## 1AC

### Unions Advantage---1AC

#### The advantage is Unions:

#### Inequality is rampant and increasing.

Keith Sisson 24. Emeritus Professor at the University of Warwick. "Introducing sectoral bargaining in the United Kingdom: Why it makes sense and how it might be done." Industrial Relations Journal, Vol. 55, Issue 6. 8-28-2024. https://onlinelibrary-wiley-com.proxy.library.emory.edu/doi/10.1111/irj.12444

One of the main reasons for the growing policymaker interest in and support for collective bargaining arises from concerns about inequality. Beginning at the turn of the millennium, a raft of international bodies joined the OECD in highlighting the knock-on effects for society at large in terms of a sense of social injustice, inefficiency and impediments to growth: they include the International Monetary Fund, the United Nations and the World Bank.14 Especially worrying for many commentators have been the political and economic implications of inequality. In The World Bank's (2018) words:

persistent unfairness and growing inequality between groups - rather than individuals - are insidiously corroding social cohesion. Tensions between workers, between generations, and between regions have been increasing. Insecurity, unfairness, and growing tensions among groups have also led to perceptions of increases in overall inequality and influence demands for corrective actions. Fissures in the social contract are becoming more evident. Losers from the distributional tensions - young cohorts, routine task-intensive and low-wage workers, inhabitants of lagging regions - choose to voice their discontent by supporting extreme political movements and parties or choose to exit the social and political dialogue altogether.

The OECD uses two main measures to make overall international comparisons of inequality, the up-to-date figures being found in the respective links. One is the dispersion of earnings (OECD, 2024a): low pay is defined as below two-thirds of median hourly earnings and high pay as more than 1.5 times median hourly earnings. The other is the ‘Gini’ coefficient (OECD, 2024b). This is a single figure measure that condenses the entire household disposable income distribution into a single number between zero and one: the higher the number, the greater the degree of income inequality.

The OECD (2024c) also has a measure of the gender wage gap. This is the difference between the median earnings of men and women relative to the median earnings of men, the data referring to full time employees: the higher the number, again, the greater the degree of gender inequality.

On all three measures, inequality is greater in the United Kingdom and the United States than it is in comparable countries. For example, looking at just the Gini coefficient will show that, of the 38 countries listed by income inequality, the United States was ranked fifth and the United Kingdom eighth. It is hardly a coincidence. Simply put, inequality can be correlated with the structure of collective bargaining—the more decentralised the bargaining, the greater the inequality and vice versa.

As long ago as 2004, in its Employment Outlook: Chapter 3, ‘Wage setting institutions and outcomes’, the OECD was suggesting that:

high union density and bargaining coverage, and the centralisation/co-ordination of wage bargaining tend to go hand-in-hand with lower overall wage inequality.

At the individual level, there is a wage premium for employees who are covered by firm-level bargaining compared with those not covered or those covered only by sector bargaining while wage dispersion is on average smallest among workers who are covered by sector-level bargaining compared with systems based on firm-level bargaining only.15

In other words, because it is multi-employer in coverage, sector bargaining benefits both unionised and non-unionised employees. Single-employer bargaining benefits only employees in companies recognising trade unions.

Also implicit in the results from the OECD's two main measures of inequality is that sector bargaining does not just involve redistribution of earnings within sectors. It is also associated with redistribution between sectors.16

#### That endangers social trust, democracy, and growth.

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American Troubles

Even before COVID-19 and the inadequate government response to it drove unemployment to double-digit rates, placed massive new strains on households, and made work much more dangerous, the US economy was not working for most people. Though the basic facts of the long-standing economic problems are relatively well known, they are still shocking. The percentage of jobs with good wages and benefits has been falling for decades.2 Children can no longer count on doing better than their parents: the typical thirty-year-old today makes roughly the same as a thirty-year-old in the 1980s, adjusting for inflation, even though today’s generation is much more highly educated, our economy more productive, and our country richer. 3 Workplace laws are routinely violated by some of the largest companies in the United States, with one estimate indicating that more than two-thirds of low-wage workers received less in pay than they were legally entitled to.4

About half of private-sector employers compel their workers to sign forced arbitration agreements, which prevent workers from going to court if their employer breaks the law and directs them into an arbitration process that heavily favors companies.5 Roughly two in five workers have been forced to sign a noncompete agreement at some point in their career— meaning they cannot work for a competitor, even though many do not have any trade secrets—including low-wage workers doing things like making sandwiches at fast food franchises.6 Workers increasingly are coerced into supporting their bosses’ political agendas, with one in five workers having felt pressured to advocate for their employers’ favored policies and politicians.7

Wages for the typical American worker, after adjusting for inflation, have hardly increased in over four and a half decades. In fact, wages for the median male worker are the same today as they were in 1973. 8 Women’s wages have slightly increased since then, but they are still well below male wages, and the pay gap between black and white workers has actually grown over recent decades.9 Wealth gaps are much bigger than pay gaps: compared to the median white family, the median black family has onetenth the wealth and the median Hispanic family just 12 percent the wealth.10

Over the past four decades, the overall economy has grown significantly, and workers have become much more productive.11 But most workers have received little of the gains they help create. Only the very rich have seen significant income gains over recent decades.12 The share of the nation’s income going to the top 1 percent is now near record highs, while the share that goes to the middle class is near record lows. The top 1 percent have more of the nation’s wealth than the middle class, while the bottom 50 percent have virtually no wealth. Almost half of American households have less wealth now than the typical household did in 1970.13

Not so long ago—between World War II and the mid-1970s—economic inequality in the United States was much lower and shrinking as incomes for poor people and the middle class rose more rapidly than those of the rich. But now economic inequality has risen to such extreme levels that some comparisons are necessary to help put them in context. In the early 1970s, the typical CEO made about twenty-two times more than the typical worker did, while today CEOs make over three hundred times more than the typical worker. 14 To visualize this difference, imagine an apartment building with the CEO in the penthouse and the typical worker on the ground floor. In the 1970s this twenty-two-story building would not have been out of place in most US cities, but today it would be taller than three Empire State Buildings.

Not only is inequality extreme by US historical standards, inequality in the United States is much higher than in every other wealthy democracy. The wealthy democracy with the most similar levels of inequality to the United States is Great Britain, but in Britain the share of the nation’s income going to the top 1 percent is still much less than that of the United States.15 In other rich democracies, the share going to the top percent is well less than half that of the United States. In fact, the overall level of US inequality is most comparable to places like Saudi Arabia, Peru, Guyana, and Thailand.16

At some level, the United States is suffering from a basic problem of modern capitalism. Capitalism is extremely productive when it works well, promoting economic growth as well as freedom. But unless the market is properly managed it tends to destabilize and undermine the political and economic conditions necessary for its success. Poorly managed capitalism leads to great concentrations of power, leaves many people behind, and destabilizes communities, which ultimately undermines democracy, freedom, trust, and markets themselves. Unfortunately, the current version of US capitalism is not conducive to democracy. 17

That the nearest inequality neighbors to the United States are not stable democracies is worrying, as are the patterns from US history showing how democracy suffered greatly during other extremely unequal eras. During the Gilded Age in the late 1800s and early 1900s, when inequality was very high, for instance, wealthy corporations controlled government actions to such a degree that former president Rutherford B. Hayes wrote in his diary, “This is a government of the people, by the people and for the people no longer. It is a government by the corporations, of the corporations, and for the corporations.”18 Similarly, the pre–Civil War South was one of the most unequal societies in the world, with less than 1 percent of slaveholders owning one-quarter of US enslaved people.19 At the time, rich plantation owners used their wealth to dominate not only African Americans but also white citizens, doing things like requiring very high levels of property ownership to hold elected office, refusing to update state voter rolls to reflect the growing population areas, and changing state constitutions to lock in their power. 20 The majority of southern whites wanted things like “roads, schools, and other mundane public services,” as the historian Robin Einhorn wrote, but “slaveholders simply would not allow nonslaveholding majorities decide how to tax.”21

Similar trends of inequality undermining democracy are apparent in the United States today. Academic studies find that Congress generally ignores the desires of the middle class and the poor but is highly responsive to the interests of the rich.22 Furthermore, nearly two-thirds of Americans now think that “quite a few” government officials are “crooked,” while just one-third felt this way in the early 1970s.23 The share of the public trusting government “most of the time” or “just about always” fell from 77 percent in 1964 to just 17 percent in 2019.24 The number of corruption convictions have quadrupled over the past four decades, and the number of special-interest tax breaks have tripled. In contrast, public spending, as a share of the economy, on basic infrastructure that the public wants and needs, like roads and bridges, has fallen sharply. 25

A big reason why high levels of economic inequality corrupt government is because the rich have so much more money to spend—and a strong desire to protect their wealth.26 This is clearly happening in the United States. Campaign contributions come almost exclusively from the top 1 percent; large corporations spend over sixty times as much on lobbying as unions; most candidates are rich; and elected officials spend much of their time trying to raise money from rich people rather than meeting with constituents.27 Some of the extremely wealthy even appear willing to subvert democracy to preserve their money and power, such as by pushing policies that limit citizen access to the ballot box, gerrymandering electoral districts to prevent voters from choosing their favored representatives, and using the courts to undermine the political process.

Yet extreme inequality harms democracy and society not just because the rich have more money and incentive to override the common good. Extreme inequality causes people to feel powerless and withdraw from the political process.28 Occasionally their anger may lead them into action, such as voting in the 2020 presidential election, but mostly it causes them to participate in political activities less frequently and become less civic-minded.

The hollowing out of the middle class also undermines social trust, which has devastating consequences. As society divides into rich and poor, people become less trusting of others. Extreme inequality causes people to lead separate lives, to have fewer interactions, to feel they have less in common. Trusting others depends on thinking that people you do not know are like you. Inequality makes that feeling less likely. In fact, research finds that the level of inequality in society is the most important societal factor in the overall level of trust in a country. 29 Researchers have shown that inequality shapes trust in a variety of ways. Some studies compare the level of inequality across place and time with how people respond to surveys asking whether they trust strangers. Other studies use laboratory experiments that assess how willing strangers are to cooperate in various games when the level of inequality is varied, and still others perform real-world experiments such as leaving a wallet on the street and seeing if it is returned. 30 All these different methods find that inequality erodes trusting behaviors.

In the middle of the twentieth century, the United States was among the most trusting societies in the world. Americans often thought other people, even those they did not know, would act fairly and decently. But trust has declined precipitously over recent decades and is much lower than in most other advanced countries.31 Growing racial and ethnic diversity has contributed to the decline in trust in the United States because it makes it easier for people to think that others are not like them. Increasing diversity and inequality are both important, but inequality appears to be particularly important. Many other countries have also seen large increases in racial and ethnic diversity over recent decades, but trust has dropped the most in those that have also had large increases in economic inequality, according to research by Professor Christian Larsen. He finds that increases in racial and ethnic diversity do not have very large effects on their own, rather “it is the interaction between ethnic divides and economic inequality that can lower trust levels.”32

A lack of trust makes governing harder and more costly. As inequality rises, the public and their elected representatives become more polarized and less able to compromise.33 They fight harder and longer and are willing to inflict more damage on the other side. Without trust, people are reluctant to work with others—especially other people who do not look like themselves. As a result, lack of trust also exacerbates underlying problems of racism and sexism, making it easier to stereotype and scapegoat. People who do not trust others have less favorable views of groups that are often discriminated against, including African Americans, religious minorities, women, immigrants, and gay people, and are less likely to support policies to help these groups.34

Extreme inequality not only exacerbates political and societal problems, it can also undermine the elements necessary for economic growth and make the economy more fragile and volatile. As inequality has risen, the government has invested less in social goods like infrastructure, people have become less trusting and more defensive in business arrangements, and it has become harder for ordinary people to start new businesses.35 Likely in part because of these problems, economic growth has been slower over recent decades than it was in middle of the twentieth century. Worse, inequality helped contribute to the financial crisis and Great Recession of 2007–9 by providing Wall Street with the money and influence to get rid of government safeguards on banks and encourage regulators to ignore wild financial speculation, while stagnant wages pushed many Americans to borrow to maintain their standard of living.

All told, extreme inequality increases the power of the wealthy, fosters political polarization, degrades the quality of government, weakens social ties, exacerbates racism and sexism, and creates fertile conditions for financial crises and deep recessions.36 Because these problems compound, they can lead to even more serious breakdowns of democracy and society.

In the long run, US democracy may not be able to survive if the hollowing out of the middle class continues. Scholars throughout history— from Aristotle to the framers of the US Constitution to modern political scientists—have observed that extreme class divisions destroy democracies.37 Great class divisions have tended to lead to a takeover of government by the rich or a breakdown of government into a kind of mob role, but a strong middle class helps stabilize democracy by minimizing grievances and providing a buffer between rival camps and competing claims for power. As Aristotle wrote, “the best political community is formed by citizens of the middle class … for the addition of the middle class turns the scale, and prevents either of the extremes from being dominant.”38 Extreme inequality gives great wealth and power to the rich who will go to great lengths to keep their advantages while stoking great resentment in the masses, who have little to lose. Which is why James Madison wrote, “The most common and durable source of factions has been the various and unequal distributions of property.”39 Modern scholars echo this line of thinking. Indeed, law professor Ganesh Sitaraman argues the “number one threat to American constitutional government today is the collapse of the middle class.”40

#### Unequal societies go extinct from climate change, war, and public goods misallocation.

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Climate change

As we learned in Short-term effects, inequality increases a wealthy country’s carbon foot-print. This is a problem. Climate change, as mentioned above, not only reduces well-beingin the medium term, there are also longtermist reasons against it.

First, climate change itself is an existential risk, particularly given uncertainty around its tail-end risks (Ord, 2020: 4; 6). (Although, it is likely not the greatest existential risk(Ord, 2020: 5)).

Second, climate change is likely what Ord calls a ‘risk factor’: increasing or reducing climate change will likely affect the total existential risk, even beyond the probability that climate change itself will cause an existential catastrophe (Ord, 2020: 152). For example, increasing temperatures and more extreme weather imply that the ﬁght for scarce resources such as sweet water will increase over the next decades (Global Peace Index2019: Measuring Peace in a Complex World, 2019). Furthermore, deteriorating living conditions might lead to climate refugees who, in part, will ﬂee to developed countries,which could lead to institutional destabilisation and conﬂict.

Finally, beyond extinction risk, climate change could put us on a suboptimal (non-extinction) trajectory: run-away climate change, for example, might put us on a path we cannot easily leave and which necessitates continuous costly adjustments, such as adapting to repeated ﬂooding and adjusting agriculture to extreme weather irregularities.When aggregating those negative effects across time, those might add up to signiﬁcant long-term costs.

Institutional quality and conflict

It is often argued that a country’s long-term performance depends to a signiﬁcant extenton the quality of its institutions, including its political and legal institutions (Acemogluet al., 2005). Economic research mostly focuses on explaining long-term differences ingrowth rates. As seen above, some researchers argue that high inequality will reduce growth rates, among other things, because it can worsen institutional quality. However, besides facilitating economic growth, public institutions have other functions that matter from a long-term perspective. For example, disaster preparedness, education, public health, foreign policy, science policy, and many other areas could inﬂuence the expected value of the long-term future. If such things go badly, they could increase existential risk. Conversely, good institutions will help reduce existential risk. For many existential risk reduction strategies likely require public goods and collective action, which inturn require good public institutions (among other reasons, because some such public goods are unlikely to be provided by markets). So, it seems reasonable to assume that, with most other societal goals, good institutions can help deliver existential risk reduction. Here is a cheesy analogy: targeted actions like washing your hands regularly orgetting a ﬂu shot can reduce your risk of dying from an infection. But you will also dowell investing in a strong immune system, as that is an ‘all-purpose good’ in lowering your risk of dying from any bacterium or virus. Investing in good institutions might simi-larly be an all-purpose-good: rather than tackling individual sources of existential risk directly, we improve conditions for tackling whatever existential risks may come our way.

There are several reasons why higher inequality could weaken institutional capacities for longtermist public goods.

First, there is some direct evidence that, whatever the causal pathway, inequality reduces institutional quality (which in turn typically leads to more inequality) (Chongand Gradstein, 2007; Savoia et al., 2010).

Second, high inequality can lead to elite capture. Empirical work on studying political and de facto legal power is difﬁcult, yet there is a growing consensus that high levels ofinequality can lead to elite capture and thereby reduce the long-term quality of legal and political institutions (Acemoglu and Robinson, 2008, 2013; Bartels, 2018; Chong andGradstein, 2007; Cummins and Rodriguez, 2010; Savoia et al., 2010; van Bavel,2016). Further, if institutions are disproportionately geared towards elite interests, then they might be less likely to be geared towards positive long-term trajectories. We might see more rent-seeking and less investment in public goods. Moreover, if elite capture is strong enough, such capture, and the potential inequality that comes with it,can intensify going forward (Chong and Gradstein, 2007).

Now, one might object and wonder whether elite interests and longtermist interests will necessarily be misaligned. Could an enlightened elite not even be more longtermist than amore democratic system? Here are two potential arguments. First, wealthy donors fund a signiﬁcant part of research and direct action on existential risk and longtermism (the Open Philanthropy Project, for example). Indirectly, inequality might thus reduce existential risk through suchfunding. Second, rich people might have a lower rate of pure time preference than lesswell-off people, which might make them more aligned with investing in long-term causes.

In response to the ﬁrst argument, remember we here focus on income inequality reductions. Private funding only requires ‘enough’ wealth inequality going forward, it need not require elite capture. And reducing income inequality is unlikely to eradicate the required wealth inequality and the existence of big donors. In response to the second argument, we are sceptical that elite capture would translate a lower impatience rate into longtermist strategies in policy. First off, a successful transmission would require inﬂuence to be systematic and well-coordinated across time and, probably, across different elite actors. Yet lobbying and elite inﬂuence must often capitalise on shorter windows of opportunities,which makes well-coordinated intertemporal policy capture less likely. Second, even if rich people have a lower impatience rate in the sense that they might care more about returns on investment rather than direct consumption, this is quite different from being concerned with the far future. It would be a coincidence if being concerned with getting a good return in the next years (or even decades) on my own investment converged much with policies that protect the interests of far-future people.

Of course, such considerations are speculative. But, in any case, we think that, on balance, there are stronger reasons to believe elite capture would increase – rather than decrease – existential risk. First, elite capture often comes with rent seeking, which lowers institutional quality (Chong and Gradstein, 2007). Second, industries like oil, gas, weapons and others are often concentrated and well organised in exerting influence in law and legislation. Their interests and influence overall are likely to be more short-term than longtermist. Third, recent decades have seen a shift towards a stronger shareholder value orientation in corporate governance. A common criticism of this shift is that it incentivises more short-term decisions. Accordingly, corporate influence into public institutions will likely display short-termist bias too. Finally, we can, of course, imagine that ‘pro-longtermist elite capture’ could happen and gamble on that possibility. However, if strong democratic and legal oversight and the power to check elite influence is lost, we might struggle to reverse our gamble.

Third, high inequality is likely to reduce social capital and trust (Alesina and La Ferrara, 2002; Knack and Keefer, 1997; Rothstein and Uslaner, 2005). Social capital and trust in public institutions in turn are important for effective public goods provision (Beugelsdijk et al., 2004; Knack and Keefer, 1997). Effective public goods provision, in turn, is important for (some) effective measures to reduce existential risk (and, more generally, to coordinate towards more valuable long-term trajectories). Therefore, high inequality could reduce societies’ capacities to effectively respond to large-scale challenges like existential risk.

Finally, some limited direct evidence suggests societies with higher social capital and lower inequality exhibit better preventive and adaptive outcomes for environmental risks and can show greater resilience to external shocks (Kahn, 2005; van Bavel et al., 2018). For example, Matthew Kahn provides some evidence that more equal countries, when controlled for GDP, have significantly lower death rates in natural catastrophes (Kahn, 2005). While smaller natural catastrophes are different from global catastrophic risk scenarios, resilience in such events might be somewhat indicative of societies’ resilience to catastrophic risks.

So, good social and institutional conditions could help reduce existential risk. Consider next how, conversely, bad conditions might increase existential risk. A key driver of existential risk is conflict, both between and within nation-states (or what (Ord, 2020: 175–9) calls a ‘risk factor’). Conflicts and arms races raise human-induced existential risks such as nuclear war, the outbreak of a bio-engineered virus or the launch of misaligned artificial intelligence. Note that an existential catastrophe could be set in motion either purposefully or accidentally. Both are more likely during conflict. Nuclear warheads, cyberweapons, and bioweapons could all be used purposefully to attack enemy states, leading to potential global escalation. But as past nuclear incidents and close calls during the Cold War show, arms races also increase the probability of accidental catastrophes (Schlosser, 2013).

Esteban and Schneider find that formal and empirical evidence suggests that political and social polarisation increases the risk of violent conflict, both intra-nationally and internationally (Esteban and Schneider, 2008). If income inequality increases polarisation, inequality may indirectly drive existential risk. Indeed, recent evidence suggests that income inequality can increase the degree of polarisation between groups of citizens. Bonica et al. find that the degree of polarisation within the US House of Representatives, for example, is accurately tracked by domestic income inequality, with correlation coefficients rising up to 0.95 depending on the chosen time-period (Bonica et al., 2013: 105–8). Of course, correlation does not imply causation and the correlation is likely at least partially the result of reverse causation or a confounding variable. That said, we should assign a non-negligible credence to inequality partially causing polarisation. Moreover, inequality and polarisation might also play some role in getting polarising and populist candidates elected (Piketty, 2018). In a preliminary analysis of US election data, Darvas and Efstathiou find that more unequal states were more likely to vote for Donald Trump, after controlling for variables such as income, race and education (Darvas and Efstathiou, 2016). Populist politicians – like Trump, Bolsonaro, and others – are likely bad news for existential risk reduction. They are less cooperative in delivering regional and global public goods and typically prefer riskier, and more conflictual and nationalistic policy styles.

Differential progress

We have surveyed some reasons why inequality might translate into worse institutional conditions for longtermism. Beyond more formal institutions and avenues for collective action, we might also consider the cultural, moral and informal social norms that could potentially impact existential risk or whose underlying values might get locked in in the future.

The simple idea is that countries that sustain low levels of inequality will foster – and require for their support – a public moral culture that values solidarity and cooperation. More egalitarian policies might in turn move citizens and leaders towards more altruism and stronger regard to moral and social considerations in decision processes. Societies that actively work against income inequality may thereby reinforce broadly ‘pro-social’ social norms. Arguably, more egalitarian attitudes and norms might support public goods provision and favour expanding one's moral circle to other countries and future generations. Countries with high levels of inequality, in contrast, might reinforce norms of competition, individualism, and personal responsibility. Policies that encourage competition and smaller moral circles also seem more likely to attract leaders that value individualism and competition. Indeed, as Wilkinson and Pickett note, more equal societies give more in development aid and score better on the Global Peace Index (Wilkinson and Pickett, 2010: 227). Again, we may wonder whether these relationships are not partially explained by confounding variables or reverse causality. That said, the causal link through social norms and public morality has some intuitive force. If true – and drawing on what we said above – a public commitment to equality might support a public moral culture that values solidarity and cooperation, which could help reduce existential risk and lower the risk of negative value lock-in.20

A related idea is that egalitarian societies might provide better conditions for differential progress (Tomasik, 2015). The thought is that new technologies often pose a risk when they become available before society has developed the collective ‘wisdom’ to use them well. Technology should not develop too fast relative to progress in wisdom. Consider artificial intelligence for example. Bostrom argues that once artificial intelligences (AI's) outsmart humans in AI-creation, systems might iteratively improve themselves and potentially set in motion an intelligence explosion (Bostrom, 2014). Quite quickly, it might become difficult to control AI and align it with our interest. Such a scenario, if it happens, might still be some time away (or not). However, if we do not develop collective wisdom first, it might be too late by the time superintelligent AI arrives on the scene.

But what goes into the wisdom side of differential progress? Minimally, it requires effective institutions, values, and empirical insight and understanding. We have argued that equality might help strengthen the public institutions required for effective collective action to reduce existential risks. But society and the institutions governing it might also require public commitment to values conducive to longtermism. A commitment to equality and cooperation, and the norms required to sustain such a commitment, might help. Together then, equality could improve differential progress.21

#### Societal collapse is likely because of inequality and existential due to modern threats.

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Are we close to societal collapse? A new book by Dr Luke Kemp at the Centre for the Study of Existential Risk at the University of Cambridge provides a serious warning, based on 5,000 years of historical analysis, that our self-termination is very likely. In Goliath’s Curse: The History and Future of Societal Collapse, he documents that our trajectory of increasing inequality is a primary symptom and precursor of a global collapse.

He is pessimistic about the future but optimistic about people. His book considers the rise and collapse of more than 400 societies over 5,000 years. These show that people are fundamentally egalitarian but are led to collapses by enriched, status-obsessed elites. While these are often depicted as catastrophic, they generally improved the lives of ordinary citizens.

The early Paleolithic hunter-gatherers lived in egalitarian civilisations that did not allow any individual or group to rule permanently. That began to change about 12,000 years ago. Settled agriculture produced grain and valuable commodities that could be stored and thus looted. Next came the invention of more powerful weapons in the Bronze Age, enabling growing inequality with one group dominating and plundering others. This led to inequality of power, with more hierarchical forms of organisation. That power was concentrated in masters, kings, pharaohs and emperors, producing ideologies to justify their rule. The resulting states and empires with vast bureaucracies and militaries divided up and dominated the globe.

Kemp prefers to call these Goliaths rather than civilisations. Whether in the near east, China, Mesoamerica or the Andes, the first kingdoms and empires were anything but civilised, with war, patriarchy and human sacrifice. We regressed from the egalitarian and mobile hunter-gatherer societies which shared tools and culture widely and survived for hundreds of thousands of years, becoming more like chimpanzee or gorilla social organisation. They were societies built on domination, such as the Roman empire: state over citizen, rich over poor, master over slave and men over women, steeped in violence and often fragile. They had three requirements: a surplus food like grain, maize or beans that could be dried and stored, and thus seen and stolen; weaponry monopolised by one group; and some geographic boundaries like oceans, deserts or mountains that prevented people from simply fleeing.

For Kemp, history is a story of organised crime, with one group creating a monopoly on resources through the use of violence over a certain territory and population. The few people high in the dark triad of narcissism, psychopathy and Machiavellianism compete for resources, arms and status. The elites extract more wealth from the people and the land, making societies more unequal and fragile, leading to infighting, corruption, miserable masses, less healthy people, overexpansion, environmental degradation and poor decision making by a small oligarchy. The society is hollowed out and eventually collapses from shocks such as disease, war or climate change. These collapses were written up as apocalyptic, but were probably better for most people. We have long been brainwashed by rulers justifying their dominance, from the self-declared god-pharaohs of Egypt and priests claiming to control the weather to autocrats claiming to defend people from foreign threats and tech titans selling us their techno-utopias.

History for Kemp shows that increasing wealth inequality consistently precedes collapse. For the citizens of early rapacious regimes, collapse often improved their lives because they were freed from domination and taxation and returned to farming. However these societies were always regional, and most people knew farming and could return to self-sufficiency. This is not the case today.

Now we live in a single global system of capitalism. Growth obsessed, extractive institutions like the fossil fuel industry, big tech and military-industrial complexes rule our world and produce new ways of annihilating our species, from climate change to nuclear war. Our systems are now so fast, complex and interconnected that a future collapse will likely be far worse than previous events. Collapses are accompanied by surges in violence as elites try to reassert their dominance, and now we have nuclear weapons. Today we are specialised and dependent on global infrastructure and will fall if that fails. In addition all the threats we face today are far worse than in the past, whether climate change of 3°C, nuclear weapons, technologies such as artificial intelligence and killer robots and engineered pandemics, all sources of catastrophic global risk. The next collapse will be global, swift, irreversible, and disastrous for all.

