# THE PAY OF UNION LEADERS

Debunking the "Big" Labor Myth





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## THE PAY OF UNION LEADERS: DEBUNKING THE "BIG" LABOR MYTH ILEPI-LEP Economic Commentary #11

### INTRODUCTION

Some think tanks, media organizations, and politicians have asserted that most, if not all, union leaders are overpaid officials who are insulated from the concerns of their members. "[M]odern realities are colliding with problems that have long turned off workers," claimed the Heritage Foundation, and "members' dues [are] funding union bosses' lavish salaries." Fox News has asserted that, "[t]he union bigwigs are well-insulated from the paycheck-to-paycheck lives of most schoolteachers" while The Washington Times wrote that "despite unions' focus on income equality... the rank-and-file workers toiling in factories and construction sites that the union officers represent especially pale in comparison with the top officials tasked with representing them." And the 2012 Republican Party platform claimed that the Obama Administration had been "concentrating power in the Washington offices of union elites" rather than serving workers.

In making these kinds of claims, critics typically assert, incorrectly, that workers are forced to join labor organizations, and that the dues they pay go primarily into the pockets of union "bosses." The National Right To Work Committee, for instance, has said that "[u]nion officials wasted no time grabbing power over workers and filling their coffers with forced dues" after the National Labor Relations Act was passed in 1935. The conclusion reached by these commentators is that, as a *class of executives*, labor union officials are paid too much and are apathetic toward the daily economic concerns of their members. To a great extent, the charge of overpaid union leaders who oversee large organizations with underserved workers is responsible for the derogative narrative of "Big" labor.

However, claims of overpaid union officials have rarely been subject to critical analysis, and are thus often either unsupported or contradicted by the evidence. Academic studies of union officer pay have found that labor organization executives and staff do not earn "opulent" or unjustified salaries. Instead, union officer compensation is a determinant of the union's internal political structure, size, power, the complexity of job responsibilities, and (importantly) bargaining effectiveness. Studies have also repeatedly demonstrated that union executive pay is closely related to the relative earnings of the membership. In summary, there is a rational performance basis for the level of a union official's compensation.<sup>6</sup> At best, accusations of overpaid union officers rely on cherry-picked examples that are unrepresentative of organized labor as a whole. This Economic Commentary evaluates actual data to assess the merits of the claim that union officials are extravagantly overpaid. We conclude that blanket notions of "Big" labor leaders who earn unwarranted salaries are unsupported by the evidence.

## WHAT DO UNIONS DO ABOUT INCOME INEQUALITY?

Workers are not forced to join a union anywhere in America. Even in states without "right-to-work" laws, employers and collective bargaining units are at liberty to negotiate a range of union security clauses. They may, but are not *mandated* to, agree to a provision which requires all workers covered by a contract to pay dues or fair share fees to cover the cost of bargaining

activities. It is important to note that covered employees under this arrangement are *only* required to pay for bargaining costs and are not forced to finance political or non-bargaining activities. Since they receive the benefits of coverage (such as a higher wage, better health and retirement benefits, grievance representation, and a voice at work), fair share clauses ensure that no one "free-rides" on the contributions of their peers.

In addition, despite declining rates of unionization, a majority of Americans continue to report a positive view of labor unions. In 2013, just 11.3 percent of the American workforce was unionized. When asked about labor unions, however, 53 percent of adults nationwide report that they approve of unions compared to 38 percent who disapprove. A majority (54 percent to 40 percent) of adults oppose "legislation that would reduce the collective bargaining rights and pay of unionized state public employees. Among registered voters, 60 percent report that unions are still necessary to protect workers compared to 36 percent who believe that they are no longer necessary. Furthermore, 78.1 percent of residents in union households and 70.1 percent of those in nonunion households report that they have "some" or "a great deal" of confidence in the leaders of organized labor to "do the right thing. A substantial number of workers— perhaps as many as 60 million— would join a union today if they could. Thus, despite the propagation of the "Big" labor leader myth, Americans acknowledge and support the benefits of collective bargaining.

