Who Sits at the Table in the House of Labor?
Rank-and-file citizenship in union confederations

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Abstract

Unlike citizens of federally organized nation-states, individual workers are rarely direct (voting) members of labor confederations. I argue that strategic considerations required to balance the gains from cooperation available in confederal organizations with the loss of control for individual unions inhibits the development of rank-and-file enfranchisement in peak-level labor organizations, especially when workers are organized along craft/skill lines. I illustrate my conclusions with a comparative examination of the origins and development of the Knights of Labor and American Federation of Labor. I conclude by arguing that future analysis of the policies and organization of union federations should direct attention to the career concerns of labor leaders.

The structure of union confederations is the core component of models linking central bank independence, wage bargaining institutions, and economic outcomes like inflation, unemployment, and income inequality. The proliferation of indices of union centralization since 1980 (Kenworthy, 2001) demonstrates the importance of accurate measurement of this variable. Nevertheless, the formation of these critical organizational structures has been largely unmodeled, leaving a major theoretical lacuna. The role of rank-and-file voice and organizational democracy has not been treated in any systematic manner.

This paper links issues of organizational democracy at the confederal level with the differing positions of workers in the economy and within industry. I argue that the federation’s internal decision-making rules and scope of activity are directly linked to the degree of heterogeneity in the size, market power, and the skill profile of constituent unions as they develop a confederal contract. When workers’ interests are heterogenous and unions vary in their market power, smaller and weaker unions will want to “borrow strength” from their stronger brethren by inducing the stronger unions to contribute more to collective activities that produce spillovers. For their part, stronger unions want to avoid bankrolling efforts that will not benefit their memberships, even if it is good for workers overall. It is this asymmetry in size and “outside options” that will give rise to different allocations of decision rights within the federation in an effort to mitigate the possibility of “unraveling” (Johnson, 1990).
This paper makes several contributions. First, I call for a renewed examination of the internal politics of labor organizations using the theoretical tools of contract economics, which have been developed for modeling the firm. In so doing, I begin the process of providing better microfoundations for theories relating the organizational structure of unions to macroeconomic outcomes. The structure of labor confederations, especially for bargaining purposes, is a critical component of current theories of wage/price bargaining and political control of the economy; centralized wage setting is strongly associated with lower wage dispersion.

Second, the literature on union democracy, beginning with Lipset, Trow and Coleman (1956), has restricted its attention to individual unions. Lipset et al. use the International Typographical Union as the exception that proves Michels’ so-called “iron law” (Michels, 1966). I push the literature up a level and begin the project of understanding the costs and implications of formal organizational democracy in confederations. The model presented here diverges from the Michels-Lipset tradition in that I conceive of rank-and-file enfranchisement as one of many possible collective decision structures that agents may try. In so doing, the model points to conditions that will affect the level of rank-and-file citizenship that a union confederation can sustain. Though the model does not provide much reason to be optimistic about the prospects for rank-and-file democracy, it does recast the Michelian conclusion. While democracy and accountability are surely intrinsically valuable, I outline how abridging the rank-and-file’s democratic voice is one way to enable beneficial cooperation between labor organizations that might otherwise not have taken place. In so doing, I temper some of the antidemocratic criticism frequently leveled at the AFL.

Third, the argument has implications for the study of other organizations that tend to maintain confederal structures, such as political parties, employer groups, religious denominations and international NGOs. Finally, this paper has implications for workers and their ability to demand and secure employment and improved wages and working conditions.

The paper will be organized as follows: In the next section I motivate the study by describing the major activities undertaken by labor centrals around the world and explain their importance by linking my arguments to existing literatures in labor studies and comparative political economy. Section two presents a theory of confederal organization building on theoretical results from models of fiscal federalism. Section three illustrates the model’s logic by comparing the failed Knights of Labor of the 19th Century United States with its more durable successor, the American Federation of Labor. The fourth section concludes by pointing out directions for future research, highlighting the importance of more rigorous and extended analysis of union leaders’ career concerns in varying organizational contexts. A more formal discussion of the model is presented in the appendix.

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1I will use the terms labor central, federation, and confederation interchangeably. They all denote organizations in which various previously organized unions jointly agree to create a third organization which has its own staff, leadership, and internal governance. I will confine my attention to national-level federations though smaller regional bodies exist as well, for example the city and State labor councils in the United States. Note, however, that these local bodies are extended charters by the AFL-CIO.
Table 1: Major activities of labor federations

<table>
<thead>
<tr>
<th>Common Activities</th>
<th>Controversial Activities</th>
</tr>
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<tbody>
<tr>
<td>Provide jurisdictional guarantees/arbitrate disputes</td>
<td>Hold strike funds at the confederal level</td>
</tr>
<tr>
<td>Coordinate political activity at national level</td>
<td>Veto strikes</td>
</tr>
<tr>
<td>Provide support during industrial disputes</td>
<td>Veto affiliates’ wage agreements</td>
</tr>
<tr>
<td>Disseminate information on wages, policy issues, etc.</td>
<td>Affiliate directly with a political party</td>
</tr>
<tr>
<td>Support organizing efforts</td>
<td>Negotiate wages/benefits</td>
</tr>
<tr>
<td></td>
<td>Declare a confessional affiliation</td>
</tr>
<tr>
<td></td>
<td>Appoint leaders of affiliates</td>
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1 What union confederations do

Labor confederations around the world engage in a variety of activities, some common and some more controversial. There is tremendous variation along several dimensions both over time and across countries. Table 1 summarizes some of the major activities falling into both categories. The latter are “controversial” as they have potential distributional consequences across unions or implicate religious and partisan passions. Confederal-level strike powers, for example, can prevent unions capable of winning more immediate concessions on their own from doing so, usually in the name of price stability. Possessing centralized strike funds makes the confederation’s strike veto power more meaningful, raises the costs of secession for any one union, and gives the federal leadership leverage over affiliates that is most effective precisely when affiliates are most vulnerable.

Figures 1 and 2 present comparative data on some of the more controversial confederal activities for union federations in sixteen rich democracies. The most obvious feature in figure 1 is the tremendous variation in the confederal participation in wage bargaining both across and within countries. This variation in wage bargaining power contrasts with the within-country stability of strike powers possessed by the major federations in these countries, as seen in figure 2.

1.1 Political control of the economy, wage/price bargaining, and labor

There is empirical evidence (all of it drawn from OECD countries) linking the structure of the labor movement, particularly where and how wages are negotiated, with macroeconomic performance. Alvarez, Garrett and Lange (1991) show that densely organized labor markets and Left governments constitute one of two paths to low-inflation, low-unemployment
Figure 1: The level of confederal participation in wage bargaining has varied dramatically both longitudinally and cross sectionally. Source: Golden, Wallerstein and Lange (2002)

outcomes in the 1967-84 period. Garrett (1998) has a similar and oft-cited, replicated, and criticized finding. Iversen (1999) shows a relationship between bargaining centralization and inflation, unemployment, and wage dispersion, conditional on the stance of the monetary authority. Several studies have demonstrated direct links between union centralization and the level of wage bargaining and unemployment and inflation (Bruno and Sachs, 1985; Layard, Nickell and Jackman, 1991; Nickell and Layard, 1999) but these correlations have been fragile (Flanagan, 1999). In general, the relationship between union centralization and wage dispersion, as depicted in figure 3, tends to be the most robust (Flanagan, 1999). Wallerstein (1999)’s finding that centralized wage setting and concentrated labor movements are strongly associated with lower wage inequality has been the standard here.³

The current wave of interest in the economic role played by the peak-level labor organizations stems from the “neocorporatist” literature⁴ most associated with Schmitter (1979) and formalized by Calmfors and Driffl (1988). The current definitive statement⁵ is Iversen’s

³Note that Golden and Londregan (2006), in a methodological revision, contest the magnitude of Wallerstein’s finding.
⁴See Molina and Rhodes (2002) and Baccaro (2003) for recent summaries of this literature.
⁵Significant modifications to Iversen’s model have been proffered by, for example, Franzese (2001) and
Figure 2: Strike powers ceded to labor centrals vary across countries but are relatively stable within countries. Source: Golden, Wallerstein and Lange (2002)

(1999) book. Iversen presents two models of direct interest here. His first model (chapter 2) motivates the critical macroeconomic importance of wage bargaining institutions. He argues that inflation and unemployment outcomes depend crucially on the degree of centralization of wage bargaining and the conservatism of the monetary authority. Union negotiators, knowing the stance of the monetary authority, will make wage demands accordingly. Two variables govern how much the union(s) ask for: the negotiator’s sensitivity to wage inequality and her concern for unemployment. These variables depend on the concentration of the labor movement which is left as exogenous to the model though it is intimately related to the structure of union confederation(s). The second model (chapter 4) pinpoints the pivotal group of workers and firms in determining which institutional outcome occurs in equilibrium, assuming workers are already organized at the sectoral level.

