The Demise of Labor Unions in the Era of Globalization

By Zohal Hessami and Thushyanthan Baskaran

Since the early nineties, more and more workers have abandoned their unions. The figure below shows that the average union density rate in 44 developed and transition countries has declined from more than 45% to less than 30% from 1980 to 2009. During the same period, globalization as measured by the multidimensional KOF economic globalization index has continuously increased. Only in the post-2007 financial crisis period, these series experienced small reversals: economic globalization has slightly declined and union density rates have risen.

At first sight, two other aspects of collective bargaining seem to have been negatively influenced by globalization as well. The bottom left figure points towards a downward trend in the centralization of collective bargaining despite some marked trend reversals in the mid-80s and early-90s. This means that collective bargaining is increasingly taking place at the local or company level rather than the national level. A consequence of this decentralization of bargaining is a higher variability in wages and potentially higher income inequality. Finally, it seems that governments have become more reluctant to intervene in collective bargaining during the past three decades. The downward
development of all three aspects of collective bargaining would suggest an increase in the vulnerability of unionized employees as well as less generous wage agreements.

In view of the obvious co-movement between globalization and the three aspects of collective bargaining, we have used multivariate regressions to establish whether globalization is the cause of the changes in the nature of collective bargaining or whether both evolve similarly only by coincidence. Taking into account that collective bargaining may respond with a lag to globalization and controlling for other determinants of the nature of collective bargaining such as deindustrialization, demographic changes or the state of the economy, we find that globalization has indeed depressed union density rates. On the other hand, we do not find evidence that links globalization to the extent of decentralization or the degree of government intervention.

The decline of unionization rates has been predicted by a number of theoretical models and is a logical consequence of the tumbling benefits of union membership in a globalized world. A worker’s choice to be a union member can be perceived as the result of weighing the benefits of union membership against its costs. With constant union dues and a constant level of time and effort required for union activities, a decline in the benefits of being unionized induces some members to leave the union or not to sign up for membership in the first place.

To see how globalization has depleted the benefits of union membership, one needs to understand how globalization has affected the relative bargaining power of employees. In a globalized world, high-skilled labor crosses national borders more easily. On the other hand, employees who have traditionally been organized in a union (public sector employees, civil servants, and low-skilled workers) remain mostly immobile. This in turn leads to a decline in the bargaining power of unionized employees and an increase in their vulnerability to global forces. In contrast, the relative bargaining power of employers increases because employers can threaten to close down their plants and to move elsewhere. This shift in power has led employers to adopt a more confrontational stance towards unions. Public policies further reduce the benefits of union membership. Policy-makers are under pressure to design labor markets to be attractive for investors. They are compelled to ensure low levels of union penetration, to allow part-time work and fixed-term contracts, and to offer weak employment protection legislation.

There remain many avenues for further research. One reason why we do not find significant effects of globalization on the degree of decentralization and the extent of government intervention might be that available qualitative measures are too imprecise. Alternative indicators of a quantitative nature should be developed in the future. Second, future research should investigate how changes in the nature of collective bargaining have affected bargaining outcomes such as wage levels. This key question has important implications for the redistributive effects of globalization.

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