Right-to-work laws are no solution to manufacturing job woes

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A new study by the Fraser Institute argues that introduction of anti-union “right to work” laws in Canada would boost manufacturing output and jobs. While they are right that these laws, which make dues payments voluntary, severely weaken unions, it is far from evident that unionization comes at the cost of poorer economic performance.

This is because collective bargaining has benefits for employers as well as for workers, and because collective bargaining outcomes reflect economic realities.

Ironically, recent work by the Fraser Institute itself suggests no link between higher unionization and poor economic performance. The think tank’s 2012 report on labour markets in Canada and the United States found that all Canadian provinces rank ahead of all U.S. states in terms of union and labour rights, but the 10 provinces rank in the top 21 states and provinces in terms of labour market performance between 2007 and 2011. (The index is based on job growth, unemployment and productivity growth.)

Neutral academic studies in the United States do not show manufacturing job gains for so-called right-to-work states. Hicks (2011) found no significant link between anti-union laws and manufacturing employment trends (by state) in the United States.

In fact, North Carolina – which has the lowest unionization rate in the United States at just 4.1 per cent – lost a third of its manufacturing jobs over the past decade. But Massachusetts and New Hampshire, which have significant high-tech industries, have unionization rates well above the American average. Firms seeking very low wages are more likely to move to developing countries than “right-to-work states.”

Neutral, non-ideological surveys of the economic literature conclude that the capacity of unions to reduce low pay and inequality does not come at a significant economic price. A major World Bank study found no relationship between the rate of unionization and national economic or employment performance: “Union density per se has a very weak association, or perhaps no association, with economic performance indicators such as the unemployment rate, inflation, the employment rate, real compensation growth, labour supply, adjustment speed to wage shocks, real wage flexibility, and labour and total factor productivity. There is, however, one significant exception: Union density correlates negatively with labour earnings inequality.”

While unions do raise wages, employers benefit from higher productivity. Pressure to pay good wages and benefits leads to higher investment in new equipment and technologies and skills. Good workplace relations can be a major positive, and true labour/management co-operation is difficult to achieve in non-union environments. Unionized workplaces also have lower worker turnover, giving an employer the benefit of experienced workers and an incentive to invest in the skills of employees.

Unions understand that bargaining outcomes have an economic impact, and keeping good jobs is usually a major priority. Over the past decade, major union wage settlements have barely exceeded inflation, especially in manufacturing. Workers were forced to hold the line or make concessions to retain jobs as the Great Recession and an overvalued Canadian dollar undercut the profitability of employers.

Making Ontario and British Columbia look more like North Carolina in terms of labour law, as advocated by the Fraser Institute, would not create more jobs – and would further undermine a critical tool for achieving shared prosperity.