

## Unions face uncertain future in global economy

Alia McMullen, *Financial Post* Published: Tuesday, June 23, 2009



*Mark Blinch/Reuters*

*Canadian Union of Public Employees (CUPE) members Goretti Giannetta, left, and Christian Giles picket in front of City Hall in Toronto June 22, 2009.*

Strike activity has intensified across Canada, most notably in the public sector, as workers fight to hold onto perks that have come under threat due to the recession.

But the relative inflexibility of unions to scale back on fringe benefits, particularly in times of economic crisis, could come back to haunt those involved by making it harder to compete in an increasingly global economy.

At a time when workers rights are protected by law and wage increases are generally linked to productivity, competitiveness and the success of the company, the economic downturn has kicked up a storm of dust around the role of unions and their future.

Dale Orr, of Dale Orr Economic Insight, said barriers to competition have fallen as markets become increasingly open and globalized, making it harder for unionized companies to compete with businesses that do have more flexible pay and labour conditions.

But while a non-unionized company may have greater control over wages, Mr. Orr said this did not necessarily result in lower pay. He said it was in the company's best interest to

competitively pay its workers in order to retain a stable, high-quality workforce.

The rise in competition has coincided with a decline in union membership as well as a shift in the makeup of Canada's economy from highly unionized sectors such as manufacturing, to those with less union penetration, such as services.

A report by the Centre for the Study of Living Standards in Ottawa last year found that unions once created value for workers in a protected economy by extracting a share of a company's excess profits for workers. However, it said a union's ability to gain higher wages has diminished in the competitive, deregulated world.

"Unions must therefore accept market conditions or face plant closure," the report said. "In the longer term, the unwillingness of unions to accept such conditions may potentially lead unionized firms to bankruptcy, while non-unionized competitors increase their market share."

While unions have lost ground in the private sector, they have notably held ground in the public sector. This sector, particularly in a recession, tends to expand employment to buffer the economy, creating a greater sense of job stability among public workers.

This is evident in the number of public strikes around Canada.

However, Don Drummond, the senior vice president and chief economist at TD Securities, said it was likely governments would begin to cut expenses by outsourcing services to private companies.

"The big change there will be what happens on the contracting-out front," he said, adding the government often refers to this as "alternative financing."

Jim Stanford, chief economist at the Canadian Auto Workers Union, said unions have a vested interest in ensuring that their employers are highly productive. In addition, he said unionized companies have much more flexible labour markets than the stereotype gave them credit for.

However, he said negotiations between unions and employers were becoming harder in the recession, particularly with regard to pensions. He said unions have an important role to play in ensuring Canadians have access to adequate retirement savings amid a trend by employers to scale back on benefits.

"Unions have been bargaining pensions for a century or more, but I've never seen an environment that is as challenging to protect existing pensions, let alone make progress, than right now, given the financial crisis and what that has done for pension funds," he said.