The most obvious benefit from unionization is that membership raises and compresses wages. The preponderance of economic research on labor unions has found that they raise worker wages by between 10 and 20 percent. Lower- and middle-class workers, however, benefit most: In the 1970s and 1980s, unions raised the wages of the working class by up to 32 percent and of the middle class by up to 19 percent. Recently, in 2008, the union hourly wage premium was estimated to be 11.9 percent for the average worker in America. But the wage effect was higher (15.0 to 20.6 percent) for the bottom 40 percent of earners and 13.7 percent for the median worker. As a result, unionization has been found to reduce income inequality in the national economy by as much as 10 percent.

Figure 1 displays data from the Current Population Survey Outgoing Rotation Groups (CPS-ORG) for the ten-year period from 2004 through 2013. The CPS-ORG is a monthly survey of 50,000 to 60,000 American households conducted by the United States Department of Labor Bureau of Labor Statistics to measure the labor market, including the monthly unemployment rate. After adjusting for inflation, the average union worker earned \$25.66 per hour from 2004 through 2013, or 19.5 percent more than the average nonunion worker (\$21.48 per hour).

Figure 1: Hourly Wage and Salary Income of Workers, Union vs. Nonunion, 2004-2013

| Hourly Wage and Salary Income of Workers from 2004-2013 (In Constant 2013 Dollars) |               |                   |                     |  |  |
|--|---------------|-------------------|---------------------|--|--|
| Wage Distribution  | Union Workers | Non-Union Workers | Union Difference, % |  |  |
| Average Worker   | \$25.66       | \$21.48           | 19.5%               |  |  |
| Bottom 10 Percent  | \$11.50       | \$8.50            | 35.3%               |  |  |
| Bottom 25 Percent  | \$16.00       | \$11.00           | 45.5%               |  |  |
| Median Worker  | \$22.97       | \$16.53           | 39.0%               |  |  |
| Top 25 Percent   | \$31.60       | \$26.01           | 21.5%               |  |  |
| Top 10 Percent   | \$42.02       | \$40.00           | 5.1%                |  |  |
| Top 1 Percent  | \$77.38       | \$89.98           | -14.0%              |  |  |

Source: Current Population Survey – Outgoing Rotation Groups (CPS-ORG) from 2004 through 2013, Center for Economic and Policy Research Uniform Data Extracts, 2013. Statistics are adjusted by the outgoing rotation group earnings weight to match the total population 16 years of age or older.

The difference between union wages and nonunion wages is largest at the bottom of the income distribution (Figure 1). The bottom 10 percent of union workers earned 35.3 percent more than

the bottom 10 percent of nonunion workers. Similarly, the bottom 25 percent of earners took home 45.5 percent more in wages if they were union members, the median worker earned 39.0 percent more, and the top 25 percent brought in incomes that were at least 21.5 percent higher. In addition, the top 10 percent of union earners still received slightly more (5.1 percent) than their nonunion counterparts. For the "Top 1 Percent" of the income distribution, however, union members earned 14.0 percent less than nonunion members. Put differently, for nonunion workers, the "Top 1 Percent" earned 5.4 times the income of the median employee. For union members, the "Top 1 Percent" earned just 3.4 times the income of the median employee. Once again, unions raise and compress wages.

## COMPARISON OF PAYROLL COSTS

Union dues and fair share fees do not fund large or lucrative operations. In 2012, there were approximately 14,349,400 union members across the country. According to the County Business Patterns dataset released by the U.S. Census Bureau, an estimated 154,611 workers were employed by labor unions and similar organizations in 2012, representing 1.1 percent of the union workforce and 0.1 percent of total payroll employment in America. In comparison, approximately 3,037,299 men and women were employed in the "management of companies and enterprises" sector, or 2.6 percent of total payroll employment. Given that labor organizations perform administrative tasks on behalf of union members and that managers perform administrative tasks for all workers, there are actually disproportionately *fewer* labor leaders than business leaders per worker.

For a comparison of organizational size and compensation, Figure 2 reports data on 631 comprehensive sectors of employment in the U.S. labor market. The information is sorted into sectors by five-digit North American Industry Classification System (NAICS) codes and is ranked according to average *payroll cost* per worker. Payroll cost includes all forms of compensation, such as salaries, wages, bonuses, vacation allowances, sick-leave pay, and contributions to qualified pension plans. In 2012, the average payroll cost per worker was \$46,699 across the country. The five sectors with the highest employee payroll costs were all in the financial industry, with the top paid sector—investment bankers and securities dealers—getting \$340,417 in average compensation annually. Due to the seasonal nature of the sector, skiing facilities had the lowest payroll costs per employee in the United States.