Rulers driving extreme inequality are strong in the triad of dark traits: narcissism, cold psychopathy and Machiavellian manipulation. Our corporations and, increasingly, our algorithms, also resemble these kinds of people, amplifying the worst of us. For Kemp, these “agents of doom” are the source of the current trajectory towards societal collapse. It is large, psychopathic corporations and groups which produce global catastrophic risk. Nuclear weapons, climate change, AI, are only produced by a very small number of secretive, highly wealthy, powerful groups, like the military-industrial complex, big tech and the fossil fuel industry. This is not about human nature. It is about small groups who bring out the worst in us, competing for profit and power and covering up all the risks. Kemp is pessimistic about our prospects, as we have increasing levels of inequality and of elite capture of our politics that are going to be incredibly difficult to reverse. He sees two outcomes: self-destruction or a fundamental transformation of society. All of us now face a choice: we must move towards genuinely democratic societies and an end to inequality, or the next collapse may be our last.

#### Strong broad-based bargaining increases wages and outcomes across the board.

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Economic Functions of Unions

In the economy, the most basic function labor performs is to bring workers together to bargain for higher wages and benefits. The standard and overly simplistic economic theory of labor markets maintains that employers and employees freely and fairly negotiate on equal footing. While something like this can occasionally happen, in most circumstances employers have far more information about the market and far more power than their workers. Employers know what they pay all their current employees, and they likely have surveyed competitors, information almost no individual worker has. Employers also generally have far more options and financial resources than do workers. Employers can usually hire any number of people to perform a particular job, while workers’ options are usually limited, especially if they want to remain in a particular area. Workers also need an income more than an employer needs work from any particular worker.

For a number of reasons, workers do better when they bargain collectively—especially those who tend to have less power in society, such as those with less education, African Americans, and women. Compared to trying to negotiate on their own, unionized workers engaged in collective bargaining have better information about what colleagues and competitors earn as well as their employer’s ability to pay. Most importantly, they have greater market power. Most individual workers are relatively easy for an employer to replace. But replacing a group of workers is harder—though not impossible, as will be discussed in more detail later. This means employers have a stronger incentive to negotiate with a group than they do with most individual workers. In addition, as part of a union, workers are better able to ensure that employers follow through on any promises to raise wages and benefits. Put differently, unions help workers negotiate and enforce contracts.

Unions also provide important services and benefits. For example, union training programs run jointly with employers help workers gain skills that lead to higher-wage jobs—and generally do this better than nonunion training programs, which do not always lead to a higher-paid job or even a job at all.51 Finally, unionized workers also gain a greater voice on the job, which in addition to tangible gains for workers and sometimes firms can also lead to less easily measurable benefits such as feelings of greater agency and well-being.

All told, collective bargaining provides a way to discover a fair and economically sustainable price for work. It minimizes the distorting effects of employers’ vastly superior power and generally leads to a compensation package that is acceptable to both workers and employers. One side may have had the upper hand in the negotiation, but both had some degree of influence to shape the outcome, and both prefer the outcome to the alternatives—the likes of strikes, lockouts, and closing plants.

Not surprisingly, unions produce significant economic benefits for their members. In the United States, unionized workers earn about 13 percent more than comparable nonunion workers and are much more likely to have health care, pensions, and paid leave and vacation days and to receive employer-provided training.52 Research on other countries finds similar advantages to collective bargaining. Unionized workers also have much greater wealth—roughly twice as much—as comparable workers because of the cumulative effect of higher wages, better benefits, and increased job stability. 53 Unions even help the next generation do better: children raised in a union household earn significantly more than children raised in an otherwise similar, nonunion household, and the results are strongest for households with less education.54

The private contractual standards that unions help set often spread to the larger economy. When unions have sufficient strength in an industry or region, collective bargaining creates a set of high standards that most employers—even nonunion ones—have to follow. 55 As a result, unions and collective bargaining also tend to raise standards and improve working conditions for all workers, not just those that are unionized.

In the United States, with its worksite bargaining system—often known as enterprise-level bargaining—this spreading of standards generally happens through an informal process. When unions have high density, nonunion employers raise their wages and benefits to levels comparable to most other employers in the market in order to attract and retain employees and ward off potential unionization efforts. In most other economically advanced countries, as well as in a few limited policy areas in the United States, such as in prevailing wage laws for government contracts, there are more formal processes for extending the standards set by collective bargaining to other employers. These broad-based bargaining processes are actually much more effective at raising wages and reducing economic inequality than enterprise-based bargaining, as will be discussed in more detail later, but the point to remember now is that unions and collective bargaining play key roles in the larger economy—even when the role they are playing is more as a private actor than a political one. Thus, collective bargaining and union enforcement of contracts can be viewed as a way to privately regulate the market.

This private regulatory function is deeply intertwined with the more political functions that unions perform. As a result of their self-interest, as well as their broader mission to represent workers, unions often advocate to promote policies such as a strong government antipoverty programs and adequate investment in social goods like education and roads and full employment. They have been a major force behind the passage of laws, from ones establishing higher minimum wages and improved safety standards to ones expanding access to health care and ensuring civil rights.56 Indeed, unions have been called “probably … the most effective advocate for public policies advantageous to the less affluent.”57

Unions also ensure that companies and governments comply with legal standards. Unions help secure adequate funding for government enforcement agencies, educate workers about their rights, draw public and government attention to violations, and make it safer and easier for workers to stand up to rule-breaking employers.58 Not surprisingly, research in the United States and around the world finds that union worksites are safer and that unionized workers are less likely to have their legal rights violated.59

All told, unions help regulate the economy and make it work better through private and public actions.

Indeed, the combined economic and political impact of unions is immense. Research by professors Bruce Western and Jake Rosenfeld finds that the decline of unions from 1973 to 2007 explains about one-third of rising wage inequality among men and one-fifth among women over that period.60 Other studies from the United States and countries around the world similarly find that unions significantly reduce economic inequality, increase the share of income going to the middle class, and constrain incomes for CEOs and the top 1 percent.61 Unions also reduce poverty rates, as studies in the United States and around the world have found.62 Analysis of US states found that state-level unionization measures had a larger impact on poverty rates among workers than any other state-level economic or policy factor including unemployment, economic growth rates, and welfare spending.63 Unions also boost economic mobility across society. One US study found that an area’s union density was as strong a predictor of upward economic mobility for low-income children as the area’s high school dropout rate.64

#### Organizing resuscitates political participation, restoring democracy.

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Democratic Role of Unions

The role unions play in democracy is vital to these achievements—at least as important as their role dealing with employers. The simplistic version of democracy holds that elected representatives automatically carry out the will of the people. In this view, candidates seek out positions that match the preferences of the majority of the public and then govern in ways that are responsive to the majority’s preferences. While there is an element of truth to this story, this version of events is largely misguided.

Unfortunately, in the United States today politicians pay vastly more attention to the rich and the powerful than they do to ordinary citizens, and most citizens have basically no influence on what the government does. Though the government sometimes does what most citizens want, studies increasingly find that only happens when the rich or the powerful also want the same thing.65 As the political scientists Martin Gilens and Benjamin Page explain based on their research on nearly two thousand public policy issues over recent decades, “economic elites and organized groups representing business interests have substantial independent impacts on US government policy … while average citizens have little or no influence.”66 As a result, theories of politics based on elites having great power and interest groups representing the already powerful wielding significant influence have been much better able to explain what has happened to US democracy over recent decades than the standard hopeful theories based solely on majority rule.

There are a number of reasons that the US government is no longer responsive to ordinary citizens. Supreme Court decisions like Citizens United are part of the issue, but the main story boils down to this: As inequality has risen to extreme levels, the wealthy have been able to use their money to exert great political influence. In contrast, most people need to act as part of a group to have much sway, but there are few groups representing ordinary citizens.

The money and standing of the wealthy commands great attention from elected officials. But the single vote of an ordinary citizen does not mean that much, nor does any modest financial contribution they may make. Moreover, it is difficult and time-consuming for an ordinary citizen to pay attention to everything elected officials are doing and communicate with them at important points in the policy process.

For a typical citizen, being part of an organized group is essential for them to have much political influence. Labor unions perform several important roles in the democratic process. First, they help mobilize individuals to participate in the political process, by voting, contacting their representative, and volunteering in campaign. Unions also educate their members about political issues and help them make connections between their lives and policy decisions—which is increasingly important as technology increasingly enables the spread of fake news. Unions even increase the effectiveness of political actions by bringing people together and making success more likely. Thus, unions reduce the costs of participating and increase the benefits of doing so.67

Because of union efforts inside and outside the workplace, union members are much more politically active than comparable nonunion workers, but union efforts also increase political participation by nonunion workers. Participation increases are most pronounced for those with less education and income.68 Research shows that union members are much more likely to vote, take political action, join other kinds of membership groups, and contribute more to charities compared to otherwise similar people.69 Overall, these effects are quite large. According to analysis by political scientists Benjamin Radcliff and Patricia Davis each percentage point increase in union density in a state increases voter turnout rates by about a quarter of a percent.70

In addition, unions, like other civil society organizations, can act as mini schools of democracy. Internally, unions have regular elections for leadership positions that provide firsthand experience in small-scale democracy; opportunities for ordinary Americans to witness and participate in elections as both voters and leaders. Unions also help shift the nature of the workplace into something more resembling the give and take of a democracy, where employers must at least discuss certain workplace changes with a union representative elected by workers.71 A number of researchers and political theorists believe that the degree of democracy in a workplace—where citizens spend more time than anywhere else except home—can make them more likely to be either passive followers of authoritarian leaders or active democratic citizens.72

Unions can also help solicit small political contributions from their members and aggregate them into more meaningful contributions. Money that is concentrated in the hands of a few wealthy people is not subject to collective action problems, but workers’ money is spread out among many individuals and must be coordinated in order for it be meaningful.

Just as importantly, unions also serve a critical representative function, advocating on behalf of members who often do not have the time or knowledge to closely follow every political detail. Unions monitor votes, highlight issues for the media, draft legislation, figure out which politicians merit campaign contributions, lobby, work behind the scenes with policy makers, and even create opportunities for citizens to hold elected officials accountable.

In a large, diverse country like the United States, this representative function is particularly important. Most people cannot be super-citizens and do not want to be, but rather they want their interests represented.73 A well-functioning democracy requires a reasonable balance of power and that all major political interests are adequately represented. This encourages negotiation and compromise and helps ensure that there is a fair political fight. But when huge groups of people are not represented, or are only weakly represented, there is not really a fair fight, and one side governs at the expense of the other. This is especially true because research shows that politicians are even more likely to favor wealthy campaign contributors when there is less attention paid to their actions.74

With labor in sharp decline, there has been virtually no organization helping the poor and the middle class have a strong political voice on most issues.75 Most organized groups represent powerful special interests, particularly business interests.76 And as labor unions have declined, business and the wealthy have increasingly dominated politics. Campaign contributions from the wealthy and business outweighed those from labor unions by fourteen to one in 2018, more than twice as much as roughly two decades ago.77 Spending on lobbying is even more uneven—with business lobbying more than sixty times higher than lobbying by labor. 78

Labor is just about the only organized interest group that represents the public will on a wide range of issues. Indeed, studies of the positions taken by leading interest groups matched up with the preferences of the public on poll questions find that most interest groups—especially those that represent business interests—take positions that the public opposes. Only a handful of reasonably large organizations actually represent the interest of the middle class and the poor, and almost all of those are labor unions.79 The few non-labor groups that have been shown to take positions the public agrees with have narrower agendas, such as universities pushing for increased education spending or AARP to preserve Social Security and other retirement programs. Certainly not every issue that labor gets behind will be broadly in the public interest, but most are. As a result, labor unions have proven to do quite a good job representing the interests of workers. Indeed, research shows that in districts where unions are stronger, members of Congress are much more likely to respond to the preferences of the poor and middle class.80

This means that Americans have been suffering from a double whammy of democratic unresponsiveness. The rich have independent political power, and they are getting richer and more powerful. The middle class and poor need to be organized to have political influence, yet most interest groups now represent the wealthy.

While representation of all interests is central to any notion of democracy, some scholars argue that the goal of democracy is also to ensure “non-domination”—the idea that individuals should have the actual freedom to pursue their interests without the potential for others to exert arbitrary influence over them. Critically, unions are also essential to this more expansive definition of democracy in that they help ordinary citizens have agency and provide a check on the potential for employers and the wealthy to dominate workers.81

All told, unions are vital to ensuring that democracy works properly. 82 They advocate for workers and help workers advocate for themselves. And the decline of unions has created a political vacuum that has led the wealthy to capture significant control of government, as the political scientists Jacob Hacker and Paul Pierson explain in the book Winner-Take-All Politics. 83

Beyond the contemporary United States, unions and democracy also tend to go together. Research finds that government is more transparent, more effective, and more responsive to its citizens when unions are strong and well connected with other civil society organizations.84 Not surprisingly, countries that score highest on international rankings of democratic quality by academics and journalists generally have strong unions, while those that rank at the bottom tend to have weak or nonexistent labor movements.85

Unions often stand up to dictators and push for greater openness and have been a driving force in the democratization of countries around the world—from Poland to South Korea.86 When dictators seize power, from Hitler in the 1930s to Pinochet in the 1970s to Viktor Orbán today, one of the first things they usually do is seek to weaken or outlaw labor unions so their agenda faces less opposition.87 (Even in cases where dictators claim to promote workers and unions—as in China today or Argentina under Peron or Egypt under Nasser—the autocrats prevent unions from being independent organizations and make them an arm of the state, with their views and actions screened for political loyalty.)88 And countries like Germany after World War II and more recently South Africa in the aftermath of apartheid have sought to strengthen their labor movements as part of a process to rebuild democracy. 89

#### Democracy prevents war and provides public goods, solving extinction.

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A world dominated by totalitarian states would be more incompetent, more war-prone, less cooperative, and more inhibitive of progress than one dominated by democratic states. Our current world is not particularly competent, peaceful, cooperative, or progressive—a totalitarian-dominated world would be worse. It would increase the risk of another collapse and extinction and could shape the future toward less desirable trajectories (Beckstead, 2013).

Totalitarian states are incompetent. They are bad at forecasting and dealing with disasters (Caplan, 2008).16 This can be seen most clearly in the great famines of Communist China and the USSR, in which millions died (Applebaum, 2017; Becker, 1996; Dikotter, 2010; Snyder, 2010). In comparison, functioning multiparty democracies rarely, if ever, experience famines (Sen, 2010). “Established autocracies” (or “personal”/“sultanist”) are particularly bad, as there are few checks or restraints on arbitrary rule and the whims and ideology of the single individual, even from other elites (Svolik, 2012). From the inside, the “inner circle” around Mao, Stalin, and Hitler seems incredibly chaotic, with elites strongly incentivized to conceal information and encouraged by the autocrat to squabble and feud—so they are divided (Conquest, 1992; Kershaw, 2008; Zhang & Halliday, 2006). If totalitarian states are worse at addressing social, environmental, and technological problems, then a world dominated by them would likely be worse at responding to risks of collapse and extinction.

A world dominated by totalitarian states is more likely to have major wars. States with near-universal adult suffrage rarely (if ever) go to war with one another (Barnhart et al., 2020), so a world dominated by democracies has fewer wars. Miscalculation might be a particular problem for totalitarian states due to personalization and disincentives for accurate information, leading to well-known strategic disasters such as Hitler and Stalin’s blunders in World War II (Bialer, 1970; Noakes & Pridham, 2001), or at a smaller level, Saddam Hussein’s rejection of diplomacy (Atkinson, 1993). War makes collapse and extinction more likely, by raising the chance of weapons of mass destruction being used.

Linked to this, totalitarian states are less cooperative than democratic states. While cooperation is possible (Ginsburg, 2020), their internal norms are characterized by paranoia and treachery, and their lack of transparency limits their ability to credibly commit to agreements. This is bad for all risks that require cooperation such as pandemics or climate change (Tomasik, 2015).

Finally, continued social and scientific progress is likely to reduce risks of collapse and extinction. Social progress could reduce global inequality and other risk factors. Scientific progress could help address natural risks and climate change (Sandberg, 2018), differentially increase defensive rather than offensive power (Garfinkel & Dafoe, 2019), and solve safety challenges in AI or biotechnology (Russell, 2019). However, as we will now discuss totalitarian states would likely inhibit social progress.

A central question from a longtermist perspective is: Which values should shape the future? I would argue that we should prefer it to be shaped by liberal democratic values. This is not to say that the current democracy-dominated world is perfect—far from it. The fate of billions of factory-farmed animals or hundreds of millions of people in extreme poverty makes that abundantly clear. However, democracies have two advantages. First, democracies have space for cosmopolitan values such as human rights, plurality, freedom, and equality. These are better than those that characterize life under totalitarianism: Fear, terror, subjection, and secrecy. Second, they have within themselves the mechanism to allow progress. In the last 100 (or even 50) years, the lives of women, LGBT people, religious minorities, and non-white people have dramatically improved. Our “moral circle” has expanded, and could continue to expand (Singer, 1981). The arc of the moral universe is long, but given the right conditions, it might just bend toward justice (King, 1968). A global society dominated by these values, and with the possibility of improving more, has a better longterm potential. A totalitarian-dominated world, on the other hand, would reduce the space for resistance and progress—distorting the human trajectory.

We should be particularly concerned about “bottlenecks” at which values are particularly important—where there is a risk of “locking-in” some particular set of (possibly far from optimal) values. While they are currently far-off, future technologies such as artificial general intelligence, space settlement, life extension (of autocrats), or much better surveillance could enable lock-in (Caplan, 2008).17

Conditional on them avoiding new catastrophes, world orders dominated by totalitarians could be quite long-lasting (Caplan, 2008). Democracies can undermine authoritarian and totalitarian regimes through the following ways: Control, including conquest; contagion through proximity; and consent, promoting receptivity toward democratization (Whitehead, 2001). Democracies can actively undermine these regimes through war, sanctions, hosting rebellious exiles, or sponsoring internal movements. Passively, through contagion, they offer a demonstration that a better, more prosperous life is possible. For example, in the final years of the USSR, ordinary Soviet citizens were able to see that the West had a higher standard of living—more innovation, more choice, and more consumer goods. The elites were able to read books from the outside, and travel—Gorbachev’s contacts and friendships with European politicians may have made him more favorable to social democracy (Brown, 1996). Democracies can undermine the will and capacity of the coercive apparatus (Bellin, 2004). However, in a world not dominated by democracies, all these pressures would be far less.

A world in which, say, totalitarian regimes emerged as dominant after World War II (for example if the USA was defeated) could be self-reinforcing and long-lasting, like the self-reinforcing relationship of Oceania, Eurasia, and Eastasia (Orwell, 1949). Orwell’s fictional world is characterized by constant low-grade warfare to justify emergency powers and secure elites, and with shifting alliances of convenience as states bandwagon and balance, thereby preventing any resolution. A totalitarian-dominated world order could be rather robust, perhaps for decades or even centuries.

A long-lasting totalitarian-dominated world would extend the period of time humanity would spend with a heightened risk of collapse or extinction, as well as increased potential for distortion of the human trajectory and the possibility that a “lock-in” event may occur. This example illustrates the possibility of a “negative recovery,” resulting in a trajectory with less or no scientific and social progress and a less favorable geopolitical situation, which would threaten the destruction of humanity’s longterm potential.

#### Our data is the only link that avoids statistical noise.

Kosuke Imai and James Lo 21. Professor of Politics and Founding Director of the Program in Statistics and Machine Learning at Princeton; Associate Professor of Political Science at the University of Southern California. “Robustness of Evidence for Democratic Peace.” *International Organization Foundation* 75(3). p. 901-919. Summer 2021.

How should we resolve this empirical debate regarding the democratic peace?9 Unfortunately, in the absence of randomized experiments, we can never completely rule out the possible existence of confounding biases that arise from omitted variables. While scholars in this literature have exclusively relied on parametric regression models, this approach requires strong assumptions, namely that the model accurately characterizes the true data-generating process (correct set of variables, right functional form, valid distributional assumption, etc.). Given that these assumptions may not be verifiable from observed data, it is no surprise that various scholars advocate different regression models with diverging sets of variables, resulting in contradictory findings. The difficulty of adjudicating between these alternative modeling approaches has led to the ongoing controversy in the empirical democratic peace literature.

We propose an alternative approach based on nonparametric sensitivity analysis to formally assess the robustness of the empirical evidence.10 Specifically, we quantify the strength of confounding relationships that could explain away the observed association between democracy and peace. That is, we compute the precise level of unobserved confounding needed to render the observed association between democracy and conflict spurious. The idea is that although not all correlations imply causation, a very strong correlation suggests it. Unlike the parametric regression modeling approach prevalent in the literature, the proposed nonparametric sensitivity approach directly addresses the existence of unobserved confounders without assuming a particular regression model.11 Although one can never know with certainty from observational data whether democracy causes peace, this nonparametric sensitivity analysis can formally assess the robustness of empirical evidence for the democratic peace.

Our analysis applies the nonparametric sensitivity analysis method originally developed by Cornfield and colleagues, who were concerned with the robustness of the positive association between cigarette smoking and lung cancer in the potential presence of unobserved confounders.12 The study of the causal relationship between smoking and lung cancer closely parallels the dispute on the democratic peace. In both cases, randomized experiments cannot be conducted for ethical and logistical reasons, and critics contend that the observed association suffers from confounding biases. While no definitive conclusion can be drawn from observational data, Cornfield and colleagues argue that no existing confounder can explain the strong association between smoking and cancer and therefore this relationship is likely to be causal. Their conclusion is worth quoting here:

Cigarette smokers have a ninefold greater risk of developing lung cancer than nonsmokers, while over-two-pack-a-day smokers have at least a 60-fold greater risk. Any characteristic proposed as a measure of the postulated cause common to both smoking status and lung-cancer risk must therefore be at least nine-fold more prevalent among cigarette smokers than among nonsmokers and at least 60-fold more prevalent among two-pack-a-day smokers. No such characteristic has yet been produced despite diligent search.13

Our application of nonparametric sensitivity analysis to the democratic peace yields striking results. Depending on the definition of democracy, we find that a confounder must be at least forty-seven times more prevalent in democratic dyads than in other types of dyads. Thus, any potential confounder that could explain the democratic peace would have to be at least five times as prevalent as a similar confounder for smoking and lung cancer. In other words, according to our analysis, the positive association between democracy and peace is much more robust than that between smoking and lung cancer.

While no such confounder has yet been found for the relationship between smoking and lung cancer, we examine whether the confounders identified in the democratic peace literature meet the conditions of nonparametric sensitivity analysis. For example, we consider a set of economic confounders proposed by Gartzke who argues that the democratic peace can be explained by capitalism.14 We also consider other confounders, such as military alliances.15 Overall, our findings imply that for a potential confounder to explain away the democratic peace, it must be much more strongly associated with regime types and conflicts than the confounders that have been proposed to date. This finding again demonstrates the robustness of empirical evidence for the democratic peace.

#### Toss evidence that doesn’t assume the pacifying effect of organizing power.

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To examine the potential interaction effect of civil society and democracy, we introduce a multiplicative interaction regression model in Table A.4. The Appendix shows a significant and consistent impact of civil society, some weak support for democracy, and a possible interaction effect across the board. However, interpreting the interaction-related terms is not straightforward since they are non-linear, and their effects depend on each other. Based on Model 3, where the dependent variable is the onset of war, we visualize the impact of the interaction term in Figure A.2 in an effort to offer a better interpretation of the coefficient table. This graphical approach does not require centering variables at their means.112 Since it is expected to make a minor modification of the multiplicative regression model by changing the democracy constitutive term from a continuous variable to a dichotomous one,113 we follow suit.114 This modification is made because the dichotomized variable helps the reader better see the pacifying effect of civil society in the figure, conditional on the presence (1) or absence (0) of democratic political institutions. We transform the democracy variable as “1” when its continuous Polity score is greater than or equal to six and “0” otherwise, creating a dichotomous democracy variable. The Polity score of six is the conventional cutoff point for defining democracy in the conflict literature.115 In Figure A.2, the dotted line representing democracies whose Polity democracy score is greater than or equal to six is on the decrease. The figure confirms that as the level of civil society robustness increases, the peacebuilding synergy comes forth, and the likelihood of conflict diminishes. This result further enforces the notable peacebuilding role of civil society in turbulent world politics.

What would happen if, however, as the old saying goes, too many cooks spoil the broth— a group of control variables complicates the estimation and strengthens the significance of civil society over democracy? To account for this concern, we use a reduced form of the statistical model where only a minimum number of variables are included: civil society, democracy, Cold War, and geographic distance. As shown in Table A.5, we verify the peacebuilding effect of civil society in a consistent manner, while democracy does not create strong and consistent evidence for peace across the board.

As previously noted, some conflict researchers prefer politically relevant dyads to all dyads since the former tend to wield more significant influence over international politics. An analysis conducted with politically relevant dyads should give further credence to the results of studies utilizing all dyads if the findings turn out to be strong and consistent. Table A.6 re-estimates Table A.5 after confining the sample data to politically relevant dyads. While civil society passes the conventional significance tests in all nine models, democracy does not. Not surprisingly, the national capability ratio is also another potential cause of peace, as it is statistically significant and the sign is in the expected direction

Conclusion

To the best of our knowledge, the pacifying effect of civil society concerning international conflict is only beginning to receive the attention it deserves. Instead, the literature draws attention to other factors such as democratic peace, Cold War peace, contractualist peace, capitalist peace, and territorial peace. In this study, we reason that the likelihood of conflict diminishes when a robust civil society with the advantage of organizing power, a solution to collective action problems, and the power of immediacy is present in an interstate dyad. In particular, we assert that civil society outperforms democracy because the former can amplify domestic audience costs by making a virtually immediate demand for peace as a united front that can minimize problems of collective action, while the latter experiences limitations in constraining leaders’ war decisions due to individual defections and institutional failure.

#### Trump is a symptom, not a cause, and unions are the check.

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But Trump’s election in 2016 dramatically highlighted deep problems in the United States. Discriminatory attitudes are key to understanding Trump’s popularity, but extreme inequality and wage stagnation also clearly helped bring Trump to power. Trump won in large part because he was able to activate a white group identity and play on their fears of nonwhites; and he also benefited from sexism against his opponent Hillary Clinton.43 Still, it seems hard to believe that he would have been elected without stagnant wages and extreme inequality causing deep, underlying economic and political problems.

Most directly, some of his supporters were frustrated with typical politicians whom they felt did nothing to address the economic needs of regular Americans, and as a candidate Trump claimed he would address these problems—though his governing agenda largely did not, as he cut taxes for corporations, for example, while making it harder to join a union and receive overtime pay and easier for companies to misclassify employees as independent contractors with no rights.44 Trump voters were more dissatisfied with the economy, more supportive of progressive economic policies such as a higher minimum wage and increasing taxes on the wealthy, more concerned about the inability of ordinary citizens to influence government, and more likely to live in economically distressed areas than were other Republican primary voters.45

Less directly, political polarization meant that some Republicans felt compelled to vote for the Republican Party candidate no matter who it was. They may not have liked Donald Trump, but they were not going to vote for the Democratic Party candidate.46 Another group of Trump’s supporters felt they had little to lose from the current system, so why not blow it up— echoing the ancient fear of anarchy caused by class conflict from those who have been left out. Indeed, almost 20 percent of Trump’s own voters felt he was unqualified for office.47 Most of the country felt a blend of somewhat related nihilism and apathy. In 2015 nearly two-thirds of Americans felt their vote didn’t matter because of “the influence that wealthy individuals and big corporations have on the electoral process.”48

The underlying economic conditions probably also contributed to some portion of the racist vote for Trump because scarcity and economic inequality lead to less-trusting attitudes and behaviors. Certainly, Trump’s racism would have found a home no matter the state of the economy. Racist individuals come from rich, poor, and middle-class backgrounds. Economic scarcity does not need to result in racial scapegoating; historically it has led to many other political reactions, from withdrawal to support for social democracy or even communist revolution. But, when inequality is high, people are more likely to perceive others, especially those with visible differences—be it race, ethnicity, gender, nationality, or anything else—as a threat.49 That does not excuse the racism, but it likely explains some portion of it. In other words, Trump’s racism found more support because of underlying conditions. Trump helped racialize economic grievances, thereby gaining support from whites who believed minorities and immigrants were the cause of economic problems.50

As president, Donald Trump further degraded US democracy and increased the risk that it could potentially face a breakdown. Trump further divided an already divided society and dramatically exacerbated existing risks. He pushed the boundaries of rules and norms that were already beginning to fray. He abused power, broke the law, and engaged in selfdealing. He criticized the independent media, calling factual reporting “fake news,” made up his own “alternative facts,” and threatened to change libel laws and sue reporters who criticized him. He attacked the independence of judges and nonpartisan agencies and threatened to use government to jail his political opponents. He also stoked racial anger, scapegoating immigrants and communities of color for America’s problems.

