



Assets or Liabilities?

A Business Case for Canadian Unions in the 21st Century

Labour Day 2011

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EXECUTIVE SUMMARY

In the late 19th century, labour groups were fighting to have the work week reduced to 58 hours. They did not have health benefits, and they only dreamed of vacations.

At the beginning of the 21st century, Canadians are accustomed to 40 hour work weeks and several benefits that include pensions, health benefits, vacations and much more. Most, if not all, of these benefits were initially obtained by unions in hard-fought negotiations with employers and governments. Increasingly, more Canadians have been able to obtain these benefits, as employers have come to realize that this is the best way to engage and retain employees.

The reality is that working conditions evolve constantly. The presence of unions has greatly accelerated the rate at which the legitimate demands of Canadian workers have been obtained.

However, there are those who would prefer that unions were less able to exert pressure when lobbying on behalf of their members. These same individuals and groups believe that unions no longer have a valuable role to play in today's society.

Let's flash forward to the 22nd century. In all likelihood people then will look back and wonder how we were able to enjoy working in the conditions we consider to be normal and take for granted today.

Social change does not happen without pressure. However, it is important to review the situation in a dispassionate manner and determine whether unions are still the same positive engine for social change that they once were.

The Association of Canadian Financial Officers (ACFO) represents financial officers working in the Government of Canada and NAV Canada. It is a union. It is also a leader in the development of crucial recommendations to improve the financial framework in which the Canadian government operates. Its members prepare or review business cases on a regular basis. In this regard, ACFO is positioned to offer a unique perspective with its business case that examines unions in the 21st century.

This business case is based on a series of logical steps:

1. A situational analysis
2. A definition of the needs
3. An analysis of the arguments for and against unions
4. The development of recommendations based on an analysis of all factors

In this report, ACFO is performing its social responsibility. It is performing its role as stewards of Canadian taxpayer dollars by adhering to the correct processes and procedures in addressing an important issue. ACFO is asking the following: do we still need unions? Are they still useful? Are they an asset or a liability in the 21st century?

1. SETTING UP A BUSINESS CASE

1.0 THE DEVELOPMENT OF A BUSINESS CASE FOR UNIONS

This report and analysis will examine whether unions are an asset or liability in Canadian society and whether there's a role for unions in the 21st century.

The recent economic downturn has pushed employers in the public and private sectors to reconsider negotiated workers' rights and benefits. This has resulted in questioning the importance and role of unions.

Critics of the labour movements have perpetuated a theory that the "new economy" and economic conditions have rendered the role of unions obsolete.

We will show there is a "business case" for unions in the 21st century. It is made more compelling due to the observation of various trends, including:

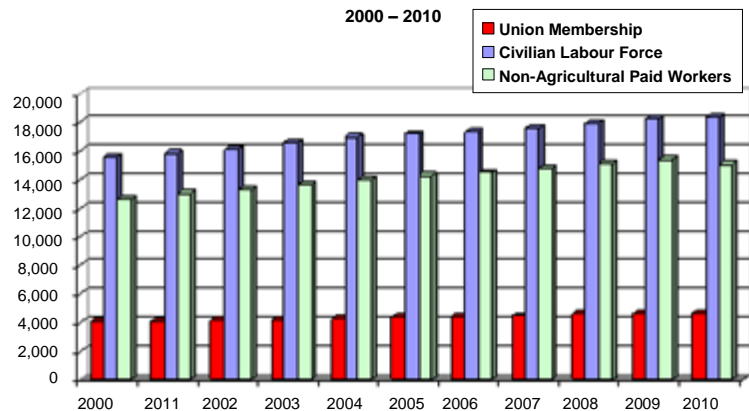
- A general lack of interest by Canadians on issues related to unions
- A decrease in the popular support for the labour movement
- An increase in the number of direct actions taken by governments against unions and their members

A. LABOUR DAY 2011

As we enjoy the 117th Labour Day since it was officially declared a Canadian national holiday, very few of us will reflect upon the labour movement's achievements.

The perception of organized labour has changed since the 40-hour work week came into force and minimum wage was implemented for all workers. We are even further removed from the circumstances that brought about that first holiday of 1894, when unions were fighting for a 58-hour work week!¹

Union Membership, Non-Agricultural Paid Workers, and the Civilian Labour Force
2000 – 2010



Source: Statistics Canada, The Labour Force Survey, Labour Statistics Division

Graph 1

The statistics show that close to 30% of Canadians are union members.² (See graph 1.)

However, in spite of this significant portion of the population that is directly represented by unions, to some in Canada and the United States, unions have outlived their usefulness and purpose.

¹ Marsh, James. "Origins of Labour Day". *The Canadian Encyclopedia*.

² "Union Membership in Canada – 2010." Human Resources and Skills Development Canada. December 31, 2010.

Union detractors acknowledge that unions have made tremendous gains in fairness and equality for workers. But they add that it was long ago. In their view, today's government safety nets more than adequately protect individuals from the perils of modern economies, and unions exist only to guard entitled workforces.

Supporters of the labour movement in Canada continue to state that unions play an important role in protecting workers' rights, promoting social development, and standing up to defend those whose rights need protection

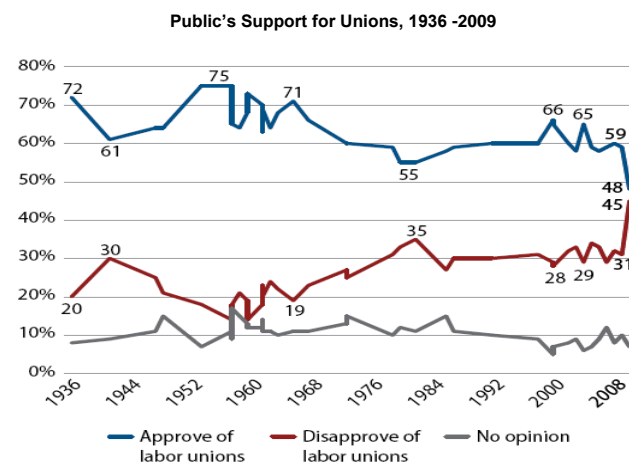
B. ARE UNIONS REALLY LOSING PUBLIC SUPPORT?

Several media sources have reported a decline in the support for unions in recent years. This is of concern to the labour movement and a great joy to its opponents. Pro-labour organizations claim that the significant drop in support for unions is the result of an increasingly strident and organized opposition to labour in North America (from right-wing think tanks and business organizations) coupled with a lack of coordinated response from the labour movement.

Since this recent decline in union support started with the economic downturn of 2008, it is ACFO's opinion that this public sentiment is more related to economic conditions than a real loss of support for the labour movement.

