

Why Do Union Jobs Pay More? New Evidence from Matched Employer-Employee Data

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Abstract

We use Canadian matched employer-employee data to assess the sources of the union pay premium. After controlling for worker heterogeneity using Abowd, Kramarz, and Margolis (1999) (AKM) two-way fixed effects approach, we find that unionized firms pay about 15 percent more than non-union firms. 40 percent of this gap is linked to productivity differences measured by value added per worker. The remaining gap reflects the union's ability to extract more rents to workers from a given firm's value added per worker. We also find that union representation among some of the employees of a firm has a positive spillover effect on the wages of other employees who are not unionized. Our main findings are robust to an extension of the AKM approach where, consistent with union wage compression effects documented in the literature, unions might shrink the returns to some unobservable workers' characteristics.