The focus on broad-based bargaining institutions is directly inspired by Olson (1965, 1982)’s strong claims about the importance of “encompassing” groups. Applied to wage bargaining they argue that in decentralized wage bargaining, a particular negotiator will not consider the negative impact of his wage demands on the purchasing power of other workers. Centralized bargaining, however induces peak-level negotiators to consider the

broader impact wage demands may have on all workers, thereby moderating wage demands and (hopefully) inflation.

A tension in Iversen’s work harkens back to the early controversies in the neocorporatist literature: when bargaining is centralized, high-wage workers are worse off and low-wage workers are better off than if bargaining were decentralized.\(^6\) Why would high-wage workers go along with such an arrangement? The standard neo-corporatist answer is that they don’t or wouldn’t if they had a choice; union leaders must be “insulated” from rank-and-file wage demands.\(^7\) In this traditional view of the labor central (at least in highly centralized economies), the role of the federation is explicitly antidemocratic in the sense that leaders are meant to be a conservatizing influence on the presumably more radical, strike-prone rank-and-file. The literature explicitly links the peak association’s internal governance and labor organizations’ ability to act strategically at the national level.

\(^6\) Wallerstein (1990) derives this result under the assumption that workers who are substitutes in production (in the technical sense) are organized into the same bargaining unit. Negotiators in centralized systems usually negotiate over nominal rather than percentage wage increases, providing the mechanism for compressing the wage distribution.

\(^7\) But see Baccaro (2000) for a re-evaluation of this thesis in the Italian case.
1.2 Peak associations and rank-and-file democracy

The wage/price bargaining literature thus presents a conflict. That decisions should be made as close to the people as possible is a fundamental tenet of democratic governance. Any complex collective activity, however, will typically entail multi-tiered authority relations. Informational constraints, distance in time and space, and externalities in production and consumption make delegation and specialization desirable but also provide agents with greater discretion to deviate from the wishes of those whom they represent.

Labor unions’ defining activities—bargaining, striking, organizing, and lobbying—have implications for other workers and unions that were not involved in the initial decision-making process. In the presence of these externalities, central coordination across unions can be beneficial, at least in certain domains. Labor centrals are organizational attempts to internalize the spillovers of the activities of other labor unions. Creating and maintaining an organization that can internalize these spillovers often entails rules that abridge the democratic voice of rank-and-file union members as embodied in voting rights and direct access to confederal-level resources and services. This same centralization can even erode the democratic responsiveness of union leaders themselves by providing them with additional options for policy implementation as well as incentives to pursue policies other than those most preferred by their constituents.

As an empirical observation, “citizenship” in peak-level labor organizations is rarely extended to the rank-and-file; the unit of membership is almost always the union, not the individual worker. This state of affairs differs markedly from the situation in federated nation-states in which citizens vote over specialized federal level offices and interact directly with their federal governments. There are, however, exceptions among labor federations. The Knights of Labor (KoL), the first major nationwide labor federation in North America, admitted individual workers as “knights” whether these workers were members of previously organized unions or not.8 Representatives to the KoL General Assembly were elected directly from the Local Assemblies, all of which were organized geographically, frequently cutting across occupational boundaries. Ulman (1955), in his seminal work, argues that it was precisely this characteristic of the KoL that led the newly ascendent national craft unions to abandon the organization and form the American Federation of Labor (AFL) in 1887. The AFL is noted for, if nothing else, jealously guarding the jurisdictional privileges and “sovereignty” of its most important constituent unions. The expulsion of the CIO from the AFL, eventual merger into the AFL-CIO, and the recent struggles between the AFL-CIO and new Change to Win federation reveal the persistent tension between organizational cohesion and the representation of the interests of workers in different structural positions in the economy. The puzzle, then, is two-fold: why is rank-and-file citizenship so rare in union confederations and, in the specific instance of the late 19th-century USA, why did the KoL and AFL evolve so differently in this regard? Can their differing internal organization shed

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8The KoL admitted all wage laborers except lawyers, bankers, stockbrokers, gamblers, and purveyors of liquor since they were deemed to be unproductive. Another more contemporary example of direct worker suffrage at the confederal level is the Argentine Central de los Trabajadores Argentinos (CTA), a breakaway group of the CGT.
light on their different historical trajectories?

2 Federalism and union federations

In this section I look to insights from contract economics and, more specifically, the fiscal federalism literature to gain theoretical traction on this issue of confederal enfranchisement of the rank-and-file. Authors in this literature have developed several models attempting to explain the existence, structure, and policy outcomes of federally organized states. These models typically posit federal institutions as the equilibrium result of a game between the “center” and regions of differing endowments. To my knowledge these models have never been leveraged outside the setting of federally organized polities.

The endogenous federalism perspective begins with two assumptions: the activities of sub-federal units generate externalities that induce inefficient outcomes when these units act independently; and the sub-federal units are heterogeneous in some analytically important way. In the case of nations both the externalities and heterogeneity are relatively easy to identify.

Confederal organization offers unions several benefits. Cooperation among unions can help them economize on “defense” on two fronts. First, a union confederation can prevent cross-union raiding, by enforcing property rights in jurisdictional monopoly. Competition for workers in different job categories or at different firms has caused major conflicts between unions in countries all over the world. Second, confederal cooperation can make unions more effective in their struggles with employers, especially during strikes. Indeed, many smaller regional labor bodies as well as major union confederations emerged in the process of planning general strikes or in the aftermath of failed attempts. A confederation can coordinate activities and enable cooperation in sympathetic actions but also (possibly) restrain some unions from taking industrial action that will lead to reprisals by employers or government on uninvolved unions. There are economies of scale in public goods provision across unions. Coordination and size is a benefit in political activity and participation. The more votes labor unions can effectively deliver, the more weight they have, at least with the Left party(ies). A central organization can bargain with political parties and governments more efficiently as well as coordinate political activities across subunits. Finally, the reason typically given for union centralization is the ability to provide the public good of wage restraint, which arguably leads to lower inflation and unemployment but certainly induces greater income equality.

These benefits, though compelling, are far from certain. They are more valuable to some unions than others and contingent on the costly but imperfectly observable and possibly unverifiable actions of other agents. These issues point to the extensively studied problems

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9. The most relevant works for my purposes here are Alesina and Spolaore (1997); Alesina, Spolaore and Wacziarg (2000); Alesina, Angeloni and Etro (2001a,b); Bolton and Roland (1997); Cremer and Palfrey (1996, 1999); de Figueiredo and Weingast (2005); Luhestmann (2002); Wibbels (2005).

10. Raiding can be considered a negative externality of organizing activities.
of time inconsistency and moral hazard.\textsuperscript{11} An allocation of decision rights within an organizational structure rather than \textit{ad hoc} agreements might help to overcome these problems.