It could be that North Americans were reacting to the general state of the economy when most institutions (such as governments, politicians, and businesses) were seen as having failed to protect people from the impact of the recession.

Union approval ratings had hovered around 60% for decades in the United States. But with the global financial crisis of the last five years, unions have faced a significant drop in public support. In August 2009, a Gallup poll found that fewer than half of Americans (48%) approve of labour unions, an all-time low for a question that had been asked since 1936.³ (See graph 2.)



Source: Gallup, "Labor Unions See Sharp Slide in U.S. Public Support" (2009).
Question: "Do you approve or disapprove of labor unions?"

Graph 2

Similarly, in 2011, the Pew Research Center pegged American union favourability at only 45%.⁴ According to Pew, the percentage of Americans who had a favourable view of labour unions fell 17 percentage points between January 2007 and February 2010. Only 61% agreed with the statement "labour unions are necessary to protect the working person," down from 74% in 2003. Likewise, 61% agreed with the statement "labour unions have too much power," up from 52% in 1999.

³ Lydia Saad. "Labour Unions See Sharp Slide in U.S. Public Support." Gallup. September 3, 2009.

⁴ "Labour Unions Seen as Good for Workers, Not U.S. Competitiveness." Pew Research Center. February 17, 2011.

In a 2007 Angus Reid survey in Canada, 59% of Canadians said labour unions were a necessary and important entity in our society. However, 70% of Canadians thought labour unions were too involved in political activities, and 48% said unions had too much influence in Canadian life.⁵

From these statistics, one could conclude that:

- Canadians are turning against the union movement
- Canadians believe that unions are too influential

However, while support has declined, it has not vanished. Three out of five Canadians still support unions – better than levels of support for any government Canada has had in the past twenty years. The statistics appear to indicate that Canadians prefer that unions stick to issues directly related to their responsibilities (protection of members and workers) and stay away from broader issues such as social responsibility and international affairs.

What is clear, however, is that opponents have used these statistics to talk about the diminishing relevance of the labour movement.

C. UNIONS LOSING POLITICAL SUPPORT

Prominent news stories of the last few months show governments on both sides of the border citing fiscal responsibility in their decisions to remove collective bargaining power from unions:

- In June 2011, Canada Post locked out its workers after 12 days of rotating strikes. The federal government ended the conflict by imposing a wage settlement that was actually lower than Canada Post's final proposal. The government's "back-to-work" conditions were more detrimental to Canada Post employees than the last offer made by management. Labour Minister Lisa Raitt defended the decision as part of her government's election promise: "Canadians gave us a strong mandate to complete our economic recovery, and this is why we will put legislation on notice to ensure resumption and continuation of postal services."⁶
- Days later, the Canadian government prepared to do the same with Air Canada customer service and sales. After the government tabled a bill that would have forced the striking employees to return to work,⁷ the union and management quickly settled a new collective agreement⁸.
- Earlier this year, in Wisconsin, state lawmakers in March voted to strip nearly all collective bargaining rights from the state's public workers, ending a standoff over labour rights and delivering a key victory to those who had targeted unions in efforts to slash government spending. Comparable bargaining restrictions are making their way through other state legislatures, and several other states are debating measures to curb union rights.⁹

⁵ "Labour Unions - Canadians See Unions as Essential But Have Little Support for Strikes." Angus Reid Strategies National Public Opinion Poll. July 2007.

⁶ "Tories prepare to end Canada Post labour dispute." CBC News. June 15, 2011

⁷ "CAW 'satisfied' with Air Canada deal: Lewenza." CTV.ca News Staff. June. 16 2011

⁸ Nicole Mordant. "Air Canada, CAW in pension compromise; strike over." Reuters. June 16, 2011

⁹ Michael Cooper and Katherine Seelye, "Wisconsin Leads Way as Workers Fight State Cuts." New York Times. February 18, 2011

This indicates an increasing trend that has governments challenging unions and legislating against them. They are using legislation to strip away legally binding agreements. Is this a reflection of a growing trend to be observed in the next few years, or is this more an issue related to the economic conditions facing these governments?

In Canada, one need only to look at the previous economic downturn to see governments ready to take direct and drastic actions against unions. This was not an ideological choice: the 1990 to 1995 NDP government of Bob Rae in Ontario was unpopular with provincial unions (traditionally allies) after he took measures that were seen as drastic against unions.¹⁰

On top of the Canada Post and state of Wisconsin examples, there is a growing trend around the world that sees workers' rights and benefits obtained through negotiations between governments and labour groups being taken away. For example:

- Greece is cutting public servant wages by 15%, rolling back retirement age, and reducing health and social security benefits to get its deficit under control.¹¹
- In the United Kingdom, where 350,000 public service jobs are expected to be cut by 2015, Chief economist for the Chartered Institute of Personnel and Development John Philpott warned, "the greater job security and relative generous pay and pension's packages enjoyed by public sector workers will soon be a thing of the past."¹²
- In France, retirement age is being raised and the right to strike for some professions is being challenged.¹³

In the face of such severe government action taking place around the world and the perceived falling popularity of unions, how are we to assess their usefulness?

1.1 IS THERE CAUSE FOR CORPORATIONS TO COMPLAIN?

Unions are being attacked for preventing business from growing and dampening investment. In our current economic conditions, it is understandable that everyone must make concessions. But given the numbers, are these complaints justifiable?

Michael Cembalest, the chief investment officer of J.P. Morgan Chase, made the following statement in the July 11 edition of its regular *Eye on the Market* report to its private banking clients: "U.S. labour compensation is now at a 50-year low relative to both company sales and U.S. GDP."¹⁴

Company profits in the United States are at their highest since the 1960, according to the report, despite major economic troubles plaguing the United States in the form of recession.

¹⁰Wikipedia: Social Contract (Ontario). Last modified July 22, 2011

¹¹ "Greek government austerity measures." BBC News. June 30, 2011

¹² "'Huge job cuts' for public sector" BBC News June 16, 2009

¹³ Crispian Balmer and Jean-Baptiste Vey. "France raises retirement age" Globe and Mail. June. 16, 2010.

¹⁴ "Michael Cembalest. Eye on the Market." J.P. Morgan Chase. July 11, 2011

So how do we reconcile record profits with recession? A closer look at several economic factors is required to understand how this situation can occur. These issues include:

- The distribution of wealth
- Worker and executive compensation
- Corporate taxation rates

Prior to commencing a business case study, it is important first to be aware of some of the economic trends that are affecting business and workers in today's society, particularly in terms of how money is distributed in our society.

Understanding how these factors influence decisions and what effect each of the options presented will have is necessary in making the best choice.

