



Economic and Social Impacts of Trade Unions

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Economic and Social Impacts of Trade Unions

*Andrew Jackson, Senior Economist
Canadian Labour Congress*

I. What Are Unions and What Do They Do?

Unions reduce wage inequality, increase industrial democracy and often raise productivity... in the political sphere, unions are an important voice for some of society's weakest and most vulnerable groups, as well as for their own members.

(Freeman and Medoff, 1984. p.5)

Unions come in many forms around the world, but they have much in common. They are organizations which define, promote and fight for the collective interests and rights of workers or a group of workers, especially in relation to employers, but also in relation to the state and civil society. Unions emerge from and are a product of the difference of interests which exists between workers and employers.

The key-defining feature of all capitalist societies — including today's 'post-industrial' societies — is that working people gain their livelihood through paid work, that is, by selling their labour to employers. The basic terms of any employment relationship are that workers agree to work under the direction of an employer (with respect to place of work, hours of work, methods of work, etc.) in return for a wage. If it were not for unions, workers would have to negotiate the terms and conditions of their employment (wages, benefits, hours of work, work schedules, conditions of work, etc.) as individuals, protected only by minimum legal standards. And, if it were not for unions,

individual workers would be on their own when it came to dealing with arbitrary and unfair treatment by employers, such as dismissal without just cause, harassment, discrimination in hiring, promotion and layoffs, favouritism by employers and managers in setting pay, assigning jobs, and so on.

Unions have been formed out of the fundamental recognition that there is strength in numbers, and that workers are stronger when they unite and bargain together with employers and when they have a common voice to represent their interests. Individual workers have less power in determining the content of the employment relationship than employers because many workers are capable of doing a given job, and can be hired to do so. The bargaining power of individual workers is particularly weak in times when unemployment is high, and many workers are seeking any available job. Unfortunately, the norm is for the demand of workers for jobs to exceed the number of jobs which are available at any given time in any particular place. This is particularly true for good jobs with decent wages and working conditions.

Unions have been, historically, a major force for humanizing and democratizing capitalism by balancing the power of employers which flows from their ownership of capital and control over production. Unions are an important source of human dignity in the workplace, and a wider force for social justice. Unions promote higher levels of economic equality and, in some ways, also make labour markets work better from the point of economic growth and efficiency.

Most unions form part of democratic labour movements at the national and international level, fighting for better wages and better working conditions, as well as for democratic and human rights, and better social programs for all workers. The labour movement has been a central part of the wider, social-democratic movement to make societies more democratic, both inside and outside the workplace, more secure from the perspective of working people who are vulnerable to unemployment and low income, and more equal in terms of the distribution of income and economic resources between social classes. Unions have joined the fight for rights for women, and the fight against racial discrimination. Most big historical breakthroughs in union recognition and in collective bargaining — such as the eight-hour day and the five-day week — have come when many groups of workers were pursuing the same goals at the same time.

Union strength varies a great deal between countries, including the advanced industrial countries, ranging from collective bargaining coverage of 80% or more of workers in many continental European countries, to just 15% in the US, to even lower levels in the formal labour markets of most developing countries. Outside of public and social services, where union coverage is typically high, the key bastions of union strength are typically in larger companies in primary industries, manufacturing, utilities, and transportation, as well as in construction.

Union coverage typically extends to only a minority of workers in most private service sector industries, such as finance, retail trade, accommodation and food, and personal services. The main exception is

in those countries where unions and employers sign ‘broader based’ agreements covering workers in many smaller workplaces. Unions will clearly be a greater force for equality and for social justice only if union coverage is extended to the many low paid and precarious workers, many of them women and workers of colour, who are currently excluded from the benefits of union representation. The existence of a large informal sector in developing countries and of a precarious secondary labour market in most developed countries poses major challenges for union organization and representativeness.