Payroll costs in labor unions and similar labor organizations are not exorbitant. In fact, at \$33,595 per worker in 2012, union payroll costs ranked 479th overall on the list of 631 sectors (or in the bottom quartile). Compared to comparable sectors, workers in union organizations actually appear to be *underpaid*. Labor unions perform the administrative functions of the labor movement and many also employ lawyers and researchers. In contrast with the per-worker costs of unions, however, managers of companies and enterprises were paid \$104,041, employees at law offices earned \$85,286, and social science researchers cost organizations \$63,145 per worker.

Professional organizations (e.g., legal, health, and engineers' associations) and business organizations (e.g., chambers of commerce and trade associations) respectively paid \$71,079 and \$67,069 in per-worker payroll costs in 2012, far more than the \$33,595 average for unions. Labor unions and similar labor organizations actually pay compensation levels similar to organizations engaged in social advocacy, worker services, and community services. Payroll costs in social advocacy organizations, temp agencies, community housing services, and community food services ranged from \$25,421 to \$42,400 per worker.

Figure 2: Payroll Costs by Sector of Employment, Labor Unions vs. Selected Sectors, 2012

|      | Economic Census: Payroll Costs by Sector, Five-Digit NAICS Codes, 2012 |             |                     |                    |  |  |
|------|--|-------------|---------------------|--------------------|--|--|
| Rank | Sector of Employment   | Workers     | Annual Payroll      | Payroll Per Worker |  |  |
|      |  |             |                     |                    |  |  |
|      | United States total for all sectors                                    | 115,938,468 | \$5,414,255,995,000 | \$46,699.39        |  |  |
| 1    | Investment banking & securities dealing                                | 105,814     | \$36,020,879,000    | \$340,416.95       |  |  |
| 2    | Portfolio management   | 261,136     | \$61,735,177,000    | \$236,410.06       |  |  |
| 3    | Commodity contracts dealing  | 12,112      | \$2,478,254,000     | \$204,611.46       |  |  |
| 4    | Securities & commodity exchanges                                       | 5,780       | \$1,086,404,000     | \$187,959.17       |  |  |
| 5    | Reinsurance carriers   | 11,797      | \$1,939,449,000     | \$164,401.88       |  |  |
| 30   | Management of companies & enterprises                                  | 3,037,299   | \$316,002,701,000   | \$104,040.70       |  |  |
| 51   | Offices of lawyers   | 1,059,395   | \$90,351,912,000    | \$85,286.33        |  |  |
| 105  | Professional organizations   | 84,045      | \$5,973,832,000     | \$71,078.97        |  |  |
| 119  | Business associations  | 109,463     | \$7,340,487,000     | \$67,059.07        |  |  |
| 139  | Research & development in the social sciences                          | 36,503      | \$2,304,974,000     | \$63,144.78        |  |  |
| 386  | Social advocacy organizations  | 149,214     | \$6,326,733,000     | \$42,400.40        |  |  |
| 406  | Employment agencies & search services                                  | 230,359     | \$9,405,969,000     | \$40,831.78        |  |  |
| 479  | Labor unions & similar labor organizations                             | 154,611     | \$5,194,221,000     | \$33,595.42        |  |  |
| 524  | Community housing services   | 123,752     | \$3,630,360,000     | \$29,335.77        |  |  |
| 555  | Community food services  | 41,255      | \$1,048,735,000     | \$25,420.80        |  |  |
| 631  | Skiing facilities  | 74,246      | \$698,571,000       | \$9,408.87         |  |  |

Source: 2012 County Business Patterns, United States Census Bureau. Data available at: http://www.census.gov/econ/cbp/.

These numbers directly refute claims that labor unions operate bloated budgets with an overpaid staff that is insulated from the daily economic realities of their members. While it is possible that a commentator could find a cherry-picked example of a union with leaders who are luxuriously compensated, this is not the norm for the typical union across America.