A. NUMBERS IN A RECESSION: HOW WEALTH IS DISTRIBUTED

The current recession is an ongoing global economic concern that began in December 2007 and took a particularly sharp downturn in September 2008. It was characterized by a severe drop in international trade and rising unemployment.

Between 1989 and 2007, before the recession began, we note the following statistics:¹⁵

- 56% of all the income growth went to the richest 1% of households
- 16% went to the bottom 90% of households

However, since 2007, the following has occurred:¹⁶

- Corporate profits are 22% above pre-recession level, and
- Total corporate sector employee compensation is 3% below pre-recession level

It is not uncommon to see arguments claiming this compensation disparity is the result of “unrestrained” wage increases achieved by labour groups through collective bargaining.¹⁷

But is this really the case?

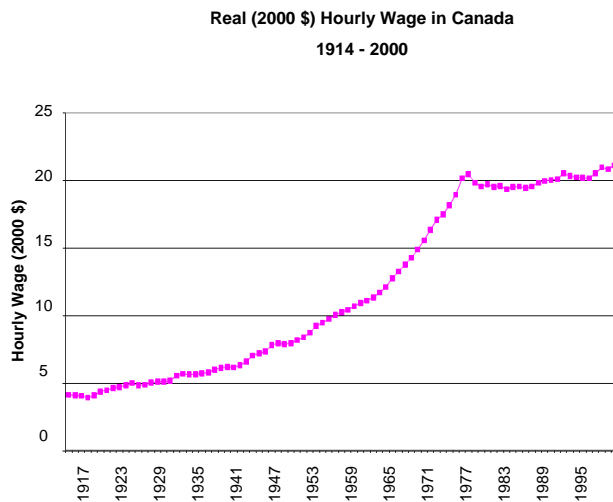
¹⁵Lawrence Mishel and Heidi Shierholz. “The sad but true story of wages in America” Economic Policy Institute. March 15, 2011

¹⁶Lawrence Mishel and Heidi Shierholz. “The sad but true story of wages in America” Economic Policy Institute. March 15, 2011

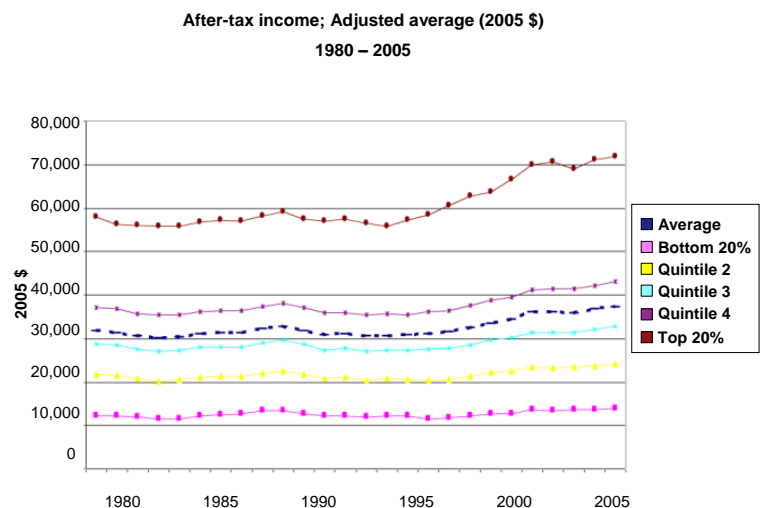
¹⁷Laura Jones. “Union greed in disguise: ‘Living wage’ shuts out small business.” CFIB’s The Province. June 3rd, 2010

B. WORKER WAGES, INCOME GAP AND PRODUCTIVITY

Statistics Canada data reveals that real wages in Canada have scarcely improved since the late 1970's, as graphs 3 and 4 demonstrate.



Graph 3



Graph 4

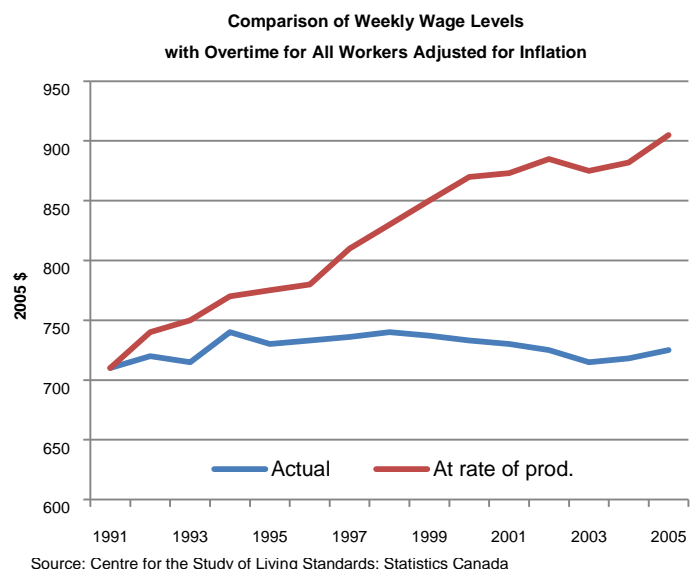
This data demonstrates the lack of any real compensation gains for Canadian workers in over three decades. On average, organizations are not paying more wages than 30 years ago.

Between 1980 and 2005, the median earnings of full-time Canadian workers increased by only \$53 annually¹⁸.

During this same period of wage stagnation, however, productivity has actually increased exponentially, contributing to economic growth.

Prior to the 1980s, productivity gains and workers' wages were more closely correlated; as workers produced more per hour, they saw a proportionate increase in their earnings.

As graph 5 shows, wages have not kept pace with productivity. While the hourly wage of the median worker grew by only 10.1% between 1979 and 2009, productivity grew by 80%.¹⁹



Graph 5

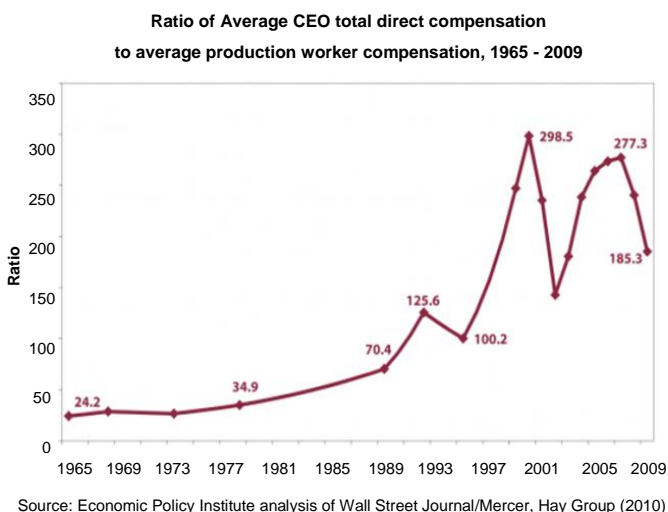
¹⁸ Statistics Canada census release on income and earnings (2006).

