Fraser Alert

September 2015

Improving Union Accountability with Worker Choice

Charles Lammam and Hugh MacIntyre

Introduction

As one of its last pieces of legislation before closing for the summer, the Parliament of Canada passed Bill C-377, legislation aimed at increasing the financial transparency of labour organizations. This is a welcome move. Previous research by the Fraser Institute has shown that Canada traditionally lacked the strong union financial disclosure requirements to ensure financial transparency (Palacios et al., 2006). The new law will ease the process for both unionized workers who pay union dues and the general public who wish to find out how union contributions are being spent.[1]

About the authors

Charles Lammam *is Director of Fiscal Studies at the Fraser Institute. He has published over 50 studies and 200 original articles on a wide range of economic policy issues. He holds an MA in public policy from Simon Fraser University.*

Hugh MacIntyre *is a Policy Analyst at the Fraser Institute. He has co-authored numerous studies on topics such as government finances and government performance. He holds an MSc in Political Science from the University of Edinburgh.*

It is important for a labour union to be accountable and responsive to the demands of members and dues-paying workers because the primary purpose of a union is to represent the interests of unionized workers. Specifically, unions represent workers in negotiations with employers (within the confines of collective bargaining) and in disputes between a worker and an employer. The recent changes aimed at increasing union financial transparency represent an important step in improving union accountability. The next step for greater accountability is to ensure that workers have a choice about whether or not to become a union member at all, and in paying union dues more broadly.

Union financial disclosure under Bill C-377

Once Bill C-377[2] comes into force, labour organizations will be required to provide basic financial information (such as expenditures, revenue, and their financial position) to the federal government. Included in this packet of financial information will be details on any transaction of more than $5,000 (including contributions to political or social causes) and on union employees who are paid over $100,000 (including compensation levels and estimated time spent on political activities and lobbying). This information will then be made publicly available so that unionized workers and interested third parties can gauge the financial health and operation of union organizations.[3]

An important aspect of Bill C-377 is that labour organizations will be required to provide details on how much money and time they spend on political activities and lobbying. Unions often spend money on political and other causes that are outside of the confines of their responsibilities in collective bargaining and with which dues-paying workers may not necessarily agree. Bill C-377 enables unionized workers to more readily determine how much of their dues are going to these causes.

The next step: worker choice

While Bill C-377 helps foster greater financial disclosure from unions, if workers disagree with their union's activities, they may not necessarily have the choice to leave their union or withdraw their financial support.[4] In Canada, union contracts in the private sector can contain a provision that makes being a union member a condition of employment (MacIntyre and Lammam, 2014). Canadian private sector union contracts can also contain a provision that makes it mandatory for all workers covered by a union contract to pay full union dues regardless of their membership status.[5] And these mandatory union dues can fund union activities that are not related to a union's role of representing workers, including political or social causes. This can put private sector workers in the difficult position of choosing between financially supporting a cause they disagree with or leaving their job.

When union membership or dues payment is mandatory, unions do not need to spend the effort to convince workers to become members, or of the merits of the union's spending. This, in turn, affects the behaviour of union leaders, who have less incentive to be responsive to the demands and desires of unionized workers if those workers have no choice about belonging to the union. If a worker does not have the option of leaving the union or withdrawing their financial support while maintaining employment, then the union can take the worker for granted and not worry about earning their support. A union is more likely to make an effort to be accountable and responsive to unionized workers if its financial health depends on workers willingly paying dues. If the worker has a choice, the union must ensure that it offers value to workers in order to convince them that paying their union dues is worthwhile.[6]

Governments can help ensure that unions are responsive to unionized workers by guaranteeing workers the choice of whether or not to become a union member and pay union dues. The experience in the United States shows how this could work in practice. In the US, every worker is guaranteed the right to refuse to join a union and still keep their job, although they may be required to pay partial union dues. In principle, partial union dues are meant to cover the cost of union representation, not political or other activities unrelated to representation. This is in contrast to Canada where workers can be required to pay full union dues to cover all union activities.

