

# Section 3: Why Labour Organizes

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## Overview

In this section, you will learn:

- the different forms that labour organizations may take and the functions they perform
- how to distinguish between a labour union and any other form of labour organization
- how and why buyers in a labour market can limit competition
- the meaning of the following terms: capitalism, cottage industry, factory system, guilds, monopoly, monopsony

## What are the different types of labour organizations?

Thousands of years ago, our ancestors learned the advantages of co-operation. Working together ensured a better hunt, better protection, and a generally better chance for survival. In economic terms, co-operation increased the group's productivity and standard of living.

Over time, the complexity of society and labour organization increased. For example, in Europe during the Middle Ages, tradesmen and merchants organized themselves into powerful **guilds**. The guilds promoted the interests of their members. They established standards of craftsmanship and trained new workers as apprentices and journeymen.

The Industrial Revolution that began in England in the eighteenth century transformed all aspects of the society. An economy based on the private ownership of capital resources replaced one based on the ownership of land. The **factory system** replaced a **cottage industry**. Rural peasants, who for centuries had exchanged their labour for the use of land, were forced off the land to make way for more profitable sheep. They streamed into the growing towns and cities to exchange their labour for a wage payment. There they met an early form of **capitalism** where the unregulated forces of demand and supply ruled labour markets with results that were often brutal.

Part of the economic history of the early Industrial Revolution is about how the supply of labour grew more rapidly than the demand for it. The development of new machinery and technologies made labour more productive. It also replaced labour. The result was a surplus of workers in the labour market that drove wages down. Workers were

forced to find jobs wherever they could for wages, and in working conditions, that barely kept them alive.

Meanwhile, the capitalists who owned the factories and machines joined to create new companies and watched their profits rise. The differences in the standard of living of the workers and the capitalists became glaringly obvious within the cities. Rural poverty was as real but less obvious than the industrial slum. Some, such as Karl Marx, predicted that inhumane conditions would lead to an increase in class warfare. He called for the workers who had “nothing to lose but your chains” to unite in a revolution to overthrow the capitalists. Others sought to avoid revolution by changing the laws.

Today’s union movement can trace its roots to the economic and social class conditions created by the Industrial Revolution. Workers organized to counterbalance the power of capital and its owners in order to protect themselves and improve their working and living conditions. The old common law that defined the contract between employer and worker was updated. In places such as England, the government passed new laws that prohibited child labour and that began to improve working conditions. But it was not until the twentieth century that legislation recognized the workers’ right to form labour unions.

Today, other labour associations such as the Canadian Medical Association, the Canadian Institute of Chartered Accountants, and the Canadian Bar Association promote the interests of their members. Labour may even form worker co-operatives such as Edmonton’s Co-op Taxi. Unlike corporations that are owned by shareholders, worker co-ops are completely owned, financed, and run by the workers who share the profits made.

But the labour union remains the best-known and most common type of labour organization. A union is distinguished from every other form of labour organization by its legal right and power to negotiate the terms and conditions of work for its members. Instead of each individual worker facing the employer alone, a union negotiates one contract for all its members in the bargaining unit.



### Activity 3.1

Today, the individual employer and employee negotiate the terms of between 60 to 70 per cent of employment contracts. Many of those are not really negotiated at all. The employer offers a job with certain pay and benefits and the worker takes it or leaves it. The remaining contracts are with union members or those affected by the collective bargaining process.

1. Think of your own job interviews and work experiences and talk with the members and friends of your family about theirs. In each case, did you or they:
  - negotiate a wage or working conditions with the employer?
  - receive wages and benefits negotiated by a union?
  - accept what the employer offered?
2. Interview five full-time workers who are doing different jobs. Ask each one which of the three descriptions in question 1 best describes their employment contract.
3. Ask the five full-time workers to evaluate their overall job satisfaction on a scale of 1 to 10 where 1 is low and 10 is high. Which type of employment contract helped to produce the greatest degree of satisfaction?

Why are many people willing to give up their power to negotiate their employment contract to others and to be bound by what the union negotiates? Why is such an arrangement preferable to the free market where everyone negotiates individually?



## Hockey Star Wars

### Episode 1: Gordie Howe and the Labour Market

[Hockey Star Wars is a case study of the development of the National Hockey League Players' Association that will be used to illustrate and further develop themes throughout this resource.]

*Prologue: Not so long ago, in hockey rinks around the country ... individual hockey players negotiated their contracts with the owner of their team. This is how it was done with Gordie Howe, hockey's best player, in the 1950s.*

Gordie Howe's contract negotiations were probably the simplest in the history of sport. Each year during training camp, the Detroit Red Wings General Manager, Jack Adams, would offer Howe a completed contract with only the salary left blank. "Just fill in what you're worth, Gord." Every year, regardless of his growing list of records and awards, Howe dutifully added a \$1,000 raise.