As much of a threat as Trump is, America’s problems do not end with Trump. The 2020 election of Joe Biden as president is likely to stop the immediate danger to democratic laws and norms. Yet, the defeat of Donald Trump may provide only a brief respite. Joe Biden’s electoral victory was convincing, but it wasn’t so large as to provide a thorough repudiation of Trump. Further, the shameful rejection of legitimate election results by Trump, many of his supporters, and many leaders in the Republican party highlights how much of a problem Trumpism remains in the near future. Over the longer term, the kinds of problems that led to Trump’s rise pose a continuing risk.

Wage stagnation, extreme inequality, and the lack of responsiveness of the political system to ordinary people are long-standing problems that predated Trump and will outlast him. Even more worrying is that the country’s underlying economic, social, and political problems are likely to grow in severity—unless major new policies are put in place. Trump’s actions exacerbated economic inequality, racism, political polarization, and low levels of social trust. Even worse, economic inequality creates a vicious cycle that tends to reinforce itself. The greater the level of economic inequality, the more power the rich have to further increase their wealth and the less trust there is for people to try to work together to combat this power. Without a strong set of political and economic structures, inequality will increase. And if inequality continues to increase, it will cause additional havoc.

Whether current trends will lead toward a truly undemocratic society may be unknowable, but these are clear warning signs of danger ahead. Because ordinary Americans have lost so much power in the economy and in democracy, the country faces problems that pose a serious threat to its future. The economy threatens to become even more unbalanced, subject to wild swings and catastrophic collapses. Economic grievances have become increasingly racialized, and communities of color—who are already worse off than most whites—are increasingly scapegoated for America’s political and economic failures. The country is in danger of turning into an oligarchy —where the rich and powerful control virtually all elements of government and society—and of possibly slipping into fascism. Even basic rule of law is at risk, as Trump and his allies continually subverted legal requirements. The United States is in dire need of real solutions to these economic and political problems. Unions are an essential part of the solution because they can provide a democratic check on capitalism’s worst tendencies to concentrate money and power and overrun society and democracy.

#### Only structural reforms to the labor market solve the overarching productivity crisis.

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The US economy has a multitrillion-dollar problem. It’s the dramatic slowdown in productivity growth over the past couple of decades. Between 1947 and 2005, labor productivity in the US grew at an average annual rate of 2.3 percent. But after 2005, the rate fell to 1.3 percent. Such seemingly small differences have astonishingly large consequences: if economic output for each hour worked had kept expanding at 2.3 percent between 2005 and 2018, the American economy would have produced $11 trillion more in goods and services than it did, according to the US Bureau of Labor Statistics.

This is part of a broad-based trend across advanced economies. Productivity growth in Europe has been even slower than in the US. As a consequence, Europe has fallen significantly behind the US in terms of GDP per capita. Productivity is a key driver of economic expansion. Its anemic performance in the world’s largest economy threatens to send ripples around the globe and into developing economies, where growth is key to lifting millions of people out of poverty.

What’s behind the stubborn stall in productivity growth in the US and other advanced economies? Research points to two developments. One is that the rapid deployment of advanced information technologies helped big established businesses at the expense of smaller start-up companies. Another is falling population growth and changing demographics, which reduced the speed of new business creation. Together, those factors led to a decline in creative destruction, an important element of innovation as identified by the early 20th century economist Joseph Schumpeter. This sapped dynamism from the US economy.

There are two key measures of productivity growth, which are closely related. The first is labor productivity, or the simple computation of real output per hour of work. The second is total factor productivity (TFP), which also takes into account changes in capital intensity and capacity utilization.

Labor productivity and TFP have evolved in tandem since the 1940s (see Chart 1). Labor productivity gains slowed from the range of 3–3.5 percent a year in the 1960s and 1970s to about 2 percent in the 1980s. In the late 1990s and early 2000s, the US economy experienced a sizable but temporary productivity boom as productivity growth rebounded to 3 percent. Since about 2003, productivity gains have been lackluster, with labor productivity slowing to an average growth rate of less than 1.5 percent in the decade after the Great Recession. Recent economic shocks such as COVID-19 and surging energy prices since the war in Ukraine had a notable impact on employment and inflation dynamics. However, productivity growth has been relatively unaffected and has remained low. Changes in TFP closely mirror the fluctuations in labor productivity growth. While labor productivity growth always exceeds that of TFP because of increases in capital intensity, falling TFP growth drives the decline in labor productivity gains.

Understanding the causes of the slowdown is crucial because of the high economic stakes. It’s also vital for determining whether governments and central banks have effective policy tools to address the issue or whether they must prepare for a prolonged period of lower growth.

Creative destruction

Recent research suggests that changes in the process of creative destruction and reallocation across businesses might hold the key to understanding the productivity slowdown. Aggregate TFP reflects the economy’s state of technology and the efficiency of resource allocation. Intuitively, aggregate productivity can be low either because the technologies enterprises use are inefficient or because some businesses may have access to productive techniques, but market imperfections prevent them from displacing less efficient competitors. Productivity growth can stem from the arrival of new and better technologies or from reallocation of resources from unproductive to productive companies.

There is growing evidence that the US economy is not as dynamic as it used to be. A key aspect of business dynamism is new business formation. It is often measured by the entry rate, or the share of enterprises that started operating in a given year. The entry rate fell from 13 percent in 1980 to 8 percent in 2018, according to the US Census Bureau. In addition, US enterprises became substantially larger, with the average number of employees rising from 20 in 1980 to 24 by 2018. Older and bigger companies thus account for a much larger share of economic activity than they used to. These trends indicate significantly declining dynamism in the US economy over almost four decades.

This raises two critical questions. First, why does a decline in business dynamism correlate with a slowdown in productivity growth? Second, what are the fundamental factors driving these trends?

Proximate causes

The link between productive churn, business-to-business reallocation, and aggregate growth lies at the heart of Schumpeter’s famous concept of creative destruction, in which new enterprises develop innovative technologies aiming to displace incumbent producers and take their market share. Aggregate productivity growth and markers of business dynamism such as churning and turnover at the company level are therefore two sides of the same coin.

From that perspective, the slowing formation of new businesses and the expanding role of older, bigger companies are exactly what one would expect in times of low productivity growth. The falling entry rate is an indication that the arrival of new technologies might be slowing. And given that entrants are of course younger and, on average, smaller than incumbent businesses, a decline in the entry rate naturally leads to an increase in business size and a rise in concentration.

A large and growing body of research provides additional evidence. First, the rise in corporate concentration has been shown to go hand in hand with expanding market power. The average markup by publicly traded US companies surged from about 20 percent in 1980 to 60 percent today. Large incumbent businesses thus seem to be shielded more and more from competition, allowing them to jack up prices and widen profit margins.

A second line of research shows the flip side of rising corporate market power: the weakening of workers’ bargaining position. Since 1980, labor’s share of the US economy has fallen by about 5 percentage points. The plunge was faster in industries that experienced more concentration, where large superstar firms such as Google, Apple, Amazon, and Walmart grew the most—as documented by the Massachusetts Institute of Technology’s David Autor and his research partners.

Third, there has been a secular decline in business-to-business reallocation since the late 1980s, as shown in a series of papers by John Haltiwanger and other researchers. This suggests that the process of workers moving from declining to expanding businesses is not as fluid and dynamic as it once was.

These patterns are consistent with the view that creative destruction has been decreasing and that business dynamism and aggregate productivity growth fell as a consequence. If incumbent businesses face less competition from entrants, they have an easier time building a dominant market position. This allows them to expand markups, profit margins, and (eventually) corporate valuations. Because higher profits cut into the share of output paid to workers, a shrinkage in labor’s share of the economy will ensue, especially in the most concentrated industries.

#### Investing in the supply side is critical to shore up the risk of chronic slow growth.

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3 | Results

3.1 | Slow-Moving Fluctuations in GDP Growth and Inflation

Figure 1a shows the estimated low-frequency components of GDP growth and inflation together with the actual data. The dot-ted black lines correspond to the actual data, while the thick bluelines represent the point-wise median estimates of the trend com-ponents, with the associated 68% credible bands. Vertical gray bars correspond to NBER recession dates. Figure 1b plots the prior and posterior distributions of the matrix of loadings Λ.

The trend components accurately capture the slow-moving behavior of GDP growth and inflation, and with relatively little uncertainty. Overall, there are substantial fluctuations in the trend components of both GDP growth and inflation over the sample, despite the tight priors imposed on the variance-covariance matrix Σ. The data thus speaks loudly in favor of significant low-frequency variation in the mean of the growth rates, 𝜏𝑡. Despite the rather large standard deviation of the prior for the coefficients in Λ, the estimated posterior of 𝜆1and 𝜆2 are narrowly centered around what the simple endogenous growth theory suggests. The median values of 𝜆1 and 𝜆2are 1.06 and 1.02, respectively, and the uncertainty is substantially smaller compared to the prior. The data favors loadings that essentially imply a common trend for GDP growth, consumption growth and investment growth.

There is a significant slowdown in trend GDP growth over the sample considered, of about 1 percentage point from 1960 to 2023. The point-wise median estimate for the long-run real GDP per capita growth rate in 2023Q4 is about 1%, well below pre-crisis averages of around 2%. The most striking feature of the slowdown is its timing. Trend GDP growth declined appreciably in the late 1960s and early 1970s, accelerated quickly in the1980s and mid-1990s and fell markedly after 2000. These findings are well in line with the narrative that the early 1970s was a historical period characterized by a slowdown in productivity growth, and the 1990s experienced a rapid increase in growth due to the information technology (IT) revolution (see Gordon 2015). The recent decline, however, is more controversial. Some studies place a structural break around the mid-2000s (see Eo and Morley 2022; Fernald et al. 2017; Grant and Chan 2017; Kamber, Morley, and Wong 2018), while this paper favors a more gradual decline that starts in 2000, as documented in Antolin-Diaz, Drechsel, and Petrella (2017) and Antolín-Díaz, Drechsel, and Petrella (2024).

At first glance, the timing of the decline seems to favor explanations that are unrelated to the Great Recession, as the slow-down starts well before 2007. Having a closer look at inflation, however, can intuitively suggest a potential role for demand in the aftermath of the financial crisis. The slight increase in the low-frequency component of inflation from 2000 to 2006 seems to suggest that structural forces other than demand are in place from the early 2000s. However, the trend component of inflation declines after the Great Recession and remains well below the 2% target for a decade. This finding leans towards the argument that factors other than supply might be in place to account for the lackluster growth experienced from the onset of the financial crisis until the pre-pandemic period, as highlighted by Summers (2015). Turning our attention to the post-pandemic period, the model attributes the recent rise in inflation as the result of both an increase in trend inflation and in the cyclical component of inflation, with the latter explaining the largest share.

A comment on inflation is warranted. The 2009–2019 decline in the low-frequency component of inflation is rather small com-pared to its fluctuations over the sample. The trend increases substantially starting in the mid-1960s and peaks around 1980–1981, reflecting the Great Inflation, after which a substantial decline isin place (see Ascari and Sbordone 2014 for a survey of the macroeconomics of trend inflation).

3.2 | Why Has Trend GDP Growth Slowed Down?

Figure 2 plots the contribution of supply-side and demand-side factors in accounting for low-frequency movements in GDP growth and inflation. In the first row panels, the thick black line represents point-wise median estimates of the trends in deviations from their initial conditions, while the colored bars show the estimated drivers. The second and third row panels report the uncertainty surrounding the estimated supply and demand contributors, respectively, for GDP growth and inflation. Focusing on GDP growth (left panel), supply-driven factors explain the bulk of its long-run fluctuations over the entire sample. These factors play a significant role in driving trend GDP growth downwards in the late 1960s and early 1970s, in line with the common view that a large productivity slowdown took place during this historical period. Also, the rapid rise in trend GDP growth during the 1990s appears entirely supply-driven, reflect-ing the positive effects of the digital revolution. Focusing on the early 2000s, supply-driven forces are behind the initial slowdown in trend GDP growth, and significantly contribute further to its decline in the aftermath of the crisis, in line with the narrative that structural forces other than demand were at play before the Great Recession and contributed negatively to the slowdown. Overall, the supply-side component seems to capture changes in technological progress remarkably well. Indeed, the timing closely resembles the arguments in both Gordon (2015) and Fernald et al. (2017).9

At the same time, demand-side forces appear to be significant drivers of fluctuations in the long-run component of GDP growth. The findings suggest that demand-side factors contributed positively to trend GDP growth during the 1970s. This could indicate, for instance, that the monetary and fiscal policies that fueled inflation in the 1970s had positive effects on GDP growth and that these effects were masked by the negative pressure of supply-side forces. Moreover, half of the shortfall in GDP growth from 2000 until 2019 appears to be due to demand-side factors, providing evidence of important demand effects that have exacerbated the slowdown since the onset of the Great Recession.

While the slowdown in GDP growth in the 1970s and its rise during the 1990s are entirely supply-driven phenomena, the decline after 2000 is explained by both supply-side and demand-side fac-tors. Using the median estimates, 53% of the decline between2000 and 2015 is attributed to demand and 47% to supply. While the beginning of the slowdown in 2000 is due to supply forces only, demand factors contribute significantly to further exacerbate this trend after the financial crisis. These findings pair remarkably well with the timing of both the supply-side and demand-side views.

The importance of demand-driven factors in the aftermath of the financial crisis is clear once we have a closer look at inflation (right panel). While supply factors put upward pressure on inflation after 2000, these have been more than counterbalanced by demand forces pulling in the opposite direction in the aftermath of the financial crisis. These findings can also provide an intuitive explanation for missing inflation during the recovery. During the 1970s, on the other hand, inflation was largely driven by supply-side phenomena. This decomposition attributes 58% of the Great Inflation to supply-driven factors and 42% to demand-driven factors. Focusing on the recent rise in trend inflation in the COVID-19 period, the bulk of the rise appears to be explained by supply-side factors. This is reflected also in trend GDP growth that appears to be mainly driven by supply-side fators after the pandemic.

#### Sluggish productivity is catastrophic for the US-led order, allowing China to flex its military and economic might globally.

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For the United States, these are trying times. Americans are overcome with an unshakable sense of economic malaise. The top-line indicators are good: unemployment is low, inflation is declining, and the country remains the richest in the world. Yet in poll after poll, most Americans say they are unhappy with the state of the economy today and its prospects for tomorrow. Only a quarter consider the economy good or excellent. Nearly 80 percent say they are not confident that their children will live better than they do.

Analysts have spent years discussing the country’s particular challenges. They have talked about its aging population, which is widening federal budget deficits as entitlement spending collides with an antipathy to tax increases. They have looked at the growing threat of climate change, which requires an overhaul of the U.S. energy sector. They have noted the widening wealth and income gaps in our changing economy. And they have fretted over foreign autocrats who are menacing U.S. security.

But the public debate too often overlooks a common factor behind all these challenges, one that will shape whether the United States can address them: labor productivity. Commonly measured as the amount of goods and services generated per worker, productivity is the central determinant of a nation’s average standard of living and its overall economic success. Growth over time in productivity is why Americans today can consume more goods and services than their grandparents—even as they work fewer hours. Productivity growth fuels rising wages and profits, which generates more fiscal revenue, allowing Washington to build formidable defense capabilities. And productivity growth bolsters the country’s soft power, demonstrating the strengths of a democratic, market-oriented society.

From the end of World War II to 1973, U.S. business productivity (outside of farming) grew at a brisk annual rate of 2.8 percent. But over the past half-century, the United States’ average annual productivity growth has been much slower. From 1973 to 1995, it slumped to a rate of just 1.4 percent. For the next decade, it rebounded to an average of 3.0 percent. But since 2005, labor productivity has increased only slightly from year to year, at an average of just over 1.5 percent. It bounced around during the pandemic, soaring in one year and falling in the next, and the most recent data is encouraging. But it is too soon to call that change in trend.

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These seemingly small annual differences carry massive implications when compounded across decades. For example, the 2015 Economic Report of the President calculated that if productivity grew from 1973 to 2013 at the pace it had over the previous 25 years, incomes would have been 58 percent higher in 2013 than they actually were. If these gains were distributed proportionately, the median household would have earned an additional $30,000 annually.

To be sure, almost all other high-income countries also experienced a post-1973 productivity slowdown. Many had more severe declines: from 2008 to 2024, for example, British productivity has cumulatively grown by just 6.1 percent, or an average of 0.4 percent per year. But the United States’ comparative edge does not mean American productivity is growing fast enough. And as productivity growth has decelerated in the United States, it has taken off in China. The growth there has driven China’s transformation from an impoverished, isolated nation into Washington’s primary economic and geopolitical competitor.

To fully address its domestic woes and global challenges, the United States will need to spark a productivity renaissance. Economists know what won’t work. Any initiatives that build barriers to the flow of ideas, capital, and people (beyond what is essential to protect national security) are all doomed to fail. So is trampling on international alliances to fight climate change and pandemics and mindlessly cutting government investment in research to enable growth in entitlement spending. Crowding out private, productivity-enhancing investment by running up the federal debt will not succeed, either.

Knowing what will improve productivity is harder. But economists are aware of policies that tend to be effective: spending on basic research and development, investing in education and training, and engaging with the global economy through immigration and cross-border investment. Such policies will not improve productivity overnight, and the United States will need separate measures to make sure everyone can enjoy a boom—such as resources to support workers whose jobs might be destroyed by generative artificial intelligence. But if Washington recommits to this trifecta of tools, the United States will likely see faster productivity growth. It could then begin to solve many of the country’s most intractable problems.

UPS AND DOWNS

Economists have long recognized the importance of productivity. The more productivity grows, the more income households receive and the higher the level of material well-being they can attain. “Productivity isn’t everything,” the Nobel economics laureate Paul Krugman wrote in 1990. “But in the long run, it is almost everything.”

So how does a country raise productivity? Output per worker can increase in one of two basic ways. The first is by boosting the amount of capital available to each worker, such as property, plants, and equipment. The second is through innovation: the discovery both of new goods and services and of more efficient ways to produce existing goods and services. Innovation in turn is spurred by forces such as investments in education (which boosts workers’ skills), spending on research and development, and exposure to global competition through international trade, investment, and immigration. Both governments and companies can improve productivity through R & D spending, but scholars have consistently found that the social returns to such outlays exceed the private returns to those performing the R & D, thanks to positive externalities—such as new ideas in one industry sparking innovations in another. This means that markets alone will underinvest in R & D, a problem that can be remedied by government spending.

Academic research has clearly established that innovation has driven most of the United States’ productivity growth over the past century. A seminal study by the Nobel economics laureate Robert Solow analyzed the rise in real gross domestic product per person in the United States from 1909 to 1949 and concluded that about one-eighth of the total increase came from increased capital per working hour, whereas the rest came from technological change. Another, more recent study that examined the period from 1948 to 2013 found that 80 percent of the growth in U.S. per capita GDP was created by the development of innovative ideas.

The economic history of the United States is in many ways the story of these productivity trends. In 1800, most Americans worked in agriculture, where long, grueling hours were the norm. In that year, for example, it took a farmer 344 hours to produce 100 bushels of corn. A century later, it took less than half as long—just 147 hours. By 1980, it took only three. The reasons for this accelerating efficiency were innovations and fresh ideas, including new techniques for cultivating richer land, better machinery, and labor-saving practices. These gains quickly extended to the economy at large. As agriculture became less demanding, the sector required fewer workers, enabling erstwhile farmers to work in a spectrum of other trades, including the high-technology industries of each generation, such as textiles, telegraphs, and telecommunications.

The country also benefited greatly from improved education, high levels of immigration, influxes of foreign capital, and expanding market competition. Consider the first factor. The United States pioneered high school for the masses, thanks to a grassroots “high school movement,” as it was called, that was largely funded by taxpayers. In 1910, a high school diploma was a rarity in the United States, the province of elites destined to be ministers, doctors, or lawyers. In 1910, barely nine percent of all American 18-year-olds graduated from high school, and 19 percent of Americans between 15 and 18 were enrolled in high school. But by 1940, the median 18-year-old had a high school diploma, and nearly three-quarters of 14-to-17-year-olds were in high school. This concerted expansion of secondary education boosted productivity, which grew very rapidly over the 1920s and 1930s. It also helped narrow the earnings gap between the best-paid and worst-paid workers.

The growth in productivity hardly ended there. As the United States emerged as a global superpower at the end of World War II, American policymakers made a series of choices related to public R & D, education and training, and global engagement that together helped drive strong continued growth. In an effort to compete with the Soviet Union politically and economically, the U.S. government dramatically expanded direct spending on R & D in critical areas, including defense technologies, nuclear energy, medicine, and basic sciences. After the Soviets launched Sputnik in 1957, setting off the space race, U.S. spending on R & D surged even higher, peaking in 1965 at 11.7 percent of the federal budget and 2.2 percent of American GDP. The Servicemen’s Readjustment Act of 1944, commonly known as the GI Bill, provided returning veterans with funds for college education and other training. In its first seven years, approximately eight million veterans received educational benefits. From 1940 to 1950, the number of degrees awarded by U.S. colleges and universities more than doubled. And the United States helped design and launch three global institutions—the International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade—to build stable, competitive, and open global commerce. The result was a golden era of American productivity.

And then, in the mid-1970s, U.S. productivity growth collapsed. Some reasons were external and unexpected, such as the unprecedented oil-price shocks of 1974 and 1979. But others were internal and predictable. By 1973, federal R & D spending had fallen to 6.9 percent of the federal budget; by 1995, it was down to 4.5 percent. By 2019, R & D constituted just 2.8 percent of all federal spending and just 0.6 percent of GDP, the lowest in over six decades. The United States continues to invest more in R & D than any other country, but the level of spending is still far below where it once was and where it should be.

Meanwhile, the United States’ educational improvements slowed markedly as secondary schools struggled to boost performance and college tuition marched steadily higher. The global economy, for its part, became more fragmented as the post–World War II stability of fixed exchange rates fell apart. The U.S. government began cutting back on trade agreements and erecting barriers to outside commerce, such as the export restraints slapped on Japanese motor vehicles in the 1980s.

Productivity growth did begin to rebound in 1995, but this unexpected surge was largely the product of one industry: information technology. Research has documented that information technology firms’ deepening global engagement through trade, investment, and immigration helped foster the sector’s jump in productivity. These gains quickly spread throughout the economy at large as companies in other industries, such as retail, invested heavily in new and lower-cost IT products and reorganized to realize the benefits. The Information Technology Agreement, signed in 1996 by 29 countries, helped facilitate this takeoff by eliminating tariffs on IT. As a result, worker incomes grew quickly across all skill categories, temporarily halting the rise in inequality. Federal tax revenues surged—a major reason why, from 1998 to 2001, the United States ran its first budget surpluses in decades.

But after ten years, this productivity boom faded. This was, in part, because the tariff cuts of the Information Technology Agreement reached their planned end, and countries could not strike a fresh agreement that eliminated tariffs for newer IT inventions or products. In the nearly two decades since 2005, productivity growth has again slumped, to an annual average of slightly over 1.5 percent. The end of the boom is part of why both income inequality and fiscal deficits have been rising. Pandemic innovations such as remote work have sparked hope for a productivity resurgence, with many companies reporting big gains from such new work arrangements. But many other businesses have reported slowed productivity from these very same practices—and are thus sharply curtailing them.

The collapse in productivity growth has hampered not only prosperity at home but also U.S. competitiveness internationally—especially against China, whose productivity explosion over the past two generations has transformed the nation’s economic and military might. From the People’s Republic of China’s founding in 1949 until the death of its first chairman, Mao Zedong, in 1976, China experienced almost no growth in productivity because of the state’s tight control over all economic decisions. But when Chinese leader Deng Xiaoping began to liberalize the economy in 1978, productivity spiked. The share of industrial output produced by state firms fell from 80 percent in 1978 to less than 30 percent by 2016. Foreign direct investment in China by Western multinational companies surged. So did China’s exports in the other direction. At the same time, Beijing launched massive public investments in education and research, much as the United States had after World War II. China’s total R & D expenditures rose from about $9 billion in 2000 to $293 billion in 2018—the second-largest national total in the world, after that of the United States.

The productivity effects of all these policy changes were profound. A recent World Bank study calculated that from 1979 to 2019, Chinese productivity grew at an annual average of nearly 7.5 percent. In 1980, China’s total GDP was only $191 billion, or 1.7 percent of total world output. Its GDP per person was only about $195, one of the lowest in the world. Forty years later, however, Chinese GDP reached a remarkable $14.7 trillion—17.4 percent of the world’s total. GDP per capita rose to $10,408, solidifying the country’s middle-income status.

China’s productivity growth has clearly slowed in recent years. One reason is the rapid aging of the country’s population. Another is Chinese President Xi Jinping’s broad reassertion of state control over the economy in key areas such as banking. But this year and next, China’s productivity is forecast to grow by about four percent—more than double the rate forecast for the United States. The country continues to innovate and expand its productivity in many key sectors. In clean technology, Chinese companies dominate the global market for electric vehicles, batteries, and solar power. And through its 2013 Belt and Road Initiative and its 2020 Regional Comprehensive Economic Partnership, Beijing has been pushing to build a new global framework for international trade and investment outside the U.S.-led system. Washington, meanwhile, continues to turn more protectionist.

#### CCP-led order causes extinction.

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This is both an important and essential book. It is important because Pierre-Antoine Donnet has drawn up a damning and worrying assessment of the current Chinese regime and its domestic and international projects. Essential because it is long overdue for us Europeans and French to draw the appropriate conclusions from our relationship with the People's Republic of China, on the diplomatic- strategic, economic and human levels. The title of this book—China: The Super Predator—is clearly inspired by the title of a recent book by Franqois Heisbourg, Le Temps des prédateurs [The time of predators], Odile Jacob, 2020. Nevertheless, Pierre-Antoine Donnet rightly focuses his attention on China, not only because it is the country that he has been studying for more than 40 years and whose language he speaks, but also because the current Chinese political regime presents, in his eyes and as the subtitle of his essay indicates, "a challenge for the planet." I would add that it is this regime, that is the Chinese Communist Party (CP)—a huge machine of more than 90 million members, run with an iron fist and in total opacity by an elite leading cadre of fewer than 600,000—and not Chinese society that presents the main challenge for the planet today.

