

Radical chic meets monopoly power: The public sector trade union movement in Canada

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I'd like to begin by talking about how it seems to me the trade union movement in general has come to take the form that it has in Canada today. Then I'll look at how the public sector fits into that portrait. Finally, I'm going to take a few minutes and talk about the forces that are about to reshape labour markets in this country almost beyond recognition and how that will affect the shape of public sector trade unionism in the next generation.

I mention generations because I actually think that the modern trade union movement in this country came of age largely in the 1970s, and still bears many of the marks of its birth. The 70s, for those of us who still remember it, was a time of great ideological ferment and enthusiasms. Marx was studied in university everywhere, we all thought Fidel Castro was a great leader and we mourned the death of Mao Tse-Tung. America was mired in Viet Nam, a war that seemed deeply illegitimate to the young. Authority was contested in every possible arena. Capitalism was clearly a conspiracy, and was associated with many historical wrongs, such as racism, colonialism and exploitation of the working class. It was an exciting time of idealism and of ideas, and trade unionism seemed to many of us an instrument of righteous struggle against capitalist and imperialist exploiters.

Anyway, that was the story that helped us to understand the place of trade unionism in the world. It is a story that is full

of powerful emotional resonances, such as appeals to class solidarity, as well as solidarity with those who paid a high price to establish trade union and worker rights in earlier times, like the Tolpuddle Martyrs, and solidarity with the oppressed around the world. This story endowed trade unions and their demands with a legitimacy that few other groups or institutions could match. Membership numbers were high, leftist political parties and their trade union allies were on the march, worker-friendly legislation was being passed almost effortlessly.

Less obviously at the time, this golden era of trade unionism coincided with some powerful other trends. For example, the baby boomers were pouring into the labour market. I fall exactly in the middle of the Boomer generation, and I graduated from high school in 1972 - the year Pierre Trudeau ran his disastrous The Land is Strong campaign and ended up in a minority propped up by David Lewis and the NDP.

The reason I mention the Boomers is because we in Canada were faced with an unaccustomed phenomenon: too many workers. We were literally awash in young people with not enough to do. We determinedly set out to make the best of this situation by deliberately building into our social and economic arrangements as much inefficiency as we could, creating a large number of semi-fictitious jobs, and social programmes to mop up the rest.

Thus, in 1971, unemployment insurance, for example, was liberalised, instantly creating what became affectionately known as the UI ski team. For about 6 weeks work you could get an income for the rest of the year. The public sector expanded hugely. 1974 was the last balanced federal budget for over 30 years as deficit spending in various forms put otherwise idle people into some kind of work, no matter how artificial. Opportunities for Youth and Katimavik soaked up some, the huge expansion of the universities and colleges took a lot more.

We artificially restricted the efficiency of fishing gear while opening up the 200 mile limit and offering people a UI supplement to their income for a few weeks' fishing each year, thus putting hugely more fishermen in boats than had ever tried to live from the sea before.

We made it more difficult for people to immigrate. We created regional development agencies and used their money to prop up jobs in dying industries because we just didn't know what else to do with people. Trade barriers went up as we tried to force the rising Japanese industrial giant, for instance, from flooding us with cheap cars. I could go on, but you get the idea. We saw an enormous social challenge and we rose to it, magnificently.

Everywhere we were using the power of the state to soak up these surplus workers, happily destroying our productivity in the bargain. Now notice, therefore, an important coincidence between the interests of the trade union movement and a society in the grips of a painful bout of demographic indigestion.

If we set aside the story we all told ourselves about the heroic role of trade unionism in the struggles against exploitation and capitalism, and try to look at trade unions analytically, their behaviour is shaped by perfectly rational and easily understood incentives.

Everyone who produces something in the economic world instinctively understands that competition is what limits their

economic power. The converse of that proposition is that monopoly confers huge power. That is why every producer wants a monopoly on what they supply. I get this all the time from business people who know that I am dead set against subsidies to business, protectionism and all the other ways in which the state can be used to shelter people from competition. "I agree with you and I really believe in the market", they always say, "but my industry is an exception."

Well trade unions are no different. They understand instinctively that power flows to them in direct proportion to their ability to monopolize the supply of labour. Indeed, the thing that prevented labour unions from being legal for many years was that competition legislation treated them as conspiracies in restraint of trade. And indeed it is precisely their objective to prevent their employer from dealing with any other workers but union members. If any other economic agent tried to exercise this kind of power, it would be illegal. But unions enjoy a special dispensation.

That dispensation has conferred a lot of bargaining power on unions, but contrary to the myth that unions propagate, the benefits that flow to union members are not screwed out of employers by worker solidarity. The cost of the relatively high wages of union members (the high wages they boast about in their ads seeking new members, "Union jobs on average earn \$5 more an hour" - I see these ads on buses in Halifax all the time) is borne, not by the companies that employ the workers, but by the non-union workers who are prevented from competing for these jobs, and the unemployed.