In 25 out of 50 US states, partial union dues in the private sector cannot be made mandatory, except in the railway and airline industries.[7] The American legislation that guarantees workers the choice to pay union dues or not is typically referred to as Right-to-Work laws, and states that have these laws are called Right-to-Work states.

In jurisdictions with greater worker choice, a higher degree of accountability and responsiveness on the part of the unions could manifest in several ways. For example, a recent study examined the differences between the level of union dues and compensation of union executives in Right-to-Work states and non-Right-to-Work states (Sherk, 2015). After controlling for other factors such as the differences in the earnings of unionized workers across states, the study found that union members in non-Right-to- Work states pay dues that are, on average, 14 to 15 percent higher than union members in Right-to- Work states. The study also found that the salaries of union executives (the president, vice-president, treasurer, and business manager) tend to be higher in non-Right-to-Work states. Put differently, if unions have to convince workers to pay dues, then dues tend to be lower and compensation for union leaders tend to be more modest.

Research has shown that restricting worker choice artificially strengthens unions, resulting in higher unionization rates (Clemens et al., 2005). Table 1 shows 2014 unionization rates (total, private sector, and government sector) for Canadian jurisdictions (where worker choice is not guaranteed for either union membership or union dues), non-Right-to-Work states (where worker choice is guaranteed for union membership), and Right-to-Work states (where worker choice is guaranteed for both union membership and full dues). The total 2014 unionization rate in Canada is 30.4 percent, which is more than four times the total unionization rate in Right-to-Work states (7.5 percent). Private sector and government sector unionization rates in Canada are both more than three times the equivalent rates in Right-to-Work states. Indeed, unionization rates tend to be lower in jurisdictions where workers have more choice.

Table 1: Unionization Rates in Canada and the United States (%), 2014

	Canada	United States	
		Non-RTW	RTW
Total	30.4	16.3	7.5
Private sector	16.8	9.6	4.7
Government sector	74.8	52.9	22.7

Sources: Statistics Canada (2015); Hirsch and Macpherson (2015); calculations by authors.

Notes:

*Right-to-Work states are jurisdictions that have implemented laws that allow non-union employees in a unionized work space to opt-out of full union dues. Right-to-Work States in 2014 include: Alabama, Arizona, Arkansas, Florida, Georgia, Idaho, Indiana, Iowa, Kansas, Louisiana, Michigan, Mississippi, Nebraska, Nevada, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, and Wyoming. In 2015, Wisconsin became a Right-to-Work state.

*Indiana and Michigan became Right-to-Work states in 2012. The impact of Right-to-Work laws on these two states is likely small given the short amount of time since legislation has been enacted.

*Unionization rates are defined as the share of the workforce who are covered by a union contract.

Worker choice and economic performance

Research from the United States has also shown that restricting worker choice can hamper a jurisdiction's economic performance. This body of research focuses on the differences between Right-to-Work states and non-Right-to-Work states. For example, a recent study found that from 1977 to 2010, Right-to-Work laws were associated with increased state-level economic growth of 1.8 percent and higher employment of about 1 percent (Zycher et al., 2013).[8] This is after controlling for other economic factors such as total employment and per capita income. Increasing worker choice not only encourages unions to be more responsive to members, it also helps foster stronger economic performance.

A study by Richard Vedder (2011) found that from 2000 to 2009, a net of over 5 million Americans moved from non-Right-to-Work states to Right-to-Work states. Another study found that Right-to-Work laws are associated with higher average annual population growth (Hicks and LaFaive, 2013). These findings suggest that workers are voting with their feet by moving to states with a higher degree of worker choice.