II. Collective Bargaining

Collective bargaining arrangements to set wages differ enormously between countries. In North America, unions are almost always organized on the basis of a legal certification to represent a specific group of workers in a specific workplace, and bargaining is very decentralized. Industry-wide ‘pattern’ agreements, covering almost all workers in a sector, such as auto or steel, have become rare. By contrast, in some European countries, collective agreement provisions on wages and some other key economic issues are still often concluded on a national or sectoral basis, or on a sectoral basis in a specific region. In other countries, bargaining often takes place outside a formal legal and regulatory framework, particularly when basic labour rights are not respected. Typically, unions also negotiate working conditions and other local issues, and have a continuing representative role within individual workplaces. Sometimes, the union role in the workplace takes place

through formal structures, such as works councils which also exist in non-union workplaces.

A core activity of unions is to conclude and enforce collective agreements covering wages, benefits, hours of work, and working conditions. The fact that unionized workers are usually covered by the terms of a collective agreement means that they have *rights*. Workers join unions as much to ensure due process and representation at the workplace as for the economic objective of higher wages. Probably, the most important aspect of unionization for individual workers is that they have a formal contract of employment which can be enforced. By contrast, non-union workplaces are usually more informal, which can mean arbitrary and capricious exercise of managerial authority.

Typically, collective agreements define:

- **Wages**

Wages are usually set by the hour, week or other pay period. Sometimes, there is an element of ‘performance pay,’ but this is much less common than in non-union workplaces where piecework, commissions and bonuses based on individual or group performance are more common. Wages are usually set for defined jobs and job classifications, so there is a formal system of pay-by-position.

- **Non-Wage Benefits**

Collective agreements commonly specify benefits, such as employer pension plan coverage, health care, and paid or unpaid time off for family and personal reasons, though this varies a lot depending upon the level of social protection provided through government programs.

- **Job Security and Protection**

Collective agreements usually formalize the norm that individual dismissal shall only be for ‘just cause,’ so individual discipline and dismissal can be appealed through a formal process.

- **Opportunities for Job Progress**

Often, agreements provide for seniority in promotions so that a worker who has the skills and abilities to fill an available job will get the job if she or he is the most senior candidate. Job vacancies usually have to be posted, and are subject to formal competitions. Often, agreements provide defined opportunities for training. These provisions mean that union members are generally able to access better jobs through formalized ‘internal labour markets.’ Formal structures for promotion can also exist in larger non-union firms, but collective agreements typically provide much stronger rights to workers.

- **Workplace Conditions**

Many agreements contain provisions — sometimes very detailed — on the content of jobs, workloads, health and safety,

and proper working conditions. Often, agreements also set up labour-management committees to informally discuss working conditions. However, almost all agreements also contain ‘management rights’ clauses which give management the right (subject to specific exceptions) to assign tasks to workers, to direct work, etc.

- **Working-Time and Hours of Work**

Agreements usually specify regular hours of work, shift schedules, maximum hours, and provisions for overtime pay, as well as provisions for paid time off. Again, this contrasts to informal hours arrangements (such as variable weekly hours, on-call arrangements, and unpaid overtime) in many non-union workplaces. Unionized workers generally enjoy far more paid time off the job than do non-union workers.

III. What Are the Impacts of Unions on Workers?

Unions Raise Wages

It is well-established that unionized workers usually earn higher wages than non-union workers. This is the ‘union wage premium’ or ‘union wage advantage.’ It is important to take into account that union and non-union workers are different, and hold different kinds of jobs. Union members tend to be older and more experienced than non-union members, and are much more likely to work in public services or for

large firms. And, many union members are highly trained and educated. In other words, the apparent union wage advantage reflects some factors other than union coverage.

Economists have tried to calculate the union wage premium (the difference between the union and non-union wage) for *comparable* jobs. Holding everything else constant, unions still have a very significant impact on wages, usually in the range of 5% to 15% in industrial countries. And, wages are only one part of the union pay advantage, which includes higher benefits and more paid time off than is the case for non-union workers.

The union wage premium is impossible to precisely determine. It may reflect a 'compensating differential' for more difficult working conditions than those of non-union workers. On the other hand, the union wage premium may be understated to the extent that it takes no account of the positive impacts of unions on the wages of *non-union* workers. Many non-union employers more or less match union wages in order to avoid unionization.