¹⁹ Lawrence Mishel & Heidi Shierholz "The sad but true story of wages in America" Economic Policy Institute. March 15 2011

C. EXECUTIVE PAY AND CORPORATE TAXATION

In conjunction with this rise in productivity, executive compensation has been rising steadily, as graph 6 from the Economic Policy Institute shows:²⁰

A Canadian Centre for Policy Alternatives report on executive compensation reveals Canada's 100 highest paid CEOs received an average of \$7.3 million in 2008. This is 174 times more than the average Canadian wage, meaning the top 100 CEOs in Canada earn more on their first work day than the average worker makes all year.²¹



Graph 6

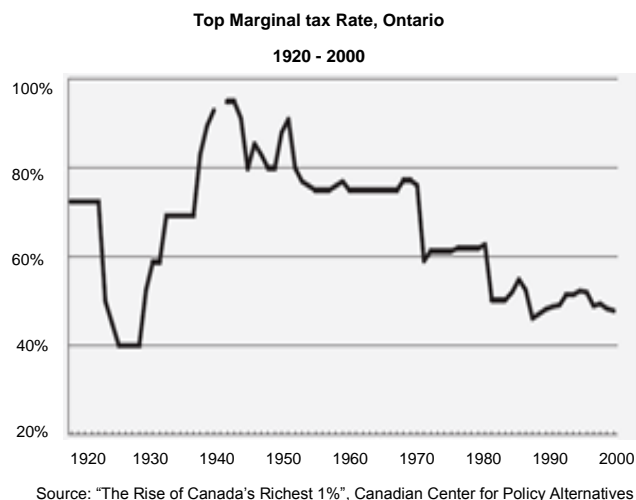
As North American worker wages have fallen drastically behind productivity gains, more and more income has become concentrated at the very top of the income scale. The Canadian Centre for Policy Alternatives' 2007 Growing Gap Project found that the share of total earnings going to the richest 10% of families rose sharply from 23% in the late 1970s to almost 30% in 2004.

Further exacerbating the income divide, the top marginal tax rate in Canada has dropped dramatically in the past 40 years, as we can see in graph 7:²²

In fact, Canada has the lowest corporate tax rate among G7 countries.²³

Corporate tax rates have dropped from 29% to 16.5% over the past 20 years, and are slated to be reduced to 15% in 2012.²⁴ Consequently, the share of federal government programs paid for by corporate income tax is projected to shrink to 12% by 2015, down from 21% in 2000.²⁵

Corporations and top-income earners are paying the lowest marginal tax rate in 75 years while Canada goes further into debt and essential government services such as health, education, and infrastructure have seen funding decreases.



Graph 7

²⁰Economic Policy Institute. "The State of Working America" 2010.

²¹Hugh Mackenzie "Recession-Proof: Canada's 100 best paid CEOs." Canadian Center for Policy Alternatives. January 2011

²²ArmineYalnizyan. "The Rise Of Canada's Richest 1%." Canadian Center for Policy Alternatives, Dec. 2010

²³Department of Finance Canada: Canada to Have the Lowest Overall Tax Rate on New Business Investment in the G7 in 2010. January 2, 2010.

²⁴Jim Stanford. "Having Their Cake and Eating It Too: Business Profits, Taxes, and Investment in Canada: 1961 Through 2010." Economic Policy Institute. April 13, 2011

²⁵Carol Furlong. "Tax Cuts, Political Ideology and Corporate Profit: Who's Footing the Bill?" March 30, 2011

Big business has been complaining about unrestrained union wage and benefit increases in this difficult financial period. Is this really the case, given the following?

- The economy's ability to produce more goods and services has not translated into greater compensation for workers
- Employees are working more productively than ever before for less share of wealth
- Corporate executives have consumed the gains of this increased productivity
- Corporations continue to see smaller tax rates

According to the economic statistical data, things are not going that poorly for big business. Does it have the right to complain about how unions are affecting the bottom line? This is a question to consider as we proceed with the examination of unions.

2. BUSINESS CASE ANALYSIS

2.0 NEEDS AND DESIRED OUTCOMES

In an ideal scenario, the economy is growing, governments have surpluses, businesses are profitable, shareholders are making money and workers are satisfied with their working conditions, which include salaries, benefits and a healthy working environment.

In an ideal scenario, both workers and business owners function in concert to reach both shared and independent goals (wealth, health, happiness, benefits, etc.).

A. BUSINESSES AND ACCEPTABLE WORKING CONDITIONS

It is not in a company's best interest to have an unhappy workforce. By extension, when a state has a mass of unhappy workers, it has the potential to lose its authority or face massive social unrest. A drastic gap between rich and poor leads to social conflict of the type recently witnessed in Egypt and throughout the Middle East. Millions of demonstrators took to the streets, unhappy with their working conditions. This serves as an extreme display of the results when that authority is compromised.

It can easily be demonstrated that popular revolutions do not happen in time of social-economic wealth but rather are caused by difficult social and economic conditions.

Attracting and
Retaining Employees = Successful
Company

It is interesting to note that a number of articles and studies have been published lately on companies' efforts to attract and retain employees. These companies are usually successful, established and/or up-and-coming leaders in their fields. They understand the importance of making sure their employees are satisfied with their jobs.²⁶

Other less successful companies have complained about the high cost of labour and the demands made by workers.

The ideal is finding a balance, an organized system in which workers recognize their employers and their government as a legitimate authority in serving both their own interests and the interests of workers. This also leads to stable, productive and prosperous economies.

B. A REASONABLE WORKER'S DEMANDS

Workers go to work every day with objectives. In an ideal scenario, they might expect the following, in varying degrees:

²⁶ MetLife 9th Annual Employee Benefits Trend Study

- Equitable compensation for services rendered
- A challenging, worthwhile project they can believe in
- The excitement that comes from competition or completing tasks effectively
- Perhaps some teamwork and camaraderie
- A sense of job satisfaction

The expectation is a situation of fairness, where workers and employers are striving to meet those basic ideals. Even if a workplace paradise is a pipedream, there is still an acknowledgement that those objectives exist and are a real concern for the worker.

C. BUSINESSES & PROFITS

Profit is not a dirty word. It is part of our system, and for many it is the main driving force behind their actions.

However, the critics of labour have often stated that good working conditions and profits are diametrically opposed. That is simply not the case: some companies (such as Microsoft and Google) are offering their employees what could arguably be described as great working conditions.²⁷

Profits can be attained and sustained in an environment where employees are treated fairly.

