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The consequences of a strong union presence in Quebec

Quebec stands out with the highest rate of unionization among Canadian provinces and U.S. states. Unions enjoy more extensive legal privileges in Quebec than elsewhere. Is this an asset or a drawback for the Quebec economy? Following a general outline of Quebec's union situation in the North American context, this Note will examine the economic consequences of a strong union presence.

A portrait of the Quebec situation

Among the ten Canadian provinces and 50 U.S. states (plus the District of Columbia), Quebec is the jurisdiction with the highest rate of unionization – 40% in 2004. The corresponding averages are 31.8% for Canadian provinces and 13.8% for U.S. states.

A number of factors contribute to Quebec's high unionization rate, including a broader role for the public sector, where union presence is generally higher. But even in the private sector, Quebec's unionization rate reached 26.7% in 2004, the highest among Canadian provinces. In comparison, the most highly unionized U.S. state, New York, has a lower overall unionization rate – 26.4%, public sector included – than the private sector in Quebec.

Legislation is generally more favourable to unions in Canada than in the United States. Quebec labour laws stand apart in certain ways from the laws in other North American jurisdictions.

Quebec is one of five Canadian provinces where a union can be accredited without a secret ballot being held. If a union obtains the signatures of more than 50% of employees, it will usually be recognized simply by submitting the union membership cards. If it obtains between 35% and 50% support, a vote will then take place. The 35% threshold to trigger an accreditation vote is the lowest among Canadian provinces, with the exception of Saskatchewan. In the other five provinces, and in every U.S. state, a secret ballot must always be held, giving employees the chance to express their will more democratically. Moreover, Quebec employers have no right to challenge a union's representativeness – not the case in most other provinces or in the United States. The Quebec government is also one of six provincial governments to impose compulsory arbitration when negotiations for a first collective agreement are broken off.

The Quebec Labour Code contains measures prohibiting the employer in a workplace hit by a legal strike or lockout from replacing striking workers. Prohibiting a company from hiring temporary staff ("scabs") to replace strikers – even though strikers are free to work elsewhere – is an example of the asymmetry in the rights and obligations of the parties in a labour conflict that strengthens unions in relation to employers. Quebec and British Columbia are the only two Canadian provinces to impose this type of prohibition, inexistent in any U.S. state.[1] As well, union members in Quebec, as in all other provinces apart from Alberta and British Columbia, can protest at sites other than those directly affected by a strike.

1. The Montreal Economic Institute has published an Economic Note on the specific effects of these measures. Titled *The perverse effects of anti-scab measures*, this Note is available on the MEI website at http://www.iedm.org/uploaded/pdf/janv05_en.pdf.

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Table 1

Union accreditation in Canada and the United States

	Threshold required for an accreditation vote*	Secret ballot required for accreditation	Unionization rate, 2004
CANADA	-	-	31.8%
Alberta	40%	Yes	23.8%
British Columbia	45%	Yes	33.6%
Manitoba	40%	No	37.5%
New Brunswick	40%	No	28.5%
Newfoundland	40%	Yes	38.9%
Nova Scotia	40%	Yes	28.7%
Ontario	40%	Yes	27.8%
Prince Edward Is.	50% + 1	No	32.3%
Quebec	35%	No	40.0%
Saskatchewan	25%	No	35.3%
UNITED STATES	-	-	13.8%
States with RTW**	30%	Yes	7.9%
Other U.S. states	30%	Yes	17.4%

* In cases where a vote is required.
** Right to work laws.
SOURCES : Fraser Institute, Statistics Canada and the U.S. Bureau of Labor Statistics.

To call a strike in Quebec, a union must obtain authorization by secret ballot from a majority of its members present at the vote. If the union fails to respect the required formalities, it is subject to fines, but the strike is still ruled legal. In most other provinces, a strike can be called only after a majority vote by secret ballot of all employees present at the vote rather than of union members only.

In Quebec, as in the other Canadian provinces, a collective agreement can impose unionization on all members of a bargaining unit (closed shop provision) who, in any case, are obliged to pay union dues (Rand formula). In contrast, U.S. federal legislation states that nobody can be forced to join a union. Moreover, in U.S. states with "right to work" laws, nobody is automatically required to pay union dues. These states give workers the more democratic choice of whether or not to support a union. Also, in every Canadian province, collective agreements are automatically transferred to the eventual buyers of a company, whereas it is very rare in U.S. states for buyers to be bound by existing collective agreements.

Other historical, social and political factors beyond the scope of this Note also come into play, but the privileges outlined above explain in part Quebec's high rate of unionization and its greater labour market rigidity. Researchers from the Fraser Institute have produced a labour relations law flexibility index based on a series of indicators.[2] U.S. states with right to work laws are highest on the flexibility scale (9.2 on the index), followed by the other U.S. states (7.9), while the Canadian provinces fall into the bottom ranks, ranging from 6.7 in Alberta to 1.6 in Quebec. It should be noted that Quebec comes in right at the bottom of the scale.

