The 2003 Don Wood Lecture in Industrial Relations

Globalization and North American Integration: Implications for the Union Movement

Leo W. Gerard

International President
United Steelworkers of America

ISBN: 0-88886-547-3

Printed and bound in Canada

Industrial Relations Centre
Queen's University
Kingston, Ontario
Canada K7L 3N6

Publications' Orders: 613 533-6709

National Library of Canada Cataloguing in Publication

Gerard, Leo W
Globalization and North American integration : implications for the union movement/Leo W. Gerard.

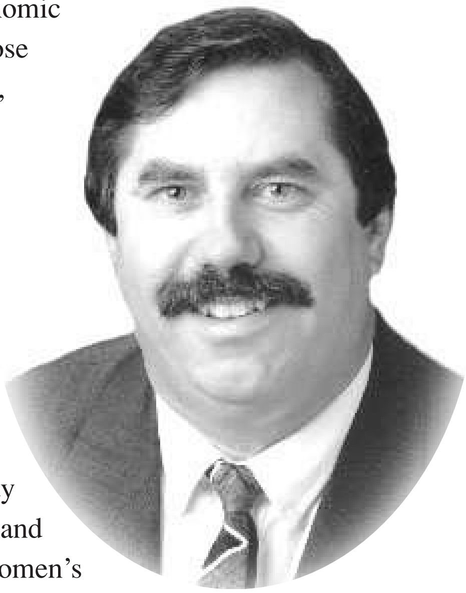
(2003 Don Wood lecture in industrial relations)
Includes bibliographical references.
ISBN 0-88886-547-3

1. Labor unions and international relations—North America. 2. Free trade—North America. 3. Globalization. I. Title. II. Series: Don Wood lecture in industrial relations.

HD6490.F58G57 2003 331.88'097 C2003-904065-8

Contents

Leo W. Gerard, recipient of the 2003 Don Wood Visiting Lectureship in Industrial Relations, was born in Sudbury, Ont. His father, Wilfred Gerard, was a hardrock miner and key union organizer who instilled in his son basic social democratic values, union principles and a strong sense of social and economic justice. Mr. Gerard began his career at Inco's smelter and rose quickly to become Chief Steward of the reduction section, Local 6500, of the United Steelworkers of America (USWA). He went on to serve for six years as Director of District 6 in Ontario, and became National Director for Canada in 1991. He completed two terms as International Secretary-Treasurer, and in 2001, was sworn in as International President of the 700,000-member USWA. During his union career, Mr. Gerard was instrumental in achieving many landmark labour agreements and legislative changes, including the first indexed pensions for all past, current and future retirees; significant advances in safety and health legislation; the workers' buyout at Algoma Steel; and outstanding victories in occupational health and safety, women's rights, and in organizing the unorganized. He has brought his remarkable resources and fierce determination to Steelworkers' struggles and organizing drives across North America. Mr. Gerard is the driving force behind the Heartland Labor Capital Funds, a network to create conceptual, financial and educational tools for capital strategies that inject the welfare of workers into investment priorities. Mr. Gerard wrote the foreword for *Working Capital*, a book published by Cornell University Press that documents issues regarding current financial investments, and offers an agenda to advance labour's capital strategy. In 1994, Mr. Gerard was awarded an honorary Doctorate of Laws degree from Sudbury's Laurentian University.



Other prominent Don Wood Lecturers have included John Dunlop, Harvard University; Jean Sexton, Laval University; John Fryer, National Union of Provincial Government Employees (NUPGE); Tom Kochan, Massachusetts Institute of Technology (MIT); Nancy Adler, McGill University; Lee Dyer, Cornell University; Robert McKersie, Massachusetts Institute of Technology (MIT); Harry W. Arthurs, York University; Paula Voos, Rutgers University; John Crispo, University of Toronto; and Francine Blau, Cornell University.

Globalization and North American Integration: Implications for the Union Movement

The Rhetoric and the Reality

Globalization, its advocates promised two decades ago, would be the rising tide to lift all boats. Lowering barriers to trade, and especially to cross-border investment, would bring vitally needed capital and cutting-edge technologies to less-developed economies. At the same time, the evangelists of unregulated trade predicted, rapid growth of international trade and finance would create an ever-expanding pool of good jobs in the developed nations—a "New Economy" that would spread wealth and progress to the farthest reaches of the earth.

