argues that the economic returns to education have significantly increased in recent years.[111] This argument suggests that generally increasing the education level of a state's workforce should increase the share of income going to its middle class, though it also suggests that increasing the share of a state's workforce with advanced degrees will increase economic inequality and thus reduce the share of income going to the middle class. We measure five levels of education attainment:

- The percent of a state's labor force with less than a high school education
- The percent with a high school degree
- The percent with some college education but no degree
- The percent with a college degree
- The percent with post-college education

Increasing all of these—except post college—should increase the share of income going to the middle class. These data are calculated by using extracts of the Census Bureau Current Population Survey Outgoing Rotation Group data from the Center for Economic and Policy Research to create state level aggregate data. The figures are available from 1979 to 2009.

Another common explanation for changing income distribution is the role of globalization.[112] According to this argument, the ability of globalization to subject American workers to more direct competition with lower-wage workers, and its effect on industry composition, especially on manufacturing employment, weakens the middle class. Thus increased import penetration would reduce income share going to the middle class, as would decreases in manufacturing, or other high-wage sectors.

We use the growth rate of real imports in a state as our measure of import competition. The figures are from the Bureau of Economic Analysis and are available for 1977 through 2009. We control for the structure of the state economy by measuring the share of a state's employment in the mining, manufacturing, communications, utilities, wholesale trade, transportation, professional services and public administration industries. These data are calculated using extracts of Current Population Survey ORG data by the Center for Economic and Policy Research and are available for 1979 to 2009. Our expectation is that decreases in mining, manufacturing, communication, utilities, wholesale trade and public administration - relatively high wage-sectors - will reduce the income share of the middle class. Increases in transportation, a sector with polarized wages, and professional services, a sector characterized by very high pay, are expected to be associated with a decrease in the share of income going to the middle class.[114]

The unemployment rate is found to strongly affect income distribution by reducing the bargaining power of workers and thus reducing compensation. A higher unemployment rate is expected to reduce middle-class compensation while increasing income inequality.[115] Our measure of state unemployment is the annual average of monthly seasonally adjusted unemployment rate for each state. The data are available for every year from 1977 to 2009 and are from the Bureau of Labor Statistics.

The relationship between income levels and income distribution is a subject of long-running academic debate.[116] Though the economic literature has yet to settle on a clear relationship, we include a measure of income level in our regression because it is common practice. Our measure of income is real state GDP per capita and the square of that figure. Our results do not change under alternative specifications of income.

Model

Our investigation looks at the relationship between union membership in a state and the share of income going to the middle class in that state. (Note that an analysis of the relationship between national level union rates and the strength of the national middle class finds a strong correlation between the two.) In our model, we assume a linear relationship between the rate of unionization and the strength of the middle class.

We estimate this model using panel corrected standard errors. This method was first described by Nathaniel Beck, a political scientist at New York University, and Jonathan Katz, a Professor of Social Sciences and Statistics at the California Institute for Technology, and has since become common in the study of political economy.[117]

Panel corrected standard errors is a method to improve the accuracy of estimates when using time-series cross-sectional data. Time-series cross-sectional data are characterized by repeated observations (often annual) on the same fixed political units (usually states or countries), and thus the data is often correlated over time or across states in ways that violate the basic Gauss-Markov assumptions, which are necessary for efficient and unbiased estimation of the effect of variables.[118]

We do not use fixed effects. Beck in a separate article argues that there is no hard and fast rule for deciding whether to include fixed effects, but rather is a judgment call for the researcher, explaining "If variables of interest are being lost because of the inclusion of fixed effects, the researcher must weigh the gains from including fixed effects against their costs. … Like most interesting issues, this is a matter of judgment, not slavish adherence to some 0.05 test level."[119]

We do not include fixed effects because our primary variable of interest, unionization rates, is a slowly changing variable, steadily decreasing over the time period of study. As Beck and Katz argue, "The inclusion of fixed effects almost always masks the impact of slowly changing independent variables."[120] Beck explains that "The fixed effects will soak up most of the explanatory power of those slowly changing variables. Thus, if a variable such as type of bargaining system changes over time, but slowly, the fixed effects will make it hard for such variables to appear either substantively or statistically significant."[121]

Beck and Katz note that using fixed effects in such a case is not just a minor problem, but rather can be "profoundly misleading in assessing the impacts of important independent variables. We stress that we are not simply talking about some minor changes in estimation efficiency, but, rather, estimates that are so far off as to be completely useless."[122]

Results

Our analysis finds a strong and statistically significant positive relationship between unionization and the middle class. In our base model, a one percentage point increase in the unionization rate would increase the share of aggregate income going to the middle class by approximately 0.128 percentage points. This relationship is statistically significant at well beyond the 1 percent level ($p = 0.000$) meaning that it is very unlikely this correlation was due to chance.