Economic effects of unionization

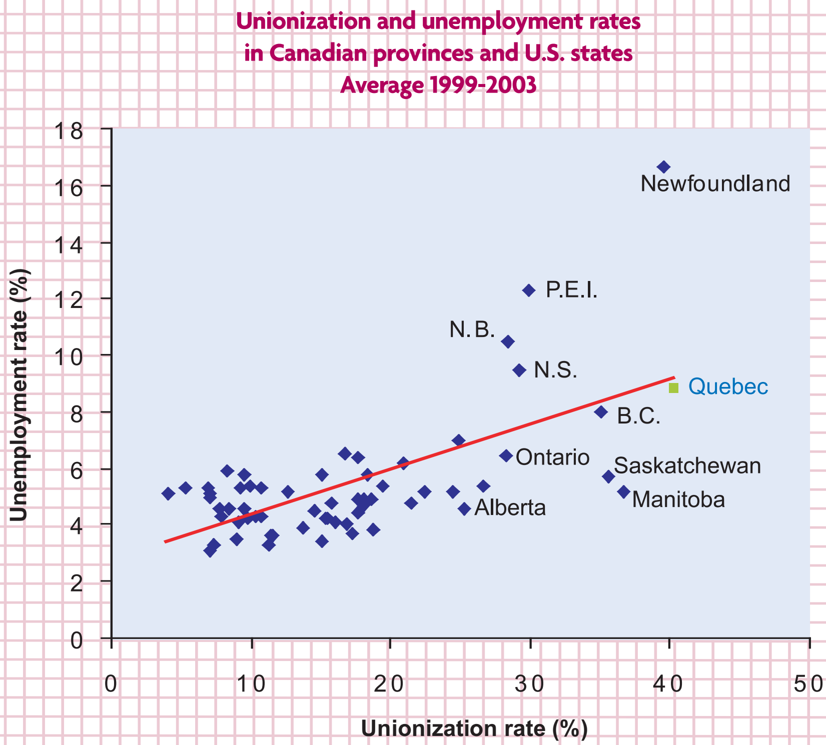
What economic effects result from a greater union presence? Research on this topic has examined the effects on three variables in particular: wages, employment and investment.

Empirical studies generally confirm that unionized workers obtain higher wages than non-unionized workers. For Canada, this gap is estimated at 15% on average, varying by company, industry, occupation and worker characteristics.[3] For the United States, the gap is estimated at 17% on average.[4] This gap is higher for the least skilled workers, indicating that unions reduce wage disparities between workers. In other words, the wage gap between the most highly skilled and least skilled workers is smaller in unionized sectors than in non-unionized sectors. This may be seen as a beneficial reduction in social inequality. However, from the standpoint of economic efficiency, it reduces workers' incentives to invest in their own human capital through education and training with the aim of improving their earnings.

A number of factors contribute to Quebec's high unionization rate, including a broader role for the public sector, where union presence is generally higher.

2. Jason Clemens, Keith Godin, Amela Karabegovic and Niels Veldhuis, *Measuring the Flexibility of Labour Relations Laws in Canada and the United States*, Fraser Institute, Vancouver, 2004; available at http://www.fraserinstitute.ca/admin/books/files/MeasuringFlexLabRelLaw.pdf.
3. See in particular Dwayne Benjamin, Morley Gunderson and Craig Riddell, *Labour Market Economics*, 5th edition, McGraw-Hill Ryerson, 2002. See also the appendix on the MEI website at http://www.iedm.org/main/show_publications_en.php?publications_id=106 for additional references on the economic effects of unionization.
4. See in particular David G. Blanchflower and Alex Bryson, *What Effect Do Unions Have on Wages Now and Would 'What Do Unions Do' Be Surprised?*, National Bureau of Economic Research, Working Paper No. w9973, September 2003.

Figure 1



SOURCES : Statistics Canada, *Labour Force Survey*, and Bureau of Labor Statistics. Data on union presence in the U.S. are readily available at http://www.unionstats.com.

Apart from higher wages, unionized workers also get more fringe benefits. In the United States, fringe benefits are evaluated at $12.41 per hour worked by unionized workers as against $6.38 for non-unionized employees. In Canada, 89% of unionized workers have some form of fringe benefits while only 64% of non-unionized workers have such advantages.[5]

The higher wages and benefits obtained by unions are accompanied, however, by unfavourable effects on employment. With labour costing more, companies will use it less and will replace it as much as possible with capital (machinery and equipment). The premium obtained by unions thus implies a reduction in the number of jobs.

