“Implications of regional and international economic integration workers and employers, in Canada and comparable states?”

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Outline of our paper

- Importance/Motivation
- Three Dimensions of Integration
- Forces That are Changing the Nature of Work
- The Adjustment Consequences
- Pressure(s) for Downward Harmonization
- Conditions for Downward Harmonization
- Evidence of Downward Harmonization
- Recent Developments Altering the Picture
- Specific Initiatives
- Broad Framework Initiatives
Market integration moves social and political trends

A “Marxian” understanding of economics driving social, legal and political changes

However in dynamic/complex systems these social changes “feedback” and provide the impetus for reinforcing/divergent changes to the economic system, e.g.,:

i. Amazon unionisation after a lengthy decline in union power and growing inequality

ii. Inequality undoing the neo-liberal globalization order
Feedback Effects

Reuters © 2022 Amazon Labor Union leader Christian Smalls Celebrates landmark win
Famous Strikes: PATCO (1981)

- THIRTY three years ago, when he threatened to fire nearly 13,000 air traffic controllers unless they called off an illegal strike, Ronald Reagan not only transformed his presidency, but also shaped the world of the modern workplace.

- More than any other labor dispute of the past four decades, Reagan’s confrontation with the Professional Air Traffic Controllers Organization, or Patco, undermined the bargaining power of American workers and their labor unions.

- It also polarized politics in ways that prevent Americans from addressing the root of its economic troubles: the continuing stagnation of incomes despite rising corporate profits and worker productivity.
Famous Strikes: Public Opinion

Fired Air Controllers Won Little Sympathy

<table>
<thead>
<tr>
<th></th>
<th>Aug 1981</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Reagan job in dealing w/ strike</strong> (Gallup)</td>
<td>%</td>
<td>59</td>
<td>Disapprove</td>
<td>30</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>No opinion</td>
<td>11</td>
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<td><strong>More in sympathy w/ controllers or Reagan administration</strong> (Harris)</td>
<td>%</td>
<td>40</td>
<td>Air traffic controllers</td>
<td>51</td>
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<td></td>
<td></td>
<td></td>
<td>Reagan administration</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Other/Not sure</td>
<td>100</td>
</tr>
<tr>
<td><strong>Should air traffic controllers be permitted to strike?</strong> (Gallup)</td>
<td>%</td>
<td>28</td>
<td>Should</td>
<td>68</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Should not</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>No opinion</td>
<td>100</td>
</tr>
<tr>
<td><strong>Reagan’s treatment of air traffic controllers...</strong> (ABC News/Washington Post)</td>
<td>%</td>
<td>42</td>
<td>Too harsh</td>
<td>5</td>
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<td>Not harsh enough</td>
<td>50</td>
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<td>About right</td>
<td>4</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Don’t know/no opinion</td>
<td>100</td>
</tr>
</tbody>
</table>

Sources

- [http://www.gallup.com/poll/4357/Americans-Backed-UPS-Workers-Strike.aspx](http://www.gallup.com/poll/4357/Americans-Backed-UPS-Workers-Strike.aspx)
But 10 years after the strike and Reagan’s firing, the mood of the country had changed.

- A Gallup Poll conducted in July 18, 1991 on the tenth anniversary of the strike showed that more Americans (50%) believed President Reagan erred in firing the strikers than believe he acted correctly (39%).

  - In 1981, President Reagan fired all the air traffic controllers when their union staged an illegal strike. Looking back, do you think President Regan made the right decision or not?
  - Yes……………………………………………………………………..39%
  - No……………………………………………………………………... 50%
  - No opinion…………………………………………………………11%
Public Opinion Turning Positive in last 10 yrs

Would you, personally, like to see labor unions in the United States have more influence than they have today, the same amount as today or less influence than they have today?

<table>
<thead>
<tr>
<th>Year</th>
<th>More influence</th>
<th>Same amount</th>
<th>Less influence</th>
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<td>26</td>
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<td>26</td>
<td>34</td>
<td>4</td>
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<td>2015 Aug 5-9</td>
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<td>24</td>
<td>35</td>
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<td>2011 Aug 11-14</td>
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<td>25</td>
<td>42</td>
<td>3</td>
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<td>2010 Aug 5-8</td>
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<td>2009 Aug 6-9</td>
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<td>5</td>
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<td>2008 Aug 7-10</td>
<td>35</td>
<td>28</td>
<td>32</td>
<td>5</td>
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<td>2007 Aug 13-16</td>
<td>35</td>
<td>33</td>
<td>28</td>
<td>4</td>
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<td>2005 Aug 8-11</td>
<td>38</td>
<td>29</td>
<td>30</td>
<td>3</td>
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<td>2004 Aug 9-11</td>
<td>29</td>
<td>36</td>
<td>32</td>
<td>3</td>
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<td>2002 Aug 5-8</td>
<td>27</td>
<td>36</td>
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<td>6</td>
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<td>2001 Aug 16-19</td>
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<tr>
<td>1999 Aug 24-26</td>
<td>30</td>
<td>36</td>
<td>32</td>
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</table>
The IR Systems Framework - Economic