Pierre-Antoine Donnet analyzes here in five incisive chapters the reality of today's China, especially the inner workings that the Chinese CP tries to hide with its propaganda and disinformation campaigns. I am not going to repeat the arguments he develops, since we know them. The regime in Beijing, and especially the one honed and perfected by President Xi Jinping since 2012, is more toxic than ever to freedom. Having set up Orwellian surveillance systems thanks to modern technologies, it has managed to stay far ahead of any force that could threaten it. It has taken over Hong Kong, strangling the remnants of democracy and political freedom that have survived there since 2020. It has brutally repressed Tibet and even more so Xinjiang, painting all Muslims (Uyghurs, Kazakhs, Kyrgyz) who fight for real political autonomy or simply seek to preserve their culture and religion with the brush of "terrorism." Even more brutally than before, the regime nips in the bud any hint of democratization or even political reform. And it has openly stated its intention to remain in power—in undivided power—for "a thousand years" as China's Foreign Minister Wang Yi recently put it. In short, the Chinese regime and the "secret society" that presides over the country's destiny have become the number-one enemy of democracy. It is number one not because it is more opposed to democracy than other authoritarian governments. Putin's Russia, the recent military coup in Burma and even the seizure of the Capitol in Washington—an event unprecedented in the history of the United States of America—remind us how widespread authoritarianism is and how fragile democracy can be, and how quick and easy it is to move from democracy to dictatorship. No, China is number one because it is now the second- largest economic and military power in the world. It is likely to surpass the United States in terms of gross domestic product (GDP) before the end of this decade. And every day, it is in a better position to challenge the United States and its allies in its region, especially in the Taiwan Strait and the South China Sea. What might the future of our democracies be if American leadership were to give way to Chinese leadership? Democracy would inevitably be in a weaker position; our values would be more clearly at risk.

Those in the West who believed that our policies of engagement and "soft trade" would acculturate the People's Republic of China to democracy were quite mistaken. Pierre-Antoine Donnet is kind enough to quote from my book (2018). Sadly, three years after its publication, it is clear that my pessimistic conclusions remain valid. Moreover, as the author of China: The Super Predator clearly shows, the Beijing government no longer only criticizes what it calls "Western democracy" to protect its survival, that is, the Communist Party's dictatorship over Chinese society. Its economic strength now allows it to advance its pawns and to try to modify the balance of power between socialism and capitalism in its favor, between its highly authoritarian system and our democracies. While denying accusations that it seeks to export its "model," Beijing pushes its advantage by denouncing daily the universalist approach of human rights, by praising urbi et orbi the advantages of its system of governance and by developing, in particular in the UN system, an unprecedented entryism that allows it to impose its narrative, 1 including Xi's message that humanity shares a common destiny...

The predatory nature of the Beijing regime has many facets. The unprecedented development of the Chinese economy must be welcomed as the success of an element of Chinese society over which the Communist Party finally resolved to ease control in 1979, allowing it to do business and gain profits. But this unprecedented modernization has brought with it an unprecedented challenge as well: the environmental challenge. Xi Jinping's government is aware of this, but its opacity and its partial and unfinished integration into the international community have aggravated the problems it faces and that the world in turn must overcome: in China itself, the slow pace of decarbonizing electricity production and the large-scale pollution of water; on a global scale, the deforestation of the world's tropical regions and the organized plundering of the world's ocean fish stocks. It has long been known that the Chinese regime will stop at nothing to acquire and master the technologies that will enable it to overtake the technological leadership of the United States, and more broadly the developed countries. In recent years, this battle has intensified thanks to the economic strategy introduced by Xi in 2020. In reality, this new "dual circulation" economic strategy, according to which the country must both stimulate domestic consumption and continue to globalize its economy, aims for the reduction of China's dependence on Western technologies. The real objective of the strategy is for China to develop its own technologies and standards and then to impose them upon as many countries as possible. First, upon the countries of the South that are the easiest prey to capture, and then on those of the North most dependent on the Chinese economy. In other words, the Chinese government is introducing its own strategy of economic decoupling from the West. Will China succeed in this endeavor? Will it succeed in becoming a leader in the technologies of the future? I am not certain it will. While China has acquired levels of excellence—missiles, rockets, satellites, drones, high-speed rail, online payments—it is still lagging far behind in many areas: microchips, aircraft engines, nanotechnology, medical research, to name a few.

China's international ambitions are well known: to reunify Taiwan at all costs; to take control of the maritime domain it claims as well as all the resources there; to impose its own international standards; and to reorganize the world economy so that the West is no longer its center but rather the Chinese economy itself. In this way, only the People's Republic can, in the eyes of the Chinese CP, knock the US off its pedestal. Those who refuse to see the strategic dimension of Xi Jinping's New Silk Roads are acting in bad faith. It is clear that the Belt and Road Initiative (BRI) pursues economic objectives: the internationalization of large Chinese groups, the conquest of new markets, the securing of supplies of raw materials. But by multiplying the links of economic and financial dependence between an ever- increasing number of countries in the South, China has set up new asymmetrical and, so to speak, dependent relations, constituting a new form of hegemony. The large number of states that have supported the Chinese government's policy in Xinjiang or Hong Kong in recent years at the insistence of the Chinese attests to this rise in power. Does this mean that these countries "love China"? No, of course not; it simply means that they are indebted to China and that the Chinese regime is keeping them on a leash.

The good news, if you will, is that the BRI is running out of steam, not only because countries in the South are finding it increasingly difficult to repay their debts to Chinese state banks, but also because Beijing needs more funding to support domestic growth, its own infrastructure projects, and research and development in advanced technologies. But this development is unlikely to mitigate the increasingly rough-and-tumble nature of Chinese diplomacy. Australia, Canada and now the European Union, who have dared to impose targeted sanctions against some of the most egregious human rights abusers in Xinjiang, are paying the price. And Beijing's threats against Taiwan are increasing. This is fueling fears of a military crisis, even an armed conflict which would inevitably pit China and the United States directly against each other and could quickly turn nuclear. And this in the context of a never-ending Covid-19 health crisis, where Europe's economy remains at half-mast while China and America are returning to sustained growth (between 6% and 8% in 2021), and populism and intolerance are on the rise in democratic countries.

In these circumstances, and given the worrying assessment that Pierre-Antoine Donnet has made with precision, what should we do? First, I believe that we must take measure of the geostrategic confrontation, the economic competition and the ideological rivalry that poses us against China. Personally, I believe that we have entered a new Cold War, not because we want to, but because the Chinese CP, through its discourse, policies and actions, has imposed it upon us. I understand very well the reasons that could lead the reader to disagree with my analysis because of the obvious differences that distinguish the current period from the old Cold War that I still remember. My first passage through Checkpoint Charlie in Berlin was in 1974 and my first trip to the Soviet Union was in 1977 when Brezhnev had just revised the country's constitution and become President of the Republic, in addition to his title of General Secretary of the Communist Party of the Soviet Union (CPSU). We are in a globalized world and China is part of it. But it has not fully integrated into it, taking liberties not only with the universal values we believe in, but also with the norms of the World Trade Organization, the law of the sea, and now the rules of politeness and courtesy of diplomatic life. And since it has become strong, it has fought these values and norms wherever it can.

Some Europeans tell me, echoing Beijing's arguments, that we have no strategic conflicts with China. They say we are far from the Asia-Pacific region, that our strategic concerns are on our doorstep: Islamic terrorism, the Sahel, Russia, the Middle East. They say we do not have the means to intervene militarily in the Far East, except to recall in a very symbolic way the principle of freedom of navigation, notably in the South China Sea. But in the event of a Sino-American conflict in the Taiwan Strait, for example, what policy will we adopt towards the People's Republic? As members of NATO, won't most European countries be forced to support their American ally, to impose a blockade on China and to severely curtail or even freeze our economic and human relations with China? We are not there yet, but we must be careful not to accept the likes of a Munich Accord with Beijing, giving in to this capital's will to impose its diktat upon Taiwan and to deny it any control over its destiny, or to gradually take control of the islets in the South China Sea or the East China Sea administered by other countries. Europe is better prepared for economic and especially technological competition with the People's Republic. However, it seems to me that it is now essential to reduce our economic dependence on this country as much as possible, by repatriating the most strategic industries and moving the others to countries that are less inclined to, or less able to, exploit this dependence at our expense. In doing so, we obviously risk losing market share in China itself. But hasn't the Chinese government's plan for several years been to marginalize the footprint of foreign groups in its domestic market? Doesn't it open up its economic sectors to foreigners only once it has ensured that its national champions are in a strong position?

Finally, more than ever before, we must defend democracy and its values. Because if we don't, no one will do it for us. In this regard, I would like to instill a dose of optimism into the discussion. I have been teaching at a Hong Kong university on the domestic and foreign policy of the People's Republic for 14 years. When I arrived in 2007, my students were generally not very political, not very interested in the affairs of the city. Then things changed; they got burned first during the Umbrella Movement in 2014 and then during the protests against the extradition bill and for the democratization of the territory in 2019. We know what happened. My students have obviously become more cautious. But we continue to cover all the topics that a political scientist must cover. Those of them who come from the mainland show a sensitivity to politics and an independence of mind that I would not have imagined even ten years ago. More generally, the interest of my students in the Taiwanese democratic experience is growing. And I don't need to push them, despite my known penchant for extolling the virtues of that island society and ignoring the other qualities of those there who still used the term "communist thugs" (gongfei) when I studied there in the late 1970s.

So Chinese society is changing, and the reader who knows little about China should not be taken in by Beijing's propaganda. It's true that the regime still enjoys an undeniable "legitimacy of result," to use a Weberian expression (Sintomer et al., 2014). The Chinese are in their majority nationalists; but few of them "love" the Chinese CP and fully believe what it tells them. Those who join do so out of careerism. And many mainland Chinese—and now Hong Kong Chinese—tend to keep their thoughts to themselves and their relatives. They remain aloof and defiant of the official discourse. They are well aware that the Party's propaganda embellishes reality and hides anything that might damage its image. Above all, they know that the Party is above the law and that power is the rule. Finally, among the elites, Xi Jinping is contentious. The personalization of his power, his authoritarianism and his aggressiveness on the international scene are all criticisms that are regularly heard in China. But this does not mean that Xi is in any danger, even if some people venture to predict his downfall following a palace revolution. It means even less that his regime is in the doldrums. But it does mean that Chinese society is becoming more autonomous, more global, and that a pluralism of ideas is emerging more and more. The Chinese are better educated and better informed than ever about the outside world and about their own country. They also aspire to more freedoms, especially freedom of information and opinion, as demonstrated by the Covid-19 crisis in the spring of 2020.

Let us also not forget that the Chinese government—any Chinese government, for that matter, regardless of its political color—will continue to face multiple domestic challenges. In addition to the worrying environmental situation, the rapid aging of the population, the dramatic reduction in arable land, the relative but persistent poverty of a good half of society (600 million Chinese earn less than 120 euros per month) and the ever-increasing expectations of an urbanized middle class in search of wellbeing. In other words, China is not as powerful as it wants everyone to believe. And as I try to show in a forthcoming essay, it will continue to hesitate to engage in armed conflict with the United States, preferring to use what strategists call "the grey zone" between war and peace to its advantage, including in dealing with Taiwan (2021). These are all reasons not to give in to the demands, threats and intimidation of the Chinese communist regime. We are engaged in an arm-wrestling match with the Chinese regime that is bound to last for a long time.

We must therefore be better prepared. This preparation does not prevent us from trying to cooperate with the Chinese government where our interests converge, such as in the fight against global warming, the management of the Covid-19 crisis, or the Iranian and North Korean nuclear programs. But we must not delude ourselves, either. Today's world structurally favors confrontation over cooperation.

#### Maintaining US leadership ensures global peace.

Graham Allison 24. Professor of Government at Harvard University. “The most consequential relationship in the world?” 2-6-2024. https://www.brookings.edu/articles/is-the-us-china-relationship-the-most-consequential-relationship-for-america-in-the-world/

The invitation from Brookings’ debate organizers asked: “Is the U.S.-China relationship the most consequential bilateral relationship for the United States in the world?”

My answer is: yes. If not China, who?

China is:

* one of only two nations that poses an existential threat to the United States.
* the only nation that poses a systemic threat to the U.S. position as the global leader, architect, and guardian of the post-World War II international order.
* the largest emitter of greenhouse gases—accounting for more emissions in 2022 than the United States and Europe combined.
* the second backbone of the world economy: the manufacturing workshop of the world, the No. 1 trading partner of most countries in the world (including the European Union and Japan), and the supplier of most critical items (including everything green and clean) in global supply chains.
* both a classic Thucydidean rival and America’s inseparable, conjoined Siamese twin.

An existential threat. In 2024, there are two—and only two—nations in the world that have nuclear arsenals that can literally erase the United States from the map. China is, therefore, one of only two nations that poses a genuinely existential threat—that is, one that threatens our existence—to the United States. It is one of only two nations with which the United States is required to survive in a relationship cold warriors described as MAD (mutually assured destruction)—a condition that creates an overriding shared imperative for both countries’ leaders to avoid a nuclear war in which their countries would be the first victims.

A systemic threat. With four times the U.S. population, an economy that has over the past generation soared to overtake the United States as the world’s largest in purchasing power parity terms,1 and its role as most nations’ No. 1 trading partner, the world’s leading manufacturer, and a serious competitor in most advanced technologies (including artificial intelligence), China is the only nation that could displace the United States as the world’s leading power.

China sees itself returning to what it believes is its rightful place at the center of the world—a position from which it was toppled two centuries ago when Westerners with technology arrived to imperialize and humiliate it. The United States is a colossal ruling power that created a remarkable international order in the aftermath of the deadliest war in history. That order has allowed us—and the world—to enter a historically unprecedented 79th year of a long peace—a period without great power war. This security and economic order has enabled more people to see greater increases in their well-being than at any equivalent period in history. And no population has benefitted more dramatically from this than the 1.4 billion people living in China! Americans have become so accustomed to being at the top of every pecking order for a century—what we call the “American century”—that this is now part of our identity. The American foreign policy establishment is rightly proud of what American leadership has accomplished, not only for the United States, but for the world, and is not about to retreat gracefully.

Are Xi Jinping and his colleagues serious about displacing the United States as the predominant power in the Pacific in the foreseeable future? I put that question to Lee Kuan Yew, the founder and long-time prime minister of Singapore, who was the world’s most insightful China watcher until his death in 2015. I will never forget his response. With his piercing eyes widening with incredulity—as if to say, “Are you joking?”—he responded: “Of course! Why not? How could they not aspire to be number one in Asia—and, in time, the world?”

This rivalry creates a classic Thucydidean dynamic that magnifies misunderstandings, multiplies miscalculations, and increases the impact of incidents and accidents that have historically ended in war. Of the 16 cases in the last 500 years in which a major rising power seriously threatened to displace a ruling power, 12 ended in war.

Inseparable, conjoined Siamese twins. What neither the United States nor China has come to grips with is the brute fact that the fiercest rivalry of all time is occurring in specific conditions in which neither can by itself ensure its most vital national interest: namely, its own survival.

If accidents, incidents, or third-party provocations drag the rivals into war (as the assassination of an archduke did in 1914), both could be erased from the map. President Ronald Reagan’s incandescent lesson—“a nuclear war cannot be won and therefore must never be fought”—is, thus, a foundational truth in U.S.-China relations. In an analog that has been called Climate MAD, on current trajectories, unconstrained Chinese or American greenhouse gas emissions could so disrupt the enclosed biosphere in which we both live that neither of us could survive. In the financial arena, the United States and China are now so deeply entangled that a financial crisis in one could lead to a global depression for all. When, in 2008, Wall Street risk-taking caused a great financial crisis in the United States, only joint stimuli by both China and the United States prevented that from spiraling into a global depression. Cooperation is also required to contain transnational threats—the proliferation of nuclear weapons, pandemics, and global terrorism—sustain the benefits both countries’ citizens expect and demand from trade, and to advance science, technology, and knowledge.

#### The plan solves. It boosts productivity by increasing the quality AND training of workers.

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Moreover, the labor market is different than other markets. People are not widgets. If the price of a commodity, like oil, goes up, the commodity still performs the same. But, if a worker’s pay increases, something different happens. Some workers value their job more and are less likely to leave— which reduces turnover, and turnover is quite costly to employers. Some workers may increase their effort because they feel they are being paid what they are worth. Some employers restructure processes to help make workers more productive and promote additional training to help workers become more efficient. Workers can also have good ideas to improve productivity and may be more likely to offer them when they feel they are being fairly compensated and feel their voice is heard.

Further, higher wages also enable workers to purchase more goods and services. Increased consumer demand gives firms an incentive to invest in new factories and products, which can create additional jobs. Put another way—the ability to pay low wages may be helpful for a particular firm, but low wages are not necessarily good for the broader economy. The growing economy relies on growing consumer demand.

In a similar vein, employers also often underinvest in training—relative to both their needs and the best interest of society. This occurs in part because employers fear their competitors will hire away workers they have spent money to train before they are able to recoup their investment. A related reason is that turnover is very high in some jobs—in large part because pay is low—so employers do not want to train workers that are just going to leave the job. As a result, it may be rational for an individual firm to avoid training investments and instead hire trained workers from another company or just let workers leave the industry. But this can lead to a problem for the overall economy. Unions can negotiate for greater investments in training and can create the structures to deliver it in ways that benefit workers and employers.

All of this means that in the real world there is plenty of opportunity for labor unions to raise wages and not hurt, and perhaps even help, economic growth. Which is why decades of research has shown that unions and collective bargaining do not lead to economic ruin. The research is very clear that unions raise wages and reduce inequality, but their effect on other economic outcomes such as productivity, economic growth, employment, and firm profitability depends heavily on the context, especially the response of management but also the specific firm, region, and time period under study.

The classic work on the economic impacts of unions was written in 1984 by Harvard economists Richard Freeman and James Medoff, and more than three decades of subsequent research has largely verified their findings.91 Freeman and Medoff explained that unions have “two faces.” In one, collective voice acts as an accountability check on management, helps workers’ preferences be accurately communicated to management, and ensures that gains from productivity are equally shared. The other, a monopoly face, can be used to “raise wages above competitive levels” and promote “restrictive work practices.” The collective face boosts productivity by “open[ing] an important communication channel between workers and management,” bringing out the best in workers and management to solve problems collaboratively that could not be solved by individuals working alone. The monopoly face, Freeman and Medoff argue, can produce uncompetitive pay and inefficiencies that “lower the productivity of labor and capital,” such as through “restrictions on tasks performed.”92

Both faces exist simultaneously, but Freeman and Medoff argue that, on balance, the impact of the positive face dominates, even in the United States, which has a less-than-optimal system. There has been an enormous amount of research building on and supporting the two-faces argument, looking into economic outcomes such as productivity, employment, profitability, and physical and human capital investments. Some studies find that the negative face is more prevalent, while others find that the positive face is more prevalent, but most find that the impact of unions on economic growth or the competitiveness of an economy is roughly a wash—often boosting productivity while slightly reducing corporate profits.93

For some people it may be helpful to reference the research on minimum wages to round out the research on unions, as the minimum wage has been the subject of frequent debate. Unions do a lot more than help set minimum compensation standards, but, to economists, raising wages above what employers would pay on their own is analogous to raising the minimum wage. And fortunately there has been much recent and important research on the minimum wage. For decades economists assumed that the minimum wage must have significant harmful effects, but once they really began studying minimum wage increases in detail, they began to understand that the minimum wage significantly increased the earnings of low-wage workers without much or any reduction in employment.94

As with the minimum wage research, there is a growing understanding that unions do not do dramatic harm to the economy. Unions can in fact help the market function properly, balancing the power of employers and workers, helping workers earn a share of the “rents” that powerful companies get, limiting discrimination, reducing transaction costs so workers can understand their options, providing incentives for training programs, reducing turnover, and helping workers gain leverage that can improve not only working conditions but also the efficiency of production processes.

All of these good economic effects can and do happen under the current US labor system. But the US system is not set up to maximize their occurrence. Rather, in some ways the current system is set up to hinder them because it emphasizes enterprise-level bargaining that exacerbates conflict between workers and owners, encourages low-road companies to compete based on squeezing wages rather than increasing productivity, and fails to foster industry-wide training systems—indicating that there are ways to further improve the economic impact of unions by moving toward sectoral bargaining, as will be discussed in the next chapter.

Critically, the economic impacts of unions are even more positive when their broader consequences are considered. Unions also help make government work in ways that are better for the economy. Because unions help balance political and economic power, government is less likely to be captured and used to protect the interests of the rich, the rule of law is stronger, and investments in social goods like education and infrastructure are greater—all of which are good for the economy.95 Unfortunately, the vast majority of research on the economic impact of unions “ignores politics,” as the economist Daron Acemoglu and the political scientist James Robinson write—meaning that it misses perhaps the most important way that unions help make the economy function.96 As a result, unions have a far more positive economic impact than most economic studies are able to show.

#### Critiques are outdated.

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Minimal Economic Harm

A skeptic might question whether unions impose a significant burden on the economy. Critics often drag out stories of unions negotiating for “unreasonable” benefits, like the ability to get paid even if there is no work available or trying to ensure that a light bulb is changed by a union member rather than the person who could most easily do it.

Closer investigation often reveals that these criticisms are overblown, but unions, like any other institution, have flaws and can do things that cause some economic harm. But their flaws are much smaller than opponents claim. Indeed, the overall impact of unions on economic growth is negligible and sometimes positive. Moreover, the US system of firm-based bargaining arguably encourages some of the behaviors that critics dislike because it often requires unions to focus on narrow interests and limits their ability to advocate for the broad needs of all workers. Thus, the economic impact of unions could be even more positive if labor policies were reformed.

To free-market conservatives, anything that raises the cost of workers above what employers would pay on their own will cause economic harm. According to this logic, employers already pay workers what they are worth —their marginal product. “Artificially” increasing pay through union negotiations will supposedly reduce employment or make companies less able to afford other needed investments and thus become less efficient and less competitive in the economy. Labor unions in this view are merely dead weights for employers and the economy.

Of course, the economy does not actually attain the perfectly competitive conditions that free-market conservatives and too many economists assume. Employers and society at large can place barriers to advancement in front of women and people of color. Employers can also make it hard for workers to earn what they are worth with another employer by, for example, forcing employees to sign noncompete agreements. Firms can earn monopolistic “rents” over and above what they would make in a competitive market.

Employers also have what is known as monopsony power, which can enable them to pay workers less than they are worth because it is time- consuming and costly for workers to change jobs.90 Workers can face large transaction costs in finding out what their value is in the market. It takes time and effort to get another job. Workers do not have perfect information about what their colleagues make, let alone what other firms pay. Workers do not always know what skills employers really want—and they may not be able to trust employers’ promises that they will get a higher wage if they get more training. Changing employers means potentially altering commute routines and even friendships and creates the worry that the new job may be an even worse fit. The list of market failures could go on and on.

### Plan---1AC

#### Thus, the plan:

#### The United States federal government should promote broad-based bargaining for workers in the United States.

### Solvency---1AC

#### Solvency:

#### The plan solves. It strengthens bargaining rights by shifting from firm-level to broad-based bargaining, allowing unions to recruit and sustain high density levels.

David Madland 21. Senior Fellow and Strategic Director of the American Worker Project at the Center for American Progress. “The Plan.” *Re-Union: How Bold Labor Reforms Can Repair, Revitalize, and Reunite the United States*, Chapter 1. 5-15-2021. ISBN: 9781501755378

The Old and the New Systems

The new labor system would need to be layered on top of the current system. It is more feasible to build on an existing system than to create something from scratch. But layering is also an effective approach because no single method of bargaining works perfectly for all situations, and no single incentive structure is sufficient to recruit members. The ideal labor system is not one pure type but rather has a mixture of elements.

Higher-level bargaining is very good at setting broad floors that cover most workers, while enterprise bargaining has the benefit of providing greater flexibility to address workplace-specific issues. In even the most centralized bargaining systems in the world there is some room for workplace bargaining. Higher-level bargaining provides a framework and places some constraints on worksite-level bargaining, but worksite bargaining still plays an important role. The two types of bargaining can complement each other and maximize their individual strengths while minimizing their weaknesses.13 Similarly, people join organizations for many reasons, and providing only one type of incentive would make unions too vulnerable to changes in that system. Even countries with a true Ghent system provide additional ways for unions to recruit members.

In the modernized US system, unions would continue to recruit members in some of the ways they currently do—from encouraging solidarity and workplace improvements to offering products to members—and charge agency fees to all workers covered by an enterprise-level collective bargaining agreement. But unions would also gain additional platforms to recruit members, such as through a much more prominent role in the workforce training system and deeper integration in enforcement of workplace laws and navigation of government programs. These Ghent-like policies would provide unions greater access to workers and provide workers with additional reasons to join.

In the new system, additional tools, opportunities, and incentives for membership would be critical because broad-based bargaining covers union as well as nonunion workers and thus creates additional opportunities for free riding. The opportunity for free riding often weakens unions, but these kinds of policies have proven powerful enough to maintain high and stable union density even in the face of the collective action problem. In the new system, unions would still have to work to organize and recruit dues-paying members but would have help in doing so. Requiring unions to continue to actively recruit members is important because it helps ensure unions maintain their independence and grassroots connections, which are essential to exercising power. All told, traditional methods of organizing workers and funding unions, combined with newer platforms for recruitment and greater ability to deliver for workers, will help significantly increase union membership.

Enterprise bargaining would also continue but as part of a bargaining system that would encourage broader-based bargaining. Unions would still be able to negotiate enterprise agreements (and charge workers at the firms for this service as they do now). But the new system would give unions additional tools to bring multiple employers to the bargaining table. In addition, if collective bargaining reached a certain threshold of coverage in a sector or region, the terms of the contract could be extended to similarly placed workers, a bit like how prevailing wage laws currently operate for government contracting. In sectors where there is minimal or no union density, bargaining would need to be bootstrapped through a workers’ board, composed of representatives of workers, business, and the public. The new system would require some significant changes for unions, and as a result not all unions will eagerly support or easily adapt to this new model. Some local and even national unions with significant influence with a particular employer could fear losing out as broader-based bargaining takes hold. And some unions will be challenged by a system that at times emphasizes working closely with government. But the union role in the modernized system would not be so different from what many unions have done in the past and some continue to do today.

In the new system, unions would play a more formalized role in providing public benefits—a role they have experience with. Since their inception, labor unions have been involved with workforce training, and today unions train thousands and thousands of workers every year through joint labor-management training funds and place them in good jobs. Unions help lead these training efforts in a variety of ways, from bringing groups of employers together to create an industry-wide training program, bargaining for employers to fund the program, seeking government grants, helping set training standards, and helping administer the public training system by serving on government workforce boards. Further, many labor-management training funds provide training to union and nonunion workers. In addition, unions help run funds that provide health care and retirement benefits to millions of workers. They help workers apply for and receive public benefits such as unemployment insurance and workers’ compensation benefits.14 Unions also enforce the contracts of their members as well help ensure that the legal standards in various workplace laws are adhered to.

Similarly, many unions have a history of bargaining above the enterprise level. Until the 1980s, higher-level bargaining was quite common in many industries, especially in industries like mining, trucking, steel, and telecommunications.15 Estimates suggest that in 1980 roughly 10 percent of US workers were covered by multi-employer agreements.16 This means that in 1980, approximately 40 percent of all workers covered by a collective bargaining agreement were covered by a multi-employer agreement.

Some of this broad-based bargaining occurred when a group of employers negotiated with a union or unions about the conditions in the industry, while in other cases it occurred through pattern bargaining, where a union would negotiate with a single firm and then uses its power in negotiating with other firms in the industry to ensure that they adopted the same contract, so ultimately many of the workers in the industry were covered by the same contract. Only in a few cases did this bargaining actually cover most of the workers in a relevant labor market and truly take wages out of competition, but in a number of cases it covered a significant percentage and approached this goal. This history will be explored more in subsequent chapters, as it shows how the current system makes broader-based bargaining difficult to achieve and maintain and also highlights why the new system would be much better. The point to recognize now is that many unions have experience with broader-based bargaining, so they would likely be able to perform bargaining roles encouraged by the new system. Indeed, higher-level bargaining exists in a number of sectors today, such as hotels in some cities and in sports and entertainment, to name a few examples—though it is nowhere near as common today as it once was.

With this baseline understanding of how the new labor system would operate, the details of its new facets can be explored. The new labor system’s interlocking policies to strengthen unions and promote broader-based bargaining would not work well without all of these core elements. For example, workers cannot effectively bargain without enhanced strike rights and adequate penalties on employers that violate the law. But these and many other parts of the envisioned new labor system have long been on the labor reform agenda and are fairly well understood. In contrast, contract extension, workers’ boards, and an American version of the Ghent system are less well known and deserve additional discussion.

