

# Organized Labor When Things Go South: Unions and the Labor Market Consequences of NAFTA

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# Revival of Labor Unions

## Approval of Labor Unions at Highest Point Since 1965

BY MEGAN BERNAN



TECH

### Employees everywhere are organizing. Here's why it's happening now

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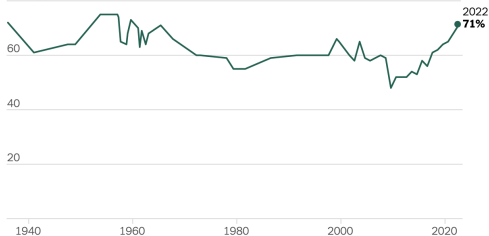
#### KEY POINTS

The first half of 2022 saw a spike in worker union petitioning.

Companies from airlines to retail to tech are seeing employees seek unionization.

### Americans' approval of labor unions

80% approve



Source: Gallup - By The New York Times

# Research Motivation

- ▶ Large trade literature estimates the labor market effects of trade shocks.
- ▶ No focus on **labor unions** or **organized labor laws**.
  - Do labor unions influence the impact that trade shocks have on local labor markets?
  - Do organized labor laws matter in how local labor markets respond to trade shocks?

# This Paper

- ▶ Examine the link between organized labor laws and labor market outcomes following trade liberalization
- ▶ Empirical design:
  1. Use NAFTA as a trade liberalization shock
  2. Observe employment changes during 1990-2000 at commuting zone level
  3. Use information on local union strength to examine any differential labor market effects

# Estimation Challenges

- ▶ No geographically **disaggregate data** on union membership
  - Current Population Survey (CPS) data on union membership available at state level only
  
- ▶ **Endogeneity** of union membership
  - Union membership responds to local economic outcomes

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- ▶ **Endogeneity** of union membership
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- ▶ **Our approach:** use variation in **right-to-work (RTW)** laws
  - RTW laws correlated with unionization rates
  - Most RTW laws passed decades prior to NAFTA

# Preview of Our Findings

- ▶ “Anti-union” (RTW) locations see larger falls in employment
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  - unionized occupations most negatively affected in RTW states



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- ▶ Differences across workers and occupations:
  - demographic groups covered by unions (e.g., blue collar, men) most negatively affected by NAFTA in RTW states
  - unionized occupations most negatively affected in RTW states
- ▶ Negative wage effects in “pro-union” (non-RTW) locations:
  - consistent with concession bargaining
  - job stability at the expense of wage gains

# Main Contributions

We contribute to three literatures:

1. Add to the limited evidence on the local employment effects of NAFTA liberalization [[NAFTA literature](#)]
2. Shed light on the link between organized labor laws and trade-induced employment outcomes [[Unions + labor market outcomes literature](#)]
3. Contribute to the literature examining economic effects of right-to-work (RTW) laws [[RTW laws literature](#)]

# Policy Background: Right-to-Work (RTW) Laws

## 1935 National Labor Relations Act (Wagner Act):

- ▶ Right of employees to organize without fear of retaliation
- ▶ Agreements between employers and employees:
  - “Union shop”: union membership is *condition for cont'd employment*

# Policy Background: Right-to-Work (RTW) Laws

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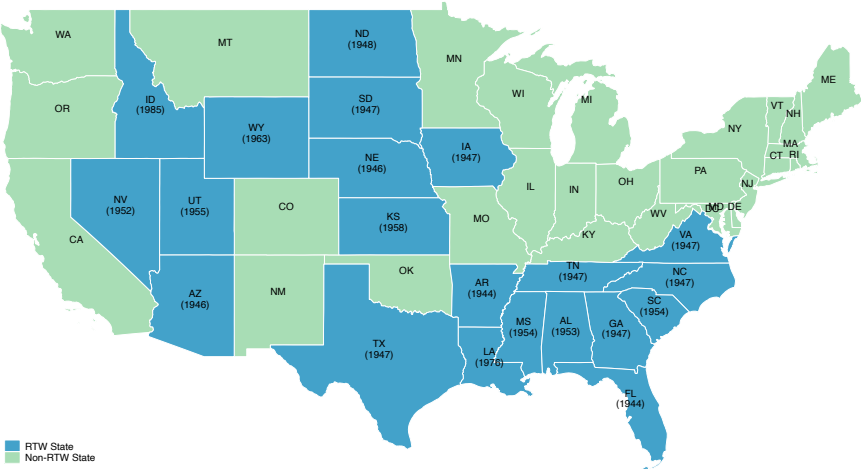
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## 1947+ State right-to-work (RTW) laws:

- ▶ prohibit “union shops”
- ▶ free-rider problem: non-union workers covered by collective bargaining
- ▶ weaken union power and union representation

⇒ This paper:      **RTW  $\approx$  low unionization**

# Right-to-Work (RTW) Laws in 1990



# Estimation Methodology

- ▶ Regression model: (i = commuting zone)

$$\Delta L_i = \beta_1 \tau_i^{1990} + \beta_2 (\tau_i^{1990} \times RTW_i) + \beta_3 RTW_i + X_i' \beta_4 + \epsilon_{ir}$$

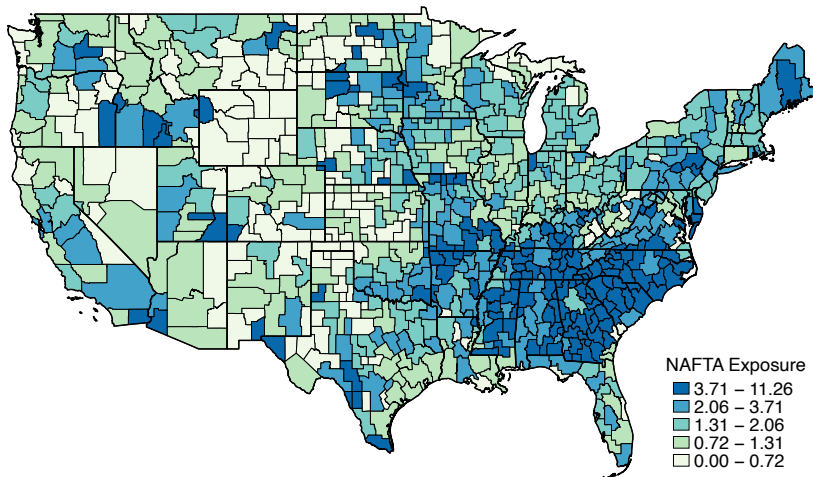
- ▶ NAFTA exposure:

$$\tau_i^{1990} = \frac{\sum_{j \in T} L_{ij}^{1990} \tau_j^{1990}}{\sum_{j \in T} L_{ij}^{1990}}$$

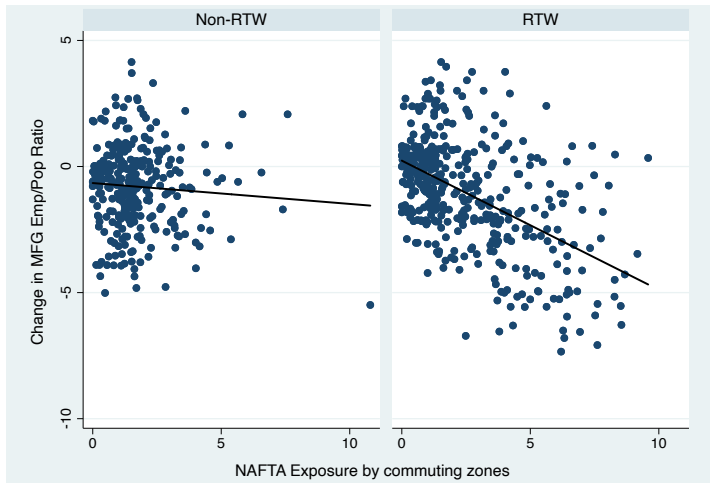
- ▶ Other variables:

- Decadal change in empl share:  $\Delta L_i = \left( \frac{Emp_i}{WkPop_i} \right)_{2000} - \left( \frac{Emp_i}{WkPop_i} \right)_{1990}$
- $RTW_i = 1$  if CZ  $i$  is located in right-to-work state
- $X_i$  = labor force and demographic variables for 1990 (ADH controls)
- census division fixed effects + state clusters

# Exposure to NAFTA by Commuting Zone



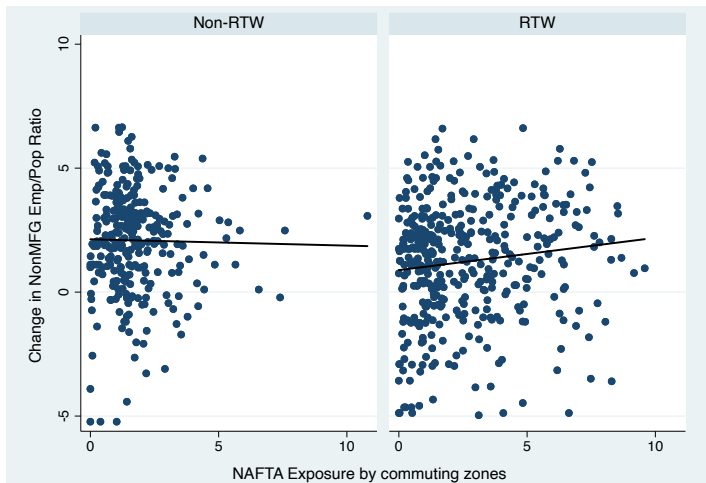
# Raw Data: Mfg Employment Effect of NAFTA by RTW



- ▶ Changes in manufacturing employment share during 1990-2000



# Raw Data: Non-mfg Empl Effect of NAFTA by RTW



- ▶ Changes in non-manufacturing employment share during 1990-2000

# NAFTA and Changes in Employment Shares

	Dependent var: Change in emp/working-age pop (% pts)			
	Total employment		Manufacturing	
$\tau_i^{1990} \times RTW$	0.544 (0.521)	-0.106 (0.109)	-0.459** (0.193)	-0.493*** (0.144)
$\tau_i^{1990}$	-0.697 (0.508)	0.049 (0.079)	-0.103 (0.152)	0.191 (0.149)
RTW State	-2.596** (1.044)	-0.348 (0.320)	0.939* (0.490)	0.818** (0.335)
Share MFG		-0.006 (0.011)		-0.062*** (0.014)
Share Pop College		0.063*** (0.019)		0.002 (0.016)
Share Foreign Pop		-0.149*** (0.016)		0.005 (0.014)
Non-White Share		-0.065*** (0.012)		-0.017** (0.007)
Female LF Share		-0.187*** (0.039)		0.011 (0.030)
Routineness		0.040 (0.047)		-0.166*** (0.055)
Outsourcing		-0.464 (0.407)		-0.505 (0.387)
Obs.	722	722	722	722
$R^2$	0.117	0.828	0.160	0.548
Census division FE	No	Yes	No	Yes

# Magnitude of the Estimated Effects

Manufacturing sector:

▶ **Interquartile increase** in exposure to NAFTA (1.19 pp):  
⇒ **0.59 pp** ↓ in mfg emp share in RTW rel to non-RTW CZs

▶ **Observed change** in mfg emp share in RTW: -2.25 pp

Marginal effect of NAFTA for CZs in RTW = - 0.64 pp

⇒ **explain 28.4%** of the observed decline

# Threats to Identification

## 1. pre-existing trends

- CZs in RTW states are systematically different from non-RTW

## 2. omitted variables correlated with exposure to NAFTA

E.g., NAFTA effect heterogeneous for reasons other than unionization

E.g., RTW laws capture “pro-business” policies (Holmes, 1998)