External Environments

- Economic
- Political
- Legal
- Social

Internal Inputs

- Goals
- Values
- Power
- History

Conversion Mechanisms

- Certification
- Bargaining
- Mediation / Arbitration

Outcomes

- Union Recognition and Security
- Collective Agreement
- Due Process
- Strikes / Lockout

Feedback loop to Internal / External Inputs
Importance/Motivation

- Market integration moves social and political trends
- A “Marxian” understanding of economics driving social, legal and political changes
- However in dynamic/complex systems these social changes “feedback” and provide the impetus for reinforcing/divergent changes to the economic system, e.g.,:
  
  i. Amazon unionisation after a lengthy decline in union power and growing inequality
  
  ii. Inequality undoing the neo-liberal globalization order
  
  iii. Global convergence forces in age and income will change our “easy” reliance on immigrant labour and “convergence” forces maybe ebbing
Figure 1: Top Three Immigration Source Countries for Canada are Getting ‘Older’ and ‘Richer’

- Panel a) Birth Rate per 1,000 in India, China and Philippines, 1990-2019

![Birth Rate per 1,000 in India, China and Philippines, 1990-2019](image-url)
Panel b) GDP per capita, PPP (current international $), 1990 – 2019
Figure 2. The immigration train was stalling before the pandemic largely for demographic and economic reasons.
Three Dimensions of Integration

• Broadening, deepening and feedback (Gomez and Gunderson 2002)
  • The **broadening dimension** refers to expanding integration across spatial regions and countries as transportation, communication and co-ordination costs fall, and trade agreements proliferate.
  • The **deepening dimension** refers to expansion across various dimensions of integration such as trade in goods and services, capital mobility (both financial and in plant and equipment), labour and human capital mobility and migration, transfers in technology and ideas, and multinational activities integrated through supply chains.
  • The **feedback dimension** involves how institutions and governments respond to the adjustment consequences of the broadening and deepening of economic integration. The feedback dimension is the focus of our analysis.
Forces That are Changing the Nature of Work

- Internal Labour Market Changes (ILMs)
  - New work models are “economically” driven”
  - Gig work is not a ‘fad’ or ‘trend’
- External Labour Market Changes (ELMs)
  - Demographic changes
  - Labour shortages (short term & long term)
The reason for the existence of the firm in a sea or market arrangements was a puzzle unless you have economies of scale but crucially scope.
Economies of “scope” are changing and making it easier to “fissure”

- Fissured Hotel
- \( C_q(a,b) > C_q1(a) + C_q2(b) \)
- \( a = \text{Temp agency cleaning services; b) Acme greeting desk} \)

In short: The cost of an ILM is now greater than using the ELM.

- A return to “old economic forms”.
- This is also at the heart of the Gig economy.
Putting-Out System (aka Cottage Industry)

Merchant (Clothier)

1) Raw Wool from Sheep herders/farmers

2) “spun” into cloth by Peasant farmers

3) Finished cloth sent to “skilled” tradesperson to produce clothing

4) Brings finished clothing to market (see picture)

Putting Out System
Merchant Collects Raw Wool From sheep herders. Then collects finished cloth from peasants. Then send finished cloth to skilled tradesmen for clothing production. Then goes to market.

Skilled tradesman works for lords, many merchants and/or on his own

Women spun wool at home

Husband still farmed the land and raised small livestock
5. Pre-industrial Europe: In 1600s and 1700s merchants become an important “bridge” to modern world of work.
Pedlars and Alchemists in Friuli (Italy, circa 13th century): History of itinerant sellers in an alpine reality
Modern “platform” economy is a reconstruction of the “sharing economy” but also is almost identical to what “merchants” did in pre-industrial Europe.
Someone referred to modern platforms as performing a service “akin” to magic!...Well its more like the cottage industry/putting out system of 17th and 16th century Europe.
Forces That are Changing the Nature of Work

• Internal Labour Market Changes (ILMs)
  • New work models are “economically” driven”
  • Gig work is not a ‘fad’

• External Labour Market Changes (ELMs)
  • Demographic changes
  • Labour shortages (short term & long term)
    • Where “markets” work wages rise
    • Where “markets” don’t work wages stay flat too long
This article from the CBC December 24, 2019 complaining that the hospitality sector had huge worker shortages.

So the problem was there before Covid pandemic.

ELMs - Labour shortages were here before the pandemic but are more cute now in 2022.
ELMs - Labour shortages were here before the pandemic but are more acute now in 2022.