Empirical studies confirm this conclusion from economic theory. They show that job growth is lower in unionized sectors than in non-unionized sectors.[6] For example, in Canada, over the period from 1980 to 1985, job growth in unionized companies was lower than in non-unionized companies, with a gap of 3.7% a year in manufacturing and 3.9% elsewhere in the economy, even after taking account of effects linked to industry and to the firm's size and age. Unions in Australia appear to slow job growth by 2.5 percentage points per year. In short, unionized workers obtain higher wages to the detriment of other workers who find themselves unemployed. Some of the unemployed end up in non-unionized markets, increasing the number of workers in these sectors and thereby depressing wages. Unions thus redistribute income in favour of their members to the detriment of unemployed or non-unionized workers.

Figure 1 shows the relationship between unionization and unemployment rates in the ten Canadian provinces and the 51 U.S. jurisdictions (the 50 states plus the District of Columbia). A positive relationship can be observed between unionization and unemployment rates. Even though unemployment is affected by many factors other than unionization, the portrait suggested by this graph confirms the predictions of economic theory and the results of the empirical studies cited above. As for Quebec, it is pertinent to remark that, despite recent progress, the unemployment rate is still relatively high, the highest of all the jurisdictions studied excluding the Atlantic provinces. Another variable that is not seen in this graph and that helps evaluate dynamism in the labour market is the average length of unemployment. In Quebec, the average period of unemployment is the longest among the jurisdictions studied.

Empirical studies show that job growth is lower in unionized sectors than in non-unionized sectors.

5. Bureau of Labor Statistics, *Employer Costs for Employee Compensation*, available at http://www.bls.gov/news.release/ecec.toc.htm; Statistics Canada, *Workplace and Employee Survey – Compendium.*
6. A summary of results is presented in Blanchflower and Bryson, *op. cit*. See also for Canada, Richard Long, "The Effects of Unionization on Employment Growth of Canadian Companies," *Industrial and Labor Relations Review* Vol. 46, No. 4, July 1993, pp. 691-703; for Australia, Mark Wooden and Anne Hawke, "Unions and the Employment Growth: Panel Data Evidence," *Industrial Relations* Vol. 39, No. 1, January 2000, pp. 88-107.

The high unionization rate produces other economic effects, such as a reduction of incentives to invest in physical capital and in R&D. To the extent that companies fear unions will capture future profits generated by investment, in particular through strike threats, they have less incentive to invest. Two studies have examined the validity of this hypothesis for Canada.[7] The first observed that an industry where the unionization rate is close to average has a gross capital investment rate 18% to 25% lower than a non-unionized industry. Where investment in R&D is concerned, the second study shows a drop of 28% to 40% when going from a lightly unionized industry to a heavily unionized one. Similar effects have been observed in several other countries.

Investment is the engine of economic growth. Less investment means less innovation and less production, as well as fewer jobs and lower incomes, and thus less prosperity. In a dynamic perspective, a strong union presence ends up having negative effects not only on employment but also potentially on economic growth.

These arguments are all the more germane in Quebec, where the unions have more extensive privileges than in the other Canadian provinces or U.S. states. Over the last 20 years, GDP growth in Quebec has averaged only 3% a year compared to 3.9% for Canada as a whole. Quebec's unemployment rate remains among the highest in North America. The high unionization rate is probably not the only factor responsible for this performance, but there is certainly a connection.

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Conclusion

The available data show that a strong union presence is not necessarily an asset for workers as a whole nor for the economy in general since it is accompanied by lower levels of employment and investment. Any labour market rigidity can have negative effects on employment. In Europe, for example, other types of institutional rigidity besides those connected with union privileges have been identified as causes of an endemic European unemployment rate that is much higher than in North America.

In contrast, more flexible labour relations create an environment better suited to greater economic dynamism. This dynamism results in higher business demand for labour and thus increased value for work and better remuneration. Workers benefit by finding jobs more readily and also by receiving good wages based on their qualifications and productivity rather than on union membership.

It is not unionization as such – nor the right of association – that causes these effects, but rather union privileges and the resulting constraints. To the extent that unions have privileges and use them either to set wages higher than would be the case without them, or to impose constraints that threaten the profitability and viability of businesses, they diminish employment and general prosperity.

7. Cameron W. Odgers and Julian R. Betts, "Do Unions Reduce Investment? Evidence from Canada," *Industrial and Labor Relations Review* Vol. 51, No. 1, October 1997, pp. 18-36; and Cameron W. Odgers, Julian R. Betts and Michael K. Wilson, "The Effects of Unions on Research and Development: An Empirical Analysis Using Multi-Year Data," *Canadian Journal of Economics* Vol. 34, No. 3, August 2001, pp. 785-806.

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