The union wage premium has been found to be lowest in countries where union density is high, and highest where union density is low. Thus it is much higher in the US than in Sweden. This is surprising on the surface, but it reflects the fact that non-union employers will be more likely to be forced to match union wages where unions are very strong. The main impact of unions in countries like Sweden, where the unionization rate is well over 80%, is to raise wages

for lower paid workers compared to other workers, rather than to raise union wages compared to the wages of non-union workers.

While wages are obviously a key concern in union bargaining, the key goal of labour movements is to expand the range of collective bargaining and to increase union density. *The goal is to improve the working conditions of all workers rather than raising the wages of a union elite.* A very high union wage premium and low union density is likely to promote strong employer resistance to unions, as in the US. On the other hand, widespread unionization, as in Sweden, is likely to promote much less strong employer opposition, at least once high density has been established. That is because, in highly unionized environments, wages are effectively ‘taken out of competition.’ All employers in a sector or region pay roughly the same union wage and benefits. Employers must then compete with each other on the basis of non-wage costs, productivity and quality.

The union wage premium can be paid for from several different possible sources. Part of it may come from lower management salaries and lower profits than in comparable non-union firms. The major part comes from higher productivity. (Higher output produced per hour worked supports a higher hourly wage.) And, part may come from higher prices which unionized firms charge in order to cover higher wages. The impacts of union wages on jobs and growth are discussed below.

Unions Counter Low Pay and Make Wages More Equal

Economic research has consistently shown that the union wage advantage is greatest for workers who would otherwise be lower paid workers: workers with less formal education and skills, younger and less experienced workers, and women and workers of colour who are vulnerable to discrimination. This is partly because unions compress the distribution of wages within unionized firms. For example, highly skilled trades workers in the auto industry make more per hour than regular assembly-line workers, but the difference is not as great as it would be in non-union firms. Because unions bargain for all workers in a bargaining unit, the tendency is to negotiate relatively flat, ‘across-the-board’ wage increases which benefit all members. Over time, this reduces pay differences in the unionized sector. Since bargaining has the effect of compressing the distribution of wages, higher wages at the bottom are paid for, in part, by lower wages for those at the middle and top. Unskilled workers and women make more, so the more highly skilled and men make a bit less.

By raising the wages of traditionally disadvantaged groups the most, unions typically lower pay differences in the unionized sector between women and men, and between workers of colour and other workers. In most countries, research has shown that the overall impact of unions is to reduce wage inequality, the incidence of low pay, the gender wage gap, and wage gaps between workers of colour and other workers. (For North American evidence, see: Lemieux, 1993; Dinardo, 1997; Card, Lemieux and Riddell, 2002; Doiron and Riddell, 1994;

Jackson and Schellenberg, 1999.) Due to labour market deregulation and declining unionization, increases in wage inequality from the mid-1980s have been much greater in liberal labour markets like the US and the UK than in the Scandinavian or continental European countries. (Freeman and Katz, 1995; OECD, 1996.)

Studies show that countries with very high levels of collective bargaining coverage have much less pay inequality than lower union density countries. In the social democratic countries of Scandinavia and the ‘social-market’ countries, such as Germany and the Netherlands, collective bargaining coverage is very high (and generally quite stable) because of high union membership in combination with the *de facto* or sometimes legal extension of agreements on a sectoral or regional basis. Wage floors set by bargaining protect the great majority of non-professional/managerial workers, including most part-time and even temporary workers. Bargaining covers more than 80% of workers in Germany and the Scandinavian and Benelux countries, as well as France and Italy. (OECD, 1997; EIRO, d.) Bargaining is the preferred instrument of labour market regulation in European Union (EU)

Table 1

Incidence of Low Paid Employment (Mid-1990s)

(% full-time workers earning less than 2/3 national median wage)

	All	Men	Women
US	25.0	19.6	32.5
Canada	23.7	16.1	34.3
Germany	13.3	7.6	25.4
Sweden	5.2	3.0	8.4

Wage Inequality

(ratio of top of 9th decile to top of 1st decile, i.e. minimum gap between top and bottom 10%)

	Men	Women
US	4.4	4.0
Canada	3.8	4.0
Germany	2.2	2.2
Sweden	2.2	1.8

Source: OECD Employment Outlook (1996).

countries other than the UK. Also, unions and legislatively mandated works councils mean that there are strong elements of joint workplace governance over such issues as training and working conditions in these countries.