Pace of hiring solid, but job vacancies getting less bang for buck

New hire rate and job vacancy yield (% nsa) 2017-2022 (ex 2020)

New employees (tenure=1) as share of prior months employment (ex-self employed) & job vacancies
Source: Statistics Canada, Brendon Bernard calculations, last data point April 2022, March 2022
Canada, Employment in Selected Industries

Source: Statistics Canada, Table 14-10-0355-02. Graph by @ACHandra_TO
ELMs - Labour Shortages Should Show Up in Wage Gains – Private Sector Service Jobs

Median real hourly wage, new workers

- NOC-65 (Servers)
- NOC-66 (Cashiers)
- NOC-67 (Cleaners)

Tabulations using LFS PUMFs, sample workers with tenure ≤ 6 months within 2-digit NOC classification. Line represents a lowess regression. CPI all-items used to adjust wages to March 2022 dollars.

Source: Tammy Schirle (2022)
ELMs - Labour Shortages Should Show Up in Wage Gains – Manufacturing Jobs

Median real hourly wage, new workers

- NOC-94 (Machine op.)
- NOC-95 (Assembler)
- NOC-96 (Labourer)

Tabulations using LFS PUMFs, sample workers with tenure < 6 months within 2-digit NOC classification. Line represents a lowess regression. CPI all-items used to adjust wages to March 2022 dollars.
ELMs - Labour Shortages Should Show Up in Wage Gains – Public Sector Healthcare Jobs

Median real hourly wage, new workers

- NOC-30 (Nurses)
- NOC-32 (Tech)
- NOC-34 (Aides)

Tabulations using LFS PUMFs, sample workers with tenure≤6 months within 2-digit NOC classification. Line represents a lowess regression. CPI all-items used to adjust wages to March 2022 dollars.
An economic specter haunts the democratic governments of the world’s most prosperous economies. The rising cost of health care and education casts a shadow over virtually every election, while increasing costs of other services play a part in the growth of the homeless population and the deteriorating sanitation of city streets. It will be shown here that both an explanation and a solution in principle are available. However, while the solution is, in one sense, simple and straightforward, in another it poses a problem of frightening magnitude for public choice. If the citizens of these countries are willing to do what is necessary for the supply of educational, health care and other related services to keep up with the expansion in overall economic output made possible by rising productivity, then, if my analysis is correct, a difficult choice will be required: either ever more of gross national product will have to be channeled through the public sector, with all the problems we know that to entail; or, alternatively, these services will have to be transferred to private enterprise, in fields where private business firms can hope to succeed only if granted an (improbably) immunity from the temptation of unwise governmental interference. This, is indeed, Scylla and Charybdis in spades.

1. The problem of the personal services: Some empirical evidence

A quarter-century has passed since William G. Bowen and I (1966) drew attention to the phenomenon of continuing and compounded rises in the real costs of a special class of economic activities that includes the live performing arts, automotive repair, health care, education, postal services, automotive and accident insurance and care of the indigent. The statistical data for the postwar period, including the decades since we wrote, have confirmed the presence and persistence of these trends. Figure 1, showing real cost of education per student (based on data from UNESCO and the U.S. Department of Education for the

* I am extremely grateful to the Alfred P. Sloan Foundation, the Price Institute for Entrepreneurial Studies and the C.V. Starr Center for their generous support of this work, and to Ms. S.A.R. Blackman for her invaluable help in the research.

The Cost Disease of Essential and Public Services: The true villain, if there is one, resides not in ‘arbitration’, which is merely an employment relations ‘conversion mechanism’ but in the nature of public services. As noted by economist William J Baumol more than 40 years ago, most public services are still largely supplied by people (as opposed to machines), they cannot be readily displaced by technology, and they cannot be outsourced to India.
The Cost Disease of Essential and Public Services: So that means we need to devote greater shares of national income to pay for these services given that the productivity in these sectors is not high enough. This is true whether wages are set by free collective bargaining, compulsory arbitration or the free market. The real solution is acceptance that as a share of consumption, we shall have to shift from buying “stuff” to “public services” over the next 20 years.
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- Broad Framework Initiatives
Despite our well-founded fears for “downward harmonization” there is actually an 8-step process for this to occur.

1. Policy initiatives that impose “costs” they must be enforced
2. The cost of the regulation must exceed the benefits to employers
3. Companies that rely on their brand image may be particularly willing to pay for costly regulations
4. A social safety net and a degree of worker protection rules can reduce resistance to efficient changes on the part of employers that can otherwise enlarge the size of the pie (real efficiency that factors “fairness” and desire for equity – e.g., Barbash, Meltz, Budd)
Conditions for Downward Harmonization

- Despite our well founded fears for “downward harmonization” there is actually an **8-step process** for this to occur.
  
  5. A social safety net and degree of worker protection can also **help alleviate the dramatic social costs** associated with rapid adjustments to market-oriented changes.
  