## Robustness checks:

⇒ augment baseline model with additional sets of controls

# Robustness Exercises I: Model Identification

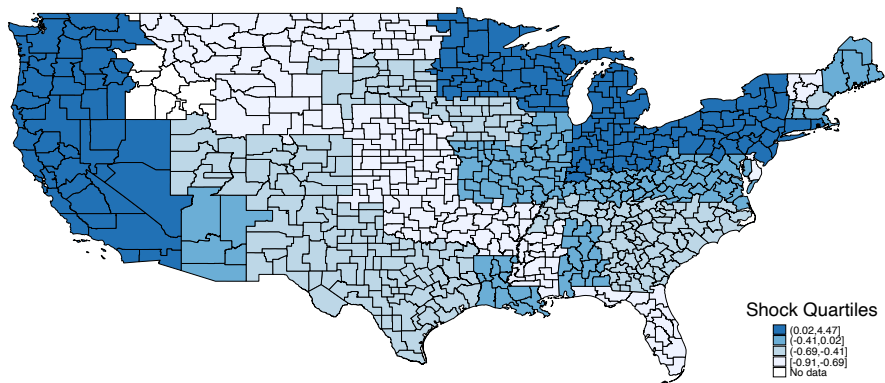
	Dependent var: Change in manufacturing emp/working-age pop (% pts)				
	State FE (1)	CZ × RTW (2)	CZ × NAFTA (3)	1980-2000 (4)	Placebo (5)
$\tau_i^{1990} \times RTW$	-0.424*** (0.135)	-0.298* (0.163)	-0.522*** (0.174)		-0.079 (0.186)
$\tau_i^{1990}$	0.224 (0.141)	0.072 (0.133)	-0.819 (0.954)		0.095 (0.226)
Exposure × RTW × Post				-0.414*** (0.142)	
Exposure × Post				0.096 (0.140)	
CZ fixed effects				yes	
Obs.	722	722	722	1,444	722
$R^2$	0.615	0.574	0.569	0.411	0.504

## Robustness Exercises II: Unionization Measures

Consider alternative measures of unionization:

- ▶ “Wagner Shock” (Farber et al, 2021)
  - number of new union members registered between 1935-38
  - state-level variable
  - local predisposition of workers to organize

# Distribution of *Wagner Shock* (1935-1938)



**Notes:** The map displays the Wagner Shock, as constructed in Farber et al (2021)

## Robustness Exercises II: Wagner Shock

	Dependent var: Change in mfg emp/working-age pop (% pts)				
	Baseline (1)	State FE (2)	CZ×Wagner (3)	CZ×NAFTA (4)	1980-2000 (5)
$\tau_i^{1990} \times \text{Wagner Shock}$	0.232*** (0.069)	0.151** (0.069)	0.262*** (0.080)	0.217* (0.123)	
$\tau_i^{1990}$	-0.145 (0.101)	-0.050 (0.112)	-0.115 (0.080)	-0.461 (0.834)	
Exposure × Wagner Shock × Post					0.297*** (0.097)
Exposure × Post					-0.169** (0.082)
Obs.	713	713	713	713	1,426
$R^2$	0.549	0.607	0.568	0.570	0.414



# Heterogeneity Analyses

- ▶ Alternative NAFTA exposure measures
- ▶ Employment effects by demographic groups
- ▶ Employment effects by occupation groups (high vs low union)
- ▶ Robustness to elimination of textile and apparel sectors

# Wage Effects

Concession bargaining:

Do labor unions prioritize job stability by giving up wage gains?

$$w_{pi} = \gamma X_p + \alpha_i + \beta_1 \tau_i^{1990} Y_{r_p}^{2000} + \beta_2 (\tau_i^{1990} Y_{r_p}^{2000}) \times RTW_i + \epsilon_{ip}$$

	Dependent var: log worker-level wage		
	Baseline	RTW	RTW & RCA
$\tau_i^{1990}$	-0.158 (0.246)	-1.832*** (0.456)	-1.318** (0.402)
$\tau_i^{1990} \times RTW$		1.666*** (0.401)	1.320*** (0.346)
Obs.	3347345	3347345	3347345

# Conclusions

- ▶ Examine whether organized labor laws influence the response of local labor markets to trade liberalization shocks
- ▶ Focus on the impact of NAFTA on manufacturing employment in right-to-work (RTW) states
- ▶ Find evidence that mfg workers in RTW locations are harder hit by NAFTA
- ▶ Negative wage effects in non-RTW locations consistent with concession bargaining