Why the unemployed? Because when unions push up wage rates, companies must raise the productivity of their workers to compensate. This they do by investing more capital giving each worker more productivity enhancing machinery, thus reducing the number of jobs by artificially inflating the cost of labour relative to capital.

Now that does not mean that unions enjoy unfettered power. In the private sector there are still lots of constraints on the

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ability of a union to put the boots to an employer. There is always the possibility of bankruptcy or capital fleeing the country, causing plant closures, for example, if wage rates and labour practices become too onerous. High unemployment in the surrounding economy can put a brake on union power too.

But there are other ways maintain your near-monopoly position in the labour supply. You can, for example, support the extension of very generous social programmes and high minimum wages. The effect of these is pretty clear. If you set the minimum wage at \$10 an hour, as the labour movement and the NDP in Nova Scotia advocate doing, you are in effect decreeing that anyone who cannot produce \$10 worth of value with an hour of their labour shall not be employed.

Thus all low productivity workers are by law prevented from competing with you, and this is made socially palatable by generous social programmes. These programmes are designed in such a way that the people who pay the highest marginal tax rates in the country are those trying to escape poverty and dependence on social programmes and enter the workforce, not those earning the highest incomes. And of course if the move to raise the minimum wage is successful, that gives a powerful bargaining tool to the unions, who will then call for the maintenance of “historical differentials” between minimum wage and their wages.

Similarly, of course, the trade union movement resists being exposed to competition from workers in other countries, and so will argue for tariff and other barriers and against free trade. They will push for early and compulsory retirement, withdrawing yet more workers from the labour force. All of these actions and policies (and I’ve just picked a few here and there) have the effect of increasing union monopoly power at the expense of other workers, whether those workers are here in Canada or in other countries.

But monopolies are by their nature unstable, because peo-

ple are always looking for ways to escape their power, and people are very clever. In the private sector, union power is in terminal decline as work shifts away from traditional blue collar occupations in natural resources and manufacturing to white collar services where people have more confidence in their own abilities to represent their interests and are more reluctant to see a bureaucratic third party representing their interests to their employers.

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structures as they meet the competition from non-union manufacturers that their own intransigence (plus management incompetence, of course) made possible.

Our societies have become ever less tolerant of the destruction of lives occasioned by the welfare trap, and so ironically a Democratic baby-boomer president in the US ended “welfare as we have known it”, launching a hugely successful experiment that has seen hundreds of thousands of people previously excluded from the work force get jobs.

The result of all this has been a precipitous decline in the share of private sector workers in trade unions. But not in the public sector. So at long last we come to the public sector. What’s different here?

A couple of things. First the loss of dominance that hit domestic industries in the private sector has been slower to hit the public sector. That can be explained by lots of things, such as governments’ reluctance to admit their mistakes. It took us decades and billions of dollars to extricate the public

sector from Cape Breton coal and steel, long after the private sector was ready to cut its losses and close it down.

Second, the public sector creates lots of opportunities for what the economists call rent-seeking, or unearned benefits at others' expense. The costs of having too many civil servants, or keeping the coal mines open, or subsidizing the nuclear industry or the dairy industry are spread across the entire population, and each person may only pay a small amount for these inefficiencies, and it is hard to disentangle those costs on your tax bill from other more legitimate purposes. The benefits, however, are highly concentrated on a few beneficiaries. There is thus created an asymmetry where those who pay cannot be bothered to do much to reduce costs, while beneficiaries of government largesse are highly motivated, easily identified and well-organised.

Third, the discipline of the bottom line is absent in the public sector. I don't mean to say that the ability of the public sector to pay is unlimited. On the other hand, private companies rapidly get into difficulty if they try to spend more than their customers and investors will give them voluntarily. Governments, on the other hand, have the ability to take money compulsorily from taxpayers. Given my previous point, that those who benefit from government largesse are more effective and active politically than those who pay, it is not hard to see where the convergence of interest arises between powerful and well-organised public sector unions and political authorities who generally want peace and are willing to pay for it.

Finally, and this takes us back to the interest of trade unions in establishing a monopoly on the supply of labour, the public sector is itself an avid monopolist. Just think about the grain of truth that makes us smile when we see the bumper sticker, "Don't steal. The government hates competition." In fact governments generally hate competition with any of their activities, since they all too often equate whatever it is they want to do with "the public interest", and regard competitors as self-interested interlopers.

We in Canada have been particularly keen creators of public sector monopolies. Just think of the health care system (justly criticised by the Supreme Court for its typically oafish, arrogant and inefficient monopoly behaviour, in which customers are expected to take what the system offers and be grateful for it. The Supreme Court trenchantly observed that access to a waiting list is not access to health care.). Or our public schools. Or air traffic control. Or the effective monopoly of the public sector in post-secondary education. Police services. The Canadian Wheat Board. Dairy and other marketing boards. The list goes on and on. Until the last federal election, we were well on the way to creating an effective public sector monopoly in daycare.

Now what happens when you put together a public sector monopoly service without a hard budget constraint and a powerful rent-seeking public sector union? You get hugely increased bargaining power for

the public sector union compared to its private sector counterpart.

