

## GLOBALISATION MEANS JOB LOSSES FOR UNIONISED LABOUR

Unionised workers stands to lose from globalisation, according to research by **Kjell Erik Lommerud, Frode Meland** and **Lars Sørgard**. But their analysis, published in the October 2003 *Economic Journal*, indicates that the problem will be job losses rather than wage cuts.

An anti-globalisation crusader may conclude that this is an argument against trade liberalisation. A right-wing twist is to argue that union power is more hurtful to an economy when the global economy gets more integrated.

Many take for granted that trade liberalisation threatens the welfare of unionised labour. But the conventional wisdom sees the threat as being wage cuts; these researchers see a more mixed picture, arguing that the problem is more one of job losses.

It is clear that high wages for unionised labour may trigger capital flight, where firms move production abroad. More surprisingly, the research finds that trade liberalisation as such may lead to even more capital flight. This is a surprise because we would expect trade liberalisation to favour exports rather than moving production abroad.

Moreover, the researchers find that the capital flight can be larger than what is ideal from a national welfare perspective. The reason is that firms invest abroad to win the distributional battle with unions in their home country. Moving some production abroad means that some high paid workers at home are replaced by some low paid workers abroad. But the workers that are able to keep their jobs in the unionised home country may actually get higher wages than before the capital flight.

The research extends work by Robin Naylor of the University of Warwick on trade liberalisation and wages. His analysis notes that firms with market power tend to keep output down to keep prices up. If reduced trade costs (from liberalisation) increase the degree of competition in an international oligopoly, this is bad for the firms involved, but their workers may profit. Increased competition means higher sales volumes: each firm loses in its home market, but the loss is more than offset by sales in the foreign market. Labour demand can therefore be expected to increase, which gives a union the chance to have both higher wages and higher employment.

The analysis in this study looks at trade liberalisation in a unionised international oligopoly. Unions are assumed to be strong in the 'home country' but not in the 'foreign country'. The focus is on capital flight. At a fixed cost, a firm can relocate production for the foreign market to that country. At a higher fixed cost, the whole production can be moved abroad.

In this set-up, things look much less rosy for unionised labour. Trade liberalisation leads to higher sales abroad, and if this production took place at

home, wages would be driven up. But this means that it becomes more profitable to shift parts or the whole of productive capacity abroad.

This is an inefficiency: precisely when it becomes more cost-efficient to serve international markets from a home base, production moves out – so that owners can win a distributional battle with their labour force.

ENDS

**Notes for Editors:** 'Unionisation, Trade Liberalisation and Location Choice' by Kjell Erik Lommerud, Frode Meland and Lars Sørsgard is published in the October 2003 issue of the *Economic Journal*.

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