## ARE LABOR'S LEADERS IN THE TOP 1 PERCENT?

While labor unions do not pay above-market wages to their internal employees, what should be made of the fact that 428 union leaders were paid more than \$250,000 in 2012?<sup>18</sup> First, there were 14,349,400 union members in 2012. The 428 leaders who were paid \$250,000 or more account for just 0.003 percent of all union members. In comparison, fully 2.9 percent of American households earned \$250,000 or more in 2012.<sup>19</sup> Union leaders are therefore far less likely to be in the "Top 1 Percent" than leaders in other sectors and organizations.

Second, of the top 20 highest-paid union leaders, 10 individuals were affiliated with professional athletics or on-screen entertainment. These leaders represent workers who earn at least six-figure salaries; consequently, their compensation should be unsurprising. Still, in professional athletics, the \$2.55 million salary of NFLPA Executive Director DeMaurice Smith was less than one-tenth the amount paid to Commissioner Roger Goodell in 2012 (\$29.50 million). Compared to the reported average professional football player salary of \$1.90 million, the union leader earned 1.3 times as much while the league's executive earned 15.5 times as much (Figure 3).

In fact, the reported salaries of many of the highest-paid union leaders in 2012 fall far below the comparable figures for the CEOs and executives of the relevant private sector institutions (Figure 3). AFL-CIO President Richard Trumka earned 5.9 times as much as the average American worker compared to 107.0 times for Tom Donohue, CEO of the U.S. Chamber of Commerce. At \$8.75 million, the CEO of McDonald's made 409.3 times as much as the average

food service worker in 2012 while the highest-paid official in *any* local of the United Food & Commercial Workers international union took home 25.7 times as much. Additionally, the United Airlines CEO earned 61.4 times as much as the average pilot while the Air Line Pilots Association President earned 4.5 times as much.

Figure 3: Comparison of Executive and Union Leader to Average Worker Pay Ratios, 2012<sup>20</sup>

| Top Executives Compared to the Average Worker by Industry, 2012 |  |              |                            | Pay Ratio   |                             |                                       |                              |
|---|--|--------------|----------------------------|-------------|-----------------------------|---------------------------------------|------------------------------|
| Industry  | Institution<br>(Last Name)             | Salary       | Labor Union<br>(Last Name) | Salary      | Average<br>Worker<br>Salary | Institution<br>Executive to<br>Worker | Labor<br>Leader to<br>Worker |
| All<br>Industries   | Chamber of<br>Commerce<br>(Donohue)    | \$4,900,000  | AFL-CIO<br>(Trumka)        | \$272,250   | \$45,790                    | 107.0                                 | 5.9                          |
| Sports<br>Entertainment   | NFL<br>(Goodell)                       | \$29,500,000 | NFLPA<br>(Smith)           | \$2,550,046 | \$1,900,000*                | 15.5                                  | 1.3                          |
| Food<br>Service   | McDonald's<br>(Skinner)                | \$8,750,000  | UFCW 464<br>(Niccollai)    | \$549,497   | \$21,380                    | 409.3                                 | 25.7                         |
| Airline<br>Transportation                                       | United Airlines<br>(Smisek)            | \$7,900,000  | ALPA<br>(Prouty)           | \$584,780   | \$128,760                   | 61.4                                  | 4.5                          |
| Civil<br>Construction   | Fluor Corporation<br>(Seaton)          | \$6,750,000  | LIUNA<br>(O'Sullivan)      | \$621,388   | \$34,490                    | 195.7                                 | 18.0                         |
| Public<br>Education   | Chicago Public<br>Schools<br>(Brizard) | \$250,000    | CTU 1 & IFT<br>(Lewis)     | \$235,773   | \$76,000*                   | 3.3                                   | 3.1                          |
| Television<br>Entertainment                                     | CBS<br>(Moonves)                       | \$62,200,000 | WGA- West<br>(Young)       | \$462,798   | \$65,130                    | 955.0                                 | 7.1                          |
| Automobile<br>Manufacturing                                     | Ford Motors<br>(Mulally)               | \$20,830,000 | UAW<br>(King)              | \$162,971   | \$34,500                    | 603.8                                 | 4.7                          |
| Health Care<br>Pharmacists                                      | CVS Caremark<br>(Merlo)                | \$20,300,000 | GFPP<br>(Vogel)            | \$395,761   | \$114,950                   | 176.6                                 | 3.4                          |
| Federal<br>Government   | Executive Branch (Obama)               | \$400,000    | AFSCME<br>(Saunders)       | \$353,580   | \$45,790                    | 8.7                                   | 7.7                          |

Source: For a full list of sources, please see endnote 19. Unless denoted by an asterisk (\*), average worker salary is from the U.S. Department of Labor Bureau of Labor Statistics "May 2012 National Occupational Employment and Wage Estimates," found here: http://www.bls.gov/oes/2012/may/oes\_nat.htm#51-0000. The average worker salary for "All Industries" and "Federal Government" is the average salary for all workers nationwide in 2012.