If the autoworkers (CAW) go on strike at GM or Ford or Chrysler, you can still buy a car from (non-union) Honda or Hyundai or Toyota. If Air Canada goes on strike, you can still fly WestJet or CanJet. But if the nurses go on strike, or the teachers, or the air traffic controllers, or the hydro workers, the service they represent is essentially withdrawn. This draws the public into public sector labour disputes as a third party at the table in a way that they hardly ever participate in private sector negotiations. And politicians always have a nervous eye on voters' discontent. This is precisely why for years public sector workers were not allowed to bargain collectively and their right to strike was severely qualified. The consequence of wielding monopoly power was that the state restricted the damage that power could do. In the 70s, at the height of our ideological enthusiasms, we swept that away. We see now the consequences.

Seen in this light, the behaviour of public sector unions is entirely understandable. They resist to the death any attempt to introduce competition into the provision of public service-

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es, through e.g. competition, privatisation or contracting out. They naturally dress it up as the defence of the public good against the rapacious capitalists, but this is pretty transparent stuff.

It also gives rise to the most amusing mental contortions. My favourite runs roughly like this: our health care services are the best in the world and are higher quality and cheaper than any private provision would be. However, if you try even the tiniest experiment with private provision, it will spread like wildfire throughout the system and destroy it. It is never very intelligibly explained exactly how this cheap high quality public system will be supplanted by the expensive inferior system, but it is taken as a self-evident article of faith.

Not only are these derogations from pure public monopoly fought tooth and nail, but naturally any opportunity to bring more activities into the public sector is vigorously promoted. Any attempt to bring the benefits of free trade to public services is of course anathema.

The most militant, ideological and intractable part of the trade union movement (the public sector) is also its fastest growing. The last redoubts of trade union ideology in its purest form are not the factories and the mines, where international competition long ago brought reason to the bargaining table. They are the unionized faculty clubs and white collar workers of the public sector.

And they have won attractive benefits. In every province in Canada, the public sector pay premium relative to the local industrial wage is significant, reaching its highest point, over 30%, here in PEI. Job security in the public sector beats that in almost any private sector job. Have you ever tried to fire a teacher? Despite all the talk about public sector accountability, measures of productivity and performance in the public sector remain few and controversial, leaving low-performing public sector activities to their dogmatic slumbers. And public sector employment levels remain very high in spite of a few forays into privatisation and other forms of rationalisation here and there.

I think this helps explain the continued growth of unionism in the public sector even as it continues to retreat in the private sector. The benefits and rewards of militant trade unionism in the public sector are simply much greater now than in the private sector. And workers in the private sector, knowing how much their jobs depend on high productivity, flexible work practices and satisfying their customers, find the obstructive and militant attitudes of the modern trade union movement simply incomprehensible and frightening.

But the next chapter in the story of the relationship between the public sector and trade unionism remains to be written. I think on its pages will loom large some of the following trends.

We are rapidly leaving behind the era in which labour was abundant and capital relatively scarce. The Boomer bulge is moving into retirement and the world is awash in capital. Acute labour shortages are simply the arithmetically-determined conclusion. Alberta today has an unemployment rate of roughly 3.5%. In 8 years, on current trends, that will be the unemployment rate in Nova Scotia, my home province. In 10 years it will be zero. Nor is this solely in the future. In PEI today, as some of you will know, 20 Russians labour in a fish plant because local workers cannot be found. A call centre had to leave this province because it could not find workers.

Any economist will tell you that a genuine labour shortage, not a trade union, is a worker's best friend.

As Boomers head into retirement, increasing the productivity of the relatively few workers left behind will become imperative. It is one of the few ways in which we can raise younger workers' standard of living while paying Boomers the retirement incomes they expect. Just as the Boomers created a huge bulge of workers, and drove a policy of low productivity, they will now withdraw from the labour force, creating huge demand for workers and raising significantly the costs of all the policies we put in place in the 70s to soak up surplus workers.

Our future prosperity will depend on reducing the public sec-

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tor's demand for workers, freeing them up for higher value occupations. This will be made easier by the great wave of retirements that will wash through the public sector. Many public services will be contracted out or privatised, and many of them provided remotely by workers in other countries, where they have the labour surplus issues of our not too distant past.

And finally, bringing us back to my starting point, the attitudes of the young will leave a new stamp on labour relations. The rising generation is a globalising internationalist one, used to the Internet, world travel, many languages and

the idea of global competition. They are impatient of the attitudes of old fogies reliving their glory days defeating the Spadina Expressway, going to anti-war demos at SFU and smashing computers at Sir George Williams University (that doesn't even exist anymore!).

They know their future lies in making goods and services that people all around the world want. The trade union movement can make itself relevant and useful to this new generation, but only if it gives its head a shake and moves on from the Tolpuddle martyrs, the Winnipeg General Strike and its self-interested love affair with the public sector and its rent-seeking opportunities. There is a whole world waiting.



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