Globalization’s Effect upon Unionization

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Growing up in Youngstown Ohio with the steel industry quickly vanishing I was viewed an open-economy policy as a job stealing one. It was not until I began classes at Miami University that I began to see the true benefits of globalization. Although these benefits are apparent to most anyone who wishes to see them, there is still much opposition to opening the economy to foreign goods and industry.

The negative feelings of globalization arise from the belief that domestic jobs are negatively affected by less labor demanded and lower wages due to importation of less expensive goods and exportation of jobs to low-wage paying countries. My observation is that most of this opposition comes from historically highly unionized industries, such as steel and automobile. Because of this I can make the inference that unionized workers feel the most hurt from globalization. So I state the hypothesis, as globalization increases unionized workers are more adversely affected which is shown by a decline in unionization among workers in the United States.

If my hypothesis is at all legitimate historical data should show that as globalization has increased a steady decline in unionization should be apparent. According to the article “Does Globalization Lower Wages and Export Jobs?” globalization is defined as the international integration of goods, technology, labor, and capital (Slaughter). It is apparent that over the past thirty years the United States economy has become more globalized, look on any street and see a foreign car, go to any Chinese restaurant and see a foreign business owner, all of which is proof that
globalization is happening around us. Further proof of globalization can be seen with the creation of such trade policies as the North American Free Trade Agreement (NAFTA), which has opened our borders to free trade with Mexico and Canada. This increase in United States participation in the world economy has been facilitated by the improvement of technology and communication (Slaughter). It is now easier and faster to make long distance trades with improvements in transportation, while the increase in communication capabilities have made it more reasonable for foreign direct investment to occur by allowing companies to share information world-wide quickly and easily. It is apparent that these improvements have led to the increase in globalization over the past thirty years, but has the unionization of the United States labor force declined during the same time period?

Looking at historical data from the years 1977 to 1997 a steady decline in unionization as well as the wages of unionized workers can be seen. According to Robert Baldwin’s book *The Decline of US Labor Unions and the Role of Trade* the unionization rate of all workers, the proportion of those workers who were unionized to the total amount of workers in the labor force, fell from 25% to 13.8% from 1977 to 1997. This decrease in the rate of unionization shows that the labor force of the US has become less unionized due to either loss of unionized jobs or workers moving to non-union work. Further stressing this decrease in unionization it is seen that the total number of union members fell by four million over these twenty years despite the thirty-seven million new jobs created over the same time period (Baldwin 1). These statistics show an apparent decline in union work due to multiple scenarios in this time period. During the same time period non-union works were benefited by a large increase in jobs available. These
drastic changes in labor statistics coincide with my hypothesis by showing the harmful effects of a globalized economy upon the unionized sector of the labor force. More harmful effects are evident over this time shown through the wage changes incurred. From 1977 to 1997 weekly earnings (measured in 1983 dollars) decreased from $552.69 to $546.96 for all unionized workers while the weekly wage for non-union workers increased $393.76 to $413.86 (Baldwin 12). Comparing the wage and employment statistics it is clear that globalization did not affect all of the labor force equally, just the faction of workers with union membership. Non-union workers as a whole were better off with thirty-seven million more jobs with a real wage twenty dollars higher while the amount of unionized jobs fell by four million with a real wage decrease of six dollars. This historical data reinforces the hypothesis that states the negative relationship between unionization and globalization. But how and why does this relationship hold true? To answer this question we must look at the factors that could possibly contribute to the decline in union participation.

According to Baldwin there are four main factors that have influenced the decrease in the unionized faction of the American workforce over the past thirty years. First, the expansion of international trade and foreign direct investment has increased due to new technology lowering transportation and communication costs. Second, new technology has significantly raised GDP yet reduced the need for less-skilled labor, which is generally more unionized. Third, there has been a shift in consumer spending from within the manufacturing market, which typically employees union workers, to the more service oriented market. Finally, there has been an increase in number of workers who have higher than an education above a high school degree. (Baldwin 27) Although
all of these factors explain the decrease in union participation over the past thirty years I will concentrate solely on the first factor dealing with the increase in trade and foreign direct investment, basically globalization, which is directly related the hypothesis I am testing.

As stated above globalization is defined as the international integration of goods, technology, labor, and capital (Slaughter). With this definition I can break down my hypothesis into four separate reasons why the decline of unionization has coincided with the increase of a globalized economy, the movement of goods, capital, labor and technology across borders.

The first reason that globalization may adversely affect unionized workers is the increased amount of trade, that is the integration of goods between countries. The amount of goods both imported and exported by the United States plays a particularly important role in the amount of labor needed in this country. This can be seen by the identity:

\[ L_i = O_i \cdot l_i \]

Where \( L_i \) is the number of domestic employees in the \( i \)th industry, \( O_i \) is the output of the \( i \)th industry and \( l_i \) is the number of workers employed per unit of output (labor coefficient). The change in domestic labor needed can then be written as:

\[ \Delta L_i = \Delta O_i \cdot l_i + O_i \cdot \Delta l_i \]

It can be shown that \( O_i = A_i - M_i + X_i \) when \( A_i \) is total domestic spending on output, both foreign and domestically produced, \( M_i \) is the amount of product imported, and \( X_i \) is the amount of the product imported. This is because the total output needed by any
industry depends upon total domestic need for that good plus all international demand from that industry for that good minus all foreign demand from domestic consumers, so
\[
\Delta L_i = l_i^*(\Delta A_i - \Delta M_i + \Delta X_i) + \Delta l_i^*(A_i - M_i + X_i)
\]  
(Baldwin 37)