Broad-Based Bargaining

Most countries in which sectoral bargaining covers a significant percentage of workers have what are known as extension laws, which spread the gains of union contracts to similarly placed workers.17 Extension laws vary across countries, but the basic concept is that once a union contract is considered to represent a sufficient number of workers in an industry or region, its wage and benefit standards are extended though official action to cover all workers in that industry and region, regardless of whether or not the workers are part of the union. This helps to spread the gains of union contracts but also encourages employers to collectively bargain so that they can have input on these industry-wide or regional standards. In the United States, the most promising versions of this concept are based on prevailing wage laws that are already used for government contracts and the Baigent-Ready model being considered in Canada that seeks to extend master contracts.

In the United States, prevailing wage laws such as the Davis-Bacon Act of 1931 require companies working on government-funded projects to pay wages and benefits that, at minimum, match existing compensation levels in the industry and region. Prevailing wage laws are most commonly applied to government-funded construction projects, but they can also apply to service work and to grants, loans, and tax breaks, and they exist at the federal, state, and local levels. These laws ensure that government spending does not drive down market wages, and they lead to high-quality work and good value for taxpayers.18

Prevailing wage laws can also be seen as fostering broad-based collective bargaining and helping standardize wages across an industry—as the laws can, in areas where there is sufficient union density, effectively extend collectively bargained wages to other workplaces that contract with the government. Under these laws, governments must determine what wages prevail in the industry and occupation. This is often set at the rate that either 30 or 50 percent of workers are paid—a level that is possible for some unions in certain areas to achieve through workplace-level bargaining but still a relatively high threshold. But the way prevailing wages are calculated in some localities is particularly supportive of collectively bargained wages. Bergen County, New Jersey, uses collectively bargained wages from the union contract that covers the most workers in a given classification for prevailing wages for building service workers, provided that the contract covers at least two hundred workers.19 Several states have explicitly use collectively bargained rates, without regard for a set coverage threshold, to determine prevailing wages for public works projects.20 Still other states give significant consideration to collectively bargained wages.21 While prevailing wage laws already support collective bargaining and encourage industry-wide coverage, the basic model could be applied more broadly.

A step toward promoting sectoral bargaining would be to ensure that all government spending—no matter how it is structured, whether it is a contract, grants, loans, or tax break—has prevailing wage standards attached to it. Currently, prevailing wage laws tend to apply only to a fraction of overall government spending, so there is significant potential for expansion of this concept, at the federal level as well in state and local governments. As a second step, the prevailing wage should be calculated in a way that supports unions. One way to do this would be to set the percentage of workers covered by a contract necessary to be determined prevailing could also be set at more easily attainable levels, such as 20 or 30 percent. Alternatively, once a sufficient number of workers are covered by a collective bargaining agreement, for example 200 workers, the standards in those contracts become prevailing. A third and more dramatic step would be to use the prevailing wage model in the private sector outside of areas with significant government spending. Under this policy, once union contract coverage meets the representation threshold set by prevailing wage laws, employers in the same industry and region would have to meet the union standards.22

Prevailing wage-style extension would be particularly useful in industries and regions where unions already have relatively high levels of density. In those areas, the contracts that unions have negotiated would set the standards that other employers would need to follow. Unions would gain some stability knowing that their bargaining would not be constantly under threat from low-road employers. Unions that were close to the coverage threshold necessary to trigger the contract extension would have a strong incentive to organize additional workplaces. Furthermore, employers in these sectors would have an incentive to bargain, as they would want to have some input on the standards.

Still, many industries and regions are far from having the density levels necessary for prevailing wage extension to work and would need different types of extension tools. In lower-density sectors and regions, a kind of master-contract extension being considered in Canada would be necessary to promote broader-based bargaining.

Canadian unions and policy makers have increasingly recognized the importance of promoting broad-based bargaining and have been considering a range of alternatives to achieve this goal. The Canadian labor system is quite similar to the US system, and one of its most notable sectoral bargaining proposals is the Baigent-Ready model, named after two commissioners on a labor reform panel.23

Under the Baigent-Ready model, once a union contract covers two different workplaces in a particular industry and region, each additional workplace that organizes would be automatically covered by the union contract. This means that if a union bargains a contract with company X at one worksite and bargains a similar contract with company Y at another worksite in the same industry and region, then each additional worksite where a majority of workers agree to join the union in that industry and region is covered by the same contract.

The policy works a bit like a master contract on steroids. American unions have a long history of creating master contracts, where they create a single contract that they negotiate with multiple employers to sign.24 However, as unions have become weaker and the law increasingly hostile, they have had a harder time getting employers to agree to sign these agreements. Indeed, today only one-seventh of union organizing drives results in a union contract for workers.25 Under a Baigent-Ready policy, unions would not have to compel each new employer to sign the master contract—they would only need to organize workers at the worksite to automatically achieve contract coverage, thus making master contracts much easier to extend to other worksites.

This master-contract extension can help get multi-employer bargaining started, particularly in industries with relatively low union density and a number of small employers or firms. In the early stages, when relatively few employers are covered by the master contract, this coverage would not constitute true sectoral bargaining. However, it would create an on-ramp to covering all workers in a sector in a manner that is quite compatible with the current process of worksite-level organizing. Unions would still need to organize worksite by worksite, but the process would be much easier. Workers would be more optimistic and less fearful because, once organized, they would immediately be covered by a union contract, and employers would not be able to deploy the common tactic of fighting to avoid signing.26 Thus, the Baigent-Ready model would be a helpful tool to promote multi-employer bargaining in industries where a little push is necessary to get the process moving, as well as helping to strengthen unions.

There will still be regions and sectors in which traditional or even Baigent-Ready-style collective bargaining may not be able to gain a strong foothold. Examples include heavily fragmented industries with very low union density, such as domestic work, the gig economy, and fast food franchises. Policy makers also need to ensure that workers in these areas and other workers are not misclassified as independent contractors. Workers’ boards—which bring together representatives of employers, workers, and the public to set minimum standards—are particularly helpful in these types of cases. In sectors where there is little or no traditional collective bargaining, these tripartite boards can significantly raise standards and help create the conditions that lead to more independent bargaining. Several states, including New York and California, have relatively limited versions of wage boards, but Seattle has a more robust version for domestic workers, and Washington State considered a particularly strong version for independent contractors.28 The more robust versions of wage boards are often called workers’ boards or worker standards boards.

In a new labor system, workers’ boards would have the ability to set minimum wages and benefits, or floors, for jobs across an industry, as well as institute wage scales requiring higher pay for greater skills or experience. Individual workers and their unions could negotiate for improvements but could not go below set minimums. All workers in an industry would be covered, regardless of whether employees or independent contractors and whether or not unionized. The workers’ board process would offer strong legal protections for participating workers, increase union access to workers, and provide incentives to encourage workers to join unions and other worker organizations that represent them on the boards.29 These incentives would include involving unions in the enforcement of the wage board standards and enabling worker organizations to help deliver benefits or navigate workers through the process. These essential workers’ board elements would help build union strength and potentially lead to more direct bargaining, especially because workers and employers would create a history of negotiating.30

There is a long history of wage boards in the United States—they were used to help set standards in dozens of states in the early 1900s as well as in the original federal minimum wage legislation, and they continue to be used in several states.31 Even though the National Labor Relations Act preempts state and local governments from legislating around a number of bargaining issues for workers covered by the act, the model of setting minimum standards through a tripartite wage board is legally considered standard setting rather than bargaining, and thus state and local governments have some room for experimentation.32

Perhaps the most notable example in recent years of a wage board was for fast food workers in New York State. Fast food work in the United States is typically very low-paid, with extremely high turnover, and even though there are a few very large profitable firms, such as McDonald’s, Burger King, and Taco Bell, most of the individual employers are relatively small franchises with low profit margins. If the majority of workers at a particular store location organized, they would be extremely unlikely to be able to negotiate for better working conditions—with the lead firm claiming no responsibility, the franchise claiming no ability, and the location possibly closing to prevent negotiations from occurring. Moreover, should the workers succeed in negotiating a contract—this one store would then have higher labor costs than its competitors, potentially creating a range of economic difficulties. In this context, broad-based bargaining would be particularly useful, but it could only be achieved with a wage board due to low union density in the industry.

In 2015 the governor of New York exercised his long-standing but infrequently used ability to empanel a tripartite wage board composed of a representative of workers, a representative of employers, and a representative of the public to investigate working conditions and make recommendations for the fast food industry.

The board conducted investigations into working conditions in the industry and heard testimony from workers, employers, and the public over a period of several months. The board recommended a $15 hourly minimum wage for the industry— which would be achieved more quickly in downstate New York than in the more rural upstate areas—raising wages for thousands of fast food workers and setting a precedent that would ultimately be adopted statewide.34 The states of California and New Jersey also have similar wage board laws.

A related but more expansive version of a worker board comes from Seattle, which in 2018 passed a groundbreaking bill for domestic workers such as housecleaners, nannies, and home care providers.35 This policy provides one of the most important and innovative models for the future of bargaining and worker organization. Domestic workers—as well as agricultural workers and independent contractors—are exempt from federal labor law, which provides state and local governments greater room for experimentation with forms of higher-level bargaining, as well as incentives for membership. The industry is characterized by low pay and poor working conditions, and it has long been fissured with many independent contractors and very small employers. Some consider domestic work to be the original “gig” work, as it can be quite difficult to get steady well-paying employment and workers often need to piece together multiple gigs.36 These industry conditions occur in part because domestic workers have not been covered by federal bargaining law or minimum wage laws, because the workers often are immigrants with low levels of education, and because barriers to entry into the industry are low.

In this context, typical enterprise-based collective bargaining is very difficult. A lone house cleaner or nanny does not have much ability or structure to bargain collectively with the employing family. Nor does a group of “independent contractors” have much ability to negotiate with the agency that contracts them out, and, even if they somehow could, standards would be easily undercut as only a very small part of the industry would be organized.

The Seattle solution was to bring together representatives of employers, workers, and the government in a workers’ board to negotiate minimum industry standards for domestic work. Because of the structure of the industry and the fact that most of the workers are unorganized and have little ability to compel employers to bargain, it was necessary for the government to create a bargaining table and force all the parties together. Over time, the board may evolve into a more direct kind of multi-employer bargaining, affirming, and helping spread the contracts agreed upon through collective bargaining.

The Seattle domestic worker law does far more than just create a structure for broader-based bargaining, because it also creates several incentives for membership. The law creates a process for selecting board members that provides an impetus for groups to organize workers and for workers to participate. More directly, the policy can create a fund to help provide the kinds of benefits other workers often receive but are virtually impossible for domestic workers to get, such as sick leave, training, and workers’ compensation. Such a fund would be managed by worker organizations and help provide a key tool for recruitment because it would authorize worker organizations to help deliver public benefits and provide them with access to workers and an incentive for workers to join them.

Incentives for Membership

The portable benefits fund is an example of how a Ghent-like system could be created in the United States. The Ghent system—named for the city in Belgium where it originated—relies on labor unions to administer unemployment benefits. Today variations of the Ghent system exist in Denmark, Finland, Sweden, Iceland, and Belgium. While each country’s system works slightly differently, the underlying logic is the same. The Ghent system provides worker organizations with a formalized role in delivering unemployment insurance that is subsidized by the government. In some versions of the Ghent system, workers are required to join the union to access the benefits, but in other versions unions use the insurance sign-up process and the relationships built through this process to recruit and retain members.

In Belgium, the government is responsible for funding the unemployment insurance system, and people can either choose to go through the government or a union to access the benefits. The union receives government funds to help administer the program; however, it has to keep that money separate from other union finances. Workers do not have to be union members in order to receive the benefits, but many still choose to go through the unions because they find it easier and the service better. Unions make it easier to navigate bureaucracy by providing help with paperwork and ensuring that workers receive their payments and enroll in training.37 On top of supplying a needed public benefit, the system also gives unions a chance to interact with workers outside the workplace.38 In short, the Ghent system creates a framework that incentivizes and encourages union membership.

The benefits of the Ghent system can extend to the public as well. There is some research to suggest that, despite the voluntary nature of Ghent—as opposed to the “universal” nature of most countries’ unemployment insurance systems—take-up rates in Ghent countries are actually higher than in other European countries or the United States. For instance, one study found that in both Denmark and Sweden, 85 percent of unemployed people received unemployment insurance in 2005, compared with only 47 percent and 20 percent of unemployed people in Germany and the UK, respectively. What’s more, studies find that the Ghent system can help achieve much higher coverage in an efficient and cost-effective manner. Other research suggests that the key role unions play in the Ghent system helps make it work well.41

In the United States, there is clear evidence that public programs designed to help workers—such as unemployment, health care, and retirement benefits—can be difficult to navigate alone and that involving unions would likely improve outcomes. For example, only about 40 percent of unemployed workers apply for unemployment insurance and less than 30 percent receive it.42 Studies suggest that union members are more likely to receive workers’ compensation and unemployment insurance (UI) than nonunion members.43 Indeed, blue-collar workers who were laid off from union jobs were about 23 percent more likely than comparable nonunion workers to receive UI benefits. Professors John W. Budd and Brian P. McCall speculate that unions drive higher take-up rates by acting as a “conduit of information.” They argue that unions reduce the “costs” of applying for benefits by providing information about how and where to apply for benefits, helping collect evidence in case of disputed claims, and providing representation in hearings over disputes.44

The basic concept behind the Ghent system—unions delivering or helping people access governmental benefits—already exists in a number of forms in the United States. In the new system, these models would be expanded on so that unions would play a key role in helping provide a range of public services that workers need, including program navigation, workforce training, and enforcement of workplace laws.

This benefits navigation concept could be applied to a variety of government programs, from unemployment insurance to healthcare to retirement, and is currently being modeled in several areas. Somewhat mirroring Seattle, with its domestic worker benefits fund, New York has had a portable benefits fund for independent contractors who drive limos, known as the Black Car Fund, for two decades.45 In recent years, the fund has also covered Uber and Lyft drivers. For drivers injured on the job, the fund provides workers’ compensation insurance—something that most employees but very few independent contractors have. Benefits are funded by a legally required surcharge on each ride.46 The International Association of Machinists and Aerospace Workers District 15 helped push for the creation of the fund, and its nonprofit affiliate, the Independent Drivers Guild, has been working to make the fund into even more of a recruitment tool.47 The guild’s benefit fund has partnered with the Black Car Fund to offer additional benefits, such as vision case, telemedicine, drug discounts and assistance in applying for Medicaid health insurance.

In Oregon the state Department of Administrative Services is currently partnering with a local union on a training program aimed at increasing state employee understanding of its retirement and health benefit plans and how to take advantage of them.48 In this program, unions help workers navigate the state retirement and health benefits system to choose the appropriate plans for their situation, which participants believe will lead to savings for both workers and the state.

In addition to helping workers navigate public benefits, another Ghent-like model uses unions and worker organizations to help enforce workplace standards, as part of a co-enforcement strategy. There is a strong need for improved enforcement since evidence suggests that wage theft—or employers paying workers less than they are legally entitled to—and other violations of workplace standards are pervasive. A report by the Economic Policy Institute, for example, estimated that low-wage workers lost more than $50 billion to wage theft in 2016.49

The co-enforcement model helps improve enforcement of laws such as the minimum wage by recognizing what unions and worker centers can do that government cannot do on its own. These organizations are in contact with workers in more workplaces than government inspectors will ever be able to get to, and these groups have workers’ trust. Thus, these organizations have information about what is happening to workers that government is not privy to—as vulnerable workers are often afraid to talk to government officials. As a result, these groups can serve as key intermediaries to bring workers and government together, both by informing workers of their rights and by helping workers take action to receive their earned pay and benefits.

Co-enforcement works for the public and unions. Co-enforcement initiatives, according to a study of them by professors Seema Patel and Catherine Fisk, improve “compliance and enforcement”; generate “professional development, sophistication, and commitment among enforcement officials”; and produce “modest revenue increases, better legitimacy, and strengthened institutional framework for groups working with, and composed of, low-wage workers most vulnerable to wage theft and other substandard working conditions.”50 Studies have also found that unions increase compliance with Fair Labor Standards Act overtime regulations.51 For unions and worker organizations, the co-enforcement model can help increase access to workers, provide additional funding for some activities, and help them deliver real benefits to workers.52

One of the oldest and most successful co-enforcement programs is the Los Angeles Joint Labor Compliance Monitoring Program. Through it, the Los Angeles Unified School District (LAUSD) partners with trade unions to train volunteers to help identify violations of prevailing wage laws on district projects. The district authorizes these volunteers to conduct site visits and interview workers about compliance as well as help with audits, hearings, and review conferences.53 The volunteers gather information and alert the city to problems, making it possible for city inspectors to determine penalties.54 Professors Janice Fine and Jennifer Gordon noted that the program has expanded the city inspectorate’s capacity and according to government officials helped identify more violations and improve compliance.55 Similar programs exist across the city of Los Angeles as well as in Seattle and San Francisco.56

Another way to adapt the Ghent-like concept would be to bring unions more formally into the workforce training system. The current workforce training system in the United States is uneven, and outside of joint labormanagement partnerships it is too often of low quality and fails to lead to good jobs.57 For instance, studies find that while certificate and sub- baccalaureate programs generally yield some increase in earnings, returns vary significantly based on a student’s field of study, race, and gender. 58 Moreover, a lot of training is firm-specific and leads to skills that are not transferable to other employers.59 In addition, the United States spends less money on training than its competitors do, ranking at the bottom among OECD countries.60 In other words, there is a large gap between the training that is needed and the training that is provided.

Involving worker organizations more robustly in the workforce training system could significantly improve training.61 Unions already play a role in workforce training. They directly negotiate with employers to create labormanagement training funds, and they participate in government-funded training in several roles, as both members of workforce boards and recipients of funding. But employers dominate the public system.62 Rebalancing the workforce system to emphasize quality and ensure that unions and employers have equal power—as well as promoting joint labor-management programs—would help ensure that training leads to good jobs.

Research shows that when unions get involved, workers get more training, and this training leads to better results, including jobs with higher pay. 63 Furthermore, workers in labor-management programs are more likely to complete their training, and they drop out at lower rates during economic downturns.64 Completion rates in labor-management construction apprenticeship programs in Ohio and Kentucky, for instance, are 21 percent and 35 percent higher, respectively, than in nonunion programs.65 Unionsponsored training programs in the building trades also have higher enrollment rates and participation among women and people of color than training that is not sponsored by unions.66 There is also strong evidence that workers highly value training and are willing to join unions because of it.67

Many states and the federal government have experience supporting training where unions play a key role.68 A particularly strong version of using training to provide incentives for union membership is to ensure that the training necessary to enter into an occupation is provided by unionmanagement partnerships. The best example of this comes from home care workers in Washington State (Montana has a similar system), as discussed previously. But New York State has had similar success with family child care providers; the workers’ union, CSEA/VOICE, helps ensure adherence to quality standards by providing training and technical assistance.69 There is significant room to expand this required training model since there are hundreds of thousands of non-degree credentialing programs in the United States, and over one-quarter of workers are estimated to have certification or a license.70

Another way to increase the ability of unions to use training as a recruitment tool is to provide a dedicated funding stream for joint labor-management programs. One of the better-known labor-management training partnerships is the Las Vegas Culinary Academy, which provides preemployment training to people entering the hospitality industry, as well as advanced upgrade training to union members working for participating hotels on the Las Vegas Strip.71 The academy arose out of a 1993 collective bargaining agreement between Las Vegas Strip properties and the two local unions—Culinary Workers Union Local 226 and Bartenders Union Local 165—that recognized the need to create a “reliable, trained” workforce, and it has since acquired its own building and become certified as a postsecondary institution by the State of Nevada.72 Today the academy annually trains roughly sixteen hundred people—the majority of whom are Hispanic or African American. 73 Training is free for members from participating Las Vegas Strip properties, and nonunion entrants usually obtain funding from other federal, state, or nonprofit sources.74 State funding helps the programs reach additional workers. By working with the industry’s hiring hall to ensure that graduates are first in line for new job openings, the academy creates a clear path between training and existing jobs.75

The academy’s unique structure gives the unions a role in structuring and regulating occupations, while also providing opportunities to extend union membership. Professors Mia Gray and James DeFilippis find that, “through the Academy, many unemployed or underemployed local residents have trained … and have found their way into the industry and often, at the same time, into the union.”76 Providing a dedicated and adequate stream of public funding to similar joint labor-management training programs could help increase capacity.

Still, there are many other training models to build on, particularly in the public sector. For example, city employees in Toledo, Ohio, developed a program in which union members acted as peer trainers to promote safe work practices, leading to a decrease in employee injuries.77 In California, public safety unions have partnered with the Office of the State Fire Marshal to create a joint apprenticeship committee that enables training consistency by having firefighters from different departments train under the same umbrella organization. This consistency was critical in 2015 when coordinating hundreds of firefighters across the state for a monthlong effort fighting wildfires.78 The Washington State board that oversees the state’s workforce development system is tripartite, with an equal number of representatives of workers, employers, and the public. Any or all of these policies could be expanded, such as by significantly increasing funding for training programs that involve unions, requiring employers to contribute to these funds, providing incentives to firms that involve unions in training programs, ensuring that mandated training is fulfilled by labor-management partnerships, and mandating that unions have equal representation with employers on governmental workforce training boards.79

It may take some experimentation to find the optimal mix of programs and union involvement for a Ghent-like system in the United States. But the goal is for unions to be involved in the navigation and delivery of the full range of governmental benefits that workers need—including health, retirement, and training—as well as enforcement of the law. As these examples demonstrate, there are opportunities across the federal, state, and local levels for policy makers to involve unions and worker organizations in training, navigation, and co-enforcement efforts. Doing so would help not only workers and their unions but also the government and the public. In short, there are many existing models to build on and expand to create the new labor system. The United States has experience with prevailing wage extension, wage boards setting minimums across sectors, and Ghent- like policies in which unions help deliver public benefits. To be sure, none of the models have achieved the scale necessary, as they typically only apply in a limited area or to a specific industry or occupation. Still, they serve as proof of concept for local, state, and federal governments to build on. Policy clearly can seek to cover most workers with a collectively bargained contract and provide unions with a platform to recruit workers.

#### Worker mobilization is inevitable, but only federally enacted sectoral bargaining channels it into union strength that delivers wins.

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The real question is not whether workers will organize. Of course they will – as will businesses, congregations, sports leagues, political parties, etc. – humans are social animals and require cooperation to solve complex problems. In recent years we have seen fast-food workers striking for $15 wages, teachers organizing strikes from the bottom up without the encouragement of state union officials, public employee unions in much of the country remaining strong despite the Janus decision, non-union grocery workers striking in defense of their company’s ousted management, and non-union Amazon and Google employees walking off the job to protest climate change and gender inequity (the latter examples would have been wholly unimaginable to the framers of the Wagner Act). Globally, workers organize even when threatened with imprisonment or worse by right-wing paramilitaries and communist dictators.

So the question isn’t whether workers will organize, but rather which legal regime for organization leads to the outcomes I think we both want: a strong economy, family financial security, dignified work, etc.

Options and Outcomes

At the risk of being reductive, from a policy perspective the U.S. basically has three options: the status quo, trying to rebuild enterprise bargaining, or reengineering our labor law system for sectoral bargaining.

The status quo is easiest to understand. For the reasons I described in my first letter, fewer and fewer private sector workers will be covered by union contracts, wages and other forms of compensation will stay low, the middle class will keep shrinking, families will continue to struggle with financial health, our economy will become more unequal, and economic growth will ultimately be impeded by low levels of demand.

The second option – trying to prop up the old enterprise bargaining system – was and in many ways remains the U.S. labor movement’s preferred labor law reform. Despite the strategy’s obvious limits, this remains the closest thing to consensus on the left-of-center, as evidenced by support for the PRO Act. To be clear, of course I believe it would be somewhat better if somewhat more workers were represented by unions under the Wagner system. But for all of the reasons we’ve discussed, the U.S. model is intrinsically weak, inaccessible, and produces perverse incentives for labor and management alike. Tweaking the Wagner model to allow for faster and fairer certification elections doesn’t change the fact that the system tends to lead to its own demise.

Option number three is some version of sectoral bargaining. Support for this option is growing among labor leaders, but is far from universal. I doubt there is any perfect system, but from the perspective of someone who has spent his adult life and career working within the limits and contortions of the current U.S. system, this option has by far more appeal for the reasons we’ve discussed – it covers more workers, creates far-better economic outcomes, creates fewer incentives for a race-to-the-bottom, focuses conflict on periodic macro-level national or regional bargains rather than on the shop floor, and allows greater avenues for labor-management partnership.

How could this actually happen?

In a perfect world, there probably would be a 1500-page federal law scrapping most of the NLRA and instituting a broad new system of sectoral bargaining in one fell swoop, and I’m not willing to give up all hope for that in the long run. But the federal government isn’t famous for domestic policy innovations that haven’t first been prototyped by cities and states, or in specific industries. Even the Wagner framework itself can trace its roots to late 19th century railway legislation, the 1912-15 U.S. Commission on Industrial Relations, the World War I-era War Labor Board, and the 1926 Railway Labor Act.

As you point out, there are several avenues for experimentation, learning, and progress short of a comprehensive federal reform. Your three examples are all apt.

States (or in some cases home-rule cities) could experiment with bi- or tri-partite industrial standard setting. One state might create a sectoral bargaining framework for a specific industry with persistently low wages or dangerous work that lawmakers believe needs addressing. The existing union(s) or alternative worker groups that meet a threshold of legitimacy and the employer-representatives (probably a trade association) might negotiate directly, with a public representative or arbitrator empowered as a “tie-breaker,” and the resulting agreement could be binding at least as a set of minimum standards on the industry.

This path has some limits – it seems unlikely that without a federally-enacted framework the resulting “bargains” could be incredibly prescriptive over some employment terms without running afoul of NLRA preemption. It also seems more likely to succeed in place-based service industries where firms don’t have a credible threat to flee across state lines seeking less stringent labor standards. But this path has already shown promise with state and local wage boards, some based in statute and others politically constructed. And in many cities and states, existing laws for awarding public construction contracts help create de-facto sectoral bargaining in the commercial construction industry (an industry also notable for high levels of labor-management partnership around apprenticeship and training programs, retirement plans, and health insurance).

#### It overcomes all alt causes.

David Madland 21. Senior Fellow and Strategic Director of the American Worker Project at the Center for American Progress. “The Contours of a Modern Labor System.” *Re-Union: How Bold Labor Reforms Can Repair, Revitalize, and Reunite the United States*, Chapter 3. 5-15-2021. ISBN: 9781501755378

Summary

This chapter has explained why the new labor system needs to provide a supportive environment for union recruitment and higher-level bargaining. A supportive policy environment that provides workers with multiple reasons to join unions—incentives and solidarity—is necessary to produce high and stable membership and overcome powerful forces working against high union membership. Unions are a public good that all workers can benefit from without paying their full costs, and they challenge powerful business interests, which means society will have less of them than optimal unless policy support is provided. Broad-based bargaining is necessary to provide consistently high collective bargaining coverage in the modern economy. Under enterprise bargaining, coverage is too hard to achieve for workers with little power and is relatively easy for businesses to evade through strategies such as contracting out.

To be sure, policies that support recruitment and broad-based bargaining work best when supported by many other factors, including the strategies and tactics of union leaders, the grassroots efforts of workers, and a host of other economic policies and the larger political environment. Broad-based bargaining also relies on some degree of worksite bargaining to address issues at individual worksites and maintain a grassroots connection to workers. Similarly, incentives for membership require workplace organizing to ensure high union density.

But the evidence from around the world, as well as across the United States and throughout US history, shows that a supportive policy environment for union recruitment and broad-based bargaining are of the utmost importance. No matter what other factors are also at play, incentives for membership and higher-level bargaining are critical to the success of the labor movement. They lead to higher union density, greater collective bargaining coverage, wage increases for more workers, lower inequality, smaller racial and gender pay gaps, and higher productivity in the economy.