Countries with high levels of bargaining coverage have relatively equal earnings distributions and high wage floors, so that the incidence of low pay and earnings inequality are much lower than in ‘deregulated’ labour markets. (OECD, 1996.) About 1 in 4 full-time workers in the US and Canada in the mid-1990s were low paid — defined as earning less than two-thirds of the median national full-time wage — compared to just 1 in 20 in Sweden and only 1 in 8 in Germany and the Netherlands. Earnings inequality differs profoundly between OECD countries. For example, the minimum earnings gap between the top and bottom 10% of workers is about 2 to 1 in the Scandinavian countries compared to more than 4 to 1 in the US. North American workers in low wage sectors like hotels and restaurants and retail trade earn about 60% as much as an average assembly worker in manufacturing compared to 90% in Sweden where there is much greater compression of wages. Moreover, upward earnings mobility over time for low paid workers is greatest in those countries which have the lowest levels of earnings inequality, with Sweden and Denmark performing notably better than the US. (OECD, 1996.)

Labour market institutions — wage floors set by collective bargaining and legislated minimum wages — play a major role in accounting for different levels of low pay and earnings inequality.

Advanced industrial countries differ rather little in terms of the big structural forces shaping the demand for labour. All are exposed to increased international competition and technological change, widely believed to be tipping the scales against relatively low-skilled workers. The supply of skilled workers, driven by demographic factors and the quality of the education and training system, makes a difference to wage distributions. But, there is a strong consensus among economists that labour market institutions significantly shape the impact of supply and demand forces. (OECD, 1996, 1997; Aidt and Tzannatos, 2003; Dinardo, 1997; Clarke, 2000; Freeman and Katz, 1995; Card, Lemieux and Riddell, 2003.)

In summary, high union density is very closely connected to the key social goal of promoting greater income equality. Generally speaking, high union density countries also have politically influential labour-based political parties which have blunted the unequal distribution of market income by building income support programs (unemployment insurance, pensions, etc.) and reducing reliance on market income through public provision of health and education. In short, strong unions have produced more equal and inclusive societies.

Unions Shift Compensation from Wages to Non-Wage Benefits

Unions tend to shift the total compensation package from wages to non-wage benefits, particularly in countries where private pension and health benefits play a major role. From the point of view of union

members, union jobs are often good jobs because they generally provide for a decent pension in retirement, and protection against the costs of ill health and disability. However, it also has to be recognized that private benefit plans come at the cost of foregone current wages, and have to be paid for out of the total employer wage bill. In some ways, bargaining for income and social security at the workplace is a second-best solution to public programs, such as good public pensions and public health care.

Unions Help Control Time Worked

Because of the nature of unionized jobs, unions have little impact upon the overall incidence of shift work and night work in sectors like manufacturing and public services. But, union work schedules are generally more stable and predictable, and there is often premium pay for overtime and unsocial hours.

Union members are likely to receive much more paid time off the job than non-union members.

Union Members Get More Training

Unions commonly bargain education and training provisions, including paid time off the job for training, apprenticeship programs, and provisions for on-the-job training to help workers deal with technological and organizational change. Some unions have played a

major role in the development and delivery of apprenticeship programs, and some unions provide direct training to their members. A number of unions also participate in joint employer-union sectoral training bodies. Generally, unions promote training which gives workers formal, portable qualifications, as opposed to training which is very narrowly geared to the needs of a single workplace.

IV. The Impact of Unions on the Economy and Labour Markets

Unions and Jobs

Most mainstream ‘neo-liberal’ economists see unions as almost exclusively concerned with raising the wages of their members, ‘distorting’ wages compared to ‘free-market’ levels. And, they see this as damaging to the economy as a whole. In the standard economic model, union wage gains come at the expense of other workers and/or society as a whole, since they are paid for through higher prices, or through lower employment (fewer jobs) in unionized firms. In the standard model, higher union wages force union employers to hire fewer workers, pushing more workers into competition for non-union jobs, thus forcing down non-union wages.