So why are unions needed?

- Not all business owners and leaders have the foresight or training to create and promote good working conditions for their employees
- Individual employees do not usually have the resources nor abilities to negotiate on their own behalf – having a collective voice enhances their credibility and ability to affect changes
- Unions have been effective in influencing social change; their absence would create a void in this area, risking social unrest

2.1. OPTIONS GOING FORWARD

When considering the value of unions within the context of the Needs and Desired Outcomes above, we will examine contrasting scenarios where labour unions continue to have a role in society, and where labour rights are removed.

²⁷ "Playful perks propel Google to top of Fortune's 100 best places to work." Andrea Coombes, MarketWatch. Jan. 8, 2007

2.01 SOME REASONS TO ABOLISH UNIONS

The main argument against labour unions is that while they work for the benefit of their members, this is done to the detriment of employers and the general economy.

The reasons for this argument are that:

- Unions render businesses less competitive through higher labour costs, and workers in unions become complacent as they feel protected from firings and reprimands
- There is an increased chance of work stoppage (strikes, job action)
- Labour unions effectively block government legislation that is not in line with their mandate

With the decline in union membership and the increase in employment protection under the law, the usefulness and necessity of unions has come increasingly into question.

A. BUSINESSES ARE MADE LESS COMPETITIVE BY UNIONS

This is a major argument against unions – they interfere with the natural competitive process of the economy. Economist and Nobel Prize winner Milton Friedman notes that, “A major source of objection to a free economy is precisely that it [...] gives people what they want instead of what a particular group thinks they ought to want. Underlying most arguments against the free market is a lack of belief in freedom itself.”²⁸ Unions are a good example of this.

Giving workers too-high amounts of security and compensation is said effectively to make employers less competitive in the market:

- Businesses are not free to make decisions they deem necessary for their own competitive advantage or survival without consulting their labour union; capitalism suffers and the market is not free to make its natural decisions
- Sometimes their final decisions are not what is most suitable from an economic standpoint
- Consumers face inflated prices to counterbalance sub-standard employees
- Labour unions can effectively ensure that the needs of the employees are given priority over the future needs of the business

Some critics even argue that workers who are represented by a labour union can become complacent in their jobs. Without the risk of serious reprimand or termination of employment, the incentives to become the most productive may not exist - and workers may take advantage of this situation.

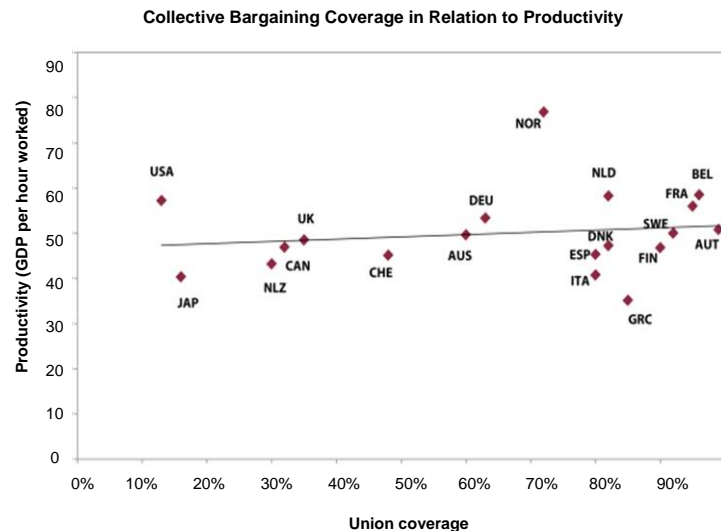
²⁸Milton Friedman. “Capitalism and Freedom.” Chicago: U of Chicago Press, 1962.

In contrast to this common criticism numerous studies have found that union-represented employees tend to be more productive on average.²⁹ According to a study by Brown and Medoff, “unionized establishments are about 22% more productive than those that are not.”³⁰ In fact, the Organisation for Economic Co-operation and Development (OECD) found a positive correlation between countries with high collective bargaining coverage and economic productivity, as can be seen in graph 8.

While correlation does not necessarily reflect causality, economies with some of the highest unionization rates in the world such as Germany and the Scandinavian countries enjoy strong economic performance and worker productivity.

An inherent trade-off exists for the employer: keep the worker happy with security, benefits and compensation, or risk losing employees and decreasing productivity. Most employers try to find a balance between these two, in order to retain workers, as well as continue producing and generating profit.

Government efforts (for example, provincial labour board standards) have helped this balance become easier to find and maintain.



Source: Venn (2009) OECD Working paper and Society at a Glance (2009), the Conference Board and Governing Growth and Development (2010)

Graph 8

B. INCREASING CHANCE OF WORK STOPPAGE

One of the main tools labour unions have at their disposal is the threat and use of work stoppages. Labour unions will use strikes as a way to put pressure on management.

The perception exists that work stoppages occur at much higher rates when workers are represented by a union. Strikes have a damaging effect to the economy as a whole simply because work is not being completed. Businesses suffer greatly from strikes and might have to compromise heavily in order simply to keep their employees working. For example, according to the Canadian Federation of Independent Businesses, the 2011 Canada Post strike reportedly cost small to medium sized businesses as much as \$250 per day.³¹

General strikes and work stoppages are often the result of two parties disagreeing on a major issue, neither willing to budge. However, if both parties are more amenable to compromise, these situations may be avoidable.

²⁹ see Doucouliagos and Laroche 2003 for an overview of seventy-three statistically independent studies

³⁰ Charles Brown and James L. Medoff, “Trade Unions in the Production Process.” *Journal of Political Economy*, vol. 86, no. 3 (June 1978): 355–378

³¹ Sharon Singleton. “Postal Strike May Cost Business \$250 a day.” QMI Agency. June 4, 2011.

Additionally, there is an incentive for the employer to work with the union to resolve issues before they reach strike-level. The longer the good or service provided by the company is not being produced and available to consumers, the more likely it is that a competitor's product will take over that market share. For example, one year after the OC Transpo strike in Ottawa, transit ridership was still 2% lower than it was before the strike.³² It is in the best interest of the employer to work to resolve work stoppages before they begin.

C. BLOCKING LEGISLATION

Labour unions can be highly organized and powerful groups capable of lobbying for and against legislation at different levels of government. Labour unions carry significant weight because of the number of workers they represent, and are capable of pressuring government.

Unions have demonstrated their willingness to work to block certain legislation that is deemed unsuitable for their members or workers in general. This blockage power is detrimental to legislation that would be important to the larger economy or society.

However, if policy makers are willing to work with labour unions, these situations can be entirely avoidable – and, in fact, the same organization and power that would be used to block a policy or legislation can be used to endorse one.