The prophets of this new world order claimed the so-called efficiencies of the global market would create the best of all possible worlds, a new millennium of peace and prosperity for all. The invisible hand of the marketplace would automatically determine everyone's best interests. Multilateral trade pacts and international financial institutions—the World Trade Organization (WTO), the World Bank and the International Monetary Fund (IMF)—would ensure fairness, while regional blocs such as the North American Free Trade Agreement (NAFTA) would break down supposedly archaic national differences—and borders—by increasing trade, co-operation and wealth.

Unfortunately, the harsh economic reality that confronts working men and women across the globe hardly matches these pie-in-the-sky dreams. The global trade regime as it exists today is—in the carefully hedged words of *The New York Times*—"an economic temptress, promising riches but often not delivering." Joseph Stiglitz, former chief economist at the World Bank and winner of the Nobel Prize in economics, is more direct. In all but a few countries, he writes, "globalization has brought huge benefits to a few with few benefits to the many." Financier George Soros adds that "global financial markets have created an uneven playing field that cannot be sustained." Free trade's cheerleaders routinely dismiss such evaluations as anti-capitalist rhetoric. But, while some of the more outlandish fantasies printed on the editorial page of *The Wall Street Journal* might express disagreement, the *Times* really doesn't have much in common with an anarchist leaflet calling for the overthrow of "korporate Amerika." And the last time I checked, neither Stiglitz nor Soros were among the small handful of people arrested for smashing Starbucks' windows in Seattle.

In fact, the market fundamentalists who claim that new capital markets and free trade brought an "unprecedented increase in world living standards" to the less-developed world since 1950 prove their point in exactly the same way that Enron Corp.'s accountants demonstrated their company's remarkable profitability—by cooking the books.

These corporate globalizers conveniently "forget" that before 1980, virtually every nation in the Third World, as it was called then, was either a socialist or welfare state with an activist industrial policy. They all used some combination of public investment, subsidies, high tariffs and other forms of government intervention to promote capital accumulation, protect the development of domestic industries, ensure a favourable balance of trade and build the infrastructure necessary for industrialization.

Market fundamentalists prove their point in exactly the same way that Enron's accountants demonstrated their company's profitability—by cooking the books

Not surprisingly, most of the progress cited by the evangelists of capital markets and free trade occurred before globalization, when practically all developing nations were using the same methods of economic development pioneered by Britain, Canada, the United States, Germany and other European nations in the eighteenth and nineteenth centuries.

The results speak for themselves. In the two decades before globalization—from 1960 to 1980—per capita income grew 73 per cent in Latin America and 34 per cent in Africa. Since globalization has taken hold, Latin American growth—which averaged nearly four per cent per year for the previous 20 years—has come to a virtual standstill, increasing less than six per cent in the past 20 years. African incomes declined by 23 per cent in the same time period, wiping out nearly all the gains made prior to globalization.

Meanwhile, the gap between the world's rich and poor—which had been steadily narrowing since the Second World War—has widened into a gulf since the advent of globalization. For example:

- In 1980, median income in the richest 10 per cent of countries was 77 times greater than the poorest 10 per cent. By 1999, it was 122 times as great.
- In the five years between 1988 and 1993, the real income of the poorest five per cent of the world's population decreased by 25 per cent.
- Since 1987, poverty has tripled in Eastern Europe and Central Asia.

- In 1998, the assets of the world's three richest people were greater than the total Gross Domestic Product (GDP) of all the least-developed countries combined.
- According to Merrill Lynch's *World Wealth Report 2001*, 7.2 million "high-net-worth individuals" had combined financial assets of $27 trillion in 2000—nearly equaling the entire world's GDP of $31 trillion.

But globalization's worst horror story may be the "shock therapy" crammed down Russia's throat by the U.S. Treasury and the IMF in 1995—so-called free-market reforms that restructured the Russian economy straight into a depression, and half the nation's population into abject destitution.