This equation shows that as imports increase the amount of domestic labor needed decreases and as exports increase domestic labor demanded increases. This makes sense because as demand for foreign made goods by domestic consumers increases demand for domestic goods falls, therefore labor needed to produce that good also falls. Because of this we can see how the international integration of goods affects the demand for domestic labor. But how does this affect unionized labor in particular? The United States has consecutively run a trade deficit (Unites States Census Bureau), meaning imports have outweighed exports. Because of this the US has had a greater loss in employment due to globalization. Most of the United States' imports are manufactured goods because they can be produced cheaper in foreign countries by low-skill, low-education, low-wage workers. Because we import these items fewer less-skilled, less-educated workers are needed to produce these same goods. These less-skilled, less-educated industries are generally those that are more unionized, such as those in the manufacturing faction of the labor force.

Not only is the amount of employment affected by globalization’s introduction of increased imports, the wage earned by import-competing industries’ employees, mainly unionized workers, are lowered. This occurs because of the new competition brought in by imports from low-wage paying countries. These imports may be sold for a cheaper price because of the low input cost of labor. In order to compete with these foreign firms
import-competing industries must cut input costs by cutting the wages of their employees.

It is evident that this increase in trade has adversely affected unionized workers through decreased in employment and decreased wages. Because of this it is understood how the lowering of unionization has decreased over the last thirty years. Union workers are either losing jobs or shifting out of more unionized import competing-industries into less unionized export-competing industries where wages are more competitive.

The second reason globalization may have hurt unionized workers within the United States labor market is the fact that with globalization capital is now entirely mobile. Capital is free to cross national borders in search for the highest return (Rodrik). Plants and factories can now be placed in foreign countries which gives firms the option to participate in foreign direct investment, which allows firms to escape certain input costs. Firms can move plants to foreign countries where less-skilled low-wage work is available. They will opt for this foreign direct investment option if it is decided that it will be more cost effective to hire low-wage foreign labor instead of paying the higher domestic wages for the same job. Again, because of the nature of the work, unionized workers participate in less-skilled, less-education intensive industries, it is these workers that will be most affected by mobile capital. The option of foreign direct investment takes away domestic labor demanded and may lower the wages of unionized labor. A firm can threaten to move jobs away from domestic labor unless a lower wage is taken. Because of this, generous minimum wages and benefits are now hampered by firms trying to maintain low labor costs. Some may ask why is it that domestic workers don’t offer to work longer hours or for a lower wage to match the foreign workers? This is
impossible because the United States has restrictions on such acts, minimum wage and overtime pay; the domestic workers are restricted from competing with foreign workers and are forced to watch their jobs travel over-seas (Rodrik).

This new mobility of capital allows for firms to harm unionized workers by taking away their jobs or lowering their wages due to the option of foreign direct investment.

The next possible cause of adverse affects towards unionized workers from globalization is the fact that labor is now mobile between borders. Foreign workers are now able to enter the United States and work which displaces the domestic labor they are competing with. (Slaughter) Immigrants are generally more adapted to low-skill, low-education labor which makes the workers they are competing with the generally unionized segment of the labor force. These new immigrant workers are more willing to take lower wages than native workers are which hurts the native less-skilled, unionized, worker. The greater impact upon the native unionized worker is probably not created by a legal immigrant; it is more likely an illegal immigrant will adversely affect unionized workers. This is because the status of the illegal immigrant worker is non-existent to the government; therefore he is unable to join a union and has no taxes to pay. Because of the lack of taxes the illegal immigrant is more willing to take a lower wage. The firm is more likely to want this worker because of the decrease in cost of labor as well as a decrease in taxes paid on this worker. This worker is more appealing to the firm so more less-skilled unionized native workers will be displaced by these illegal immigrant workers. Unionization rates are therefore lowered due to the new mobility of labor.

The final reason globalization may cause a decline in the unionization rate is the fact that technology is now mobile between nations. This is relevant to the decline of
unionization because technology generally increases the productivity in an industry. Technology usually replaces less-skilled labor, such as robots replacing automobile assembly line workers. If a new technology that will reduce the amount of workers needed in the manufacturing process is brought into this country from abroad there will be a reduction in the amount of unionized labor demanded. This is by far the weakest of all the arguments connecting globalization to a decline in unionization because there are many cases in which an increase in technology increases the productivity of each worker which will then lead to workers receiving a higher wage because of their increased productivity (Slaughter).

In conclusion, I stand behind my statement that the recent decline in union participation rates and union wage rates were caused in part by an increase in globalization by the Unites States. Globalization has merely given firms the opportunity to become more cost-effective through the increased mobility of goods, capital, labor, and technology. Although this increase in cost-effectiveness of firms has come at the expense of unionized worker’s well-being, which has been shown by the decrease in unionization, it has given this country a chance to grow and become more competitive in the world. Globalization can not be purely seen as a negative just because one faction of the domestic labor market is adversely affected by it. The information provided by this paper should not be taken as a warning against globalization but instead as a warning to those industries that are highly unionized and all that wish to enter them in this time of increasing globalization.
Works Cited


