

## PROVINCIAL UNIONIZATION, UNEMPLOYMENT AND PRODUCTIVITY

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### INTRODUCTION

Opponents of the Employee Free Choice Act claim that increased unionization would damage the US economy. A widely-reported, business-funded study by Anne Layne-Farrar uses historical data on Canadian provinces to argue that higher unionization causes higher unemployment. Specifically, she estimates that the proposed Act would eliminate 600,000 American jobs.<sup>1</sup>

One of the problems with her conclusions is that they do not fit current Canadian data. The most recent provincial figures available indicate that higher union membership corresponds to lower unemployment and higher labour-productivity growth.

Of course, correlation is not the same as causation. Unemployment and productivity mainly reflect economic factors other than unionization. Even if one cannot definitively conclude that higher unionization caused increased employment and productivity in certain provinces, one must at least assume that unionization had little effect on these variables.

Even this conservative assumption has strong policy implications. Union representation clearly improves wages, benefits, working conditions and job security. If increased unionization can extend these gains to more workers without adversely influencing employment or productivity, then the Employee Free Choice Act is a very desirable public policy.

### BACKGROUND

The possible relationship between unionization and unemployment has been a major issue in labour economics for decades. There are many studies pointing in different directions. Keynesians would tend to emphasize the role of unions in upholding wages (and hence consumer spending) during a downturn, which helps prevent a deflationary spiral and the consequent unemployment.

The mainstream, neoclassical consensus is that unions do not have a statistically significant effect on unemployment. Even the Organization for Economic Co-operation and Development, typically a proponent of “flexible” labour markets, takes this view.<sup>2</sup> Therefore, Layne-Farrar’s claim to have demonstrated empirically that higher unionization leads to higher unemployment is notable.

Her regression analysis suggests that, among Canadian provinces between 1976 and 1997, each three-percent increase in the unionization rate caused a one-percent increase in the following year’s unemployment rate. But if Canada and the US are so similar (except for unionization) that this relationship is transferable across the border, Canada’s significantly higher unionization rate would imply significantly higher unemployment in Canada than in the US.<sup>3</sup> In fact, the Bureau of Labor Statistics calculates a lower unemployment rate for Canada than for the US.<sup>4</sup>

### **WHY CANADA?**

Whatever the merits or demerits of Layne-Farrar’s conclusions, her decision to focus on Canada is questionable. The use of Canadian data makes her analysis more difficult for American observers to critique. Examining unionization and unemployment among American states would seem more immediately relevant to US policy, provide five times as many data points (50 states versus 10 provinces), and take account of wider variations in unionization.

Layne-Farrar’s stated rationale is that Canada provides a “natural experiment” because, whereas US labour law is largely set at the federal level, different provinces have different labour legislation.<sup>5</sup> In particular, the Employee Free Choice Act would allow a union to represent any workplace in which a majority of employees join the union. Different Canadian provinces have enacted and repealed such majority sign-up provisions at different points in time.

Despite this seemingly sound justification for focusing on Canada, Layne-Farrar does not actually explore the correlation between majority sign-up and unemployment. Instead, she examines the correlation between unionization and unemployment. This comparison is defensible insofar as the Employee Free Choice Act’s stated purpose is to facilitate unionization.

However, since her methodology does not consider whether or not majority sign-up was in effect, there is no need for the time period to encompass these legislative changes. Indeed, this methodology should incorporate the most recent data available on unionization and unemployment.

**CURRENT DATA<sup>6</sup>**

Of Canada's ten provinces, the most unionized in 2008 were Newfoundland and Labrador, Quebec, Manitoba, Saskatchewan and British Columbia. Four of these provinces had among the five lowest unemployment rates in May 2009. The exception is Newfoundland and Labrador, which has a very high unemployment rate for historic and geographic reasons.

The least unionized provinces were Prince Edward Island, New Brunswick, Nova Scotia, Ontario and Alberta. Four of them had among the five highest unemployment rates. The exception was oil-rich Alberta, which still has a relatively low unemployment rate.

One might also consider the correlation between unionization and growth in labour productivity. Of the five most unionized provinces, only British Columbia did not experience one of the five highest annual growth rates over the past decade. Of the five least unionized provinces, only Nova Scotia was among the top five in terms of productivity growth. Generally, the less unionized provinces achieved less improvement in labour productivity.

In summary, the five most unionized provinces averaged 8.2 percent unemployment and 2.4 percent productivity growth. The five least unionized provinces averaged 9.4 percent unemployment and 1.6 percent productivity growth.

**Table 1:**  
Unionization, Unemployment and Labour Productivity by Province

Province	Union Membership (2008)	Unemployment (May 2009)	Annual Productivity Growth (1997 – 2007)
<b>Most Unionized</b>			
NL	36.8 %	15.1 %	4.8 %
QC	35.5 %	8.7 %	1.8 %
MB	35.1 %	4.9 %	2.1 %
SK	33.8 %	4.9 %	2.1 %
BC	29.8 %	7.6 %	1.2 %
<i>Average</i>	<b>34.2 %</b>	<b>8.2 %</b>	<b>2.4 %</b>
<b>Least Unionized</b>			
PEI	29.6 %	13.1 %	1.6 %
NB	28.3 %	8.8 %	1.8 %
NS	27.4 %	8.9 %	1.9 %
ON	26.7 %	9.4 %	1.7 %
AB	22.7 %	6.6 %	1.0 %
<i>Average</i>	<b>26.9 %</b>	<b>9.4 %</b>	<b>1.6 %</b>

Sources: Statistics Canada, "Unionization," *Perspectives on Labour and Income*, vol. 9 no. 8 (August 2008); Statistics Canada, *Labour Force Survey*, May 2009; and Andrew Sharpe and Jean-Francois Arsenault, "New Estimates of Multifactor Productivity Growth for the Canadian Provinces," *International Productivity Monitor*, Number 18 (Spring 2009).

## CONCLUSION

The latest provincial statistics indicate that unionization is negatively correlated with unemployment, but positively correlated with productivity growth. These correlations contradict Layne-Farrar's argument.

It would be overstating the case to conclude that the Employee Free Choice Act will necessarily reduce unemployment or increase labour productivity. At a minimum, this legislation could certainly extend the benefits of unionization to more American workers without negatively affecting US employment or productivity.

## NOTES

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1. Anne Layne-Farrar, "An Empirical Assessment of the Employee Free Choice Act: The Economic Implications" (March 3, 2009). Available at: <http://ssrn.com/abstract=1353305>
  2. Organization for Economic Co-operation and Development, *OECD Employment Outlook 2006* (June 13, 2006).
  3. Several critics, including Dean Baker, have made this point.
  4. US Bureau of Labor Statistics, "International Unemployment Rates and Employment Indexes, 2007-2009," page 3 (last updated July 2, 2009). Using the US definition of unemployment, the unemployment rate was 5.3% in Canada and 5.8% in the US during 2008. In May 2009, these rates were 7.6% and 9.4% respectively.
  5. Layne-Farrar, "Empirical Assessment," page 3.
  6. All empirical statements in this section are supported by the statistical table entitled "Unionization, Unemployment and Labour Productivity by Province."