Privatization by fire sale gave away Russia's productive assets to a corrupt new oligarchy, sent much of the nation's wealth into overseas investments and Swiss bank accounts, crippled consumption and slashed GDP by 30 per cent. For a long time, Russian iron ore miners were paid in barter, if they were paid at all. And they were the lucky ones, because the only growth in the economy was in the number of people in poverty, which increased 3,000 per cent.

Globalization's worst horror story may be the "shock therapy" crammed down Russia's throat—so-called free market reforms that restructured the economy straight into a depression

Russia's new oligarchs were able to spirit their new wealth out of the country because of something called capital market liberalization—probably the only liberalism that Wall Street doesn't despise.

In theory, this IMF policy allows capital to flow into and out of a country freely. It's what Stiglitz calls "hot money"—it's hot because it flows in fast for speculative investments, and flows out even faster at the first whiff of trouble. The results? Financial instability, spectacular booms and even more explosive busts: the East Asian Crisis, economic collapse in Russia, Argentina and Ecuador, instability and potential crisis in Brazil, and global recession.

To make matters worse, the IMF's "solution" for seducing foreign investors to return a country's own capital funds after they've flown the coop is to force these countries even further into debt by negotiating "bailout" loans at ludicrously high interest rates. High interest, in turn, demolishes property values, savages industrial production, drains national treasuries and indentures entire nations to Western banking interests.

It doesn't take long for the red ink to spread across the entire balance sheet, leading to increasingly strident demands for austerity from the IMF—deeper and deeper cuts in social services and the fire-sale privatization of government assets and services.

These are the conditions in which North American integration is supposed to take place. And, thanks to NAFTA, Canada fits right in.

Two years ago, when organizers for the Summit of the Americas in Quebec City were building a wall to keep protestors out, Canada's corporate giants were buying access to global leaders by shelling out as much as half a million dollars to sponsor events. The prime minister called it business as usual, and claimed that corporations weren't buying influence—they just wanted to "make Canada look good."

Well, according to Statistics Canada, here's how good they made our nation look that year:

- The rich are getting richer: the top 20 per cent of families saw their net worth increase by 39 per cent in the 15 years between 1985 and 2000.
- The poor are getting poorer: at the turn of the century, the bottom 10 per cent of families had a negative net worth—minus $2,100 on the average—meaning they actually owed more than they owned.
- Wealth is becoming more concentrated: the top 10 per cent of families control about half of our nation's wealth.

Canada is not as bad as the United States, where the top 10 per cent control two-thirds of the wealth. But with globalization, we're fast moving in that direction

This is not as bad as the United States, where the top 10 per cent control two-thirds of the wealth. But with globalization, we're fast moving in that direction.

And what does that mean, besides a growing gap between rich and poor, a gap that's being reinforced by globalization at every turn?

The Costs of Globalization

The United States has set a new record for corporate bankruptcies in each of the last three years. At least once every two days from January 1, 2001 to the present, a U.S. company with more than $100 million of assets has filed bankruptcy—more than 400 corporations with total assets of around $565 billion, close to five per cent of the GDP of the United States. In personal bankruptcies, America set a record in 2002—1.5 million individuals had to declare personal bankruptcy. That record beat a record set in 2001, when 1.4 million individuals filed personal bankruptcy.

The human cost is horrifying: jobs destroyed, pensions and health care coverage wiped out, communities devastated. But it's all part of "business as usual" in twenty-first century America.

Why such devastation in the world's wealthiest economy? Some economists have a name for it. They call it creative destruction. They've obviously never been on the receiving end—there's nothing creative about it, and it all has a cost:

- Nearly 2 million American manufacturing jobs have been wiped out in the past two years.
- Home mortgage foreclosure rates are the highest in 30 years—lenders foreclosed on 135,000 family home mortgages in the second quarter of last year alone.
- There have been record trade deficits nearly every year—an astounding $435.2 billion in 2002, a 22% increase from the year before.

Two decades ago, the United States was the world's largest creditor nation. Today, it's by far the world's largest debtor, borrowing or selling off assets at the record rate of $1 million a minute.