2.1 Toward a theory of confederal organization

The basic building blocks of the model are as follows: I view confederation as a contracting problem between unions in which unions have common as well as competing interests.\textsuperscript{12} Due to uncertainty and these divergent interests, there are problems credibly enforcing agreements to cooperate. Unions join confederations (rather than merge into one big union or spot-contract) for three reasons. First there are some union activities which have cross-union spillovers associated with them but there are others for which no gains can be had by centralizing decision-making. Since the full costs (benefits) of each union’s activities are not borne (captured) by the union, suboptimal levels of the spillover-producing activities will generally ensue. A confederal structure preserves autonomy on the local issues while enabling some gains on the latter activities. Second, there is some uncertainty as to the costs of or returns to union activities that is non-contractible, making some ongoing organization preferable. Third, unions have divergent preferences over contributions to the activities producing cross-union spillovers.

Though unions are notoriously difficult to describe in terms of an objective function (Booth, 1995; Martin, 1980) leaders must “deliver the goods” to the rank and file if their leaders hope to remain in office. I make the simplifying assumption that members care only about wages and employment prospects. For now I also assume that leaders are the faithful representative of the membership and that all members of a union have identical preferences.

Each union has some wage it can obtain on its own through collective bargaining. Following the tradition in contract economics, I refer to this wage-employment outcome as the union’s “outside option”. The union can also choose to contribute to cooperative activities involving other unions, such as sympathy strikes, boycotts, political lobbying, organizing drives and get-out-the-vote campaigns, which eventually yield a payoff to workers in terms of consumption. These activities generate externalities, both positive and negative, for other unions. I assume that unions outside a federation receive none of the spillovers generated by the activities of unions in the federation.\textsuperscript{13} I also assume that there are economies of scale in these cooperative activities. Assume further that the confederation sets uniform contribution rates for all affiliates, i.e., the federation is “rigid” in the language of Alesina, Angeloni and Etro (2001a)

Unions vary in their preferences for different types of centrally provided services. Some may benefit more from organizing activities than others. Weaker unions may want to draw

\textsuperscript{11}Bolton and Dewatripont (2005) provide a comprehensive graduate-level textbook treatment of the current state of contract theory and its various applications, including models involving time inconsistency and moral hazard.

\textsuperscript{12}I present a more formal discussion of the logic below in the Appendix.

\textsuperscript{13}This is clearly a strong assumption, especially for investment in organizing activities and political lobbying. Future work will relax this assumption. Note that in this set up, confederal activities are more “club goods” (excludable but possibly nonrival) than pure public goods.
on the financial resources of their richer brethren during strikes and lockouts while strong unions\textsuperscript{14} may have little use for the reciprocal privilege. Thus, when considering the formation of a federation, union leaders must anticipate the contribution level that the federation will impose. A union will only join a federation if the benefits it receives (in the form of spillovers from the contributions of other unions) exceeds the investment that the federation will require of its affiliates.

Alesina, Angeloni and Etro (2001\textit{b}) show that the federation\textsuperscript{15} faces a trade-off between the scope of the federation’s activities and its size, i.e., number of member unions, when all unions are the same size and the contribution level is chosen by the median union in addition to more technical restrictions. With a fixed distribution of preferences across unions, more centralized organizations with competency over a larger number of issues will tend to be smaller whereas broad based federations will be sustainable in equilibrium if they have competency only along dimensions in which unions tend to agree.

The intuition behind these results is fairly straightforward. Imagine unions join a federation and then decide what activities to engage in and the contribution level(s) by rank-and-file majority vote.\textsuperscript{16} Unions that would like centralized provision of only (say) one of the possible activities of the confederation will not want to pay the costs of contributing to activities from which they receive little benefit. They will be better off outside the federation if the median union demands too high a contribution for other activities. When more types of activities are centralized, only those unions that value the centralized control the most highly are willing to pay the cost federal level. The organization, to survive, must strike a balance between the contribution level demanded and the willingness of potential affiliates to pay for any particular activity. In the extreme case discussed by Johnson (1990), the median union could demand contributions that exceed the expected payoffs to some affiliates, causing them to withdraw from the organization and thereby changing the median union. If this process were to continue, the entire organization could “unravel”.

To explore these ideas further, I consider an informal extension of the Alesina, et al. model that introduces unions of differing sizes with varying outside options. Confederal arrangements can plausibly involve redistribution across constituent members. In the case of unions, redistribution involves the redistribution of political resources, typically from those with more market power to those with less. For example, centrally held strike funds redistribute income from richer to poorer unions (conditional on a strike); a labor PAC does the same for political contributions. The intuition behind these extensions is that weaker unions will want to “borrow strength” from their stronger brethren by inducing the

\textsuperscript{14}The “strength” of a union can be thought of as its ability to deliver high-quality contracts to its membership without the benefit of the public goods provided by the federation. Union strength ultimately derives from the union’s ability to control the labor supply to a set of employers.

\textsuperscript{15}I have adapted Alesina et al.’s language to talk about unions rather than nations. They clearly have the EU in mind in their papers.

\textsuperscript{16}There is clearly a multidimensional policy space here, implying that these votes should be sequential and agenda setting powers will be important to avoid cycling majorities. Both Alesina, Angeloni and Etro (2001\textit{b}) and Johnson (1990) discuss these issues. Johnson finds evidence of agenda control by the leadership of the AFL. I leave additional exploration of these issues for later work.
stronger unions to contribute more to public goods. For their part, stronger unions want
to avoid bankrolling efforts that will not benefit their membership, even if it is good for
workers overall. It is this asymmetry in size and “outside options” that will give rise to
different allocations of decision rights within the federation and possibly both broad-based
and centralized confederations. It also opens the door for later refinements and manipulation:
other players (e.g., political parties) and structural conditions will be able to affect the
organization of the federation.

For simplicity, suppose we have three unions, A, B, and C. Without loss of generality,
assume that A is bigger than B or C. Suppose that all three unions form a confederation
in which the members take the decision on the uniform contribution level by majority vote.
In this case, the median union member sets the contribution rate by choosing the level that
will maximize her overall consumption (bargaining outcome plus spillovers from cooperative
activities).

There are then two cases to consider: in the first, A is bigger than B and C combined
in which case A sets the contribution rate. Members of B and C can decide to affiliate or
not as their preferences dictate, but A has little incentive to alter its choice since it receives
relatively little of the scale benefits of confederation. The second case is more interesting
(and realistic). Suppose that A is smaller than B + C, i.e., the median voter is not a member
of A. In this case, the policy-setting union member is a member of B or C, so the outcome
under rank-and-file voting with majority rule will be that preferred by one of the two smaller
unions. A knows this, however, and, for preferences sufficiently far apart, will not agree to
a confederation. Since there are scale economies here, B and C have a strong incentive to
induce A to join their federation since A’s size will provide the greatest spillover benefits to
any confederal partnership. B and C will promise to enact a contribution level below their
ideal level. Under majority voting and without external enforcement, however, this promise
is not credible. B and C therefore offer a contract in which A has disproportionate influence
on the collective choice over of contribution levels, even if the level is below that preferred by
B and/or C. A will demand institutional guarantees that the enable it to protect its interests
in exchange for affiliating. B and C will be forced to tie their own hands by yielding some
decision power to A. This may be a good thing insofar as it enables an efficient political
transaction. It does, however, compromise the representativeness of the confederal collective
choice mechanism.

The basic idea emerging from this preliminary exercise is that when unions’ preferences
and outside options are correlated with their sizes, heterogeneity in size and strength will
induce asymmetric distributions of decision rights that deviates from full enfranchisement
at the rank-and-file level. The logic here shares a family resemblance with Johnson’s “un-
raveling problem” in democratically governed groups: in order to induce the strongest and
most valuable members to remain in an organization, they must anticipate these unions’
willingsness to exit the organization (or refrain from affiliating in the first place) and design
collective choice mechanisms accordingly. He posits that “majority rule operates on the
members’ ideal points while long-term membership is determined by tolerance” (Johnson,
1990:10). Tolerance (the willingness to endure collective decisions that do not coincide with
one’s ideal point) in this case is determined by value of the outside option of the union combined with its preferences for club goods and the degree of spillovers. For the groups to continue to exist in equilibrium, the allocation of decision rights and veto powers must recognize the limits of “tolerance”.