In fact, the most authoritative surveys of the economic literature conclude that the positive impacts of unions in terms of reducing low pay and inequality, and giving workers a voice at the workplace do NOT come at a significant economic price. Indeed, there is a strong argument

to be made that unions promote economic prosperity as well as social justice.

A major recent study by the World Bank on the economic impacts of unions (Aidt and Tzannatos, 2003) finds that there is no relationship between union density and the economic or employment performance of countries. Another major review of economic studies by the OECD (OECD, 1997) found no valid statistical relationship between trade union membership or bargaining density and the economic or employment performance of advanced industrial countries in the 1980s and 1990s. Union density is, overall, related neither to higher nor lower than average rates of unemployment or economic growth.

In bargaining at the firm level, it is far from clear that the gains of unionization in terms of higher wages, more benefits and better working conditions come at the price of fewer jobs. One key problem with the standard economic model is that unions do not bargain purely for higher wages, with no concern for the jobs of their members. Some elements of the union advantage, such as paid time off the job and restrictions on unpaid overtime, increase employment. And, keeping jobs is usually a major priority in local bargaining. Often, unions will bargain early retirement provisions for older workers and job-sharing arrangements in order to preserve jobs.

Very few unions will raise wages to such a level as to push an employer into severe financial difficulties. Research has found that newly organized firms (in the US) are no more likely to go out of

business over a long-term time horizon than are firms where unions lost representation elections (Dinardo and Lee, 2003), and that unionized firms have similar closure and bankruptcy rates to other firms, controlling for other characteristics. (Freeman, 1999.)

It has to be borne in mind that employers as well as unions have to agree to collective agreements. Wage settlements must, and do, reflect market realities. In most bargaining situations, both sides understand that the rough limit for increasing total wage costs is set by productivity and firm profitability. Unions can and will push for improvements in real wages if worker productivity is increasing and firms are profitable. This implicit bargain was much more explicit in industry-wide bargaining in the 1960s and 1970s when wages often rose on the basis of an ‘annual improvement factor’ based on productivity.

Sometimes, it is argued that this market discipline on wages does not apply in the public sector. But, public sector wage settlements tend to closely follow the trend which is set in the private sector.

The union wage premium may be higher than average in highly unionized sectors of the economy. More importantly, if an industry is highly unionized, such that all employers pay the same union wage and benefit package, the union impact puts no single employer at a significant competitive disadvantage. At the sectoral level, wage floors and generalized labour standards take wage costs out of the competitive equation, particularly in non-traded sectors like consumer services. If all employers pay the same wage and benefit package, firms must compete

with one another on the basis of non-labour cost issues, such as quality and customer service. The ‘high road’ of firm competition on the basis of high productivity, training and production of high quality services is different from the ‘low road’ of competing on the basis of low wages and poor working conditions.

Unfortunately, the ‘low road’ can prevail, especially in labour-intensive services, if higher wages and standards are not generalized. Unions in liberal labour markets have had great difficulty raising the wages and working conditions of precarious workers precisely because they have not been strong enough at the sectoral and regional level to take wages out of competition. Wage and benefit competition among employers has also become a more serious issue in the once high union density manufacturing sector because of increased international trade. However, unions can still secure better wages, benefits, and working conditions by promoting higher productivity.

Unions and Productivity

The major part of the union advantage in terms of pay, benefits and paid time off the job is earned through higher productivity. Union wages can and should rise more or less in line with higher productivity, which comes mainly from firm investment in capital equipment and new technology as well as investment in worker training and skills.

The relationship between unions and productivity runs in several directions. The fact that unionized firms are under constant pressure to pay good wages and benefits may lead them to invest more in new equipment and technologies than would otherwise be the case. Unionized firms tend to be more capital intensive. Moreover, and most importantly, unionized firms tend to be different from non-union firms in ways which raise productivity.