#### And avoids the free-rider problem.

David Madland 24. Senior Fellow and Strategic Director of the American Worker Project at the Center for American Progress. "Sectoral Bargaining Can Support High Union Membership." OnLabor. 6-6-2024. https://onlabor.org/sectoral-bargaining-can-support-high-union-membership/

Collective bargaining systems that promote sectoral bargaining as well as workplace-level bargaining have much greater union contract coverage compared to purely workplace-level bargaining systems. But some union allies worry that promoting sectoral bargaining could reduce union membership because it can create a free-rider problem, whereby similarly placed workers are covered by a union contract whether they are members or not.

Yet, there is little evidence that sectoral bargaining hinders union membership. Rather, as I highlight in a new Center for American Progress report, sectoral bargaining can — and typically does — support high union membership.

Sectoral bargaining creates processes that encourage union membership — and these pro-union forces are generally more powerful than the free-rider problem it fosters.

* Under sectoral bargaining systems, employers face similar labor costs whether their workers are unionized or not. As a result, employers have less incentive to fight their workers’ efforts to unionize, which can make organizing workers easier. The level playing field also protects unionized workers and high union standards from being undercut by low-paying companies.
* In addition, sectoral bargaining provides new recruitment opportunities for unions with workers that they already have a connection to because they are covered by a union agreement.
* Furthermore, workers still have incentives to unionize to have greater voice and power in negotiations. Though the incentive to organize in order to influence bargaining that occurs at the sectoral level may be more attenuated than in worksite-only systems, worksite bargaining in sectoral systems can address shop-specific concerns. Integrating sectoral and worksite-level bargaining creates strong incentives for workers to stay engaged and participate in the union.
* Finally, sectoral systems typically include additional policies that are critical to supporting high union membership such as strong worker rights, union access to worksites, and the Ghent system, where unions help deliver governmental benefits to their members.

That sectoral bargaining systems can overcome the free-rider problem and support high union membership is born out in real world examples. Indeed, the three main ways to study the impact of sectoral bargaining on union density—before and after analysis of policy change in particular countries, cross-country comparisons, and case studies of organizing campaigns—all point in the same direction.

For example, labor union membership significantly increased when Uruguay revitalized sectoral bargaining. In contrast, after New Zealand, Australia, and Britain severely weakened or eliminated sectoral bargaining they experienced sharp reductions in union membership.

Broader cross-country research tells a similar story that sectoral bargaining supports high union membership. Jelle Visser, a professor at the University of Amsterdam, studied union membership in European countries over several decades and found that greater bargaining centralization (with sectoral bargaining more centralized than worksite bargaining) has a “significant, positive and robust impact” on union membership.

Columbia University’s Bruce Western found that more centralized bargaining was one of three institutional conditions “essential for union growth” in a study of economically advanced countries since 1950. Magnus B. Rasmussen, professor at the University of South Eastern Norway, studied 35 countries over recent decades, as well as a smaller sample of 12 advanced countries from 1911 to 2000, to find that sectoral bargaining is more “conducive” to growth in union membership than worksite-only bargaining.

Studies found that sectoral systems were especially likely to produce higher union membership for workers in jobs that are “inherently hard to organize,” such as those with many small employers or heavily contracted, fissured industries.

Not surprisingly, the seven countries with the highest union membership in the OECD—Iceland, Sweden, Finland, Denmark, Norway, Belgium, and Italy—all have sectoral systems. In contrast, the six countries with the lowest union membership in the OECD – United States, Turkey, Colombia, Hungary, Lithuania, and Estonia — all have primarily workplace bargaining.

To be sure, there are some countries with sectoral bargaining and low union membership – most notably France, with 11 percent membership. But France has an unusual system that hinders membership – and is not a model the United States should emulate to boost union density.

In the French system, unions have little need to recruit members. Unions receive most of their funding from the government and employers rather than member dues. Furthermore, union bargaining power does not depend on membership: Unions gain the ability to bargain based on the support they receive in special workplace elections for employee representatives, which means unions do not need many members to negotiate with employers. In addition, French workers — whether they are members or not– receive virtually all rights and benefits of union contracts. This creates a greater free rider problem than in other sectoral systems, as other types of sectoral systems extend only some elements of union contracts to nonmembers—such as wages, but not all benefits or on-the-job protections.

Case studies of union organizing campaigns also indicate that sectoral bargaining can facilitate worker organizing and membership.

For example, Amazon workers in Italy took several strike actions—including a massive systemwide strike in March 2021—in part to get Amazon to fully comply with national sectoral agreements for similar workers. These strikes were critical in helping achieve a historic contract with Amazon. The contract is helpful for union recruitment because it allows unions to communicate with workers through the company’s systems.

Similarly, workers have organized around sectoral issues in the United States — even in sectoral standard setting systems that fall short of sectoral bargaining and thus should create less of a push for collective action. A review of sectoral minimum wages by the Institute for Research on Labor and Employment at U.C. Berkeley found that unions “continued to grow membership in locations covered by the policies in subsequent years.” They found, for example, that union density for large hotels in Santa Monica, California, went from 0 percent to 70 percent under a sectoral minimum wage. In Nevada, home-care workers unionized several employers as an outgrowth of their efforts around a sectoral standards board.

The cases of Amazon workers in Italy and organizing campaigns in several U.S. cities and states show that the structures of sectoral bargaining systems can motivate workers and help them succeed. In these cases, workers organized around sectoral issues, rather than free riding, and the sectoral systems helped workers achieve their goals and motivated further organizing. In these cases, there was also often an interplay between workplace and sectoral organizing, with efforts at both levels supporting the other.

In short, the research shows that sectoral bargaining generally supports high union membership. Sectoral bargaining can encourage worker engagement and make their efforts more likely to succeed, creating a virtuous circle that boosts union membership.

#### Top-down regulation is unsuccessful without strong bargaining rights.

Keith Sisson 24. Emeritus Professor at the University of Warwick. "Introducing sectoral bargaining in the United Kingdom: Why it makes sense and how it might be done." Industrial Relations Journal, Vol. 55, Issue 6. 8-28-2024. https://onlinelibrary-wiley-com.proxy.library.emory.edu/doi/10.1111/irj.12444

There are two main reasons why joint self-regulatory mechanisms like collective bargaining are to be preferred to legal regulation. One, which will be expanded upon below, is that they encourage participation and involvement. Inasmuch as large numbers of people are typically involved in discussing and debating the possibilities, the outcomes enjoy greater legitimacy and commitment.

The second reason is their much greater ability to adapt regulation to circumstances. In the words of the OECD's (2019b) ‘Employment outlook facing the future of work: How to make the most of collective bargaining’, collective bargaining offers a ‘more flexible and pragmatic but fair manner than labour law’ for dealing with issues. It can help to adapt pay, working time and work organisation to new needs; deal with work–life balance and increased working time flexibility; and regulate the use of artificial intelligence, big data and electronic performance monitoring, as well as their implications for occupational health and safety, privacy, evaluation of work in performance and hiring and firing decisions.

Ironically, it might be added, the decline of sectoral bargaining in the United Kingdom did not give employers the flexibility that they might have expected. On the contrary. It has meant more ‘juridification’, that is, the greater involvement of the law and the courts in employment relations matters. In the absence of sector agreements, governments have had little option but to introduce legal rules to help deal with the risks and uncertainties that might otherwise result in conflict involving individuals and/or groups of workers. However, it is difficult to come up with top-down and one-size-fits-all solutions to the complexities involved in the employment relationship, let alone the complications that can arise in different sectors.

#### The benefits extend beyond union members.

Zsolt Darvas et. al 23. Senior Fellow at Bruegel and a part-time Senior Research Fellow at the Corvinus University of Budapest. Giulia Gotti, Research analyst at Bruegel MSc in Policy Economics at the Erasmus University. Kamil Sekut, Economics (BSc) at University of Warsaw. “Collective bargaining is associated with lower income inequality.” Bruegel Organization. 03/14/2023. https://www.bruegel.org/analysis/collective-bargaining-associated-lower-income-inequality

De-unionisation does not always result in lower collective-bargaining coverage

In collective bargaining process with employers, the primary goal of trade unions is improving and maintaining terms and conditions of work. Employers’ associations also often participate in collective bargaining. They can be organised either at sectoral level, like the German metal and electrical industry association Gesamtmetall, or at national level, like the Italian Confindustria. In the United States, in contrast to EU countries, the bargaining happens mainly at firm level, and thus employers’ associations do not directly take part.

Trade union membership has declined over the past decades in the EU and the US, but to varying degrees (Figure 1).

US unionisation halved from the already low rate of around 22 percent in 1980 to 10 percent by 2020. Eastern EU countries experienced the sharpest decline in unionisation in the 1990s as part of their transitions from the socialist economic system, in which union membership was a method of signalling political preferences and was seen as a prerequisite for career progression. As these countries became market economies, unionisation declined sharply, to close to 10 percent, nearing US values. The UK and Ireland went from having more than half of their labour forces represented by a union in the early 1980s, to only a quarter by 2020. Although there has been decline everywhere, the decrease in unionisation has been less pronounced in Scandinavian, Southern, and Western EU.

The outcome of collective bargaining is often extended beyond the union and employer association members (Eurofund, 2015). One of the reasons is the existence of erga omnes (towards everyone) clauses: if an agreement is signed between an employer and a trade union, under erga omnes clauses, all workers are covered by the agreement. Moreover, in Europe, there is a tradition of extending negotiated agreements to non-unionised workers within a sector, and even to companies that were not originally involved in the bargaining process. Because of these extension mechanisms, a collective bargaining coverage rate higher than unionisation density can be observed in nearly all studied countries (Figure 2).

For example, in Germany, a bargaining agreement signed between an employer association and a union covers all the firms that are part of the employer association. Moreover, covered firms usually apply erga omnes clauses and extend the coverage to all employees, regardless of union membership (Jäger et al, 2022). In 2018, this resulted in a trade union density of 17 percent compared to a collective bargaining coverage rate of 54 percent. The sharp decline in coverage for Southern Europe at the end of the sample period is a consequence in particular of the reforms to reduce the extension mechanisms that Greece undertook after 2010 in the context of its financial assistance programme. Greece’s 100 percent coverage rate in 2011 declined to 14 percent by 2017 (see the Annex for country-specific charts).

The literature on the link between trade union density and income inequality is scant

Research on the economic consequences of either trade union density or collective bargaining processes on macroeconomic variables is relatively scarce (Bhuller et al, 2022). Only a few recent papers have studied the causal effect of trade union density on income inequality. Jaumotte and Osorio Buitron(2020) analysed cross-country data and found a negative correlation between union density and the income share of the top 10 percent earners and the Gini coefficient. Farber et al (2021) presented time-series evidence from the US and demonstrated a negative correlation between union density and income inequality. Farber et al (2021) argued that this negative correlation resulted partially from the causal effects of increased unionisation on decreased inequality. For Germany, Dustmann et al (2009) concluded that if the unionisation rate had not declined in the 1990s, wages would have been higher, especially for workers at the bottom of the income distribution.

New cross-section and time-series evidence on collective bargaining and inequality

In a paper we prepared for the Transatlantic Expert Group on the Future of Work (Darvas et al, 2023), we presented new cross-section and time-series evidence on the correlation between income inequality and unionisation and collective bargaining.

Figure 3 confirms a negative correlation, -0.38, between trade union density and the Gini coefficient of income inequality for 37 countries, which is statistically significant. The correlation between trade union density and other indicators, such as the income share of the top 10 percent and top 20 percent of earners, and the income quintile share ratio (the ratio of total income received by the 20 percent of the population with the highest income to that received by the 20 percent of the population with the lowest income) is similarly negative. The correlation between trade union density and the income share of the bottom 10 percent or 20 percent of earners is positive.

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Figure 3 suggests that five Nordic countries and Belgium form a separate group by having relatively high levels of union density and low income inequality. When we exclude these six countries, the correlation coefficient falls to -0.08, which is not statistically different from zero, suggesting that these six countries drive the negative correlation.

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Among all countries for which data is available, we find an even higher correlation (in absolute terms) between the share of workers covered by collective bargaining, which is -0.52 (Figure 4). This estimate is highly statistically significant. When excluding the six Nordic countries and Belgium, the correlation coefficient remains high at -0.40, which continues to be statistically significant. These findings suggest that collective bargaining coverage could be a more important factor in influencing inequality than union density. This is an intuitive result, since the conclusions of collective bargaining are extended beyond trade union and employer association members, as discussed above. If such bargaining can increase the relative wages of poorer workers and thereby reduce income inequality, then collective bargaining coverage is a more meaningful indicator than unionisation for capturing this effect.

#### Redistribution alone can’t deliver on worker power.

David Madland 21. Senior Fellow and Strategic Director of the American Worker Project at the Center for American Progress. “Answering Skeptics.” *Re-Union: How Bold Labor Reforms Can Repair, Revitalize, and Reunite the United States*, Chapter 5. 5-15-2021. ISBN: 9781501755378

Another potential alternative to the labor movement—increasing taxes on the wealthiest Americans to ensure that they pay their fair share and using the additional revenue to provide additional benefits for lower- and middleclass Americans—is unlikely to deliver as much as a new labor system. The United States clearly needs to raise taxes on the wealthy and boost social spending. Taxes on the wealthy are well below the level they were during the mid-twentieth century, and increasing taxes on rich people can help significantly reduce economic inequality. 97 The United States also provides much skimpier public benefits to its citizens than do most other advanced countries. Virtually all other countries provide universal health care and paid family leave, but the United States does not—and the list of the deficiencies of the US welfare state could go and on.

While higher taxes on the rich and improved government benefits are clearly necessary, they are likely to face significant difficulties in raising middle-class incomes, and they will not build a powerful citizens’ organization that can correct the problems with America’s democracy. They are part of the solution, but not the whole thing.

Even the most extreme version of this idea—a universal basic income providing a guaranteed level of income to all Americans, no matter their age, whether they are working or not—does not fully address the country’s wage and inequality challenges, let alone do much for democracy. Some version of a basic income may very well be a good policy. It may be an important complement to many government antipoverty programs and may help provide a modest improvement in the standard of living for poor people and potentially even the middle class. Indeed, the Alaska Permanent Fund’s annual payout (based on oil revenue) of a few hundred to a few thousand dollars to all residents seems to work quite well, though the results from Finland’s recent experiment may not be as positive.98 Still, relying on taxes and transfers to address wage stagnation and extreme inequality suffers from a number of problems.

First, the cost to significantly improve current living standards for most Americans without raising wages is quite large—perhaps impracticably so.99 Consider, for example, the cost to the government of raising middleclass incomes at the pace of productivity, without wage increases. It would require spending more than twice as much every year as is now spent on Social Security to boost household market incomes for the bottom 80 percent of Americans by income to where they would be had they kept pace with productivity growth over the past twenty-five years.100 Social Security is by far the largest existing social program; creating a new program roughly double its size may not be practical. While smaller programs may be more affordable, they would do far less to raise incomes—either maintaining income growth at levels well below productivity growth or only raising incomes for a smaller group, such as the extremely poor.

There are questions about the desirability of creating such a big government program as guaranteed basic income and increasing taxes to the degree necessary to fund it. It would also likely create additional challenges that might not be recognized until the program is up and running. While the experience of Social Security indicates that it is possible for large social programs to work well in the United States, it took decades for Social Security to get to its currents size, and in its early years it provided very few benefits. Social Security did not instantly become the largest government social program but rather evolved over years and years.

Beyond such narrow practical concerns, receiving money or benefits from the government is not actually a wage. Some economists may argue that money is money, and thus a wage and a government benefit are functionally equivalent. At some level it is true that most income is dependent on the governmental structure that enables people to earn a living, and thus there may be less of a distinction than some people claim between a government handout and earned income. But people generally prefer to feel they have earned the money themselves. There is a dignity in earning a living wage that is hard to replace. Doing a job that is valued by society is not just a source of money but can also be a source of pride and placement in the community. A job with a decent wage is a tried and true way for people to feel they are included in society.

Further, the power for workers to earn a living wage creates a different kind of society than one where most people are dependent on government redistribution. It is hard to imagine that a society where some people are extremely wealthy and everyone else depends on a basic income from the government would be as democratic as America currently is, let alone have a true democracy. In this vein, some of the biggest proponents of universal basic income are the superrich of Silicon Valley, who presumably see giving people money less of a challenge to their power and wealth than actually ensuring that workers have adequate power to get paid fairly. Taken to the extreme, a universal basic income that replaces most wage income is akin to a modern version of a feudal society where the peasants depend on the whims of the rich and powerful lords who control government.

Still, for the sake of argument, let’s assume a large basic income program could be the product of a real democratic society and create a high standard of living for most people. In this case, basic income might help foster a more harmonious society and the development of worthwhile values. But it also might not. Mass affluence without work would be a big social experiment. Small-scale experiments with modest sums of money suggest that things might work out fine, but there are many reasons to worry that a large and robust basic income program might not work out—from the deep-rooted work ethic to the failures of many other grand social experiments. At a minimum, a massive basic income program would be a big social risk. In contrast, building worker power is reliable and has proven successful at scale.

In total, these concerns suggest that a basic income would be best suited to reducing poverty and modestly improving the living standards of the middle class but less suited to reversing the hollowing out of the middle class or reviving democracy.

To some basic income proponents, these theoretical and practical concerns can be dismissed because, they argue, jobs are disappearing. In the future, there may not be enough work for people, and thus a universal basic income is required, so the story goes. Technology and artificial intelligence will create huge disruptions in the labor market. Indeed, some estimates for the number of jobs that could be lost to technology are huge. Still, a fair amount of research indicates that the disruptions are likely to be significant but more modest—with, for example, the OECD predicting that 10 percent of US jobs are at risk of automation over the next several decades.101

The most pessimistic visions of the future are based on the idea that new kinds of jobs will not be created or will be created very slowly, which is at best a kind of guesswork. So far, the experience every time a disruptive technology comes along suggests that it is likely that new jobs will be created. So too does the potential for humans to create new jobs. As long as there are human wants and needs, it is likely there will be work. Humans can invent work at a staggering rate. Decades ago, few could have predicted that there would be industries based around personal trainers, dog walkers, tech support, bloggers, and data storage salespeople. Of course it is possible that this time will be different and that computers will be better able to do everything humans can do, but most likely there will be new kinds of jobs invented as others are destroyed. Even though technology places a number of current jobs at risk, it does not mean there won’t be any work in the future.102

## 1NC

### Unions ADV---Productivity---1NC

#### Productivity is surging. Ignore evidence that doesn’t assume AI rollout and post-pandemic labor flexibility.

Goolsbee ’25 [Austan interviewed by Adrian Ma and Wailin Wong; June 5; PhD, president of the Federal Reserve Bank of Chicago and Professor of Economics at the University of Chicago's Booth School of Business; NPR, “Why U.S. workers keep getting more productive,” https://www.npr.org/2025/06/06/1253756245/the-indicator-from-planet-money-draft-06-06-2025]

WONG: --Bank of Chicago. Yes, he is back. And this unsung data series he's obsessed with is labor productivity growth. It's a measure of worker output. For the last couple of years, this number, for the most part, has been increasing in a significant way. And the thing is, economists don't know exactly why.

[MUSIC PLAYING]

MA: So today on the show, Austan Goolsbee takes us on an economic mystery hunt of sorts. He walks us through some of the different theories about why this number has been going up. It's the case of the perplexing productivity growth.

WONG: The basic measure of labor productivity is output per hour. Economists use data from gross domestic product reports to calculate this number.

MA: Oh, so there are not literally Bureau of Labor Statistics employees just fanning across the country, counting how many widgets every factory is making?

WONG: Yeah, they're not like, oh, five zipper teeth today. Yeah, it's actually tallying up the value of those widgets. Or for a restaurant, it would measure sales per worker. That is how the BLS calculates productivity. Now, when we talked to Chicago Fed President Austan Goolsbee in April, he told us that patterns in the productivity data can be hard to spot.

[AUDIO PLAYBACK]

GOOLSBEE: It's like, your-- you know, when your kids are growing, you can look back at markers of pencil on the door frame, but in the moment, they just look the same as they always looked.

[END PLAYBACK]

MA: When Austan studied those pencil marks on the door frame of the economy, he noticed something. Productivity took a hit at the start of the pandemic, which is not surprising. And then it started rebounding in late 2022, which is maybe also not surprising. But then--

[AUDIO PLAYBACK]

GOOLSBEE: It kept looking really quite good, better than pre-COVID. And now we've got two solid years where productivity growth has been well above the previous decade or two trendline. And that's really where the mystery began.

[END PLAYBACK]

MA: If you look at data from the 2010s, labor productivity grew around 1% a year. But compare that with rates that we've seen more recently, which are more like 2% a year.

WONG: But aren't there always twists and turns in a mystery? BLS data released yesterday showed that productivity growth actually fell 1.5% in the first quarter of 2025. So we called up Austan to see what he made of this drop.

GOOLSBEE: Productivity is a really number, so you've got to be careful.

WONG: Austan said, if you look at first quarter GDP, that number was a little weird. It showed a decrease because of a surge in imports ahead of tariffs. And remember, GDP numbers feed into the productivity number.

GOOLSBEE: Just recognize, stuff like that goes up and down a lot over a year, a decade. It's, of course, much smoother. And for productivity, that's the time frame you want to be thinking about.

WONG: And bottom line, Adrian, as Austan told us in April, economists like to root for more productivity.

GOOLSBEE: There is a very real sense in which if productivity growth is higher, even modestly higher, for a sustained period, everything is wonderful. Our wages can grow faster without inflation. The interest rate doesn't have to go up in the short run. At the end of the day, it is productivity that made us the richest major economy in the world.

MA: Yeah, I mean, the US is still a global leader in terms of productivity. So you can see why economists like Austan are so fascinated with it. So Austan walked us through four possible explanations.

WONG: Theory number one, more people working from home.

GOOLSBEE: You've got a couple of researchers going out and making the case that people can be more productive per worker, per hour, if they can have that flexibility.

WONG: When you're kind of kicking the tires on this idea, do you look at, you know, which industries are showing productivity growth? Because that seems like it is a largely “people typing at their desks” kind of story.

GOOLSBEE: Yes, and look, you're channeling your inner economic researcher. That's exactly the thought.

WONG: Oh, my gosh. That's so nice of you to say.

GOOLSBEE: That's the style. I'm glad you took that as a compliment. That's exactly--

WONG: [LAUGHS] Is it-- was it not intended as one?

GOOLSBEE: It was intended as a compliment, but not everyone would take it as such. If that is the main cause, that's just a one-off. That would increase the level of productivity. But that's not a reason why the growth rate would continue.

MA: So in Austan's view, flexibility does not explain the sustained productivity growth. So let's look at theory number two, what economists call labor reallocation.

GOOLSBEE: That they call it that is exactly why you never want to hire a person with a PhD in economics to work on your marketing, OK? This is just the idea of the Great Resignation. Maybe it allowed people to leave jobs that they were sick of, go into something that motivates them more or that they're more suited to, and they had an explosion of productivity.

MA: But sort of like the flexibility theory, this reshuffling is also a one-off event, in Austan's view. A lot of workers moved to new jobs they liked better, and they stayed. They didn't keep moving around.

WONG: So on to theory number three, new business creation. There's been a surge in new business applications in the US, starting during the pandemic.

GOOLSBEE: And historically, new businesses often have faster productivity growth or higher productivity. So there has been some argument maybe the economy's productivity went up because we have all these new firms. Again, I'm a little nervous that that sounds like a one-time.

MA: So we're down to our last theory, and that is artificial intelligence.

WONG: Austan says most economists think it's still too early for the effects of AI to show up in the data. Still, he finds AI to be an intriguing lead in this economic mystery. That's because there are historical examples of new technology leading to longer term productivity booms.

#### Existing stats are an underestimate---long-term investments mean there’s a ton of productivity growth in the pipeline.

Weinberg ’24 [Neil citing Erik Brynjolfsson, Daniel Rock, and Chad Syverson; December 2; CBR author; PhD, Professor and Senior Fellow at Stanford University where he directs the Digital Economy Lab; PhD, Assistant Professor at the Wharton School of the University of Pennsylvania; PhD, Professor of Economics at the University of Chicago; University of Chicago Booth School of Business, “Is Productivity About to Skyrocket?” https://www.chicagobooth.edu/review/is-productivity-about-to-skyrocket]

Where the bottlenecks are

Total factor productivity growth in the US has been sluggish since the mid-2000s, which research attributes to uneven productivity gains across suppliers of large manufacturing industries. Some suppliers have advanced rapidly while others have lagged behind, restraining the manufacturers’ overall TFP growth.

Investments take time to pay off

Digging further into the statistics uncovers another cause for optimism: Many companies may be making intangible investments whose payoffs are undercounted in current productivity statistics.

General-purpose technologies such as computers and artificial intelligence require significant investments in complementary areas. For example, after stores installed self-pay kiosks, their managers had to teach employees and customers to use them before self-checkout lines were widely adopted.

Brynjolfsson, University of Pennsylvania’s Daniel Rock, and Syverson devised a method to measure differences between a company’s observed investments and its market value. They find that the large investments companies make early on in adopting general-purpose technologies often involve intangibles, such as worker training and the retooling of business processes.

Conventional statistics account for these investments as expenses rather than capital creation, which initially underestimates the productivity-enhancing effects, the researchers argue. “We count a new factory as output but we don’t count intangible investments as output,” Syverson says. “You’re not just burning resources. You’re creating something useful in the future.”

When the benefits of the intangible investments are later harvested, the mismeasurement swings in the opposite direction, the researchers find. The result is a productivity J-curve that helps explain why the advent of general-purpose technologies is often accompanied by an initial productivity slowdown that’s later followed by a burst in output.

Given that society is in the early stages of adopting AI, there may be reason to believe we are currently in the productivity underestimation phase, Syverson argues. As was the case with earlier technologies that had broad applications, AI can only reach its full potential after companies invest in necessary intangibles, such as training workers, reorganizing workflows, and educating customers in how business will be conducted under the new paradigm.

A boom in business formation

There are yet more reasons to anticipate a productivity pickup. As postwar history demonstrates, there’s nothing unusual about economic output advancing in fits and starts, and a number of precursors that preceded periods of robust growth in the past are now starting to emerge. Among them: increases in business formation.

Entrepreneurship is an important driver of economic growth, technological advances, and, eventually, higher productivity—and it was surprisingly hot during the COVID-19 pandemic. Many people were stuck at home, temporarily laid off, and had the time and motivation to get creative. In the meantime, Americans started shopping online. Hence, the time was ripe for networking remotely and launching new businesses. This is reflected in the data: There were surges in business applications in the US in both 2020 and 2021, write the Federal Reserve Board’s Ryan Decker and University of Maryland’s John Haltiwanger, pointing to US Census Bureau statistics. Applications were still high in late 2023 and even into 2024. They’ve since fallen but remain above pre-pandemic levels.

Some business plans were designed to capitalize on COVID-era changes in how people live and work. Another notable feature of the surge in applications that the researchers find was the prominence of filings by likely employers, those who are particularly inclined to hire workers and generate growth. Typically, it takes a year or two to begin learning if applications result in actual job openings, or if the businesses peter out. The pandemic-era surge in new business applications stands in sharp contrast to the economic weakness on display during the Great Recession, and research suggests that it has translated into genuine entrepreneurial activity resulting in jobs that people want.

A potential source of productivity gains

Business applications spiked during the pandemic, including for businesses considered likely to hire workers. Although applications have since decreased, they remain above historical levels.

Decker and Haltiwanger used numerous data sources to track business formation activity, including the Census Bureau’s Business Formation Statistics, which draw on requests for new employee identification numbers submitted to the Internal Revenue Service and include the bureau’s modeling of business characteristics. Looking at features such as corporate structure and hiring plans helped them identify trends among the sorts of startups most likely to transition from new businesses applicants into actual employers. They also used several data sources on actual hiring by new businesses, looking at business creation patterns across industries and geography.