Meanwhile, jurisdictions that lack worker choice are at a competitive disadvantage as they seek to attract investment and ultimately encourage economic growth. For example, a study published in the prestigious *Journal of Political Economy* found that manufacturing activity increases abruptly when crossing the border from a non-Right-to-Work state to a Right-to-Work state (Holmes, 1998). This is particularly relevant for Ontario, traditionally Canada's manufacturing hub, where over the past few years the number of nearby Right-to-Work states has been increasing. Indiana and Michigan both became Right-to-Work states in 2012, and Wisconsin passed legislation earlier in 2015, making it the newest Right-to- Work state. Meanwhile, Ontario's economy has lagged in recent years. Investment in Ontario is disproportionally low compared to its population and its private sector job growth has trailed behind virtually every other province (Di Matteo et al., 2014). There is no simple solution to improving economic outcomes in Ontario, but guaranteeing worker choice would be a good place to start.

Conclusion

Increasing union financial transparency is an important step in ensuring that unions are accountable and responsive to unionized workers. The next step is to guarantee workers a choice about whether or not they wish to become a union member or pay union dues. Worker choice would mean that unions cannot take financial support from workers for granted and must continually convince workers of the value of having a union represent them.

Notes

1 A unionized worker is defined as a worker who is covered by a union contract.

2 For the text of Bill C-377, go to: http://www.parl.gc.ca/HousePublications/Publication.aspx?Language=E&Mode=1&DocId=8058844&File=24#1

3 Notably, a recent poll found that 59 percent of union members support Bill C-377 (Forum Research Inc., 2015, July 8).

4 The following discussion relates to workers in the private sector.

5 In most Canadian jurisdictions, a provision for mandatory union dues is required in either all union contracts or upon the request of the union. In four provinces (Alberta, New Brunswick, Nova Scotia, and Prince Edward Island), mandatory union dues can be included in the union contract only if it is agreed to by the employer during contract negotiations (Workplace Information and Research Division, Labour Program, ESDC).

6 A common criticism of giving workers the choice not to pay union dues is that it allows workers to be covered by a union contract without paying the cost of union representation. Such workers are often referred to as "free riders." In Canada, workers who are covered by a union contract do not have the option to opt-out of union representation. Covered workers who prefer to negotiate their contract without union representation are not allowed to do so, so not all non-union members who are covered by a union contract can be considered free riders. An important study on worker choice in the United States by West Virginia University Professor Russell Sobel (1995) estimated that no more than 30 percent of covered non-union members are "true free riders" in the sense that they would choose to be union members if it was a condition for being covered by the union contract. To the extent that free riding exists with worker choice, one solution is to not force union membership and dues payment, but instead to allow workers to bargain independently of the union (Vernuccio, 2015).

7 In the other 25 states, workers who are not members of a union but are covered by a union contract may be required to pay at least partial union dues.

8 For additional papers, see: Vedder and Robe, 2014; Hicks and LaFaive, 2013; Vedder, 2010; Kersey, 2007.

References

Clemens, Jason, Niels Veldhuis, and Amela Karabegovic (2005). *Explaining Canada's High Unionization Rates*. Fraser Institute. http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/explaining-canadas-high-unionization-rates.pdf, as of August 12, 2015.

Di Matteo, Livio, Jason Clemens, and Milagros Palacios (2014). *Can Canada Prosper Without a Prosperous Ontario?* Fraser Institute. http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/can-canada-prosper-without-a-prosperous-ontario-rev.pdf, as of August 12, 2015.

Forum Research Inc. (2015). Majority, including union members, approve of Bill C-377. News Release (July 8). Forum Research Inc. http://poll.forumresearch.com/data/Federal%20Bill%20C-377%20News%20Release%20(2015%2007%2008)%20Forum%20Research.pdf as of July 27, 2015.

Hicks, Michael, and Michael LaFaive (2013). *Economic Growth and Right-to-Work Laws*. Mackinac Centre for Public Policy. https://www.mackinac.org/19051, as of August 12, 2015.

Hirsch, Barry, and David Macpherson (2015). *Union Membership and Coverage Database from the CPS*. http://www.unionstats.com/ as of May 6, 2015.