The discussion above yields several assertions. First, the more heterogenous worker groups are in their interests, sizes, and abilities to control their own labor jurisdictions, the less likely we will observe rank-and-file “citizenship” at the confederal level. Second, the more diverse and heterogenous the economic activities subsumed in a labor organization, the narrower will be the confederal organization’s competency and objectives. Third (and related to the first two), when workers who benefit less from confederal activities are both valuable members and not the decisive voters, these stronger organizations will require institutional guarantees in the form of voting rules and secession guarantees that will make credible the organization’s promises to restrict the labor central’s activities and/or extractions.

3 The Knights of Labor and American Federation of Labor

To illustrate the logic outlined above I turn to a comparative examination of the founding contracts and subsequent behavior of the KoL and AFL. These two organizations provide an excellent paired case comparison. They shared the same politico-economic institutional environment while overlapping in time, space and membership. Yet they developed very distinct organizational structures and followed different historical trajectories. The Knights died out by the end of the 19th Century while the AFL continues to the present. The discussion focuses on the “Gilded Age” period 1869-1900 and employs mainly secondary sources.

3.1 The Knights of Labor

“An injury to one is the concern of all.”—motto, Knights of Labor

The KoL was founded in Philadelphia in 1869 as a secret fraternal society. It grew quickly, especially after abolishing secret rites in 1881. Its membership and influence peaked in 1886, when it counted over 700,000 workers as affiliates. KoL Local Assemblies were found in every major American city of the time. Knights locals were instrumental in winning early eight-hour-day concessions from cities and employers. They successfully prosecuted numerous industrial actions and helped elect several public officials to local, State, and Federal offices on labor and populist slates.

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17The cause(s) of the Knights’ destruction has been much debated by historians and sociologists. See Voss (1993) for a critical review of the literature and Kaufman (2001) for a reconsideration of Voss’ thesis that employer repression effectively crushed the KoL. Kimeldorf and Stepan-Norris (1992) offer a broader survey of the KoL in the context of other workers’ movements in the USA.
In keeping with the grandiosity of its motto, the KoL was very much a “generalist” movement (Kaufman, 2001), embracing objectives as diverse as “bring[ing] within the folds of organization every department of productive industry”; “secur[ing] to the toilers a proper share of the wealth that they create”; “the establishment of co-operative institutions”; educating workers; fighting railroad speculation and private ownership of public lands; agitating for the eight hour day, worker safely legislation, equal pay for men and women, and prohibitions on child labor; and establishment of paper currency (Knights of Labor, 1878).\(^\text{18}\) Though the Knights initially rejected political action as a means to address the workers’ plight, the organization eventually became involved in explicit policy initiatives and larger movements for political realignment. District and Local Assemblies became embroiled in electoral politics and sustained political movements, most notably the eight-hour campaign. The Knights exercised political clout at the municipal and State levels, making a variety of political alliances occasionally with Democrats but more often with rural interests, Greenback groups, Socialists, the Grange, and other third-party movements (Fink, 1985). They succeeded in winning elections in Chicago, Kansas City, Milwaukee, and Seattle (Fink, 1985:28-9). These activities were typically uncoordinated across districts.

The Knights’ precipitous decline is just as striking as its growth. Almost as soon as membership reached its apex, it began to drop dramatically. Contributing to the decline, Knights’ locals were involved in the disastrous Missouri Pacific railroad strike in 1886 and felt the brunt of political and public approbation in the aftermath of the Haymarket incident in 1887. The KoL began hemorrhaging skilled members after the founding of the American Federation of Labor in 1886. The KoL counted 350,000 members in 1888 and 100,000 in 1890. They were effectively gone by the turn of the century (Kaufman, 2001; Voss, 1993).

3.1.1 Organizational structure and collective choice in the KoL

Pre-existing craft organizations formed the basis of the Knights initial organization, but this changed rapidly in the 1880s. As noted above, the KoL was extremely liberal in admitting individuals to the order. All wage laborers, regardless of skill, race (after 1883), gender, or union membership status, were admitted to the KoL. Initially sympathetic shop owners and middle-class professionals were also admitted, though the Knights became a more “proletarian” organization over time. The admission of semi- and unskilled workers is a distinguishing feature of the KoL. As we will see below, this rapid diversification in membership away from the skilled white male unionist that formed the initial core of the KoL put significant strains on the organization.

The fundamental unit of membership in the Knights of Labor was the individual worker. Workers organized into Local Assemblies that combined both geographic and craft attributes. Local Assemblies then combined into District Assemblies. These Assemblies could be either “trade” or “mixed”. Mixed assemblies counted as members workers from different trades.\(^\text{19}\)

\(^{18}\)Note that collective bargaining and benevolent services (e.g., sickness insurance, death benefits, etc.) were not explicitly mentioned as within the purview of Knights’ activities.

\(^{19}\)Mixed assemblies did not become numerous until after 1878 (Ware, 1959).
All workers within each Local and District Assembly voted and decisions (except for strikes) were by majority.\textsuperscript{20}

District Assemblies elected delegates to the KoL General Assembly, the supreme legislative body in the organization, which in turn elected the chief executive Grand Master Workman. The Assembly was empowered to issue transfer and travel cards to workers, enabling them to move between locals of any type. The General Assembly also established maximum dues to be charged by the district assemblies. Importantly, the Assembly was also the “supreme tribunal” of the KoL; workers brought before their Local or District Assemblies for disciplinary action could appeal the General Assembly. The General Assembly also claimed the right to assess Districts for a strike fund and to withhold these funds from unapproved strikes.

There has been much controversy as to the centralization of the Knights organization. On paper, the federation looks to be patterned after the US federal system, with a hierarchy of national, district, and local assemblies, each with its own powers and bureaucracy. The powers retained at the General Assembly level appear significant and highly centralized, especially compared to the AFL. Most observers, however, have noted that the District Assembly was the real locus of power (Fink, 1985; Ulman, 1955; Ware, 1959; Weir, 2001). Although the KoL attempted to centralize control over districts composed of heterogeneous worker populations, this effort often failed and left the central organization in a weak position leaving the national leadership in the position of playing catch-up. District Assemblies frequently disregarded or selectively obeyed national directives. As an oft-cited example, the KoL leadership was all but impotent in controlling strike activity. The mandated collection of centralized strike funds never occurred and the KoL finances were frequently precarious.

The issue of strike and sympathy support is a key instance of the centrifugal pressures on the KoL organization. The Knights, as a matter of policy, eschewed the strike as industrial weapon, preferring the boycott, arbitration, and, later, political activity. Formal rules for declaring strikes were quite stiff, requiring a 2/3 supermajority of all local assemblies involved and permitting the General Assembly to demand spot plebiscites of striking workers. This does not mean that workers in the KoL were acquiescent; indeed the KoL found itself embroiled in some of the biggest industrial disputes in American history. As Commons said, workers “struck first and joined the Knights of Labor afterward” (Commons, 1926:368). The Knights successfully concluded the Union Pacific railroad strike in 1884 and Wabash Railroad strike in 1885, along with many smaller industrial disputes.

Strikes and the calls for sympathy action from others caused significant friction within the Knights at least as early as 1885.