For his part, Howe trusted Adams and owner Bruce Norris to look after him. "I'd always had an agreement with the Red Wings that, because I was one of the best players in the game, I'd always be the highest paid player of the team — in fact, the highest in the League."

In 1968, Bob Baun, the tenacious former Leaf, was traded to Detroit. When Howe asked how much Baun thought he was making, Howe was dumbfounded when he guessed within \$500 of his \$45,000 salary. And when Baun revealed his own \$67,000 annual contract, Howe simply gaped in amazement.

What neither player knew was that Baun's old defence partner, Carl Brewer, had just signed with Detroit for \$126,000. Nor did they know that the club had netted \$1 million annually on hockey operations since 1946, plus another \$1 million running the rink, making it one of the most lucrative sport franchises of the time.

Markets work when both buyers and sellers have plentiful and accurate information. Howe (and few others) did not have any idea how much his team made. In fact, the owner's strategy was to tell the players the team was losing money even if it was doing well. They were told that if they asked for too much, the team, perhaps even the League, would have to fold and all the players would be out of a job.

Individual bargaining works in a market where there are both many sellers and many buyers. For most of Howe's career there were only six teams with which to negotiate. Even that did not mean there were six independent buyers bidding for his services. Norris owned the Rangers and the Blackhawks and exercised great influence over Charles Adams, the Bruins' owner, because of loans he made to Adams during the Depression in the early '30s to keep the struggling franchise alive.

Individual bargaining doesn't work if either side doesn't bargain in good faith. Good faith bargaining is based on honesty and trust. Norris promised to pay Howe better than anyone else but failed to honour the bargain. The owners swore all their players to secrecy regarding how much they were paid, so how was Howe to know?

An even greater barrier to the players' ability to negotiate on their own behalf to get the best deal was the standard player's contract. When a team drafted a player (who was usually young and an inexperienced negotiator) and he signed a contract, the player signed away his right to negotiate a contract with any other team in the League for the rest of his life. The only way players could change teams was if their owner traded their contract to another team or if another team purchased their contract. This form of servitude continued in the NHL until 1974, and its effects on the players were not limited to salaries.

Though players were paid only for the six-month hockey season, the contract dictated their lives for the entire year. Players were forbidden to participate in some sports altogether and in others only with the written consent of their club. Their contract committed players to take part "in any and all promotional activities of the club and the League" without pay. At the same time, it prohibited them from making appearances, having a picture taken, or sponsoring products without the written consent of their Club. Most players had no idea what their legal or contractual rights were because they weren't allowed to have a copy of their contract. With permission from their general manager they could look at it, but simply requesting the opportunity made them "troublemakers."

Source: Adapted from *Net Worth: Exploding the Myths of Pro Hockey* by David Cruise and Alison Griffiths. Toronto: Penguin Books, 1991.



## Activity 3.2

Labour markets, in theory, satisfy both the buyer (the producer or owner) and the seller (the worker or player). If this is not the case, no agreement or exchange is made. Episode 1 illustrates that the labour market for hockey players worked for the owners but not so well for the players.

1. Identify specific examples of how the market did not work well for the players.
2. Using this case as an example, explain why a labour market may not work for the employee as well as it does for the employer.

## What is the difference between a monopoly and a monopsony?

A **monopoly** exists when there is just one supplier of a good or service. There are many examples of monopolies whose products we use every day. Many are operated by government and provide such things as electricity, sewage, water, and local bus service. Such monopolies may be the best way to provide a good or service in the least expensive way. Privately owned monopolies such as the local newspaper, bank, or grocery store are often found in smaller centres. Monopolies are sometimes the best way to make large profits because, without competition, the producer can charge a higher price as well as cut costs.



## Activity 3.3

1. List the names of five firms in your area that are monopolies.
2. Many monopolies will have one or more close substitutes. For example, if it's news you want, the local newspaper may have a monopoly, but you can also get news on television, radio, or even over the Internet. They aren't newspapers, but they are close substitutes. Make a list of any close substitutes that exist for each of your monopolies.

A **monopsony** is like a monopoly with one difference. Instead of there being a single seller, there is a single buyer or, in the case of labour, just one major employer. This has a great impact on the market for labour. If there is but one employer in a town, it greatly limits labour's power and freedom of choice in the labour market. A worker must take what is offered, do something else, or move to get work.

Most markets work best when there is competition between many buyers and many sellers. No single buyer or seller is then large or

important enough to be able to influence either the price or the quantity sold. A competitive labour market means that many employers bid against each other for labour. Workers with the most valued skills, experience, and qualities will be in greatest demand and receive the highest wages. High wages provide an incentive for workers to become more productive and to produce what is most needed. The economy's scarce labour resources get improved and used in the best way.