2.02 SOME REASONS TO KEEP UNIONS

Unions can range from small organizations to large, powerful interest groups with thousands of members. This diversity allows for adaptable representation for workers depending on specific situations. Over time, many achievements have been accomplished directly from union action, from small grievances to large-scale political action.

The labour movement, particularly worker unions, successfully negotiated workplace organization for the better. Starting in the late 1800s at the height of the Industrial Revolution, workers began to demand certain rights and privileges. Today, workers enjoy extensive rights and protection under the law. These achievements came after the struggle and dedication by labour unions to improve the conditions under which work was done.

Some of these achievements include:

- The ability to organize – Workers had to struggle for the right to form unions
- The eight-hour work day and minimum wage – First passed in Canada in 1918
- The right to refuse dangerous work and Workers' Compensation – A standard for improving safety in the workplace

³² "A year after Transpo Strike, bus ridership down. CBC News. December 10, 2009.

- Pay equity – Equal pay for equal work for both men and women
- Government pension plans – The possibility of saving for retirement
- Medicare – Better access to medical services
- Unemployment insurance – The safety of remaining solvent if a job is lost
- Maternity leave – The right to take an extended leave to care for children

Labour unions have a deep history of advocacy and have successfully improved the lives of workers for well over a century.

That much is not in dispute. However, with the negative perception some currently hold of unions, as well as the reasons against unions outlined above, we might consider the practical reasons for keeping unions today. Advocates of keeping unions provide the following reasons for the usefulness of unions moving forward:

- There are actually fewer work stoppages, and it is more efficient to negotiate agreements with one voice as opposed to many
- Pay security balances the relationship between workers and owners
- They continue to promote safer working conditions
- Workplace security leads to innovation
- Unions are in financial position to achieve social change
- Unions provide a voice for workers on government policy

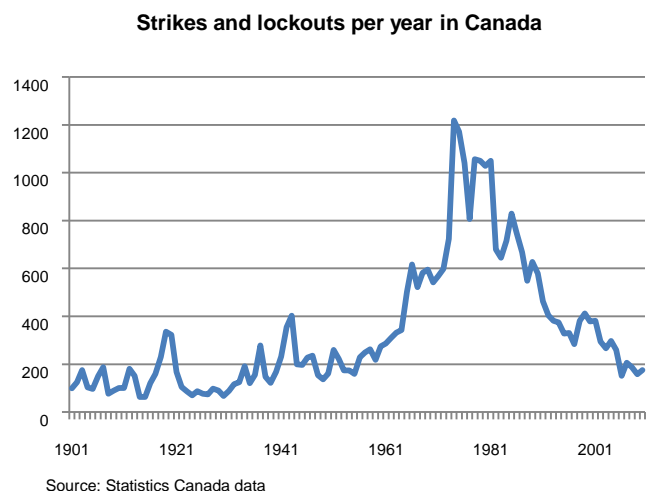
The following sections examine each of these reasons in further detail.

A. THE INCIDENTS OF WORK STOPPAGES ARE REDUCED

The transaction costs of negotiating an individual contract with every worker would add significant costs compared to collective bargaining. This directly correlates to a reduced number of work stoppages.

While media reports exaggerate the disruption caused by strike activity, Statistics Canada data confirms that the incidence of work stoppages due to labour unrest has fallen dramatically since 1980, as graph 9 demonstrates. The reality is that nearly 97% of all collective agreements are negotiated without work stoppage.³³

This situation, in which agreements are negotiated without work stoppages, is productive for the economy as a whole.



Graph 9

³³"Facts About Unions". United Food and Commercial Workers Canada Website.

B. PAY SECURITY RESULTS IN BETTER BALANCE BETWEEN WORKERS AND OWNERS

Much of the public rush to condemn unionized workers may stem from the growing gap in wages and benefits that unionized workers have negotiated. Numerous studies have shown that, all things being equal, a unionized worker in North America will earn 10% to 25% more than their non-unionized counterpart.³⁴

A comparison of unionized versus non-unionized workers by the Canadian Labour Congress³⁵ reveals that unionized workers in Canada:

- Earn over \$5 more per hour
- Are much more likely to be covered by an extended medical (57%), dental (53%), or life/disability (53%) insurance plan
- Are more than twice as likely to have an employer-provided pension plan; and
- Earn more vacation time

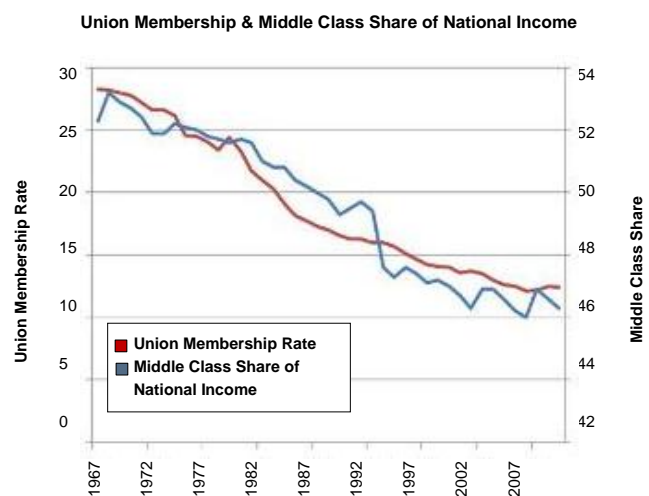
Union members earn more than non-union workers in the United States as well. Between 2004 and 2007, unionized workers' wages were on average 11.3% higher than non-union workers.³⁶ Union workers in America are also 28.2% more likely to be covered by employer-provided health insurance and 53.9% more likely to have employer-provided pensions compared to workers who were not in unions.

Furthermore, research shows³⁷ that unionization improves compensation not just for unionized workers, but for all employees by:

- Increasing pay of non-union workers in occupations and industries with substantial union presence, as non-union employers move closer to union standards
- Reducing income inequality within the represented firm by reducing differentials between low-paid and high-paid employees

Reducing income inequality in the wider society serves the benefit of keeping workers happy and productive.

The middle class is markedly stronger when workers join together in unions. As graph 10 demonstrates, the sharp decline over the past 40 years in the percentage of workers organized in unions has been associated with an equally sharp drop in the share of the nation's income going to the middle class.



Graph 10

³⁴ Stéphane Renaud. "Unions and wages in Canada: A review of the literature." Canadian Industrial Relations Association. 1997.

³⁵ "The Union Advantage." Canadian Labour Congress.

³⁶ "Unions Are Good for the American Economy." Centre for American Progress Action Fund. February 18, 2009.

³⁷ James T Bennett and Bruce E. Kaufman. "What Do Unions Do? A Twenty-Year Perspective." 2007.