\textsuperscript{20}As several commentators have noted, however, the mixed Assemblies were often not as heterogeneous as they sounded. In order to qualify as “mixed” they simply needed to have at least ten members of different trades. In many instances mixed assemblies combined workers from related trades (e.g., various trades within the metal working industry).
attitudes of trades-unions consumed much time...the trades unions struggling to
preserve their organizations against what was considered the encroachment of the
Knights of Labor, while the Knights of Labor contend that their Order embraced
higher and grander principles. (Wright, 1887:155)

At this time, the KoL faced both a rapidly diversifying membership and industrializing
American economy. Semi- and unskilled workers that differed from the traditional “pro-
ducers” that formed the initial core of the KoL instigated a re-evaluation of KoL tactics
and goals, causing major tensions within the organization (Hattam, 1993). Fink (1985)
documents several situations in which skilled trade union workers settled strikes before un-
skilled workers in the same or other Local Assemblies at terms that the unskilled considered
unfavorable. The frequent calls by the less-skilled workers for sympathy actions and/or soli-
daristic financial support placed Local assemblies in conflict with national trade unions. The
Knights, at least in Milwaukee, attempted to mitigate these problems during the 1886 eight-
hour campaign by distancing themselves from actual bargaining and emphasizing that each
industry should settle independently. Nevertheless, the whole organization was implicated in
the Bay View massacre in which police fired on a crowd of striking metal workers who were
continuing to agitate for the eight hour day after groups of skilled workers (also Knights)
had already settled. Five strikers died.

3.2 The American Federation of Labor

“A fair day’s wage for a fair day’s work.”—motto, American Federation of Labor

The AFL began in 1881 as the Federation of Organized Trades and Labor Unions
(FOTLU), changing its name to the AFL in 1886. While the KoL were disappearing from
the scene in the last decade of the 19th century, the AFL made steady membership gains,
even in the aftermath of brutal defeats like the broken Homestead strike of 1892. The AFL
cited 150,000 members in 1887; they counted over 1.7 million by 1904 (American Federation
of Labor, various years; Gompers, 1914). It is worth noting that previous labor organiza-
tions almost universally failed to survive adverse economic conditions. In contrast the AFL
weathered the severe depression of the early 1890s. Though membership growth was flat
from 1892-98, the AFL survived to take advantage of improved economic conditions later in
the decade. The AFL has been in continuous existence since its founding.

The AFL’s stated objectives differed dramatically from those of the KoL. In particular,
the AFL (1886) restricted itself to four activities:

• “encouragement and formation of local Trades and Labor Unions and the closer Fed-
eration of such societies through the organization of Central Trades and Labor Unions
in every city, and the further combination of such bodies into state, territorial, or
provincial organizations to secure legislation in the interests of the working masses.

• “the establishment of National and International Trades Unions based upon a strict
recognition of the autonomy of each trade”
• “to aid and assist eachother; and...to secure National Legislation in the interests of the working people and influence public opinion by peaceful and legal methods in favor of Organized Labor”

• “encourage the labor press of America”

These activities can be reduced to two: organizing and lobbying. All other concerns are left to the national trade unions. Note that a primary objective of the Federation is the recognition (and, by implication, preservation) of jurisdictional boundaries, something the KoL repeatedly repudiated. Ulman notes that there were no performance criteria for the maintenance of jurisdictional guarantees. “The [national] union’s control over jurisdiction was based less upon stewardship than upon property right, which included the right to abuse as well as to use.” (Ulman, 1955:410)

3.2.1 Organizational structure and collective choice in the AFL

The AFL modeled itself on the confederal structure of the British Trade Union Council. As emphasized in the AFL constitution and reiterated by Samuel Gompers on many occasions, the national union is the constituent unit. Membership in the AFL was extended only to “organizations composed of wage earners”, typically unions of skilled craft workers. In the event that a group of workers wanted to affiliate with the AFL in an industry for which no trade union yet existed or there were insufficient numbers to sustain individual craft locals, the AFL would admit “federated trade unions”. These locals were explicit organizational half-way houses; once craft-based trade union(s) became viable the workers were expected to affiliate with the appropriate trade. Workers could not join a federated local if there existed a craft union in that worker’s trade and region. Though the AFL encouraged the organization of women and black workers, it had no real power to enjoin affiliates to act accordingly. Thus the inclusion of women and black workers fell to the national unions who were notoriously reticent to build a more inclusive labor movement. Several major craft unions remained unaffiliated with the AFL for years after its founding (e.g., the bricklayers) or seceded (e.g., the Western Federation of Miners in 1896).

The convention, though the ultimate decision making body, has very circumscribed powers relative to the national unions. The Federation possessed no central strike funds, though Gompers tried to institute a modest strike fund on several occasions. The only punitive measures available to the Federation were penalties in convention representation and expulsion. These powers are typically invoked in cases of misrepresenting membership for the purposes of reducing per capita dues, encroaching on the jurisdiction of other affiliates, and sheltering “unfair” workers (scabs). Expulsion requires a two-thirds supermajority. The right of secession is explicitly retained by affiliates. Individual workers have no ability to appeal to any federal-level body or officer.

21Conflict within the AFL often seemed to stem from disputes over the weights to place on these two activities. Witness the recent schism with the Change to Win coalition.

22The AFL formalized this role in 1899 when resolutions passed guaranteeing affiliates jurisdictional monopolies.
National unions and regional labor councils send delegates to the annual AFL convention. In its initial years as the FOTLU, representation was quite favorable to local trade unions, with national unions and regional labor councils both receiving one delegate while local unions received votes on the basis of membership.\textsuperscript{23} One of the major constitutional changes initiated when the FOTLU remade itself into the AFL, however, was to drastically increase the power of national unions at the expense of both local craft unions and labor councils. Initially vote allocation was highly malapportioned with one delegate for membership less than 4000; two delegates for membership between 4000 and 8000; three for membership between 8000 and 16,000, etc., adding a delegate for every doubling of membership with no allowances for fractions of the multiple (American Federation of Labor, 1886).\textsuperscript{24} In 1887 the formula changed remarkably with the introduction of a roll call provision. The allocation of delegates stayed the same, but delegates received one vote for every 100 members they represented. State and local labor councils, however, received only one delegate and one vote, regardless of size. This clear subjugation of regional, cross-craft organizations to the interests of the national trade unions differs from the KoL, whose entire structure was a confederation of such bodies.

The AFL, though without any direct power over strikes and other industrial actions, supported the use of the strike and boycott as weapons in the hands of the national unions. The Federation collected \textit{ad hoc} strike assessments to aid striking unions and passed several resolutions approving various boycotts (American Federation of Labor, various years). The AFL’s primary efforts were, unsurprisingly dedicated to lobbying and organizing. Here, however, there are marked contrasts with similar activities of the KoL. The AFL never ran candidates nor did it engage in explicit political alliances with any political party. In the pre-World War I period, there were significant internal debates within the AFL as to the appropriate scope of political activity (Johnson, 1990; Marks, 1989). Craft unions able to win concessions from employers via industrial actions consistently defeated the efforts of general industrial unions for more formal, offensive political actions including the founding of a labor party (Marks, 1989:ch.6).

AFL organizing activities were also explicitly geared to aid the national trade unions. Workers were either organized into locals of existing unions or into the holding pattern of the federated local. The AFL made efforts to target less skilled workers for organizing, but the bulk of the membership remained in craft unions until the merger with the CIO. In the Guilded Age period, no more than one fourth of the AFL membership resided in the major industrial unions (Marks, 1989).\textsuperscript{25}

\textsuperscript{23}Note that regional labor councils represented groups of workers across craft lines similar to the KoL District Assembly.

\textsuperscript{24}Smaller unions clearly had a much lower ratio of members to convention delegates. For example, a union with 50,000 members (the currently accepted threshold for a “small” union) would have a ratio of 10,000 members for every convention vote while a union of 2,000 members has a 2000:1 ratio, five times the voting power of a member in the former.