The theory of competitive labour markets is attractive and the logic consistent. In some cases it even works. Think of the market for those with high-tech computer skills. Rising demand increased salaries and employment rapidly in this sector during the 1990s. More recently, conditions changed. Large companies such as Nortel downsized, and many smaller firms disappeared altogether. Layoffs occurred, incomes fell, and workers had to find new employment.

Producers, at least in the private sector, are motivated primarily by profit. Reducing costs and the risks and uncertainties of a competitive market are among the best ways to increase profit. One of the best ways to do this is to eliminate, or at least control, competition. This is particularly true for large firms that must invest heavily in capital resources. Mergers and takeovers have reduced the number of competing firms in many industries. Canada's Competition Act attempts to protect fellow competitors and consumers from those who seek or use monopoly power to unduly limit the power of a competitive market.

The Competition Act, however, offers labour no protection as it does not apply to firms that act as monopsonists. It is no coincidence that labour unions are concentrated in those economic sectors where there are just a few large employers competing for workers. How else can labour maintain some power to negotiate wages, benefits, and conditions of work if it does not bargain collectively? It has been called a "countervailing" power and justified as necessary to restore some competitive balance in a labour market where there is one or few employers. It is a power entirely defined and dependent upon the legislation passed by Canada's federal and provincial governments.



### Activity 3.4

A worker's employment opportunities are influenced by many factors. The structure of the local labour market may impose limits on workers especially when employment depends upon one or more local monopsonists. How many buyers exist for different types of workers in your local labour market?

Conduct the following survey with at least five employed people in different occupations and working for different employers in your community. This may be done individually or shared with a group. [Note: Define your local labour market as one within a reasonable daily commute from where you are now living.]

1. Are you currently represented by a union or association that establishes rates of pay, fee schedules, and/or conditions of work for those in your occupation?

- Person #1       No             Yes
- Person #2       No             Yes
- Person #3       No             Yes
- Person #4       No             Yes
- Person #5       No             Yes

2. Assume, through no fault of your own, you lost your current job. How many local employers *could* you contact in search of a similar job?

- Person #1       None         One         A Few       Many
- Person #2       None         One         A Few       Many
- Person #3       None         One         A Few       Many
- Person #4       None         One         A Few       Many
- Person #5       None         One         A Few       Many

3. Is it likely these employers would have a similar job to offer?

- Person #1       No             Perhaps       Yes
- Person #2       No             Perhaps       Yes
- Person #3       No             Perhaps       Yes
- Person #4       No             Perhaps       Yes
- Person #5       No             Perhaps       Yes

4. How many local employers could you contact that might offer you a different job but one that you are qualified to do and that offers the possibility, in time, of similar salary and working conditions?

- Person #1       None         One         A Few       Many
- Person #2       None         One         A Few       Many
- Person #3       None         One         A Few       Many
- Person #4       None         One         A Few       Many
- Person #5       None         One         A Few       Many

5. Is it likely that any of these employers would have such a job to offer?

- Person #1       No             Perhaps             Yes
- Person #2       No             Perhaps             Yes
- Person #3       No             Perhaps             Yes
- Person #4       No             Perhaps             Yes
- Person #5       No             Perhaps             Yes

6. To what extent is it likely that you would be able to work for yourself doing anything in the local market that would allow you to maintain a satisfactory level of income and working conditions?

- Person #1       Unlikely             Somewhat Likely             Very Likely
- Person #2       Unlikely             Somewhat Likely             Very Likely
- Person #3       Unlikely             Somewhat Likely             Very Likely
- Person #4       Unlikely             Somewhat Likely             Very Likely
- Person #5       Unlikely             Somewhat Likely             Very Likely

The purpose of the survey is to analyze the local employment choices and opportunities different types of workers have in your community. After you have summarized your data, join with other individuals or groups in your class to analyze:

- the degree to which the demand for different types of workers in your community depends on one or more employer;
- the opportunity for each type of worker to find other comparable employment of any kind in your local labour market; and
- the bargaining power that different individual workers have in different occupations in your local labour market.

Conclude by summarizing the factors that tend to increase the power of the individual worker to negotiate with employers.

## Glossary

**Capitalism:** An economic system in which government has a limited economic role. Most economic resources, goods, and services are privately owned, and the owners of capital resources have great wealth and power. Most economic decisions are made by individual buyers and sellers using a system of prices established in markets.

**Cottage industry:** A method of production that was carried on in the homes of the workers that used labour and relatively simple, inexpensive capital resources (for example, spinning wheel, hand loom).

**Factory system:** A method of production that replaced labour with a great deal of capital resources such as sophisticated machinery in a centralized location or factory in order to mass produce.

**Guilds:** Medieval organizations of craftsmen or merchants that did things such as set standards of quality and terms and conditions of work, train workers, influence local authorities, and control competition.

**Monopoly:** The condition in a market where there is only one supplier.

**Monopsony:** The condition in a market where there is only one buyer.