And the days when the U.S. imported mainly raw materials and basic commodities while producing sophisticated, high-value-added goods for export are long gone.

Last year, Americans paid $28 billion more for imported computer equipment than they earned from exports. And the deficit extends across the spectrum of advanced technology products—communications equipment, high-end machine tools, medical equipment.

Trade now undermines, rather than benefits, the U.S. economy. America now exports jobs and technology, not products, as company after company sets up offshore "production platforms" in places such as China—a race to the bottom to find the lowest labour costs and the least regulation.

Company after company sets up offshore "production platforms" in places such as China—a race to the bottom to find the lowest labour costs and the least regulation

But CEOs are doing better than ever. According to *Fortune* magazine, the average real compensation of the nation's top 100 CEOs has increased nearly 3,000 per cent, from $1.3 million dollars—39 times the pay of an average worker—to $37.5 million, more than 1,000 times what an average worker makes. As a result, the gap between rich and poor is now bigger than at any time since the Great Depression.

Wages were stagnating while corporate profits were booming in the 1980s and 1990s. Now we're in the midst of a global recession with no hint of improvement anytime soon.

In most of the rest of the world, governments attempt to mitigate the recession's pain as much as they're able. But in the United States, social policy lags far behind the rest of the world. And these aren't just the concerns of humanists and labour leaders. They're increasingly the concerns of realists in the manufacturing sector of the U.S. economy.

We are one of the most important and diverse unions in North America. When I talk to our members, whether I'm in Sudbury, or Toronto, or Montreal, or Baltimore, or Chicago, I say to them, "Tell me which sector of our economy is doing well." Is mining doing well? Is pulp and paper doing well? Is the electronics industry doing well? Is the tire and rubber industry doing well? Is the aluminum industry doing well? Somebody tell me an industry that's doing well in this global economy in North America.

In the last two years, the Steelworkers union in the U.S. has had 40 represented companies file bankruptcy and 17 go into liquidation, resulting in close to 200,000 retirees losing their health care

The health care and pension burdens placed on American manufacturers put them at a serious disadvantage in the global marketplace. In the U.S., your access to health care is directly related to your employer's ability to pay for it. It's bad if you lose your job in Canada, but you still have health care. In the U.S., if you lose your job, you can lose your health care. In the last two years, the Steelworkers union in the U.S. has had 40 represented companies file bankruptcy and 17 go into liquidation, resulting in close to 200,000 retirees losing their health care. As long as health care for active employees and retirees remains the exclusive burden of the private sector, American business—even executives with a commendable sense of social responsibility—will be forced to respond to a set of criminally perverse economic incentives.

In the United States, corporations and CEOs are rewarded for moving jobs offshore, for laying off workers, for terminating pension plans and retiree health care coverage, for ravaging the environment and for violating workers' fundamental human rights—especially the right to organize and bargain collectively with their employers. In its present form, NAFTA would extend those perverse incentives throughout the North American continent.

That is the twisted logic that now governs the process of North American integration. Reversing it is the challenge placed before the labour movements of Canada, Mexico and the United States—and, since our political leaders seem determined to duplicate the most objectionable features of NAFTA in the Free Trade Area of the Americas, before unions in Central and South America as well.

Two decades ago, the threat to move production to Mexico was the all-purpose tool of anti-union employers in the United States, used to derail organizing drives, force wage and benefit concessions, speed up production and erode working conditions. But that was just the beginning of globalization's seemingly endless race to the bottom.

Even before NAFTA's passage, businessman Ross Perot described it as "the giant sucking sound" of U.S. manufacturing jobs being pulled to Mexico.

Well, Perot's giant sucking sound is still with us, according to a recent article by William Greider in *The Nation*, only this time, he says, it's "China sucking away Mexico's jobs. And jobs from Taiwan and South Korea, Singapore and Thailand, Central and South America, and even from Japan."

"This," Greider adds, "is the 'treadmill' that ensnares developing countries . . . If they attempt to boost wages or allow workers to organize unions or begin to deal with social concerns like health or the environment, the system punishes them. The factories move to some other country where those costs of production do not exist."