Between 1947 and the early 1970s, one-third of all American workers joined unions. Not coincidentally, in those years, median family income more than doubled, productivity grew 2.9% a year, and America's economic output nearly tripled.³⁸

The conclusion to draw from this data is that with unionization, middle class income stabilizes, resulting in greater numbers of citizens achieving the income satisfaction that makes them productive workers.

C. UNIONS PROMOTE SAFER WORKING CONDITIONS

In discussions concerning the continued relevance of the labour movement, it is commonplace for critics to state that the health and safety improvements achieved by labour were an important historical role for unions that are no longer needed. There is still, however, an incredibly high correlation between unionization and workplace safety.

The Canadian Ministry of Labour found that union-supported health and safety committees have a "significant impact on reducing injury rates."³⁹ A London School of Economics study showed that where there is a union presence in the workplace, the injury rate is 24% lower than where there is no union presence.⁴⁰ Increased safety benefits not only workers' health and organizational efficiency, but also prevents injury and helps reduce national health care costs.

Most collective agreements include clauses to improve safety standards for employees. This, in turn, reduces worker absence due to injury, thereby improving organizational company efficiency.

D. UNIONS LEAD TO INNOVATION

There are reasons to suspect that unions impede a firm's ability to create new or better products - mainly by interfering with management's ability to control the workplace and by promoting inefficiencies - and are no longer affordable in today's highly competitive global marketplace.

This assumption, however, was proved false by Scott Walworth's study into innovation in the Canadian marketplace. According to Walworth, "the presence of a union is found to have a small positive effect on a firm's ability to innovate new products."⁴¹

In a non-unionized workplace, one that separates worker and management interests, innovation may be restricted for the following reasons:

³⁸ David Madland and Karla Walter "Report: As Union Membership Rates Decrease, Middle Class Incomes Shrink." Centre for American Progress Action Fund. January 20, 2011.

³⁹ "CUPE can make your work safer." The Canadian Union of Public Employees Website. August 23, 2000.

⁴⁰ Adam Litwin. "Trade unions and industrial injury in Great Britain." London School of Economics Discussion Paper. August 2000.

⁴¹ Scott Walsworth. "What Do Unions Do to Innovation?" *Industrial Relations*, Vol. 65, No. 4. 2010.

- With reduced worker/management collaboration, information sharing can be limited
- Workers and managers might view their goals as distinct from each other, making innovation less probable

Seniority-based pay, as opposed to merit-based pay, may encourage higher-risk behaviours associated with innovation, according to the study. In recognizing the separation between pay and productivity, a worker is ensured of less financial consequence for pursuing innovative ideas that may detract from immediate job productivity.

E. UNIONS PROMOTE SOCIAL CHANGE

Unions are in a unique position within the labour market to push for change. Given how they are well structured and have a financial base from which to draw, unions provide a voice for social action on labour-related items.

Unions collect membership fees from their members with the understanding that as a labour organization, they will be committed to improving conditions for those workers as well as workers in general. This financial base allows them to advocate and campaign for issues deemed important by their membership.

Some important measures unions have fought for over the years include:

- Pay equity
- Workers' Compensation
- Pensions
- Medicare
- Employment Insurance
- Maternity Leave

Unions are afforded this financial strength to continually ensure that the interests of their members and workers are kept relevant, and to push for further improvement. These issues continue to be relevant going forward.

F. UNIONS PROVIDE A VOICE FOR WORKERS ON GOVERNMENT POLICY

Business groups have influenced numerous corporate-friendly policies and legislation that remove barriers to trade, reduce tax burdens, and protect corporate interests. While these measures presumably enhance Canadian businesses' ability to compete in the global marketplace by offering cheaper labour, tax incentives and other concessions, they put negative downward pressure on employment, wages, and national tax revenue. This ultimately erodes living standards for Canadian working citizens.

Labour provides an alternative policy voice in arguing that if corporations want to do business in Canada, they must contribute to our country's social well-being. This includes creating jobs, providing adequate compensation and benefit packages, and paying a fair share of taxes to support social infrastructure.

3. RECOMMENDATION AND JUSTIFICATION

Two possible choices exist: unions continue to play a leading role to defend workers' rights and benefits or they slowly disappear.

The first choice is strongly defended by unions. The second choice is defended by critics of the labour movement who argue that unions have lost their relevance.

Unions in the 21 st century		
	Continue to play a role	Slowly disappear
Negotiations about wages	Collective bargaining continues to be part of the process	Individual negotiations take place or management arbitrarily decides
Work interruptions	Continue to take place in some cases although the trend shows that it happens less often now	Will take place much less often but, when it does, it will be much more strident
Companies' profits	Well-managed companies will continue to profit with both management and workers keen to work hard to make it happen	Some companies will diminish workers' rights which will mean that profits will increase in the short-term – but this is not a sustainable situation
Employee retention	Employees pleased about their work conditions remain at their jobs longer	Disgruntled employees change employment more often
Social peace	Workers' aspirations are defended by unions – less chance of spontaneous and more violent movements	Workers' rights are not protected which means that issues continue to fester until the situation is such that it is not salvageable
Social change	Unions have been at the forefront of some of the most important social changes – due to their numbers and strength	Without unions, it is unlikely that individuals will have the resources and strength to lead these changes in an effective and timely manner

Based on the above evidence, and in relation to the needs and outcomes of the report, the conclusion to draw is that unions continue to have relevance in our economies. It makes financial sense to keep them for the following reasons:

- The lower rates of employee turnover, greater job security, and higher employee morale improve employee productivity and innovation
- Based on the figures available, heightened productivity in unionized workplaces negates the disadvantages commonly associated with unions

Even if one adopts the position of a critic of labour and hard-line right wing activist, believing that the market is the primary organizing principle for economic life, there is still a prominent role for unions to play in that market. This is because work in a modern economy creates a natural demand for worker-representative institutions.

That demand is based on the following:

- Positive working conditions lead to increased productivity
- Human beings need more than financial rewards in order to be satisfied by their work, but at the same time economic rewards move towards achieving that satisfaction
- Ideas, relationships, and the workforce skills are every bit as much a part of economic growth as is the availability of physical capital
- The process of being given a voice and being heard is essential to worker motivation
- There exists an environment where there is value added by worker organizations
- The independence that unions provide creates a condition for more honest answers from workers
- A union can enhance efficiency because it replaces ineffective individual voices with a stronger collective voice, leading to an increase in the supply of workplace public goods that is better for employers:
 - In our current times the development of worker skills and staying current is vital for ongoing employability
 - An independent institution formed by workers that is driven by the mandate of looking after the workers' interests can play a valuable role in ensuring that skills are upgraded and developed in a manner that enhances employability and maximizes the portability of those skills

The argument against unions is that they promote inefficiencies and have become unaffordable in our highly competitive global marketplaces. This position is not supported by the facts. For this reason, unions should be encouraged and supported.

