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The Decline of Unionization

Trade union membership has declined precipitously in the United States in the last 15 years. Union members made up about 25 percent of those employed in the private, nonagricultural sector of the economy in 1973. By 1985, that figure had dropped to 14 percent.

In **The Decline of Unionization in the United States: What Can Be Learned from Recent Experience?** (*NBER Working Paper No. 2267*), NBER Research Associate **Henry Farber** finds two reasons for this decline. One reason is increased employer hostility and resistance toward unions and union organizing activity. The second explanation is a decreased desire for unionization by nonunion workers who are becoming more satisfied with their jobs and have less faith that a union would be able to improve their wages and working conditions. Shifts in the demographic, industrial, and occupational composition of employment do not seem to explain this decrease in unionization.

Farber's data come from the "Quality of Employment Survey" conducted by a University of Michigan group in 1977, and from a 1984 Harris poll. Both of these surveys asked nonmanagerial, nonunion workers if they would vote for union representation on their current jobs if a secret ballot election were held. Farber estimates that the demand for union representation among nonunion workers declined from about 40 percent in 1977 to 32 percent in 1984, while the total demand for union representation fell from nearly 60 percent in 1977 to 47 percent in 1984. By his calculations, there was an 11 percent decline in actual unionization among those surveyed. Farber figures that six percentage points of this decline represent reduced demand for union representation and five points come from a drop in the supply of union jobs relative to demand.

"...two reasons for this decline [in unionization are]...increased employer hostility and resistance toward unions and union organizing activity [and]...a decreased desire for unionization by nonunion workers who are becoming more satisfied with their jobs and have less faith that a union would be able to improve their wages and working conditions."

Why have managers become more antiunion? Farber argues that it is likely because of an increase in the costs of unionization for employers. There has been a major increase in the level of foreign competition over the past decade, particularly in the manufacturing sector that has formed the heart of the union movement in the United States. In 1958, only about 3 percent of manufacturing sales in the United States were imports. This rose to about 7 percent by 1977 and to 11 percent by 1984. "In the past, with no significant foreign competition . . . American firms could afford to accommodate higher costs associated with

labor unions by sharing some of the gains of a relatively closed economy with their workers," Farber writes. "However, the increased openness of the American economy may make it prohibitively expensive to bear these higher costs because higher product prices will not be borne by consumers who have attractive foreign alternatives."

As for employees, the two surveys show a dramatic improvement between 1977 and 1984 in nonunion workers' satisfaction with their jobs. Relatively more pleased with pay, job security, and other elements of their work, these workers are less likely to demand union representation. Because there was a decline in real earnings in this period, the general increase in worker satisfaction with pay suggests that the standards against which workers judge their wages fell during the economic and competitive dislocations of the late 1970s and early 1980s. Although a majority of nonunion workers still believe that unions improve the wages and working conditions of workers, the size of that majority fell substantially from 1977 to 1984. Farber concludes that if unions are to recoup their losses, they need to convince relatively satisfied workers that unions provide real value in the current competitive environment.

With a changed political and social climate in the nation, employers are calling into serious question the role of trade unions in American society and the economy for the first time since that role was defined in the 1930s, Farber suggests. "With the economic recessions of the 1970s and 1980s, more overt antiunion behavior became socially and politically acceptable, turning what had been a stagnation of the union movement into a virtual rout." DF

Why Do Japanese Save More Than Americans Do?

In the 1970s, the estimated private saving rate was 8 percent in the United States and 18 percent in Japan. According to NBER Research Associates **Fumio Hayashi, Takatoshi Ito,** and **Joel Slemrod,** differences in housing finance, in rates of income growth, and in the nature of bequest motives in the two countries are important reasons for the difference in saving rates.

In **Housing Finance Imperfections and Private Saving: A Comparative Simulation Analysis of the United States and Japan** (*NBER Working Paper No. 2272*), the authors note that the typical Japanese household buys its first house later than its U.S. counterpart, and with a higher proportional down payment. The average first-time buyer in Japan is 40 years old, versus 30 in the United States; down payments average 35 to 40 percent of the purchase price in Japan and 25 to 30 percent in the United States. But while saving for a down payment contributes to the higher aggregate saving rate in Japan, it does not explain all of the difference, the three authors find.

Japan and the United States also treat interest income from savings and mortgage interest in different ways. That is, in the United States savings interest is taxed and mortgage interest is deductible; in Japan the reverse is true. But Hayashi, Ito, and Slemrod calculate that reform of these taxes would have only a small impact on saving in either country. For example, they estimate that allowing tax-exempt saving accounts in the United States would raise the aggregate saving rate by about 1.5 percent of income. Removing the deductibility of mortgage interest would cause the saving rate to decline by less than 0.5 percent of income. A combination of both reforms would cause the saving rate to increase by only one percentage point, the authors estimate.