Unless we rise to the challenge, it could also be the sound of NAFTA sucking away national health care from Canada's workers and retirees, calling health care a "subsidy" or a "non-tariff trade barrier" or some other cost-cutting code word, instead of something that any civilized society should be ashamed not to provide to its entire population, regardless of age, occupation or social status.

Two decades of so-called free trade, of union busting, of increasing disparities of wealth within and between nations have created a new global oligarchy

The Challenge Ahead

Two decades of so-called free trade, of union busting, of increasing disparities of wealth within and between nations have created a new global oligarchy, an oligarchy that's amassed increasingly obscene levels of wealth the old fashioned way—by stealing it:

- stealing it from manufacturing workers whose jobs are exported to the most exploited corners of the globe;
- stealing it from workers whose defined benefit pensions were replaced with Enron-style 401(k) plans—a "simple" change that has one in five Americans headed for poverty in retirement;
- stealing it from developing countries whose economies are bludgeoned by the IMF to service monstrous levels of debt, crippling needed social services and plunging ever-larger segments of their societies into poverty;
- stealing it from the sick and injured, whose health is held hostage by the sacred patent "rights" of giant pharmaceutical conglomerates.

For two years, our headlines have documented the schemes and the scams and the slime oozing from the diseased underbelly of global financial interests and multinational corporations:

- The massive transfer of wealth to the world's richest one per cent, creating a new global oligarchy of power and privilege.
- The transformation of U.S. politics—flawed on its best days—into a game-show contest to finance the astronomical cost of election campaigns.
- The pervasive corruption of corporate governance, accounting and oversight to suborn compliant audits and favourable stock analyses with lucrative consultancies and investment banking fees.

My favorite Republican, Kevin Phillips, wrote that "the imbalance of wealth and democracy is unsustainable."

Our society became more just because people of goodwill recognized injustice and stood against it.

In the past, this imbalance has been redressed by a renewal of democracy—by social movements that fought for, and won laws to regulate corporations, protect the rights of workers and consumers, compensate laid-off workers and those injured on the job, defend the civil rights of all citizens, create social security and old-age pensions, stabilize the economy and cushion working people from the worst ravages of the business cycle.

Our society didn't become more just, more equitable and more democratic as a result of the so-called free market. It became more just, more equitable and more democratic in spite of the free market—because people of goodwill recognized injustice and stood against it.

The current course of globalization and North American integration presents a similar challenge to our generation—made even more urgent by the new corporate oligarchy's unprecedented levels of wealth and arrogant belief in its own destiny.

Like musician Jim Morrison, or a gang of two-year-olds running loose in a candy store, they want the world and they want it now—a new world order of corporate domination and free-booting, Rambo capitalism.

It took a national movement at the turn of the last century to curb the excesses of a newly expanded national economy, and it will take a global movement for democracy and social justice to cure the ills of the new global economy, a movement:

- that challenges the idea that markets should be the determining factor in all human endeavour;
- committed to a more equitable distribution of the world's wealth;
- that supports the preservation of our environment;
- which believes that hard work should be rewarded—not just at the top, but at the bottom also; and not just here at home, but in every nation of the world;
- which understands that a global economic system can, and should, benefit everyone—not just the very few who now control it.

To quote Kevin Phillips once more: "Either democracy must be renewed, with politics brought back to life, or wealth is likely to cement a new and less democratic regime—plutocracy by some other name."

Either democracy must be renewed, with politics brought back to life, or wealth is likely to cement a new and less democratic regime—plutocracy by some other name

That, in a nutshell, is the most serious implication of globalization and North American integration—not just for the labour movement, but for every citizen on our continent.

Sources

Campbell, Bruce. “False Promise. Canada in the Free Trade Era,” in *NAFTA at Seven: Its Impact on Workers in All Three Nations*. Washington: Economic Policy Institute, 2001.

Faux, Jeff. “Rethinking the Global Political Economy.” Washington: Economic Policy Institute, 2001.

Greider, William. “A New Giant Sucking Sound.” *The Nation*, December 31, 2001.