4. CONCLUSION

As stated, the purpose of this business case was to assess whether unions play a positive or negative role in the 21st century.

In this case, ACFO comes to the following conclusions:

The mandate of unions is to protect workers' rights and benefits

Rights and benefits of workers still need to be protected

Arguments against unions are not supported by facts

In the aftermath of one of the worst financial crises in decades, we are facing a period of self-reflection at our financial situation. Government bailouts are followed by spending cuts. These, in addition to the increasing effects of privatization and globalization, are challenging our approaches on how workers' rights and benefits can be balanced with economic performance.

In this context, unions help more than just themselves.

Some might ask:

- "Why should Canadian Tire workers subsidize, through their taxes, the bail-out of auto workers who make more than twice what they do?", or
- "Why should Starbucks workers pay, through their taxes, for the sick days of municipal workers?"

Perhaps they should look at it another way: how would Canadian Tire or Starbucks workers, at minimum wage, possibly benefit from destroying the unions that have made gains in other sectors of the economy?

That would make the prospects of improving their own wages and conditions (whether through unionization or through broader policies like higher minimum wages) even more remote.

Improvement in working conditions shouldn't be based on a race to the bottom, but rather on a race to the top.

Unions are an important part of positive social changes.

They will continue to exist and help workers gain and retain benefits. They will continue to negotiate with management on important wage and benefits issues. That is their role.

The answer is clear: unions continue to be relevant today.

POSTSCRIPT

DEFINING NATIONAL PROSPERITY

Nations exist to improve the standard of living for their citizens. But national prosperity and societal well-being cannot be measured solely by myopic economic indicators such as Gross Domestic Product. As outlined in this report, indicators show that much of our countries' economic gains only benefit a small segment of the very wealthiest of our population. While it is certainly not unreasonable to make a profit and enhance shareholder equity, the reckless pursuit of commercial gain without regard for societal concerns can only lead to the exploitation of citizens.

Labour unions represent a powerful organized voice holding nations accountable to more than economic progress as a means unto itself. Even though labour unions have a direct responsibility to their members, they also have a moral responsibility to those who do not have representation, founded on the principles of fairness, respect, and working collectively for the greater good.

Joining the union perspective, think tanks are starting to advocate for the inclusion of a broader range of yardsticks for gauging prosperity. Recently the Organization for Economic Co-operation and Development (OECD), known for financial forecasts and economic policy advice, outlined its "Better Life Index"⁴², which includes housing and health, governance and work-life balance, environment and life satisfaction to more accurately reflect a nation's social and economic success.

Labour unions are taking a more active stance in the role of social conscience. Aside from labour rights, unions are on the front lines pushing environmental sustainability, poverty reduction, and social justice.

FROM THOSE WHO BROUGHT YOU THE WEEKEND

This should not come as a surprise to those who recognize the important role unions have played in securing the benefits people receive that increase living standards. Most major gains in the history of workers were opposed by corporate interests and suppressed by our political representatives.

It is the labour movement that provided the main push for government legislation and programs that improved wages, benefits and working conditions.

This list of achievements is lengthy:

- child labour laws
- Workers' Compensation
- Workplace Health and Safety legislation
- minimum wage and employment standards
- government pension plans (the Old Age Pension, the Canada Pension Plan)

⁴² OECD Better Life Initiative

- Medicare
- Home Care
- unemployment insurance
- maternity leave,
- the 40-hour work-week

Unions are even responsible for the introduction of weekends, including the long Labour Day weekend Canadians continue to celebrate.

RISKING LIFE AND LIMB

These benefits that we take for granted today are not the historical standard. Unionized labour was illegal in Canada until 1872, when a group of workers in Hamilton, Ontario, launched a campaign to regulate working hours.

In fact, around the world, labour unions are currently putting their lives on the line for the very same privileges we in Canada often take for granted.

For example, violence, abuse and exploitation against workers are commonplace in many countries including China, El Salvador, Guatemala, India, Mexico and Turkey.

As a disturbing example, 75 trade union activists were murdered between 2008 and 2010 in Venezuela.⁴³ In Columbia, regarded as one of the most dangerous places to fight for labour rights, more than 500 unionists have been killed over the past eight years.⁴⁴

While this may seem a far cry from our situation here in Canada, our country's road to labour rights is marked by a bloody past as well. Before 1872, Canadian law allowed for the prosecution of unions as "criminal conspiracies," and many union leaders were jailed for leading strikes. At the time, the opinion of the ruling class was that workers should be satisfied with whatever they were paid and however they were treated.

The Winnipeg General Strike of 1919 – perhaps Canada's most infamous labour revolt – was sparked by the same proposed elimination of collective bargaining rights that we are facing today. At the time, public outrage united the city's public, private, and non-unionized workers in solidarity to fight for better pay and working conditions for all.

SHARED ECONOMIC WELL-BEING

Many historians credit unions with the rise of Canada's middle class and the general prosperity of the country. By helping more workers make decent wages with greater job security, unions were largely responsible for stabilizing the economy and stimulating its growth. Even the World Bank – by no means a

⁴³ Washington Post "Venezuelan union clashes are on the rise" July 15, 2010

⁴⁴ International Trade Union Confederation Annual Survey of Trade Union Rights, 2001 - 2009

champion of labour rights – acknowledges the positive impact of trade unions on economic development.⁴⁵

With higher disposable income, union worker spending helped create jobs and drive economic growth. Because of unions, more working people could afford houses, clothing, cars and other consumer goods. Better-paid and more secure workers could also pay more in taxes to support the growth of public services like schools, roads, clean water, police services and electricity. Health care benefits enjoyed by union members (dental, prescription drugs, vision, physiotherapy, etc.) mean healthier families and less of a burden on the health care system. And their higher pensions mean they are much less of a burden on their children and communities when they retire.⁴⁶

These are what unions have achieved. Workers' rights are human rights, and they are worth fighting to preserve and improve.

To suggest that we can find simple solutions by denying basic standards of wellbeing for citizens is setting up for failure. For lasting solutions, we need to find a balance between the needs of corporate profits, employee compensation, and social wellbeing.

Unions are a people business, and as long as people continue to strive to improve their working conditions, unions will support them.

⁴⁵ Toke Aidt and Zafiris Tzanattos. "Unions and Collective Bargaining: Economic Effects in a Global Environment." World Bank. February 2003.

⁴⁶ "Facts About Unions." United Food and Commercial Workers Canada.