For public sector workers, the difference between executive and labor leader compensation is smaller, but still tends to favor the executive (Figure 3). President Obama earns an annual salary of \$400,000 each year (and the average member of Congress is worth \$3.9 million<sup>21</sup>) while the President of the American Federation of State, County and Municipal Employees earns \$353,580 per year. Former CEO of the Chicago Public School System, Jean-Claude Brizard, took home \$250,000 in 2012 while the *Chicago Sun-Times* reported that Karen Lewis earned \$235,773 from her two salaries as President of the Chicago Teachers Union and Vice President of the Illinois Federation of Teachers. Finally, construction laborers typically work on public works projects. LIUNA General President O'Sullivan earned 18.0 times as much as the average construction laborer in America while the CEO of the Fluor Corporation (which bids and works on many civil projects financed by governments) made 195.7 times as much. Thus, when put in context, even most cherry-picked union leader salaries demonstrate the lack of validity to the "Big" labor claim.

## ARE LABOR LEADERS OVERCOMPENSATED?

Leaders and top staff at labor unions are generally compensated in accordance with the market rate for executives and administrators. Figure 4 presents wage data from the Current Population Survey for persons employed in management occupations, business operations occupations, and

legal occupations over the ten-year period from 2004 through 2013. Hourly wage and per-hour salaries are adjusted for inflation and reported in constant 2013 dollars.

For union staff in these administrative occupations, the average real wage was \$35.99 per hour from 2004 through 2013 (Figure 4). This hourly wage and salary income level is on par with the average income for many industries with proportionately high levels of unionization. Average real wages for comparable administrative staff were \$38.99 per hour in utilities, \$38.89 per hour in mining, \$38.27 per hour in manufacturing, \$34.77 per hour in public administration, and \$33.10 per hour in construction. Union leaders and their top administrative staff are not being paid exorbitant hourly incomes.

Figure 4: Hourly Wage and Salary Income of Leadership and Administrative Occupations, 2004-2013

| Hourly Wage and Salary Income of Persons in Management, Business<br>Operations, and Legal Occupations from 2004-2013 (In Constant 2013 Dollars) |              |                |           |  |
|---|--------------|----------------|-----------|--|
| Industry of Employment  | Observations | Annual Workers | Real Wage |  |
| Scientific research & development services  | 7,785        | 586,370        | \$42.30   |  |
| Utilities   | 2,422        | 170,449        | \$38.99   |  |
| Mining  | 1,321        | 87,411         | \$38.89   |  |
| Manufacturing   | 26,149       | 1,974,726      | \$38.27   |  |
| Information & communication services  | 7,157        | 543,807        | \$37.15   |  |
| Labor unions  | 530          | 35,383         | \$35.99   |  |
| Wholesale trade   | 5,525        | 416,906        | \$35.16   |  |
| Financial, banking, & insurance services  | 23,906       | 1,740,215      | \$34.99   |  |
| Public administration   | 18,853       | 1,168,636      | \$34.77   |  |
| Professional, management, & administrative services   | 19,104       | 1,412,624      | \$34.41   |  |
| Health services   | 13,248       | 937,501        | \$33.33   |  |
| Construction  | 11,299       | 823,440        | \$33.10   |  |

Source: Current Population Survey – Outgoing Rotation Groups (CPS-ORG) from 2004 through 2013, Center for Economic and Policy Research Uniform Data Extracts, 2013. Statistics are adjusted by the outgoing rotation group earnings weight to match the total population 16 years of age or older.

Finally, the CPS-ORG dataset is used in a simple regression to explore whether union leaders earn more than other leaders, *after netting out* all other important factors (Figure 5). In addition to the reported variables, the analysis accounted for age, gender, race/ethnicity, urban status, marital status, immigrant status, citizenship, public sector employment, usual hours worked, and veteran status factors. The regression is weighted to match the U.S. population using sampling weights.