Similarly, if tax-exempt saving accounts were eliminated in Japan, as the government has proposed, their saving rate would fall by 2 to 3 percent of income. Introducing deductibility of mortgage interest would change Japanese saving so slightly that a combination of both reforms would cause the saving rate to dip by only 2 to 3 percent of income. Thus, the authors conclude that "differences in the tax incentives between the two countries explain only one to three percentage points out of the ten-percentage-point gap between the savings rates of the two countries."

Since neither down payment ratios nor taxes seem to explain the difference in saving, the authors conclude that it results in part from different income growth rates over generations in the two countries. The balance of the difference, they speculate, comes from bequests: in their model, the actual Japanese saving rate is reproduced only if benefactors plan to leave much more than Americans typically bequeath.

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International Investment In and By the United States

Recently there has been a large inflow of foreign direct investment into the United States that roughly tripled the share of foreign-owned companies in the United States since 1950 and doubled it in the last decade. Foreign direct investment in the United States has now reached about three-quarters of the value of U.S. investment abroad according to the official figures. Yet foreign-owned firms accounted for only about 3.5 percent of total U.S. employment in 1984, even after all the recent growth in foreign direct investment in the United States. Their shares in some manufacturing industries were considerably higher, however, according to NBER Research Associate **Robert Lipsey.** Within manufacturing, foreign firms accounted for almost 40 percent of chemical industry employment, but for less than 10 percent in all the other industries.

The foreign shares in service industries, aside from wholesale trade, have increased but remained below 3 percent in 1984. "To some extent, these figures reflect U.S. comparative advantage in service industry production, but the fact that U.S. companies' direct investment in foreign service industries is not very large suggests that it may be difficult to carry the skills and experience of firms in these industries across national borders," Lipsey writes in **Changing Patterns of International Investment In and By the United States** (*NBER Working Paper No. 2240*).

Aside from the increased flow of direct investment into the United States in recent years, there have been major shifts in the U.S. international capital position stemming largely from changes in portfolio investment. The United States became a very large capital importer in 1983–5. U.S. banks reduced their net lending to insignificant amounts overall, while foreign countries added greatly to their holdings, not only of direct investment but also of U.S. Treasury securities, other U.S. securities, and deposits in U.S. banks.

The growth of U.S. bank claims on foreigners was concentrated in a very short period after the second rise in oil prices, with most claims accumulated in 1981 and 1982. That concentration is unpleasantly reminiscent of the similar concentration of U.S. portfolio investment in the late 1920s. The stream of debt moratoriums and defaults are another reminder of prewar lending patterns.

The pattern of U.S. investment has changed many times since the beginning of this century, however, Lipsey notes. Before World War I, the United States was an international debtor. Between the two world wars, the United States was first a lender and then a refuge for foreign capital. After World War II, the United States became the world's major lender and creditor. In the last few years, we have again become a borrower in world markets (and, according to the official accounts, a very large net debtor).

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Most foreign investment in the United States has always been portfolio investment: investment that does not involve control of U.S. firms by foreign enterprises. Most U.S. investment abroad has typically been direct investment: investment in foreign enterprises controlled by U.S. companies. The major expansion in U.S. direct investment took place in the 1950s and 1960s, as U.S. firms took advantage of the greater advances in communication and transportation to spread their production activities around the world. The peak in the importance of foreign assets relative to the domestic assets of U.S. companies probably was reached during the early 1970s.

The bulk of U.S. direct investment abroad has always been in goods production. Within that category there has been a shift away from primary production—agriculture and mining, including petroleum—which were between one-third and one-half of the total in the 1950s, to manufacturing, which reached its peak share in the late 1960s or early 1970s.

Since the 1960s, there has been growth in the trade and services sector, to almost one-third of total direct investment by the mid-1980s. Most of this is in wholesale trade and in finance. Other services, including oil field services, still represented less than 5 percent of U.S. direct investment abroad in 1985.

Breath Tests May Cut Highway Deaths

If all states allowed police to give breath tests to suspected drunk drivers *before* arresting them, there would be 2000 fewer traffic deaths each year, according to a new study by NBER Research Associate **Henry Saffer** and **Frank Chaloupka.** Breath testing

on the highway increases the probability of arrest for drunk drivers, since police are often reluctant to arrest drivers first and then take them to a station for a blood sample. On-the-spot testing thus increases the chances of getting caught and discourages drunk driving, Saffer and Chaloupka report in *NBER Working Paper No. 2301*.

In 1985, only 23 states allowed police to give breath tests without first arresting drivers they suspected of being drunk. Saffer and Chaloupka use mortality rates for the 48 contiguous states for 1980–5 and estimate that on-the-spot breath testing would have lowered the number of traffic fatalities from about 44,000 to 42,000 in 1985.

Traffic accidents are the leading cause of death for people under age 35 and the third leading cause for people 35 to 54. Alcohol is involved in about half of these accidents. Saffer and Chaloupka estimate that higher taxes on alcohol and a higher legal drinking age would also lower traffic deaths. Finally, Saffer and Chaloupka find that higher state income and a lower percentage of drivers under age 24 are also associated with lower highway mortality.

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