All of the other statistically significant variables have the expected signs.

We find that the share of employment in the mining, communications, utilities and public administration sectors are positively correlated with middle class income share. These results are all significant at beyond the 1 percent level. Our results imply that a one percentage point increase in employment in these sectors would increase the middle class share of income by 0.066, 0.619, 0.542, 0.297 percentage points, respectively. We also find that a one percentage point increase in employment in the transportation and professional services sectors would decrease the middle class share of income by 0.422 and 0.131 percentage point, respectively. These results are also significant at the 1 percent level.

Increasing education levels, up to a point, increases middle class income share. A one percentage point increase in high school attainment among a state's population (compared to the percentage with less than a high school degree) increases the middle class share of income by 0.093 percentage points. This relationship is significant at the 1 percent level. A one percentage point increase in college attainment increases the middle class income share by 0.119 percentage points, a result that is statistically significant at beyond the 1 percent level. A one percentage point increase in graduate degree attainment implies a 0.238 percentage point decrease in middle-class income share. This relationship is significant at the 1 percent level as well.

The unemployment rate is negatively correlated with middle-class share of income. Its coefficient of -0.161 implies a one percentage point decrease in the unemployment rate would increase the middle-class share of income by 0.161 percentage points, a result significant at the 1 percent level.

Real GDP per capita is negative and significantly correlated with the strength of the middle class, while the square is positive and significantly correlated with the strength of the middle class.

Summary statistics

Variable	Observations	Mean	Std. dev	Min	Max
Middle class share	1650	49.63	2.48	42.00	55.58
Union rate	1650	15.08	7.11	2.30	38.30
High School	1550	35.58	5.28	22.50	50.54
Some College	1550	26.03	5.20	13.50	39.81
College	1550	18.12	3.72	8.02	30.28
Graduate Degree	1550	9.09	2.59	3.91	21.36
Unemployment	1650	5.85	2.01	2.24	17.37
Imports	1650	5.88	6.79	-13.80	24.30
GDP per cap	1650	38019.00	9765.00	21396.00	123040.00
GDP per cap2	1650	1.63×10^{9}	3.84×10^{9}	4.58×10^{8}	1.52×10^{11}
Mining	1550	1.10	1.86	0.00	13.05
Manufacturing	1550	19.36	8.96	3.11	42.16
Communications	1550	1.13	0.69	0.00	3.73
Utilities	1550	1.22	0.71	0.00	4.95
Wholesale Trade	1550	3.79	0.86	1.32	8.96
Transport	1550	3.76	1.81	0.23	8.88
Professional Services	1550	21.52	4.29	11.55	33.17
Public Administration	1550	4.27	3.00	0.00	15.94

Regression results N = 1550, R^2 = 0.4226

Variable	Coefficient	Z statistic	p-value
Union rate	0.129	12.26	0.000
High School	0.093	3.93	0.000
Some College	-0.015	-0.80	0.424
College	0.119	3.96	0.000
Graduate Degree	-0.238	-6.56	0.000
Unemployment	-0.161	-2.95	0.003
Imports	-0.022	-1.25	0.211
GDP per cap	-0.00004	-3.83	0.000
GDP per cap2	1.01×10^{-10}	3.41	0.001
Mining	0.066	2.10	0.035
Manufacturing	-0.007	-0.64	0.524
Communications	0.619	5.56	0.000
Utilities	0.542	3.92	0.000
Wholesale Trade	0.104	1.49	0.136
Transport	-0.422	-6.54	0.000
Professional Services	-0.131	-4.84	0.000
Public Administration	0.297	8.92	0.000

Endnotes

1 For information on the difficulty private-sector workers face when trying to join a union see Kate Bronfenbrenner, "No Holds Barred: The Intensification of Employer Opposition to Organizing" (Washington: Economic Policy Institute and American Rights at Work Education Fund, 2009); David Madland and Karla Walter, "The Employee Free Choice Act 101" (Washington: Center for American Progress Action Fund, 2009).

2 Jacob Hacker and Paul Pierson, "Winner Takes All Politics: Public Policy, Political Organization, and the Precipitous Rise of Top Incomes in the United States," *Politics and Society* 38 (152) (2010).

3 Ibid.

4 Economic Policy Institute, "The State of Working America: Real median household income, 1979 – 2009," available at: http://www.stateofworkingamerica.org/charts/view/23; and Economic Policy Institute, "The State of Working America: Real Wages at the High End are Growing Faster," available at: http://www.stateofworkingamerica.org/charts/view/15.

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