Holmes, Thomas J. (1998). The Effect of State Policies on the Location of Manufacturing: Evidence from State Borders. *Journal of Political Economy* 106, 4 (August): 667-705.

Kersey, Paul (2007). *The Economic Effects of Right-to-Work Laws: 2007*. Mackinac Centre for Public Policy. https://www.mackinac.org/archives/2007/s2007-11.pdf, as of August 12, 2015.

MacIntyre, Hugh, and Charles Lammam (2014). *Labour Relations Laws in Canada and the United States: An Empirical comparison, 2014 Edition*. Fraser Institute. http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/labour-relations-laws-in-canada-and-the-united-states-2014.pdf, as of August 12, 2015.

Palacios, Milagros, Jason Clemens, Keith Godin, and Niels Veldhuis (2006). *Union Disclosure in Canada and the United States*. Fraser Institute. http://www.fraserinstitute.org/research-news/display.aspx?id=13564, as of August 12, 2015.

Sherk, James (2015). *Unions Charge Higher Dues and Pay Their Officers Larger Salaries in Non-Right-to-Work States*. The Heritage Foundation. www.heritage.org/research/reports/2015/01/unions-charge-higher-dues-and-pay-their-officers-larger-salaries-in-nonright-to-work-states, as of August 12, 2015.

Sobel, Russell S. (1995). Empirical Evidence on the Union Free-Rider Problem: Do Right-to-Work Laws Matter? *Journal of Labor Research* 16, 3 (Summer): 347-365.

Statistics Canada (2015). *CANSIM Table 282-0078 – Labour force survey estimates, employees by union coverage, North American Industry Classification System, sex and age group*. Government of Canada. http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=2820078&paSer=&pattern=&stByVal=1&p1=1&p2=50&tabMode=dataTable&csid= as of July 16th, 2015.

Vedder, Richard (2010) Right-to-Work Laws: Liberty, Prosperity, and Quality of Life. *Cato Journal* 30 (1) (Winter 2010): 171–180. http://object.cato.org/sites/cato.org/files/serials/files/cato-journal/2010/1/cj30n1-9.pdf, as of August 12, 2015.

Vedder, Richard (2011). The Economic Effects of Right to Work Laws. *Employee Responsibilities and Rights Journal* 23, 4 (December): 305-310.

Vedder, Richard, and Jonathan Robe (2014). *An Interstate Analysis of Right to Work Laws*. Competitive Enterprise Institute. https://cei.org/sites/default/files/Richard%20Vedder%20and%20Jonathan%20Robe%20-%20An%20Interstate%20Analysis%20of%20Right%20to%20Work%20Laws.pdf, as of August 12, 2015.

Vernuccio, F. Vincent (2015). *Worker's Choice: Freeing Unions and Workers from Forced Representation*. Mackinac Center for Public Policy. https://www.mackinac.org/archives/2015/s2015-03.pdf, as of August 12, 2015.

Zycher, Benjamin, Jason Clemens, and Niels Veldhuis (2013). *The Implications of US Worker Choice Laws for British Columbia and Ontario*. Fraser Institute. http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/implications-for-US-worker-choice-laws-for-BC-and-ON.pdf, as of August 12, 2015.

About this publication

Fraser Alerts are published from time to time by the Fraser Institute to provide short, timely studies of current issues in economics and public policy.

The opinions expressed are those of the individuals themselves, and should not be interpreted to reflect those of the Institute, its staff, its Board of Directors, or its donors and supporters.

Copyright and ISSN

ISSN 1714-6720

Date of Issue: September 2015

Media inquiries and information

For media inquiries, please contact our Communications department by telephone at 604.714.4582
or e-mail *communications@fraserinstitute.org*

Our web site, www.fraserinstitute.org, contains more information on Fraser Institute events, publications, and staff.

Development

For information about becoming a Fraser Institute supporter, please contact the Development Department via e-mail at development@fraserinstitute.org; or via telephone: 1-800-665-3558, ext. 586