The important work of Freeman and Medoff (1984) on the economic role of unions emphasizes the importance of “voice.” Unions provide a collective voice for workers in unionized workplaces, which makes them function quite differently than most non-union workplaces. By organizing the ‘internal’ labour market, unionization can lower the management costs of firms. Formal rules counter discrimination and petty abuses of managerial authority, which can be costly to firms and not just workers. Most importantly, the existence of a union stimulates and facilitates joint management-labour discussion of workplace problems. In this discussion, the union voice is listened to by management, not just because it is a useful source of information, but also because it has some power behind it. Union workplaces have formalized systems in place to govern issues like promotion and technological change, and work organization and training, which means that there is some joint determination of the work process.

As Freeman and Medoff note, a good labour relations climate is essential to the productivity effect: “the extent to which a union is a liability or an asset depends crucially upon how management responds to

it.” Good labour-management relations can and do lead to limited workplace conflict and high levels of workplace co-operation. This is enormously important to productivity, because production is always a *social* process and not just a technical process.

In a major defence of labour rights and standards, Werner Sengenberger — a recently retired senior official with the International Labour Organization (ILO) — argues that the neo-classical view of the labour market is profoundly misleading since it does not take account of the fundamental fact that “labour is not a commodity” or a “factor of production.” (Sengenberger, 2003.) Rather, labour is a productive potential, linked to human beings with individual and social needs. Productivity — what a worker delivers in return for a wage — depends upon what the ILO has termed “decent work.” “A worker will be more or less productive, co-operative and innovative depending on how he or she is treated; whether the wage is seen as fair in relation to the demands of the job; whether the worker gets equal pay for work of equal value; whether training is provided; whether grievances can be voiced. In short, what the worker delivers is contingent on the terms of employment, working conditions, the work environment, collective representation, and due process.” (Sengenberger, 2003, p. 48.)

True labour-management co-operation is much more difficult, if not impossible, to achieve in non-union environments since labour has no formal voice, and no real power behind its voice.

There are some very tangible and direct links from a union voice in the workplace to higher productivity. The participatory benefits of unions combined with better wages and working conditions greatly reduce the incidence of quits in unionized compared to non-union workplaces. (Swidinsky, 1992.) Lower quits and much longer job tenure mean that most unionized workers make a long-term commitment to a particular employer, giving that employer the benefit of experienced workers. In the economic jargon, unionized workers have high levels of ‘firm-specific human capital’: meaning that they know how to do the job at hand. Long job tenure also means that unionized employers have a major incentive to invest in the skills of employees, in the knowledge that they are unlikely to leave the firm, but will use new skills over a long period of time. Non-union employers can strive to create more attractive workplaces and to retain workers by paying higher than market wages, but it is difficult for them to give workers the same real stake in the enterprise which comes from workers having their own voice.

The union voice also gives management greater knowledge of workplace conditions which can result in more efficient work organization. Job and/or employment security means that workers have an incentive to share their knowledge of production and co-operate to raise productivity. If workers know that changes in work organization will not cost them jobs, will not lead to poorer health and safety or working conditions, and know that the gains of higher productivity will be shared, then workers will co-operate in workplace change.

A host of studies have shown that the path to higher productivity lies in the effective combination of new technologies, training, and changes in the organization of work to maximize the use of skills. Many of these studies also show that unions and good labour relations can make a major contribution to the success of workplace restructuring. Far from being ‘inflexible,’ many unionized workplaces can and have implemented new technologies and new forms of work organizations in a much more effective way than non-union workplaces. (Black and Lynch, 2002; Betcherman, McMullen, and Davidson, 1998.)

V. The War of the Models

In what has been termed “the War of the Models” (Freeman, 1998), the “Great American Job Machine” has been routinely contrasted to high unemployment ‘Eurosclerosis.’ The highly influential OECD Jobs Study (1994) argued that the greater extent of labour market regulation in continental Europe as compared to the US and the UK was a major factor behind higher unemployment. The orthodox view — repeated in the 2003 IMF *Economic Outlook* — is that labour market regulation militates against job creation, especially for the relatively unskilled. The basic premise is that the level of employment and unemployment is determined by supply and demand forces and the extent to which wages are flexible. On the supply side, “overly generous” unemployment and related benefit systems are held to create barriers and disincentives to work by setting “reservation wages” which are higher than wages in available jobs. This creates disincentives to

work, particularly for the relatively unskilled who would qualify for only relatively low-wage jobs. On the demand side, wage floors, especially when combined with employment protection regulation and mandated employer payroll costs, reduce the demand of employers for lower skilled workers. High-wage floors set by collective bargaining mean that low-skill workers will be priced out of the low productivity jobs which could otherwise have been created for the relatively unskilled.