\textsuperscript{25}Marks identifies the general/industrial unions of the period as the United Mine Workers, Brewery Workers, Amalgamated Clothing Workers, Western Federation of Miners, and Ladies Garment Workers.
Table 2: Comparing the AFL and KoL along several attributes

<table>
<thead>
<tr>
<th></th>
<th>KoL</th>
<th>AFL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers viewed as:</td>
<td>aligned</td>
<td>heterogeneous</td>
</tr>
<tr>
<td>Unit of membership</td>
<td>“knight”</td>
<td>national union</td>
</tr>
<tr>
<td>Basis for organization</td>
<td>sympathetic solidarity</td>
<td>trade power</td>
</tr>
<tr>
<td>Activities</td>
<td>many</td>
<td>organizing, lobbying</td>
</tr>
<tr>
<td>Voting rights</td>
<td>regional, cross craft</td>
<td>national, craft</td>
</tr>
<tr>
<td>Craft jurisdiction</td>
<td>bad</td>
<td>critical</td>
</tr>
<tr>
<td>Political activity</td>
<td>critical, offensive</td>
<td>suspect, defensive</td>
</tr>
<tr>
<td>Worker appeals to fed.?</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>Local dues</td>
<td>capped and low</td>
<td>set by national unions; high</td>
</tr>
</tbody>
</table>

3.3 Discussion

After numerous defeats and setbacks, workers in 19th Century America recognized the need to coordinate their activities if they hoped to build durable organizations capable of representing their interests and improving their collective lot. Workers at the time recognized clear benefits to cooperation in organizing the unorganized, pressuring government at all levels, and sustaining industrial action in the face of employer opposition and repression. The KoL and AFL presented very different organizational profiles and provided different services to its affiliates. Though both can be usefully considered confederal organizations, the AFL federated along craft lines while KoL federated along geographic lines. The Knights emphasized radical organizational democracy and embraced a multitude of activities while the AFL concentrated on vouchsafing the autonomy of national craft unions but limiting scope of “citizenship” in the Federation. The KoL grew and died rapidly, unable to mitigate the demands of numerous weak Assemblies on the larger, stronger craft-based unions while the AFL has proven to be a quite flexible and durable organization. Table 2 summarizes some of the critical differences in the KoL and AFL discussed above.

The model presented earlier generated several claims that provide some insight into these divergent paths. First, when workers’ interests are heterogeneous and correlated with their unions’ strength and importance to the collective project, the confederal contract must allocate voting rights to enable a balance between tolerance and stable collective decision making. The KoL extended citizenship directly to workers in an organization with quite broad goals. Workers, however, were coming from very different backgrounds and were inserted into the economy in more or less advantageous ways. There is a limit to the willingness of the better-positioned workers to contribute to the confederal project. As the membership of the KoL expanded rapidly in the 1880s, the heterogeneity in worker interests also grew, straining the organization. Trade unions of skilled workers were being asked to engage in sympathy actions at a level beyond that from which they would benefit. In the AFL, however, there is evidence that the early confederal contract was adjusted to favor the interests
of the larger, more powerful unions. The lines of voting demarcation respected the skill heterogeneity of workers. As a major example, the biggest and most powerful unions in the AFL repeatedly blocked attempts to institute an AFL-controlled strike fund, even though the fund was supported by Gompers and a majority of the unions (Johnson, 1990; Ulman, 1955). That these more powerful unions were able to block these increased demands on their resources precluded their secession.

Second, when there is significant heterogeneity in interests, the confederal contract will need to limit the number of tasks assigned to the federation to those on which preferences are better aligned and offer the greatest returns to scale. The Knights of Labor engaged in a multitude of activities; available evidence suggests that the scope of the Knights activities expanded, especially in politics, as more local assemblies sprouted around the country, (Fink, 1985). As Hattam (1993:128-9) notes, partisan loyalties were extremely divisive in the post-Civil War decades and were partially responsible for the earlier collapse of the National Labor Union. The AFL, however, consciously and consistently avoided involvement in partisan politics. A key mechanism enabling them to do this was the restriction of citizenship to labor organizations only. Any attempt to broaden the scope of action in the AFL had to emerge from a coalition of unions that included some of the biggest and most powerful, not from a simple majority of rank-and-file members. This is important as many craft-based unions contained minorities of workers who would be classified as semi- or unskilled. As noted above, craft unions were also the ones benefiting least from centralized political activity. The allocation of decision rights in the AFL enabled them to defeat attempts by less secure general/industrial unions to expand the AFL’s activities into partisan politics.

As the membership expanded to include a more heterogeneous population of workers the Knights were also forced into managing strikes and the increasing calls for sympathetic actions. National unions rejected the growing calls for sympathy. Moreover, in the area where there was the greatest potential for cooperation—organizing—there were frequent jurisdictional disputes, especially between the mixed assemblies and trade unions (Fink, 1985; Ulman, 1955). There is evidence that some Knights mixed districts tried to undermine the trade unions in their jurisdictions by charging lower dues, working longer hours at lower wages, and even providing scab labor (Ulman, 1955:359-61), (Taft, 1957:ch.2). Trade unions expected the mixed districts to organize workers of their respective crafts into trade-based groups once a sufficient number joined the KoL. Ulman (1955:369-71) cites evidence that mixed districts often declined to do so “for the economic power of the mixed district lay in recourse to sympathetic action, while the strength of the national trade district was measured by the degree of craft autonomy which it possessed.” Trade unions viewed this (rightly) as a threat.

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26 “[T]he NLU is best viewed as an unsuccessful attempt to unify the heterogenous and fragmented labor movement after the Civil War.” (Hattam, 1993:122)

27 Both Johnson and Marks note that the AFL also precluded the affiliation of political organizations. The AFL’s 1888 exclusion of the New York Central Labor Federation due to its links with the Socialist Labor Party is a case in point.

28 Due to data limitations, it is not possible to determine if there would have been a sufficient number of rank-and-file votes for centralized political action had these less-skilled workers been enfranchised directly, rather than having their interests mediated by their organizational linkages with their more skilled colleagues.
their jurisdictions.

This conflict contrasts starkly with the enormous value that AFL affiliates placed on the AFL’s organizing activities (Ulman, 1955), which respected craft boundaries. Thus the organizational form of the KoL, particularly the mixed assembly and direct worker “citizenship” at the confederal level, undermined the confederation’s aims even where they offered the greatest possibility of cooperation.

This breadth of activities and open decision-making apparatus had clear costs. The KoL was poorly focused and often internally divided. Fink refers to the KoL as “that uncertain behemoth” (Fink, 1985:211). Kaufman (2001:564) calls the Knights “a fraternity without a beneficiary plan and a labor union without tenacity or direction.” Engels observed at the time that the Knights were

An immense association spread over an immense extent of the country in innumerable assemblies, representing all shades of individual and local opinion within the working class; the whole of them sheltered under a platform of corresponding indistinctness and held together much less by their impracticable constitution than by the instinctive feeling that the very fact of clubbing together for their common cause makes them a very great power in the country (Lapides, 1987:141-2)

As an example of the membership costs these numerous activities had, consider the secession on the Milwaukee brewery workers from the KoL in 1887. Over the years, the KoL had taken a mild pro-temperance stand, the so-called “Powderly pledge”, named for Terence Powderly, the long-time Grand Master Workman. Splits occurred between temperance groups and other workers, especially (and obviously) the brewery workers. After Powderly issued an edict banning beer at KoL picnics, the Milwaukee brewery workers left the KoL for the local AFL affiliate (Fink, 1985:199).

Ultimately, the Knights were unable to consistently “deliver the goods” on the shop floor nor provide the benevolent services available through other organizations. The trade unions, who formed the Knights’ initial basis for growth and the backbone of the organization, were unable to defend their interests within the Knights decision-making apparatus, particularly in mixed districts. The demands placed on them by the rapid influx of new workers, unorganized in their own industries and in need of the support of an organization like the Knights, conflicted with the goals and very source of strength of the craft unions.

At its institutional core, the KoL was designed with the idea that all workers as fundamentally homogenous; the AFL emphasized the divergent interests and capabilities of different workers. An implication of this difference29 is that had the structure of the American economy been different, i.e., had all workers been effective substitutes, organization into “one big union” would have been not only desirable but possibly sustainable. Put in other terms, if workers were effective substitutes and cross-industry worker mobility were sufficiently high, workers’ interests would be similar enough to support a more concentrated labor movement undertaking more tasks. In the Gilded Age, however, industrial production

29recognized by Ulman fifty years ago and subsequently formalized Horn and Wolinsky (1988)
was only just beginning, barriers to entry based on skill were quite high, and geographic markets for labor and goods were still imperfectly connected.

