Economics Gone Wrong: revisiting our understanding of unions

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Modern economics portrays unions as destructive in labour markets – a crutch for inefficient workers. Indeed, there are few places with as vitriolic a relationship with unions as the US, where 46% of the population lives paycheck-to-paycheck, yet only 6.7% of private workers are unionised. I sought to understand this but concluded unions were integral to economic growth. I looked to the holy grail of economic history, the Great Depression. From 1932 to 1945, US union membership soared by 458.6%. Economists including Nobel laureate Edward Prescott hence blamed unions for slow recovery. They argued unions prevented wages from falling with deflation, creating real wages above what employers were willing to pay, causing unemployment. Yet somehow, no one stopped to check the data. When I did, I found their base assumptions were simply inaccurate. Nominal wages actually fell, as did real wages. Despite this, unemployment rose. So how did labour markets recover? Here the evidence strongly defends unions. Unions were associated with falling unemployment, rising wages, and rising working hours. Union membership, hours, and productivity even explained 93% of variation in weekly wages. So, unions increased employment, increased wages, and increased working hours. If that isn't recovery, what is? We need to reconsider how we model unions and look to past economists like the institutionalist John Commons, who believed unions were integral to checking powerful big businesses. Especially in the modern world of corporations and non-compete contracts, even for McDonald's employees, unions may now be more important than ever.