At the economy-wide level, regulated labour markets are seen as a cause of structural unemployment, the result of strong wage pressures from the employed even at high rates of unemployment and ‘inflexible’ wages which slow adaptation to changing market conditions. In short, regulated labour markets deviate from the ‘ideal’ labour market in which wages rapidly adjust to changing economic circumstances and closely reflect the relative productivity of different groups of workers. The dismal message to governments has been that there is a trade-off between the quantity and quality of jobs for lower skilled and vulnerable workers, and that protective institutions, such as unions and ‘generous’ unemployment benefits, come at a significant cost.

However, the International Labour Organization (ILO, 1995) argues that high employment growth and strong economic growth can be achieved in a very wide range of labour market settings. Recent studies by the ILO and others (Auer, 2000; Jackson, 2001; ILO, 2003) have shown that some countries with very high rates of union coverage, notably Denmark, the Netherlands and Sweden in the second half of the 1990s, have also been able to achieve high levels of employment and

strong rates of economic growth. High unionization at the economy-wide level is quite compatible with good economic performance because unions can and do bargain for jobs as well as for wages. Unions and labour movements understand that bargaining outcomes have an economic impact.

The evidence shows that there is no clear-cut link between the extent of labour market regulation and employment performance. If the orthodox view of how the labour market works was correct, relatively generous unemployment benefits, high-wage floors and low-earnings inequality would come at the price of jobs. The social democratic and social market-regulated labour markets would lose the “War of the Models” hands down, particularly in terms of employment rates for the relatively unskilled. But, major recent summaries of the empirical research by the World Bank and OECD (Aidt and Tzannatos, 2003; OECD, 1997) find that there is no relationship at the economy-wide level between union density or collective bargaining coverage and economic or employment performance in the 1980s and 1990s. Union density is, overall, related neither to higher nor lower than average rates of unemployment or economic growth. Evidence for a systematic linkage between labour market regulation and national unemployment rates is lacking in the econometric work of the OECD (Baker, Glyn, Howell, and Schmitt, 2002) and the econometric work of the IMF on labour market regulation as the cause of high European unemployment has been similarly refuted by trade union studies. (Baker and Schmitt, 2003; Watt and Janssen, 2003.) The neo-liberal view fails to take account of the many positive economic impacts of trade unions, and of the fact that

collective bargaining is quite compatible with setting wages at the 'right' level to promote job growth.

To be sure, the larger continental European economies, such as France, Germany and Italy, performed very poorly in terms of job growth and unemployment in the 1990s compared to the US, and employment rates for women and youth in these countries lag well behind those in North America. But, a number of smaller European countries with high levels of bargaining coverage and reasonably generous welfare states, notably Denmark and the Netherlands, performed very well in employment terms in the 1990s. (Jackson, 2000; Auer, 2000; ILO, 2003.) The International Labour Organization has recently highlighted the experience of some smaller European economies, particularly Denmark, in an explicit counterattack on the OECD prescription. (Auer, 2000; ILO, 2003; Sengenberger, 2003.) The European Commission has also rejected the idea of a job quality/job quantity trade-off for lower skilled workers, and highlighted the experiences of Denmark and the Netherlands as a desirable alternative to the US model. The fundamental message has been that the neo-liberal labour market gives rise to unacceptable levels of wage inequality and social exclusion, but that a *new* European labour market model can provide high levels of quality employment with low levels of insecurity.

VI. Conclusion

Unions are an important force for democracy, inside and outside the workplace; for better wages, working conditions and social protections for all workers, and for a more equal distribution of wages. Unions improve workplace conditions for their own members, and balance the power of employers.

The significant 'union advantage' does not come at the price of fewer jobs on slower growth because unions have significant, positive effects on productivity, and because collective bargaining does not mean that workers and employers cannot jointly adapt to the changing economic circumstances.

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