4 Conclusion

In this paper, I sketched a model of union confederations that built on current political-economic theories of federalism. In the model, unions vary in their preferences for confederally-provided services. With a fixed distribution of preferences across unions, more centralized organizations with competency over a larger number of issues will tend to be smaller whereas broad based unions will only be sustainable in equilibrium if they have competency along dimensions in which unions tend to agree. More critically, since member unions will differ in their size and strength, strong unions will not accede to a federation in which their interests will not be protected. To the extent there exist economies of scale for some of the federation’s possible activities, there are incentives to form larger federations. Potential members, however, will require institutional mechanisms that make credible the federation’s promise to respect its domains of competency. These guarantees will take the form of allocations of decision rights that favor the stronger unions and generally respect the organizational integrity of affiliates. Direct worker suffrage in the confederation is often not consistent with these requirements, especially when there are significant divisions among workers in their economic position (e.g., skill level) and their degree of organization (i.e., exclusive craft unions vs. general industrial unions). If workers, especially those outside pre-existing unions, voted directly on federal policies already organized unions would face demands for contributions beyond that which they are willing to supply. These stronger unions would be better off outside the federation. To mitigate these centrifugal forces and defend the jurisdictional boundaries of the unions, a sustainable confederal “contract” will allocate decision authority in such ways as to protect member unions’ interests.

I provide prima facie evidence that the model has empirical legs through comparative study of the Knights of Labor and American Federation of Labor. I illustrated the trade-off between scope and size, while also showing how the allocation of decision authority can affects how heterogeneity is managed. The Knights attempted to marry broad organizational competency with radical rank-and-file democracy while the AFL had narrow organizational goals, rigid institutional protections for affiliate autonomy, and weak rank-and-file influence on confederal policy. The Knights’ organizational structure empowered the less-skilled and previously unorganized workers to make consistent sympathy demands of the stronger craft unions. Ultimately these unions found the demands too onerous and the Knights’ activities threatening to their organizational integrity. They left to stand alone or affiliate with the AFL. The AFL explicitly precluded rank-and-file participation at the federal level and developed voting procedures and secession rules that permitted bigger and stronger affiliates to protect their interests while making the AFL’s promises credible.

The theoretical argument points to extensions that will provide improved microfoundations for theories relating the organizational structure of unions to macroeconomic outcomes. Confederations that are both broad-based and highly centralized are rare among labor or-
ganizations. The discussion above gives some initial insight into why this might be the case. First, policy preferences across unions cannot be too divergent, at least along some critical dimensions. Second, it may be that certain political systems induce greater economies of scale for organizations than others, providing stronger incentives for centralization. For example, Hattam (1993) argues American political institutions, particularly the dominance of the judiciary, reduced the value of direct political action and partisan alignment for unions, encouraging the development of syndicalist “business unionism” as embodied in the AFL. Third, the role of employers and government agents must be included in subsequent models to account for the existence of broad-coverage and highly centralized confederations, consistent with arguments from Swenson (1991, 2002) and Iversen (1999).

But there is also another area of concern about which I only speculate here. There is no reason to believe that confederal organization is incentive neutral for union leaders. After all, union leaders are the ones negotiating the confederal contract. To the extent that the preferences of the union membership differ from those of their respective leaders, the leadership does not benefit from extending “suffrage” to the federation’s rank-and-file. Union leaders desire to remain in office while also achieving policy or other career goals can induce them to give competence to the federation that the pivotal rank-and-file member would prefer to be held at the union level. Union leaders can also collude to restrict the ability of the rank-and-file to go over the heads of their own unions and appeal directly to the confederal level.

Confederal organization might well have second-order effects on the leadership of affiliate unions. The confederation, with its bigger scope of activity, (possibly) bigger pay-checks, proximity to politicians and the political process, and distance from the rank-and-file, presents a whole new career path for unions leaders. Leaders may face new incentives to use their positions to move further up the confederal hierarchy or into other offices presumed to offer additional benefits, both public and private. As forward looking rational individuals, they choose a strategy (e.g., policy, level of militance, etc.) that conforms with their future goals rather than the wishes of the rank-and-file. A labor leader looking to move into elected or appointed office will behave differently than the hypothetical perfect agent of her rank-and-file constituency. This tendency has not been lost on governments the world over. Powerful labor leaders have often found themselves ensconced in plush ministry offices in the capital city with little to do save play golf.

Finally, the normative question that all this poses but does not answer is how best to incorporate the interests of workers in the weakest labor market positions who, by definition, are most in need of the benefits of worker mobilization. The issue is complicated by the recognition that workers’ interests may diverge in ways that correlate with their “stand alone” power in the labor market. Further consideration of confederal organizational design must address this heterogeneity of interests while also accounting for the incentives leaders face in the new organization.
References


23


24


Knights of Labor. 1878. “Preamble to the Knights of Labor Constitution.”


*LIS Key Figures*. 2006. dataset Luxemborg Income Study.


Modeling Appendix

In this section, I layout a framework for formalizing the model of union confederation discussed in the text. This model is still a work in progress; I do not fully solve for equilibria and comparative statics.

The proto-model outlined here is a simplified and extended version of the basic model explored in Alesina, Angeloni and Etro (2001a,b). Assuming quasilinear preferences and equal-sized unions (among other restrictions), Alesina, Angeloni and Etro (2001b) show that constituent unions face a trade off between the scope of the federation’s activities and its size. I will consider an extension of their model introducing unions of differing sizes with varying outside options.
The setup

In the game, to be described in detail below, \(i\) indexes a finite set, \(I\), of unions. Each union has membership \(n_i\); I normalize such that \(\sum_i n_i = 1\). In addition to their negotiated wage-employment outcomes\(^{30}\), unions can undertake costly activities that produce spillovers for other unions such as sympathy strikes, boycotts, political lobbying, organizing drives and get-out-the-vote campaigns. If the unions form a federation, the level of this spillover-producing activity is decided via some preference aggregation rule across unions. Assume that the confederation sets uniform per capita contribution rates for all affiliates and that those unions outside the federation see none of the spillovers from the federation members’ activities.

There are two possible states of the world affecting the net payoffs to the spillover-producing activity, a “low cost” state, \(\theta_L\), and a “high cost” state, \(\theta_H\) with \(\theta_L < \theta_H\). There is a commonly held prior that \(\Pr(\theta = \theta_L) = p\). I assume the state is observable but unverifiable, i.e., the unions observe the value of \(\theta\) but there is no contract enforcement technology so contracts cannot be made conditional on \(\theta\). As a result, unions will end up signing “contracts” (confederal constitutions) allocating decision rights over the level of the activity yielding externalities.

Unions tax their membership at the exogenous per capita rates \(\tau_i\).\(^{31}\) They choose to allocate some per-capita amount \(k_i \in [0, \tau_i]\) to the externality-producing activities. The total cost to each union is given by

\[
C_i \equiv n_i(\tau_i - k_i) + \theta n_i k_i = n_i (k_i (\theta - 1) + \tau_i) \quad (1)
\]

While returns are defined as

\[
R_i \equiv y(n_i(\tau_i - k_i)) + \alpha_i G \left( (1 - \beta) n_i k_i + \beta \sum_{j \in \{L \setminus i\}} n_j k_j \right) \quad (2)
\]

where \(y(\cdot)\) is the wage-employment payoff the union can achieve on its own; \(y(\cdot)\) is concave in the resources devoted to its production.\(^{32}\) \(G(\cdot)\) is a concave function representing the political-bargaining technology that transforms some per-capita union investment, \(k_i\), into increased income for the membership. The parameter \(\beta \in [0, 1]\) captures the spillover effect of contributions

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\(^{30}\)The bargaining process is taken to be exogenous here.

\(^{31}\)In this specification, \(\tau_i\) is akin to exogenously given union resources independent of the size of the membership. In future work I will need to endogenize the unions’ taxation.