The pandemic’s increased entrepreneurship left its mark on the economy in a number of ways, they write. Companies became younger and smaller, on average. In major metro areas, a “donut pattern” emerged, with less growth in city centers than in surrounding areas, closely tracking trends in work-from-home activity.

The researchers also relate the rise in business formation to stories that developed among economists and in the news media to describe the job market, noting that reported opportunities to create a new company, or to work for one, appear to have played a significant role in fueling the Great Resignation that began to emerge in early 2021.

The surge in new-venture formation occurred after decades of declining business dynamism, represented by a shift of activity toward large, mature companies in the US. The pace of job reallocation (the rate at which jobs flow from shrinking businesses to growing ones) fell by about a quarter between the 1990s and the months just before the pandemic, driven in part by a drop in the rate of formation of new businesses that hire paid employees.

In detailed labor-market statistics, Decker and Haltiwanger find more hope for productivity growth in what they peg as early signs of a revival in business dynamism. And in a separately published note, they write that the jump in business applications included a large number of tech companies.

#### Powerful unions suppress productivity growth through wage pressure, work restrictions, and investment disincentives.

Palagashvili ’25 [Liya and Revana Sharfuddin; May 7; PhD economics, senior research fellow and director of the Labor Policy Project at the Mercatus Center; MA development economics, predoctoral researcher at the Labor Policy Project at the Mercatus Center; Mercatus Center, “Do More Powerful Unions Generate Better Pro-Worker Outcomes?” https://www.mercatus.org/research/working-papers/do-more-powerful-unions-generate-better-pro-worker-outcomes]

Cost at the Firm Level: Productivity, Profits, and Investment

The costs unions impose on firms play out through three key channels: productivity, profitability, and investment. At their best, unions can boost productivity by fostering better communication between workers and management, reducing turnover, and creating incentives for efficiency. But more often, restrictive work rules and wage-setting above market rates stifle flexibility, dull incentives, and slow down adaptation. The result is lower profitability: Higher wages that don’t come with matching productivity gains can squeeze margins, limit reinvestment, and weaken firms’ ability to compete and grow. And when profits shrink, so does investment. Faced with rising labor costs, firms cut back on capital improvements, technology upgrades, and R&D, leaving them less competitive in the long run. In the end, while unions may secure short-term benefits for workers, their impact on firms often leads to the very job losses and stagnation they aim to prevent.

One of the key factors in assessing the overall cost of labor unions at the firm level is productivity. In their 1984 book Freeman and Medoff argue that labor unions tend to contribute to increased productivity, although the effect varies depending on the labor relations environment. Labor unions can raise productivity through an “employee morale channel,” by providing workers with a means of expressing discontent as an alternative to “exiting.” The labor unions open communication channels between workers and management, which induces managers to make changes to production methods and to adopt policies to improve efficiency. Open channels of communication also lower quit rates and improve labor relations within the firm. Freeman and Medoff argue that these productivity-enhancing effects can potentially offset the efficiency losses from greater unionization.

Recent research shows a different reality regarding how labor unions impact productivity. Aside from a few exceptions due to unique labor union arrangements, the impact of labor unions on productivity has been shown to be generally negative, mainly through the “investment channel.” That is, when unions set wages above the market rate—where wage determination becomes uncertain and disconnected from actual market conditions—both tangible and intangible investments can be reduced, ultimately hindering firm productivity.[63] In line with Freeman and Medoff's findings, more recent research continues to provide strong evidence that labor unions reduce firm profitability.[64] This decline is largely driven by labor-union-negotiated higher wages, which often lack matching productivity gains. As a result, firms face reduced profits, which limit their ability to invest in capital and R&D, which ultimately hinders long-term productivity growth.[65]

This is the ultimate dilemma for labor unions: The more what the labor union secures at the bargaining table is beyond what is reasonably sustainable, the lower the surplus of profits will be. Therefore, the more the labor union wins at the bargaining table, the more vulnerable the company is to long-term decline. As the company declines, there will be reduced work opportunities.

Besides increasing labor costs beyond what is reasonably justified, labor unions can also harm productivity through restrictive work rules, which include not only establishing inefficient staffing requirements (“featherbedding”), but also limiting incentives for worker effort and restricting management discretion on optimal staffing arrangements.[66] Negotiations over work intensity, or the pace of work, can further influence employment levels. Labor unions often press for reduced work intensity, which necessitates employing more workers but can also diminish overall productivity.[67]

Another example of how restrictive work rules can harm productivity is the case of the International Longshoremen’s Association (ILA), which in 2024 pushed for a total ban on port automation. Their intention was to protect jobs, but their demand would block critical productivity gains and prevent the kind of technology-driven human capital accumulation that fuels economic growth. The economic consequences of such resistance are not just theoretical; they have played out before, most infamously in the mid-20th-century rubber tire industry. Back then, excessive labor costs driven by aggressive labor union bargaining forced companies to relocate to less unionized regions, destabilizing local economies and eroding industrial competitiveness.[68] Yet, to be fair, there are cases where labor unions have managed to boost productivity, as seen in the US and Canadian iron ore industries during the 1980s crisis. Back then, facing intense competition from Brazil and the real threat of permanent mine closures—25 percent of Minnesota mines had already shut down—labor unions made concessions that streamlined work practices. Machine operators were finally allowed to perform basic repairs, and overstaffed repair crews were cut from 50 to 25 percent at the largest mine. Unsurprisingly, the most substantial productivity gains came from mines where these rigid labor union rules were most significantly relaxed.[69]

Contrast this with unionized US school districts, which manage to extract more funding, raising per-pupil spending by about 12.3 percent and increasing teacher pay. Despite these higher inputs, school productivity did not improve. Dropout rates were actually higher, suggesting that while labor unions are adept at securing financial resources, they often miss the mark on effective resource allocation.[70]

The economics literature consistently shows that more powerful and aggressive labor unions with unsustainable demands also tend to reduce firm profitability, which in turn hurts worker-level outcomes. One way to understand this effect is to investigate how labor-market regulations shape the distribution of rents between firms and workers. One study showed that reducing labor union bargaining power—essentially a form of labor market deregulation—can lower real wages without impacting unemployment in the short term. However, over the long term, deregulation boosts firm profits, sparking greater market competition and new firm entry, which eventually drives down unemployment and restores wages to their previous levels. This dynamic illustrates how, in heavily unionized environments, the initial wage cuts from deregulation lead to broader economic benefits over time.[71] The direct and spillover effects of labor union organizing on firm profitability are particularly striking. For instance, companies facing labor union petitions see their stock prices drop by an average of 1.04 percent. This effect extends beyond the targeted firms: Nonunion firms in the same industry also experience market value declines—averaging 0.72 percent—as investors brace for potential spillover effects. In cases where labor unions win representation elections, the hit to market value is even steeper, suggesting that the financial markets view successful unionization as a substantial threat to profitability.[72]

Finally, institutional contexts can either mitigate or amplify the negative impact that labor unions have on employment, productivity, and investments. For example, a relatively more decentralized bargaining system—in which wage negotiations are organized at industry-region level—can sometimes alleviate negative effects, such as reduced employment or stagnated productivity. However, even under decentralized systems, labor unions’ ability to capture quasi-rents remains a significant obstacle to firm reinvest.tment. Quasi-rents, which are the profits that could otherwise be reinvested into the company for future growth, often get diverted to satisfy labor union demands beyond what are reasonably sustainable, reducing the firm’s capacity to innovate or expand.[73] Evidence from privatization cases in Mexico further supports this: State-owned enterprises (SOEs) with strong unions fetched lower auction prices. Potential buyers were deterred by the costly labor liabilities and the focus on employment rather than profitability, underscoring how union strength can directly impact firm valuation and economic performance.[74]

These findings underscore a recurring challenge: While unions can secure short-term gains for workers, their influence often complicates long-term investments and growth. Even when unions negotiate through structured bargaining, the diversion of profits away from reinvestment remains a concern. This not only hampers firm performance but also undermines future worker outcomes when demands are excessive, as reduced investment in innovation and expansion means fewer job opportunities and wage stagnation over time.

The impact of unionization on investment is overwhelmingly negative, particularly when it comes to capital and R&D.[75] There are rare exceptions, like in Germany, where unique institutional arrangements—such as worker councils working hand-in-hand with unions—have led to improved productivity and innovation.[76] Studies have long challenged the earlier rosy views of union benefits, arguing instead that unionization acts like a tax on capital returns, discourages investment in essential long-lived tangible and intangible assets, and slows both employment and productivity growth, especially in heavily unionized sectors.[77] The bottom line? Outside of the rare edge case of Germany, the effect of unionization on investment and R&D remains largely harmful.[78]

Another way to reconcile some of these findings on productivity is not through the absence or presence of unions, but through the lenses of bargaining weight. If unions are very powerful and have a strong bargaining weight, then the negative productivity channels (e.g., investment) may be greater than the positive productivity channels (e.g. employee morale). As discussed above, bargaining weight is a key determinant of whether the union’s monopoly face or the collective voice face will prevail. If unions are overly powerful and make excessive demands, the negative effects through the investment channel will be greater than the positive effects of employee behavior.

#### Empirically---the investment-dampening effect of unions drags down productivity.

Cardullo ’15 [Gabriele, Maurizio Conti, and Giovanni Sulis; May 2015; PhD, Associate Professor of Economics, University of Genova; PhD, Full Professor in Economic Policy, University of Genova; PhD, Associate Professor in Economics, University of Cagliari; European Economic Review, “Sunk capital, unions and the hold-up problem: Theory and evidence from cross-country sectoral data,” vol. 76, https://www.sciencedirect.com/science/article/pii/S0014292115000410]

Finally, in Appendix C.2 we explore the effect of unions on labour productivity. We do this for two reasons. Firstly, in the case of labour productivity we have been able to find information for a larger set of countries with a slightly different level of sectoral aggregation. Secondly, the negative effect of higher union power on the level of investment per worker, in our theoretical model, directly spills over on levels of labour productivity (see Appendix A.3). Regression results displayed in Table A2 show that stronger union power also reduces the average level of labour productivity particularly in sunk capital intensive industries.

5.3. Refinements

So far we have presented empirical evidence showing that union bargaining power tends to reduce the level of investment per worker particularly in industries characterised by a relatively large fraction of sunk capital investment, as predicted by our theoretical model. However, it might be of some interest to assess whether the magnitude of this effect varies with some regulations that characterise the labour relations system across countries (see Appendix B.3 for more details). For instance, in some countries the government has the power to impose compulsory arbitration among parties involved in a labour dispute, or at least mandatory conciliation procedures before a strike can occur. In other countries, unions are not allowed to strike if there is a collective agreement in place, or there is a waiting or notification period before a strike can take place. Thus, using information contained in Botero et al. (2004), we run a series of baseline regressions (corresponding to column 1 of Table 3) by splitting the sample across some of the country-level dimensions of labour relations we have just mentioned. Before turning to the discussion of the empirical results, it is however important to acknowledge that some regressions are based on few observations and therefore we should view these results as suggestive only.38

In the first two columns of Table 5 we split the sample by grouping the countries where the law forbids strikes when a collective agreement has been already signed. The existence of such a regulation is important because one could expect it to significantly alleviate the hold-up problem, because the possibility for unions to behave opportunistically might be significantly reduced. This is exactly what we find, as the effect of union coverage is about halved for the group of countries characterised by regulations that forbid strikes when a collective agreement is in place. Then we divide the sample according to whether there is a mandatory waiting period before a strike can take place. Econometric results show that higher union coverage tends to significantly reduce investment per worker particularly in high sunk capital industries in countries where there is no waiting period, while the effect is negative but not statistically significant in countries where a notification or waiting period before a strike is compulsory. In subsequent columns, countries have instead been split according to whether there is a mandatory conciliation procedure: empirical results suggest that, in both country groups, union coverage negatively affects the level of investment per worker, but it is statistically significant only in countries where there is no mandatory conciliation procedure. The sample has been then divided according to whether there is a mandatory arbitration procedure and we find that the negative impact of union coverage is statistically significant only in countries where there is no mandatory arbitration, while for countries where there is a compulsory and binding arbitration, the impact of union coverage is statistically insignificant.

<<TABLE OMITTED>>

Finally, we examine, for each country, whether both unions and employers had been routinely involved in government decisions concerning social or economic policy issues (i.e., social pacts; see Visser, 2011) for the majority of years included in our sample period. In this case, our idea is that the government, by involving (always, or at least sometimes) unions and employers in economic policy decisions, creates a more cooperative framework between the parts and favours the sustainability of a cooperative equilibrium characterised by unions that refrain from exploiting their bargaining power. Our empirical results provide some favourable evidence for this hypothesis, as regression coefficients confirm that only in countries characterised by the absence of concertation, higher coverage ratios are associated to lower levels of investment per worker in sunk capital intensive industries.

6. Concluding remarks

In this paper, we study the hold-up problem by considering the effect of union power on investment per worker in sectors with different levels of sunk capital investment. We develop a search and matching model with collective wage bargaining and, using a difference-in-difference approach, we provide robust evidence that union power reduces the levels of investment per worker relatively more in industries with higher shares of sunk physical capital investment. Moreover, we find that this negative effect might depend on some features of the labour relations system, such as the possibility of striking after a collective contract has been signed, or on the sustainability of cooperative equilibria between unions and firms.

### Unions ADV---Inequality---1NC

#### Inequality is rock-bottom---flawed metrics influence contrary claims.

Waldenström ’25 [Daniel; May 19; Professor of Economics at the Research Institute of Industrial Economics Stockholm, Ph.D. in Economics from the Stockholm School of Economics, Ph.D. in Economic History from Lund University; Foreign Affairs, “The Inequality Myth: Western Societies Are Growing More Equal, Not Less,” https://www.foreignaffairs.com/united-states/inequality-myth-western-societies-more-equal-waldenstrom]

Spend a few minutes browsing political commentary or scrolling social media and you will discover a seemingly settled truth: inequality in the West is soaring, the middle class is being hollowed out, and democracies stand on the brink of oligarchy. The idea is seductive because it fits everyday anxieties in many Western countries—housing has grown increasingly unaffordable, billionaire wealth mushrooms unfathomably, and the pandemic exposed yawning gaps in social safety nets. Yet the most influential claims about inequality rest on selective readings of history and partial measurements of living standards. When the full balance sheet of modern economies is tallied—including taxes, transfers, pension entitlements, homeownership, and the fact that people move through income brackets across their lives—the story looks markedly different. Western societies are not nearly as unequal as many believe them to be.

This is not a call for complacency. Concentrated economic power can distort markets and politics; pockets of deep poverty persist in rich countries; and in the United States, the top of the distribution has indeed sprinted ahead of the rest. But focusing only on the eye-catching fortunes of tech founders or hedge-fund managers obscures a quieter, broader transformation: households across the income spectrum now own capital on a scale unimaginable to earlier generations, and basic measures of well-being in Western societies—including life expectancy, educational attainment, and consumption possibilities—have improved for nearly everyone.

Getting the facts right matters because bad diagnosis breeds bad prescriptions. If governments assume that capitalism is inexorably recreating the disparities of the Gilded Age, they will reach for wealth confiscations, price controls, or ever-larger public sectors funded by fragile tax bases. If, instead, the evidence shows that free-market economies have enriched middle classes by expanding asset ownership, that entrepreneurs’ fortunes are associated with advances shared with the broader public, and that much of the post-1980 rise in recorded inequality reflects methodological quirks, then a different agenda follows: states should encourage ambition, protect competition, widen access to wealth-building, and ensure that public services complement—not smother—private prosperity. In short, before treating inequality as an existential crisis, it is worth double-checking the thermometer.

THE TALE OF RUNAWAY INEQUALITY

The prevailing narrative about inequality—popularized by the economist Thomas Piketty in his bestselling 2014 book, Capital in the Twenty-First Century—depicts a U-shaped curve. In this view, the extreme concentration of income and wealth among a narrow elite in the early twentieth century was broken only by the world wars and taxes on capital. The turn toward market liberalization around 1980 unleashed a second wave of plutocracy. Charts of top-income shares appear to confirm the story: since 1980, the top one percent’s slice of pretax income has surged, especially in the United States and the United Kingdom. Add the proliferation of celebrity billionaires, the stagnation of median wages, and the eruption of high-profile corporate scandals, and the picture seems complete.

Three kinds of evidence underpin this interpretation. First are tax-return data that track pretax market income: salaries, dividends, and realized capital gains. These show widening gaps because high earners captured disproportionate gains from globalization and digital technology. Second are surveys of household wealth that measure who owns stocks and real estate; when asset prices boom, wealthy portfolios balloon. Third are particular statistics that make headlines—the many CEOs paid hundreds of times more than average workers, or the eight men who together are richer than half the world—and feed public outrage.

But such evidence has limits. Starting the clock in 1980 is rhetorically convenient because inequality was then unusually low, following decades of steep taxation and stringent regulation that had dampened entrepreneurship and curtailed many ambitious career paths. Today’s levels, although higher than those of the late 1970s, are far below those of the pre–World War II era when taxes were much lower than they are today. In addition, most estimates of income inequality have actually plateaued in the last two decades. Likewise, focusing on pretax income ignores the consequences of progressive taxation and, crucially, the vast public spending on health care, education, and pensions that disproportionately benefits lower- and middle-income households. Finally, wealth surveys often exclude mandatory pension assets and undercount owner-occupied housing—the two largest stores of middle-class wealth.

Recent work on U.S. income distribution by the tax economists Gerald Auten and David Splinter shows that correcting for underreported income at the bottom, income shifted into tax-deferred retirement accounts, and welfare transfers flattens the trend dramatically: in the United States, the top one percent’s share of after-tax income is only slightly higher today than it was in 1960, nowhere near the doubling implied by estimates presented by Piketty and his co-authors. Europe’s picture is flatter still, thanks to heavier redistribution and less winner-take-all compensation at the top of the corporate ladder.

A RISING TIDE

The canonical data tell only part of the story, and the least flattering part at that. A growing body of scholarship reassesses the long-run distribution of wealth by adding what earlier studies neglected. Three findings stand out.

First, private wealth has exploded—but so has broad ownership of it. Reconstructed national balance sheets for France, Germany, Spain, Sweden, the United Kingdom, and the United States show real per-adult wealth roughly tripling since 1980 and rising more than sevenfold since 1950. Crucially, an increasing share of that capital sits in the homes and pension funds of ordinary households. In 1900, assets held by the elite—agricultural domains and shares in industrial or financial corporations—dominated; today, residential property and funded retirement accounts represent the majority of private assets. That shift parallels mass homeownership: in most Western countries, 60 to 70 percent of households now own the roof over their heads—an equity stake unavailable to their great-grandparents. Most workers hold pension claims in mutual funds or index funds, granting them the high returns of stock markets at low risk—what amounts to financial democratization.

Second, wealth concentration has fallen—not risen—over the past century. In Europe, the top one percent now owns barely a third of the share it held in 1910, right before the beginning of the transformative era of world wars, democratization, and the growth of governmental capacity, and since the 1970s that share has been essentially flat, even as real wealth—that is, wealth adjusted for inflation—has tripled with rising asset prices. The United States shows a clearer uptick beginning in the 1970s, most visible among the spectacular fortunes of tech and finance titans, whose gains have outpaced even the impressive wealth growth of the middle class. Yet U.S. concentration remains closer to its 1960 level than to its pre-1914 peak. The dominant quantitative fact of the century, therefore, is not a new Gilded Age but a dramatic wealth equalization propelled by mass asset ownership.

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Third, the fact that people move through different income brackets over the course of their lives should temper typical measures of inequality. So, too, should the effects of welfare payments. Annual snapshots lump graduate students with retirees living off savings, making income and wealth gaps appear wider than lifetime consumption gaps. When studies in different countries instead follow individuals over time, they typically find that within only a few years, half the households in the bottom income decile have climbed to higher levels. Many top-decile households can drop to lower rungs of the ladder after business or investment setbacks. Government welfare programs further compress differences. In Sweden, when public pension entitlements are capitalized and added to assessments of personal wealth, this alone cuts the measured wealth inequality—known as the Gini coefficient—by almost half. In the United States, the market’s redistributive role is smaller, but when Social Security, Medicare, and employer-provided health insurance are treated as in-kind income, median households fare far better than raw wage data suggest.

These facts undermine the image of an inexorably widening chasm between a plutocratic elite and the rest. Yes, superstar entrepreneurs have amassed fortunes measured in tens of billions. But that outcome signals success, not failure: they furnished goods and services that millions freely bought. Their booming companies also supply jobs, higher wage earnings, and substantial tax revenue—directly through profits and payrolls and indirectly by raising the broader tax base. Over the past four decades, life expectancy in advanced economies (including in the United States despite the much-noted increase in “deaths of despair”) rose roughly six years, high school completion became nearly universal, and personal computers once reserved for elites went mainstream.

Those who typically bemoan the rise of inequality don’t correctly weigh the size and division of the pie. Rising real incomes and higher asset values are preconditions for mass prosperity and for a well-funded public sector. Even advocates of government intervention should champion efficient growth: every percentage point of GDP adds billions to tax revenue. The West’s most durable path to fairness, then, is to scale up the channels through which ordinary households acquire assets—including affordable housing supply, portable retirement accounts, and low-fee index funds—and to keep markets open so new firms can challenge incumbents.

#### Sectoral bargaining fails to secure higher pay.

Mansfield ’24 [Iain; 2024; Director of Research and Head of Education and Science at Policy Exchange; Policy Exchange, “One Size Fits All: Sectoral Collective Bargaining and Its Implications for Business and Taxpayers,” p. 23-24]

Using its classification, the OECD took average wage rates across countries achieved by different levels of bargaining and compared them with average wages paid to those who had no form of bargaining. It found that “workers are paid more with firm-level bargaining, while sectoral bargaining is not associated with relatively higher pay on average... the results [of our research] are in line with a large body of the literature which finds that sectoral bargaining is not linked with higher wages on average.”106

Averages still, of course, mean that some workers will be paid more. And it is also true that the imposition of an SCB system makes it more likely that unionisation will spread and that firm-level bargaining will be layered on top, securing additional pay for some workers.

In any sector-wide negotiation, as was pointed out in the debate in New Zealand, employers are likely to be conservative, creating a risk for workers of lowest-common-denominator settlements, since FPAs must, by definition, be affordable for most if not all affected employers.

The findings for the UK alone are more mixed. The OECD data does, in fact, show that sectoral bargaining produces higher average wages here than workplace bargaining. But given the small number of employees, almost all public sector, with sectoral bargaining in Britain the finding is of lesser value than the Europe-wide finding covering countries where the practice is widespread.

The figures also show that the presence of workplace or company-based collective bargaining in Britain increases wages (though not by much) compared with workforces who have no form of collective bargaining at all. The imposition of sectoral bargaining in Britain may therefore indirectly drive wage rises by encouraging wider unionisation and the growth of workplace collective bargaining, both in the sectors covered by SCB and outside them.

However, while some workers may gain, others may lose. The OECD finds that there are “lower returns to education, seniority and potential experience for workers covered by collective agreements.”107 Those who are relatively better-paid now, because they are older or better qualified, may find themselves being at least relatively less well-paid under the levelling effect of SCB. The OECD adds: “A lower payoff from education, while reducing inequality, may also negatively affect productivity growth if this leads to lower investment in education.”108

No terminal---intervening actors check laundry list, alt-causes globally, AND veto-points stop action.

## 2AC/1AR

### Econ Low

#### Economists expect high inflation and slow growth. Workers and consumers are scared.

Tony Romm & Ben Casselman 9-5. reporter covering economic policy and the Trump administration for The Times, based in Washington. chief economics correspondent for The Times. He has reported on the economy for nearly 20 years. “Second Weak Jobs Report Undercuts Trump’s Claims of a Booming Economy.” *The New York Times*. 09/05/2025. https://www.nytimes.com/2025/09/05/us/politics/trump-jobs-report-tariffs-deportations.html.

The trouble for Mr. Trump is that he didn’t campaign on a platform of “muddling through.” Most economists no longer anticipate the recession that they feared when Mr. Trump first announced sweeping tariffs last spring, in large part because the president quickly reversed course once financial markets rebelled. But they do expect a sustained period of faster inflation and slower growth, now that the White House has started to impose higher taxes on imports from more than 90 countries.

And while Mr. Trump and his allies can attack the agencies that produce the data, the numbers mostly reflect what Americans already know. Surveys show that workers are worried about holding onto their jobs and pessimistic about their chances of finding a different one. Measures of consumer sentiment have weakened, in part because people anticipate higher prices as a result of tariffs.

“For now the data remains consistent with the view that the jobs market is cooling, but not collapsing,” said James Knightley, the chief international economist at ING. Pointing to one of those consumers surveys from the University of Michigan, which showed a dip in confidence, Mr. Knightley added: “Workers are certainly worried, though.”

#### Trump is a larger internal link to the weak job market than rates.

Natalie Sherman 9-5. Reporter for *BBC News*. “US job market weakens further in August, raising fears over economy.” *BBC*. 09/05/2025. https://www.bbc.com/news/articles/cn0xe5dvp47o.

But analysts say the troubles in the job market are partly due to the president's sweeping changes to tariff and immigration policy, which economists have consistently warned would hurt the economy, by raising costs and uncertainty for firms.

His administration has also cut government spending, firing thousands of government workers.

The Labor Department said the federal government shed 15,000 positions last month. Manufacturing and construction firms also reported payroll declines, offsetting gains in health care.

#### **Pethokoukis** concedes tariffs thump.

Pethokoukis ’25 [James citing Jason Furman; March 7; senior fellow and the DeWitt Wallace Chair at the AEI; PhD economics, Aetna Professor of the Practice of Economic Policy at Harvard; American Enterprise Institute, “America’s Productivity Pop,” https://www.aei.org/economics/americas-productivity-pop/]

You love to see it. After a lengthy spell of sluggish growth, America’s productivity figures have turned decidedly rosier of late. New revisions from the Bureau of Labor Statistics show nonfarm business sector labor productivity now exceeds pre-pandemic forecasts, rising at an annual clip of 1.9 percent during the current economic cycle, according to an analysis by Harvard University economist Jason Furman, a former economic adviser to President Barack Obama.

This pace has held steady at two percent over the past four quarters. Though hardly comparable to the tech-fueled boom of 1995–2005, it represents a meaningful step-up from the anemic growth of recent years.

The quarterly pattern raises the possibility that this is no mere post-pandemic rebound, one reflecting the more efficient reallocation of resources after an economic shock. Perhaps we’re seeing a more durable trend, though data volatility suggests caution.

Intriguingly, artificial intelligence—despite lots of investment and even more hype—has likely contributed little thus far. Furman posits that AI’s productivity-enhancing effects are still largely offset by the resources firms are deploying to implement it. It’s a phenomenon called the J-curve effect: New technologies can initially decrease productivity while firms develop complementary organizational capabilities, only later yielding higher productivity and profits.

From the paper “The Productivity J-Curve: How Intangibles Complement General Purpose Technologies” by Erik Brynjolfsson, Daniel Rock, and Chad Syverson, “General purpose technologies (GPTs) such as AI enable and require significant complementary investments, including co-invention of new processes, products, business models and human capital.” What’s more, rapid technological advancement may even freeze investment as firms delay decisions anticipating better versions.

(A side note: A new research note from Goldman Sachs tries to sleuth out why revenue for public companies exposed to the build-out of AI infrastructure increased by over $340 billion since 2022 and yet real investment in AI-related categories in the US GDP accounts has only risen by $42 billion. The bank’s explanation: First, a significant portion of the gap reflects simple cost inflation, particularly in semiconductors. Second, fatter profit margins and overseas sales boost corporate revenues but not domestic output. Third, America’s statistical machinery likely undervalues AI’s contribution by $100 billion, as crucial semiconductors and cloud services are recorded as intermediate inputs rather than final investment.)