Hebb, Tessa. “Let the Sunlight In.” *Public Policy Forum*, Vol. 4, Number 1, Winter 2002-2003.

Kahn, Joseph. “Globalization Proves Disappointing.” *The New York Times*, March 21, 2002.

Klein, Naomi. “The Rise of the Fortress Continent.” *The Nation*, February 3, 2003.

Krugman, Paul. “Plutocracy and Politics.” *The New York Times*, June 14, 2002.

Lee, Marc. “The Future of Industrial Policy in a Globalizing World: What are the Options?” Ottawa: Canadian Centre for Policy Alternatives, October 2002.

Lee, Marc. “The Global Divide—Inequality in the World Economy.” Ottawa: Canadian Centre for Policy Alternatives, April 18, 2002.

Palast, Gregory. “The Globalizer Who Came In From the Cold.” *The Observer*, London: October 10, 2001.

Phillips, Kevin. “Market Extremists Amok, and How Best to Dethrone Them.” *The American Prospect*, Vol. 13, Issue 13, July 15, 2002.

Salas, Carlos. “The Impact of NAFTA on Wages and Incomes in Mexico,” in *NAFTA at Seven: Its Impact on Workers in All Three Nations*. Washington: Economic Policy Institute, 2001.

Scott, Robert E. “b v ’s Hidden Costs,” in *NAFTA at Seven: Its Impact on Workers in All Three Nations*. Washington: Economic Policy Institute, 2001.

Soros, George. “Busted. Why the Markets Can’t Fix Themselves.” *The New Republic*, September 2, 2002.

Stiglitz, Joseph E. “Corporate Corruption: The Conflicts of Interest Driving U.S. Financial Scandals are Being Replicated on a Global Scale.” *The Guardian*, London: Guardian Newspapers Ltd., July 5, 2002.

Stiglitz, Joseph E. “Globalism’s Discontents.” *The American Prospect*, Vol. 13, Issue 1, January 1-14, 2002.

Weisbrot, Mark, Dean Baker, Egor Kraev and Judy Chen. “The Scorecard on Globalization 1980-2000: Twenty Years of Diminished Progress.” Washington: Center for Economic and Policy Research, 2001.

Don Wood Visiting Lectureship in Industrial Relations

1987 John Dunlop
Harvard University
Industrial relations: Old and new

1989 John Sexton
Université Laval
Are Quebec labour relations so different?

1990 John Fryer
National Union of Provincial Government Employees (NUPGE)
The Canadian labour movement in the 1990s: Challenges and opportunities

1991 Thomas Kochan
Massachusetts Institute of Technology
Innovations in industrial relations and human resources: Prospects for diffusion

1992 Nancy Adler
McGill University
Human resource management in the global economy

1993 Lee Dyer
Cornell University
Human resources as a source of competitive advantage

1995 Robert M. McKersie
Massachusetts Institute of Technology
Labour-management partnerships: Promise and challenge

1996 Harry Arthurs
York University
The new economy: The demise of industrial citizenship

1998 Paula Voos
Rutgers University
Changing labour markets: Implications for industrial relations

1999 John Crispo
University of Toronto
Looking backward and forward: Can industrial relations stand the test of time?

2001 Francine Blau
Cornell University
The gender gap: Going, going … but not gone

2003 Leo W. Gerard
United Steelworkers of America
Globalization and North American integration: Implications for the union movement

The Don Wood Visiting Lectureship in Industrial Relations was established in 1987 by the many friends of Dr. W. Donald (Don) Wood. It honours his role in building an outstanding research, teaching and continuing education program at Queen's, and recognizes his accomplishments in the wider industrial relations community. Dr. Wood was Director of the Industrial Relations Centre from 1960 to 1985, as well as the first Director of the School of Industrial Relations from 1983 until 1985. Over his long and distinguished career, Dr. Wood's efforts served to bridge the gap between the academic world and the policy and practice of industrial relations in Canada. In keeping with these achievements, the terms of the Lectureship expressly state that its purpose is to bring to Queen's University "a distinguished individual who has made an important contribution to industrial relations in Canada, or in other countries."