\(^{32}\)This formulation represents the notion that bigger unions are “stronger” in some sense, be it financial resources, bargaining power, or political weight. An alternative interpretation of \(n_i\) is as the productivity-weighted size of the union or, even more generally, the union’s endowment of industrial leverage. In any event, my intention here is only to induce correlation between the outside option of the union and its importance to the labor movement.
by other unions. Putting equations 1 and 2 together yields union $i$’s objective function:

$$U_i \equiv R_i - C_i$$

$$= y(n_i(\tau_i - k_i)) + \alpha_i G((1 - \beta)n_i k_i + \beta \sum_{j \in \{\\backslash i\}} n_j k_j) - n_i(k_i(\theta - 1) + \tau_i)$$ (3)

Preferences of this sort are “single peaked” in $\alpha_i$, thus admitting the existence of median-voter solutions.

The outside option

As a benchmark, I begin with the actions of each union individually, outside any confederal arrangement. Knowing the value of $\theta$, each union solves $\max_{k_i} y(n_i(\tau_i - k_i)) + \alpha_i G((1 - \beta)n_i k_i) - n_i(k_i(\theta - 1) + \tau_i)$. The first order condition sufficient for a maximum is the standard condition equating marginal cost and benefit:

$$\alpha_i G'((1 - \beta)n_i k_i) = n_i(\theta - 1 + y'(n_i(\tau_i - k_i)))$$ (4)

which implicitly defines the unique optimal $k_i^*$. $k_i^*$ is increasing in $\alpha_i$. Note the tradeoff between spillover-producing and local bargaining activities.

The standard contracting approach

Consider a modified version of the Grossman-Hart contracting set up (Hart, 1995): suppose there are two unions, $A$ and $B$, of size $n_A$ and $n_B$ respectively. $A$ makes an offer to $B$ of the form $\tilde{k} = \langle k_{oA}, k_{oB} \rangle$ where the superscript denotes “offer”. $B$ decides whether to accept the contract. If the contract is accepted, both unions invest at the specified levels, $\theta$ is realized, and payoffs are made. To find the optimal contract, $A$ solves

$$\max_{k_A, k_B} \mathbb{E}_{\theta}u_{in}^{A}(k_A, k_B)$$

subject to:

$$\mathbb{E}_{\theta}u_{in}^{A}(k_A, k_B) \geq \mathbb{E}_{\theta}u_{out}^{A}(k_A^*)$$

$$\mathbb{E}_{\theta}u_{in}^{B}(k_A, k_B) \geq \mathbb{E}_{\theta}u_{out}^{B}(k_B^*)$$

$$k_A, k_A^* \in [0, \tau_A]$$

$$k_B, k_B^* \in [0, \tau_B]$$

where the first inequality is $A$’s incentive compatibility constraint and the second is $B$’s participation constraint. The superscripts “in” and “out” denote the situations in which $A$ and $B$ would choose to invest at $k_A^*$ and $k_B^*$.

Note that this characterization makes $A$ the “residual claimant” in the sense that $A$ is able to maximize its surplus conditional on $B$’s participation constraint. In the contracting approach, the roles of principal and agent are important for the distribution of the surplus; here I am merely motivating the inadequacy of the standard approach for my purposes.
union is in a federation or not, with payoffs characterized by equations 3 and 4 respectively.

While I do not formally characterize the situation here, the most intriguing case is where \( A \) can offer a contract to \( B \) that is *ex ante* (weakly) preferred to \( B \)'s outside option but, after the realization of \( \theta \), \( B \) would rather renege on the agreed \( k_B^0 \) and head out on its own. If we allow for (costless) *ex post* renegotiation and transfers (i.e., the Coase theorem applies), then it is possible for the parties to reach an efficient agreement. But suppose that renegotiation and transfers are not feasible. This is plausible in the union setting for a variety of reasons. It may be that the outcome of interest is not easily fungible between unions, for example, political influence. It could be that the outcome is very high-dimensional, making negotiations costly. In this situation there are two options. The first involves simply having a rigid and binding \( \tilde{k} \) agreed at the beginning, relying on the existence of perfect contract enforceability in the event that it is in the interests of one of the parties to renege *ex post*. In the union case, this assumption seems at odds with the origins and development of the organization. It is also unlikely that the government would be a disinterested enforcer of inter-union bargains (more on this below). The option pursued here, in line with Aghion and Tirole (1997), is the possibility of contracting over decision rights rather than outcomes. It is this contract that gives rise to the confederal organization and delimits the strategic capacity of the federation.

**The game**

To pursue this further I outline a different game. The game is played as follows:

- Nature chooses one of the unions to offer a contract delineating the allocation of decision (voting) rights.
- Each union then decides whether to accept or reject the contract; any union accepting the contract becomes part of the federation while any rejecting the contract remain alone.
- The value of the state variable \( \theta \) is revealed.
- Given the realized state of the world, those in the federation then vote over the level of investment in “public goods” with votes aggregated according to the agreed contract.
- Contributions are made and payoffs realized.

A strategy profile in this game therefore consists of a contract proposal (aggregation rule), contract acceptance decision, and an ideal investment level (and associated vote). The aggregation rule is similar to Cremer and Palfrey (1999)’s representation dimension; offers will involve what amount to convex combinations of voting weights over unions.

Assume for simplicity that there are three unions (\( |I| = 3 \)), \( A \), \( B \), and \( C \). Without loss of generality, assume \( n_A > n_B, n_C \). I consider what happens under a contract specifying membership majority voting and what this can tell us about the type of contract that will be adopted and which unions will accept it.
Suppose that all three unions form a confederation in which the members take the decision on the uniform contribution level \( k_m \) by majority vote. In this case, the median union member, with preferences \( \alpha_m \) and a member of a union of size \( n_m \), sets the contribution rate by solving

\[
\max_{k_m} y(n_m(\tau_m - k_m)) + \alpha_m G((1 - \beta)n_m k_m + \beta(1 - n_m)k_m) - n_m(k_m(\theta - 1) + \tau_m)
\]

which gives the following first order condition:

\[
\alpha_m G'((1 - \beta)n_m k_m + \beta(1 - n_m)k_m) = \frac{n_m(\theta - 1 + y(n_m(\tau_m - k_m)))}{n_m(1 - \beta) + \beta(1 - n_m)}
\]

implicitly defining \( k_m^*(\alpha_m) \).

Consider the case in which \( n_A < n_B + n_C \), i.e., the median voter is not a member of \( A \). For simplicity, I assume that \( n_B = n_C \) and \( \alpha_B = \alpha_C \). In this case, the policy-setting union member can be a member of union \( B \), so the outcome under majority rule will be that preferred by \( B \). \( A \) knows this, however, and, for preferences sufficiently far apart, will not agree to a confederation. Specifically, let

\[
\Delta u_A = u_A^{in}(k_m^*) - u_A^{out}(k_A^*)
\]

\[
= y(n_A(\tau_A - k_m^*)) - y(n_A(\tau_A - k_A^*)) + \alpha_A[G((1 - \beta)n_A k_m^* + \beta(1 - n_A)k_m^*) - G((1 - \beta)n_A k_A^*)] - n_A(\theta - 1)(k_m^* - k_A^*)
\]

\( A \) will not join iff \( \mathbb{E}_\theta \Delta u_A < 0 \).

Note that \( \Delta u_A \) depends on \( \theta \), implying that there may be states of the world in which transactions between unions are efficient, even if the ex ante expected payoff to \( A \) is negative. Moreover, \( B \) and \( C \) have a strong incentive to induce \( A \) to join their federation since \( A \)'s size will provide the greatest spillover benefits to any confederal partners. \( B \) and \( C \) should therefore offer a contract in which \( A \) has disproportionate influence on the collective choice over \( k \). \( A \) will demand institutional guarantees that the enable it to protect its interests in exchange for affiliating. \( B \) and \( C \) will be forced to tie their own hands by yielding some decision power to \( A \). This may be a good thing insofar as it enables an efficient political transaction. It does, however, compromise the representativeness of the confederal collective choice mechanism.