  6. Many of the **costs** of labour regulation initially imposed on business are **shifted forward to consumers** or backward to workers.
  
  7. Labour regulations may simply not be a major factor in plant location and investment decisions.
  
  8. Downward harmonization of labour regulations may not occur **if jurisdictions do not want to compete on the bases of reducing their legislative and regulatory initiatives** (Degrees of Freedom).
• As Arthurs (2001a, p.472) subsequently stated:

• “States retain residual powers, both in theory and in reality; they can amend treaties, enact regulations, retract concessionary arrangements, and raise taxes if they are prepared to risk the consequences.

• When travelling through the United States and Canada in 1888, Frederick Engels predicted a strong convergence of Canada to the U.S. because of the market imperatives of economic determinism. Engels (1888) stated:

• “It is a strange transition from the States to Canada. First one imagines that one is in Europe again, and then one thinks one is in a positively retrogressing and decaying country. Here one sees how necessary the feverish speculative spirit of the Americans is for the rapid development of a new country (if capitalist production is taken as a basis); and in ten years this sleepy Canada will be ripe for annexation — the farmers in Manitoba, etc., will demand it themselves. Besides, the country is half-annexed already socially — hotels, newspapers, advertising, etc., all on the American pattern. And they may tug and resist as much as they like; the economic necessity of an infusion of Yankee blood will have its way and abolish this ridiculous boundary line — and when the time comes, John Bull will say “Amen” to the matter.”
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We qualitatively reviewed labour regulations in 2002 and made a judgement call as to whether we perceived them to be downwards, or upwards or no change. Our judgement was that in developed countries there was downward convergence in the following areas [in red we have seen changes] :

1. Unionization and labour law
2. Strikes
3. Minimum wages
4. Unemployment insurance
5. Pay equity
6. Pensions e.g., from defined benefit towards defined contribution
7. Welfare and family benefits
8. Overall social expenditures
9. Labour standards in general
Historical Overview of Work Stoppages in Canada
(Days Lost as Percent of Total Work Time, 1921 to 2001)
Historical Overview of Work Stoppages in US (Days Lost as Percent of Total Work Time, 1947 to 2019)
But….changes were coming before the pandemic. 2019 was known as the “year of the protest”

After increasing dramatically in 2018 and 2019, major strike activity dropped in 2020

Number of workers involved in major work stoppages, 1973–2020

Note: The Bureau of Labor Statistics does not distinguish between strikes and lockouts in its work stoppage data. However, lockouts (which are initiated by management) are rare relative to strikes, so it is reasonable to think of the major work stoppage data as a proxy for data on major strikes. Data are for work stoppages that began in the data year. Data are for public- and private-sector workers.

Minimum wages are ‘converging upward’ over past 10 years (begins after 2008)
The minimum wage in Canada (Ontario) is a basic labor standard that sets the lowest wage rate that an employer can pay per hour to employees who are covered by the legislation. Every province and territory in Canada provides a minimum wage in its employment standards legislation. This figure provides Average Minimum Wages in Canada. Minimum Wages in Canada averaged 5.88 CAD/Hour from 1965 until 2019, reaching an all time high of 14 CAD/Hour in 2018 and a record low of 1 CAD/Hour in 1966.
Minimum wages compared – convergence switched ‘upward’

Canada always in the “middle” of any cross-country graph. Never the worst and never the best!
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There are a number of recent developments that can alter our perception of the picture whereby increased integration will continue and if so, if it will lead to downward harmonization of labour regulations.

1. The first is a greater recognition on the part of economists of the importance of differences in bargaining power between labour and management, as long emphasized in Industrial Relations as evidenced by statements by Arthurs (2010, p. 17).

   “Wealth and power are asymmetrically distributed in our society; since workers possess less of both than employers, they are inherently disadvantaged; disadvantage generates injustice; injustice resistance; and resistance unrest.”

These reasons are outlined by Eric Posner, a professor of law and economics at the University of Chicago, in his 2021 book How Antitrust Failed Workers. When such a message comes out of the University of Chicago – the bastion of laissez-faire economics – one should sit up and listen!
4 Major Developments Altering the Picture

• Fraying of supply chains, inflation, and return to “autarky”
• Real supply chain woes – these are not being made up by ‘conspiracy theorists’
This enhanced satellite image of container ships backed up outside of Shanghai during the latest COVID lockdowns is illustrative of what has caused price movements to rise beyond the range 1 to 3 percent with tolerances for output gaps.

That and an enormous amount of stimulus pushed out during the past two years.
Broad Frameworks Initiatives

- Focus on the most vulnerable
- Focus on individuals and not jobs
- Strategic attention to the components of compliance and deterrence
- Foster growth and competitive market forces
- Attention to design and implementation details
- Provide causal evidence for evidence-based policy making