After accounting for nearly all observable factors, there is no statistically significant impact on hourly income for those in administrative and legal occupations if they are employed by a labor union (Figure 4). That is, leaders and top staff do not have higher incomes in labor unions compared to what they would otherwise earn in the same position in a different industry. Union membership is statistically associated with an average increase in hourly wage and salary income of 10.3 percent for administrative workers. Thus, union leaders may earn more because they are union members and are responsible for helping to raise wages, but their compensation aligns with the overall union wage effect. This influence on union leaders' wages thus serves as a performance-based reward. On the other hand, right-to-work laws are statistically associated with an average hourly income drop of 4.5 percent for employees in management, business operations, and legal occupations—regardless of whether or not they were union members. The largest determinant of a leader's wage was his or her level of educational attainment: leaders with bachelor's degrees or more earned between 32.4 percent and 60.6 percent more on average than those with high school diplomas or an equivalent degree. Once again, the data illustrate

that union leaders and their top staff are not overpaid, but are instead compensated at the market rate for their level of educational attainment and their collective bargaining performance.

Figure 5: Regression Results on the Natural Log of Hourly Wage and Salary Income for Leadership and Administrative Occupations, 2004-2013

| OLS Regression: Natural Log of Real Wage of Persons in Management,<br>Business Operations, and Legal Occupations from 2004-2013 |                                  |  |  |  |
|---|----------------------------------|--|--|--|
| Industry of Employment  | Statistically Significant Effect |  |  |  |
| Employed by a labor union   | No effect                        |  |  |  |
| Union member  | +10.32%                          |  |  |  |
| Right-to-work state   | -4.46%                           |  |  |  |
| Less than a high school degree  | -14.98%                          |  |  |  |
| Some college, no degree   | +8.02%                           |  |  |  |
| Associate's degree  | +9.94%                           |  |  |  |
| Bachelor's degree   | +32.37%                          |  |  |  |
| Master's degree   | +42.79%                          |  |  |  |
| Professional or doctorate degree  | +60.58%                          |  |  |  |
| Observations  | 3,792                            |  |  |  |
| $\mathbb{R}^2$  | 0.313                            |  |  |  |

Source: Authors' analysis of the Current Population Survey – Outgoing Rotation Groups (CPS-ORG) from 2004 through 2013, Center for Economic and Policy Research Uniform Data Extracts, 2013. In addition to the reported variables, the analysis accounted for age, gender, race/ethnicity, urban status, marital status, immigrant status, citizenship, public sector employment, usual hours worked, and veteran status factors. Statistics are adjusted by the outgoing rotation group earnings weight to match the total population 16 years of age or older. For full regression outputs in a .txt format, please contact author Frank Manzo IV at fmanzo@illinoisepi.org.

### CONCLUSION

Claims that union leaders are overpaid and insulated from the concerns of their members are incorrect. Unions raise and compress wages, and union leaders are compensated accordingly. The typical labor union is neither large nor lucrative, with average compensation packages to employees that are similar to social advocacy, community services, and worker services groups. Payroll costs are much lower in labor organizations than they are in business associations (such as chambers of commerce), in law offices, and among managers of companies and enterprises. Additionally, labor leaders and top administrative staff are not paid more than the market rate for other leaders and administrators. In fact, they tend to earn far less than comparable CEOs and executives in relevant industries. Thus, there is no evidence to support any claim of "Big" labor, with unions governed by overcompensated leaders.

## **ENDNOTES**

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- <sup>4</sup> Republican Platform. (2012). We Believe in America, available at https://cdn.gop.com/docs/2012GOPPlatform.pdf (pg. 7).
- <sup>5</sup> National Right to Work Committee. (2014). "Compulsory Unionism, the Great Depression, and Roosevelt's 'New Deal," available at http://nrtwc.org/facts-issues/how-compulsory-unionism-came-to-america.
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- <sup>9</sup> NBC News/Wall Street Journal Poll. (March 31-April 4, 2011). N= 1,000 adults nationwide. MoE: +/- 3.1. "Recently, some Republican governors have proposed new legislation that would reduce the collective bargaining rights and pay of unionized state public employees. Do you favor or oppose this?" Available at http://www.pollingreport.com/work.htm.
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