For the world’s largest economy, this productivity revival could scarcely be more welcome. Furman notes, it remains “the most important factor” for long-term economic prospects. Let’s hope the upturn isn’t undermined by new US trade policy.

It would be awesome if advances in AI could add half a percentage point to productivity growth, if not more—and sooner rather than later. Let’s hope AI capabilities keep improving and businesses are able to put them to work in a timely fashion. I will be keeping an eye on this Manifold Markets contract:

<<CHART OMITTED>>

### AT: AI

**Unions HELP automation, which is low and ineffective now.**

Aaron **Prather 24**. Director of robotics and autonomous systems programs at ASTM International, M.B.A. from Christian Brothers University. "Labor Unions and Robots - Finding A Path Forward." Six Degrees of Robotics. 9/20/2024. sixdegreesofrobotics.substack.com/p/labor-unions-and-robots-finding-a

The London School of Economics Study

Research conducted in 2022 from the **L**ondon **S**chool of **E**conomics (LSE) has recently highlighted how trade **unions** and cooperative institutions could **drive** mutually beneficial automation in industries. The study **examined** automation across **25** OECD countries and found that, contrary to expectations, the presence of cooperative institutions such as works councils both **encouraged** industrial automation and ensured fairer outcomes for workers.

In countries with stronger labor institutions, such as Germany, automation adoption was higher compared to nations like the U.K. The study suggested that when employees **support** their employers' strategy and invest in retraining to complement new technology, **both parties** benefit. Workers in **automated** firms tended to experience **better** job security, **higher** wages, and **safer** working conditions, while businesses **grew** and increased headcount.

Cooperative structures, defined as things like works councils and other sector organizations, helped **smooth the transition** by ensuring the costs and benefits of automation were **shared equitably**, with some firms guaranteeing no redundancies from automation investments. This created a more **collaborative environment**, encouraging workers to adopt and suggest new technologies, which **maximizes** the return on automation.

There is **strong evidence** that cooperative institutions help **increase** the use of robots. For example, countries like Austria, Belgium, and Sweden, which have **strong** cooperative systems, use at least **twice** as many robots as countries like the UK. This finding is solid, even after controlling for other factors. So, we can conclude that cooperative institutions lead to more robotization, not less. The **idea** that workers would block technology that might threaten their jobs doesn't seem to be true in these cases.

### Plan Solves Productivity

#### The plan solves. It boosts productivity by increasing the quality AND training of workers.

David Madland 21. Senior Fellow at the Center for American Progress, Ph.D. in Political Science and Government, B.S. in Political Economy. “Unions as the Solution.” *Union: How Bold Labor Reforms Can Repair, Revitalize, and Reunite the United States*. 5/15/2021. ILR Press. pp. 71-76.

Moreover, the labor market is different than other markets. People are not widgets. If the price of a commodity, like oil, goes up, the commodity still performs the same. But, if a worker’s pay increases, something different happens. Some workers value their job more and are less likely to leave— which reduces turnover, and turnover is quite costly to employers. Some workers may increase their effort because they feel they are being paid what they are worth. Some employers restructure processes to help make workers more productive and promote additional training to help workers become more efficient. Workers can also have good ideas to improve productivity and may be more likely to offer them when they feel they are being fairly compensated and feel their voice is heard.

Further, higher wages also enable workers to purchase more goods and services. Increased consumer demand gives firms an incentive to invest in new factories and products, which can create additional jobs. Put another way—the ability to pay low wages may be helpful for a particular firm, but low wages are not necessarily good for the broader economy. The growing economy relies on growing consumer demand.

In a similar vein, employers also often underinvest in training—relative to both their needs and the best interest of society. This occurs in part because employers fear their competitors will hire away workers they have spent money to train before they are able to recoup their investment. A related reason is that turnover is very high in some jobs—in large part because pay is low—so employers do not want to train workers that are just going to leave the job. As a result, it may be rational for an individual firm to avoid training investments and instead hire trained workers from another company or just let workers leave the industry. But this can lead to a problem for the overall economy. Unions can negotiate for greater investments in training and can create the structures to deliver it in ways that benefit workers and employers.

All of this means that in the real world there is plenty of opportunity for labor unions to raise wages and not hurt, and perhaps even help, economic growth. Which is why decades of research has shown that unions and collective bargaining do not lead to economic ruin. The research is very clear that unions raise wages and reduce inequality, but their effect on other economic outcomes such as productivity, economic growth, employment, and firm profitability depends heavily on the context, especially the response of management but also the specific firm, region, and time period under study.

The classic work on the economic impacts of unions was written in 1984 by Harvard economists Richard Freeman and James Medoff, and more than three decades of subsequent research has largely verified their findings.91 Freeman and Medoff explained that unions have “two faces.” In one, collective voice acts as an accountability check on management, helps workers’ preferences be accurately communicated to management, and ensures that gains from productivity are equally shared. The other, a monopoly face, can be used to “raise wages above competitive levels” and promote “restrictive work practices.” The collective face boosts productivity by “open[ing] an important communication channel between workers and management,” bringing out the best in workers and management to solve problems collaboratively that could not be solved by individuals working alone. The monopoly face, Freeman and Medoff argue, can produce uncompetitive pay and inefficiencies that “lower the productivity of labor and capital,” such as through “restrictions on tasks performed.”92

Both faces exist simultaneously, but Freeman and Medoff argue that, on balance, the impact of the positive face dominates, even in the United States, which has a less-than-optimal system. There has been an enormous amount of research building on and supporting the two-faces argument, looking into economic outcomes such as productivity, employment, profitability, and physical and human capital investments. Some studies find that the negative face is more prevalent, while others find that the positive face is more prevalent, but most find that the impact of unions on economic growth or the competitiveness of an economy is roughly a wash—often boosting productivity while slightly reducing corporate profits.93

For some people it may be helpful to reference the research on minimum wages to round out the research on unions, as the minimum wage has been the subject of frequent debate. Unions do a lot more than help set minimum compensation standards, but, to economists, raising wages above what employers would pay on their own is analogous to raising the minimum wage. And fortunately there has been much recent and important research on the minimum wage. For decades economists assumed that the minimum wage must have significant harmful effects, but once they really began studying minimum wage increases in detail, they began to understand that the minimum wage significantly increased the earnings of low-wage workers without much or any reduction in employment.94

As with the minimum wage research, there is a growing understanding that unions do not do dramatic harm to the economy. Unions can in fact help the market function properly, balancing the power of employers and workers, helping workers earn a share of the “rents” that powerful companies get, limiting discrimination, reducing transaction costs so workers can understand their options, providing incentives for training programs, reducing turnover, and helping workers gain leverage that can improve not only working conditions but also the efficiency of production processes.

All of these good economic effects can and do happen under the current US labor system. But the US system is not set up to maximize their occurrence. Rather, in some ways the current system is set up to hinder them because it emphasizes enterprise-level bargaining that exacerbates conflict between workers and owners, encourages low-road companies to compete based on squeezing wages rather than increasing productivity, and fails to foster industry-wide training systems—indicating that there are ways to further improve the economic impact of unions by moving toward sectoral bargaining, as will be discussed in the next chapter.

Critically, the economic impacts of unions are even more positive when their broader consequences are considered. Unions also help make government work in ways that are better for the economy. Because unions help balance political and economic power, government is less likely to be captured and used to protect the interests of the rich, the rule of law is stronger, and investments in social goods like education and infrastructure are greater—all of which are good for the economy.95 Unfortunately, the vast majority of research on the economic impact of unions “ignores politics,” as the economist Daron Acemoglu and the political scientist James Robinson write—meaning that it misses perhaps the most important way that unions help make the economy function.96 As a result, unions have a far more positive economic impact than most economic studies are able to show.

#### Critiques are outdated.

David Madland 21. Senior Fellow at the Center for American Progress, Ph.D. in Political Science and Government, B.S. in Political Economy. “Unions as the Solution.” *Union: How Bold Labor Reforms Can Repair, Revitalize, and Reunite the United States*. 5/15/2021. ILR Press. pp. 71-76.

Minimal Economic Harm

A skeptic might question whether unions impose a significant burden on the economy. Critics often drag out stories of unions negotiating for “unreasonable” benefits, like the ability to get paid even if there is no work available or trying to ensure that a light bulb is changed by a union member rather than the person who could most easily do it.

Closer investigation often reveals that these criticisms are overblown, but unions, like any other institution, have flaws and can do things that cause some economic harm. But their flaws are much smaller than opponents claim. Indeed, the overall impact of unions on economic growth is negligible and sometimes positive. Moreover, the US system of firm-based bargaining arguably encourages some of the behaviors that critics dislike because it often requires unions to focus on narrow interests and limits their ability to advocate for the broad needs of all workers. Thus, the economic impact of unions could be even more positive if labor policies were reformed.

To free-market conservatives, anything that raises the cost of workers above what employers would pay on their own will cause economic harm. According to this logic, employers already pay workers what they are worth —their marginal product. “Artificially” increasing pay through union negotiations will supposedly reduce employment or make companies less able to afford other needed investments and thus become less efficient and less competitive in the economy. Labor unions in this view are merely dead weights for employers and the economy.

Of course, the economy does not actually attain the perfectly competitive conditions that free-market conservatives and too many economists assume. Employers and society at large can place barriers to advancement in front of women and people of color. Employers can also make it hard for workers to earn what they are worth with another employer by, for example, forcing employees to sign noncompete agreements. Firms can earn monopolistic “rents” over and above what they would make in a competitive market.

Employers also have what is known as monopsony power, which can enable them to pay workers less than they are worth because it is time- consuming and costly for workers to change jobs.90 Workers can face large transaction costs in finding out what their value is in the market. It takes time and effort to get another job. Workers do not have perfect information about what their colleagues make, let alone what other firms pay. Workers do not always know what skills employers really want—and they may not be able to trust employers’ promises that they will get a higher wage if they get more training. Changing employers means potentially altering commute routines and even friendships and creates the worry that the new job may be an even worse fit. The list of market failures could go on and on.

#### The link is conservative propaganda.

Steven Greenhouse 22. Senior fellow at the Century Foundation, J.D. from the New York University School of Law. "How Unions Work for the Economy." The Century Foundaton. 11/16/2022. tcf.org/content/report/how-unions-work-for-the-economy

Myth: Unions Make Companies Uncompetitive

Ask a corporate executive, and you often hear that unions are bad because they make companies uncompetitive. But some of the nation’s best-known companies—Boeing, Southwest Airlines, Disney, General Electric, and The New York Times—are unionized, and they’re all highly innovative, highly competitive, and highly successful. Union bashers often cite the problems of Detroit’s automakers to argue that unionized auto companies can’t compete. Well, Mercedes-Benz, BMW, Volkswagen, Toyota, Honda, Nissan, and Hyundai are all unionized in their home countries, as are Sony, Siemens, and Airbus. They’re all world-beating, hugely competitive companies; so it’s just plain wrong to claim that unionization means companies can’t compete.

Myth: Unions Hurt Efficiency and Productivity

Conservatives and corporate lobbyists have long argued that unions are a wrench in the corporate machinery that hurts efficiency and productivity. Yet many academic studies contradict that notion and have found that unions do not hurt productivity. (Studies have found, however, that unionization often hurts corporate profitability by forcing companies to share more of their revenues with their workers in the form of increased wages and benefits.)

In what is probably the leading study on the issue, Richard B. Freeman, a Harvard labor economist, joined Hristos Doucouliagos and Patrice Laroche to examine more than 300 studies on the effects of unionization on productivity. They concluded that unions do not, overall, reduce productivity, although there are variations in different countries and industries according to specific circumstances. Freeman and his coauthors found that in the United States, unionization appears to be associated with higher productivity in the education and construction sectors, while making no overall difference on productivity in manufacturing.

Unions can of course hamstring management’s flexibility, but they also have several pronounced advantages for productivity. Unions can make a company a more desirable place to work and thereby help attract more and better job applicants. Unions generally reduce employee turnover and increase workers’ loyalty and commitment to their employer’s success. More experienced, more dedicated workers are more productive workers.

#### Innovation. Unions induce it better.

Alex Bryson & Harald Dale-Olsen 21. Professor of quantitative social science at University College London, Ph.D. in sociology from the University of Bristol. "Union effects on Product and Technological Innovation." *Norwegian Research Council*, 202647.1, 20-21.

VIII. CONCLUSION AND DISCUSSION

To our knowledge, this is the first empirical workplace comparative analysis of the links between union bargaining and innovation. We compare union links to innovation in Britain and Norway, two very different countries in terms of union arrangements. Britain is akin to the U.S. with low levels of unionisation and, where union bargaining exists, it takes the form of local union agreements. In Norway, on the other hand, although multi-employer agreements dominate, a majority of the unionised workplaces also face local bargaining. The distinction we make between product and technological process innovations proves informative. Indeed, failure to disaggregate between types of innovation would have produced misleading results. Theoretically, we show that unions prefer product innovation to potentially labour-reducing technological process innovation, and that the former kind of innovation might offset the detrimental impact of the latter on union utility. Thus, when we address these issues empirically, our expectations are clear. Furthermore, our efforts to distinguish between aspects of unionisation within country prove informative since we find results differ somewhat according to whether the union agreement is at local or multiemployer level, i.e., sectoral bargaining is of no importance for innovations in Norway and its occurrence is negligible in Britain. That said, there are stark differences in innovation rates and the links between innovation and union status of workplaces across our two countries, which seem to relate to the broad characterisations of the two union systems in the literature.

Empirically we find strong support for the notion that local bargaining is related to more innovations - product and technical process innovations together, or just product innovations only. This is seen in the simple descriptive Table 3, and is confirmed in the multivariate analysis, with key results summarised in Table 6. The picture described by the descriptive table holds when taking into account industry-, size-, market- and skill-differences across workplaces. In most cases, our estimates of the marginal effects are significant at a 1-percent level and imply economically important differences. The magnitude of the impact is slightly sensitive to whether one treats bargaining as an exogenous or endogenous variable in the innovation processes, but results appear economically significant regardless of treatment. When treated as exogenous, the estimated average marginal effects are quite comparable in Britain and Norway: local bargaining workplaces are roughly 8 percentage points more likely to conduct both product and process innovations than non-bargaining workplaces (which have a baseline probability of 22 percent).

Thus, our results are as expected, and as indicated by the theoretical model, that unions prefer product innovation to labour-saving technological innovations. When both occur, this might entail a loss of workers to the plant and the union, but this utility loss for the union is offset by increased demand and wages following product innovations.

These empirical findings challenge the notion that local union bargaining is detrimental to innovation. However, many of the existing studies finding this were conducted some time ago: recent empirical studies of union effects on productivity indicate that unions are not detrimental to productivity. First, the empirical literature on unions and productivity suggests that relative productivity in the union sector has risen over time. For example, Blanchflower and Bryson (2009) show that the negative association between unionisation and productivity observed in the 1980s in Britain had disappeared by the 1990s. Second, Barth et al. (2020) show on Norwegian data that increasing union density is causally related to higher productivity and higher wages, but productivity more so. If productivity and innovations are related, our results are thus in line with these latter studies. Future research will reveal if our findings pertain to other innovations measures and will be robust over time.

### Link Frames

#### Reject Mercatus---zero academic credibility.

Jasmine Banks 21. Executive Director of UnKoch My Campus. "Elite Schools Must Quit Koch Money." Progressive.org. 12-1-2021. https://progressive.org/op-eds/elite-schools-quit-koch-money-banks-211201/

Duke and George Washington are hardly alone.

George Mason University and its right-wing think tank, the Mercatus Center, have long been the Koch network’s top academic recipients. Charles Koch and his late brother David had “decision-making roles” in the center’s academic appointments through at least 2009, according to The New York Times.

Florida State came under fire in 2014 when it was revealed that the university had accepted millions of dollars from the Koch Foundation in exchange for aligning its curriculum with Charles Koch’s philosophy, giving him a say in which professors were hired. Tufts University announced plans to divest from fossil fuels but then its Koch-funded study center issued a controversial attack on the state’s efforts to limit carbon emissions.

The money these universities accept from the Koch network is, in some ways, more damaging and insidious than the university’s investment in fossil fuel companies. Money is fungible, but academic credibility is not.

#### OECD is AFF.

David Madland 21. Senior Fellow and Strategic Director of the American Worker Project at the Center for American Progress. “The Contours of a Modern Labor System.” *Re-Union: How Bold Labor Reforms Can Repair, Revitalize, and Reunite the United States*, Chapter 3. 5-15-2021. ISBN: 9781501755378

Macroeconomic research also suggests that broad-based bargaining and greater union density would increase productivity. For example, research on Organisation for Economic Co-operation and Development (OECD) countries by the British economists Guy Vernon and Mark Rogers find that greater union density promotes productivity growth in those countries with higher-level bargaining.112 Similarly, a review of the literature by the economists Toke Aidt and Zafiris Tzannatos found support for the assertion that countries with “coordinated bargaining systems,” similar to those proposed in this book, “on average, achieve better economic outcomes.”113 In addition, there is a host of research finding that higher-level bargaining generally does not lead to harmful macroeconomic impacts, such as higher unemployment. If anything, higher-level bargaining reduces unemployment.114

#### Prefer meta-analyses. They’re more likely to be right than individual warrants.

Laura Feiveson 23. Former deputy assistant secretary for macroeconomic policy at the Treasury Department, Ph.D. in public finance and macroeconomics from the Massachusetts Institute of Technology. "Labor Unions and the Middle Class." U.S. Department of the Treasury. August 2023. 24-26.

Section 7.2. Productivity

Unions may have positive or negative effects on productivity depending on the circumstances of a particular business. On the positive side, happier and more engaged employees are more productive,106 more satisfied workers are less likely to quit, and lower employee turnover will reduce the costs of worker training and recruiting. Furthermore, unions may enable the workers to improve efficiency by participating in decisions about the workplace’s processes. For example, protections offered by a union may encourage ground-level workers to voice their ideas for improvement without fear of reprisal. On the negative side, certain types of worker protections may lead some firms to retain unproductive employees. In addition, unions may increase wages to employees by redirecting cash flow that would otherwise be directed to investment. Reduced investment, in turn, could lead to a reduction in productivity.

Researchers have found many cases of unions that improve productivity. Notable examples come from the healthcare sector. Dube, Kaplan, and Thompson (2016) show that patient outcomes improved in hospitals where registered nurses unionized compared to patient outcomes in hospitals without registered nurse unions. The largest quality improvement occurred in the year of unionization.107 Sojourner et al. (2015) find unions can reduce the number of nurses a hospital employs without decreasing the quality of patient care. Dean et al. (2022) present evidence that mortality from COVID-19 was lower at unionized nursing homes in the first year of the pandemic than in nonunionized nursing homes.108

Research also provides examples of labor market conflict having mixed effects on productivity which can vary by sector. For example, strikes can produce temporary negative outcomes. Gruber and Kleiner (2012) observe that nurse strikes, though uncommon, lead to diminished patient outcomes, including higher rates of 30-day readmissions.109 However, to the extent that occasional strikes are necessary for unions to exercise their bargaining power, the short-term disruptions from strikes can pave the way for the longer-term benefits, including the positive effects on productivity and outcomes mentioned above. Another recent study finds that while unions in manufacturing significantly increased wages of workers in the Rust Belt, labor market conflict prior to the 1980s led to a decline in the employment share of the Rust Belt as firms migrated investment to other, less unionized regions of the United States.110

Other studies show that the particular policies pursued by unions are important. One study in the manufacturing industry finds that unionized plants that do not adopt “high-performance workplace practices” may see a decrease in productivity relative to similar nonunionized plants.111 In contrast, unionized plants that adopt practices such as profit sharing for nonmanagerial workers and regular worker meetings could see an increase.112 In education, productivity is difficult to measure, and the choice of student outcome matters. For example, Matsudaira and Patterson (2017) find unionization statistically increases math test scores, but not English test scores.113

Two other strands of literature may indirectly provide evidence about unions’ effect on productivity. The first is empirical work on the effect of unions on firm closures. Frandsen (2021) demonstrated that newly unionized establishments are more likely to close than similar nonunionized establishments.114 These closures may be due to a loss in productivity in some establishments. However, Young and Wang (2021) find such closures are largely driven by multi-establishment firms choosing to shut down the newly unionized establishment, suggesting that the closures may be partially motivated by strategic behavior by firm headquarters rather than productivity considerations alone.115

The second strand of literature that may be considered to provide indirect evidence on productivity involves the effect of unions on stock prices and equity valuations. One well-cited study shows that unions decreased firm equity value, on average, for a set of firms with union elections between 1961 to 1999.116 However, as with the firm closure analysis, declining stock prices do not necessarily result from declining productivity. As discussed earlier in this paper, unions can redistribute economic profits from shareholders to workers. This decline in profits accruing to shareholders may reduce firm valuation without reducing firm revenues.

Researchers who have summarized the existing body of evidence conclude that the effects of unions on productivity are either modestly positive or neutral. Doucouliagos and Laroche (2003) did a comprehensive statistical review of the published empirical literature through 2003 and found unions, on average, are associated with higher productivity, particularly in the manufacturing sector.117 In a qualitative overview of the same literature, Hirsch (2004) came to the conclusion that the union productivity effect for the economy as a whole appeared to be close to zero.118 In a more recent summary analysis, Doucouliagos, Freeman, and Laroche (2017) updated their previous statistical review to include newer empirical work and estimated a zero effect of unions on productivity in U.S. manufacturing sectors, but a positive effect of unions on productivity in the construction and education sectors.119 Additionally, they summarize evidence of positive productivity effects through the channels of employee engagement and union voice effects and negative effects through the investment channel. None of these overviews supported a net negative effect of unions on overall U.S. productivity.

## Negative Block

### 2NC link

#### increasing wages increases unemployment, AND the consensus is that productivity turns wages, not vice versa---at most, it’s a one-shot increase

---”can in some cases” =/= “generally does”!

Ilzetzki ’21 [Ethan and Lucile Crumpton; December 9; PhD, Associate Professor in Economics at the London School of Economics; research assistant London School of Economics and Political Science; CEPR, “Towards a high-wage, high-productivity economy,” https://cepr.org/voxeu/columns/towards-high-wage-high-productivity-economy]

Question 1: Which of the following statements most closely reflects your understanding of the relationship between productivity and wages?

<<GRAPHS OMITTED>>

Twenty-three panel members answered this question. Ninety-one percent of panel members support the proposition that wage increases generally do not increase productivity in the long run; the consensus is that productivity drives wage increases. However, a majority (51%) of the panel agrees that wage increases can contribute to long-term productivity. The remaining 40% believe that wage increases cannot increase productivity in and of themselves.

Many respondents argue that there is no causal relationship through which higher wages augment productivity in the long run. Roger Farmer (University of Warwick) writes that while wage increases could yield a one-off boost to workers’ effort, there is “no plausible causal chain that would lead… to continual improvements on an ongoing basis – as would be needed to explain continual productivity growth”. Michael Wickens supports Farmer’s stipulation and further highlights that government measures to artificially increase wages may cut into firms’ profits. In his words, this would lead to “a fall in the demand for labour and increased unemployment”. In a similar vein, Martin Ellison (University of Oxford) states that while there are “models in which low wages discourage effort”, the reverse would “look like falling into the fallacy of reverse causality”, adding that “history is unlikely to look kindly on such initiatives”.

### Link---2NC

#### 1. WAGE PRESSURE.

#### Wages would deliberately be set too high for small companies to absorb, causing the entire industry to scale back innovation.

Valtat ’19 [Antoine; November 26; PhD candidate at École Polytechnique; Essays on sectoral-level wage bargaining, “Impact of sectoral agreements on creative destruction,” p. 78, https://theses.hal.science/tel-02381257v1/file/86088\_VALTAT\_2019\_archivage.pdf]

Second, the level at which the bargaining takes place has an effect on the value of those variables, which is in line with theoretical conclusions. Indeed, the value of an innovation increases by 1.8% when the wage is negotiated at the industry level. Furthermore, the overall creation destruction rate decreases by 2.4%. The effect on the research efforts of incumbent firms is, in proportion, lower as it decreases by 2.2% whereas the innovation rate of entrants decreases by 3.3%.

The quantitative analysis highlights several points. First, the fact that the impact of the wage on the research efforts of competitors is taken into account by the negotiating parties when the wage is negotiated at the industry level has an important impact on the wage, and so on the labor force employed by the industry, and on the production level. Furthermore, if the impact of this effect on variable related to creative destruction is non negligible, it appears as being of low magnitude.

However, the model doesn’t take into account all effects of industry-level negotiation. Inter alia, the wage compression due to the wage floor will impede less productive firms to produce (see Jimeno and Thomas (2013)) and therefore will be an entry barrier, which has a negative effect on innovation (see Alesina et al. (2005)). Consequently the model underestimates the overall effect of the level at which the bargaining takes place on the innovation rate.

#### Sectoral bargaining delinks wages for individual work performance---destroying productivity.

Mansfield ’24 [Iain; Director of Research and Head of Education and Science at Policy Exchange; Policy Exchange, “One size fits all: Sectoral collective bargaining and its implications for business and taxpayers,” p. 24, https://policyexchange.org.uk/wp-content/uploads/One-size-fits-all.pdf]

Productivity may suffer

In the end, of course, workers’ prosperity and security of employment depend on the overall health and growth of the economy. One of the British economy’s key health and growth problems is its poor productivity. Supporters of sectoral collective bargaining argue that forcing up wages can improve productivity by putting less productive firms out of business; or by incentivising employers to innovate or automate; or by pushing them to get more out of their workers by improving their skill levels (though some of these changes would not be in the interests of the workers who lost their jobs.)

It is notable that this increase in productivity as a result of artificially inflated wages was not observed in Britain during the 1970s. Research makes clear that “centralisation [of bargaining] is linked with lower productivity growth, both for total factor and labour productivity.... In the longer term, such delinking of wages from productivity could have potentially important implications for productivity growth. It could reduce incentives for workers to innovate, work hard and move to a better-paid job... More centralised bargaining at sectoral or national level may come at the cost of reduced flexibility to adjust pay and working conditions in line with business conditions for the individual sector or firm, with potentially adverse implications for productivity.”113

#### 2. INVESTMENT.

#### Union rent-seeking causes firms to divest from productive capital.

Shin ’20 [Ilhang and Sanghyun Hwang; October 5; PhD, Associate Professor of Accounting, Gachon University; Department of Economics and Finance, Sangmyung University; Applied Economics Letters, “Do labour unions help or hurt firms to invest in the long run? Evidence from Korea,” vol. 28]

III. Estimation results

We present the estimation results that show the effects of labour union on firm’s investment in Table 2. The columns (3) and (6) particularly show the results for the sample matched on propensity score in both of Table 2a and 2b. In Table 2a, we use Staff\_Cost in columns (1)-(3) and 𝐴𝑣𝑒𝑟𝑎𝑔𝑒\_𝑊𝑎𝑔𝑒 in columns (4)–(6) as dependent variables, respectively, to show the labour union effects on investment in human resources.Footnote3 The coefficients 𝛽 of 𝑈𝑛𝑖𝑜𝑛𝑖,𝑡−1 are positive and statistically significant in all the columns (1)–(6). As a firm is unionized, the ratio of staff costs to sales increases by 1.4–1.6%p, and the average wage increases by 1.89–3.61% on average.Footnote4 Table 2b exhibits the labour union effects on investment in physical capital, employing 𝐶𝑎𝑝𝐸𝑥 in columns (1)-(3) and 𝑅𝐷\_𝐶𝑎𝑝𝐸𝑥 in columns (4)–(6) as dependent variables, respectively. We have negative and statistically significant coefficients of 𝑈𝑛𝑖𝑜𝑛𝑖,𝑡−1 in all the columns (1)–(6). If a firm is unionized, then the capital expenditures scaled by total assets decrease by 3.2–3.8%p, and the sum of capital and R&D expenditures decrease by 3.7–4.2% on average. All of these estimation results can be summarized as follows: labour unionization makes firm’s investment rise in human resource but fall in physical capital. In general, according to the rent-seeking models, firms reduce investment in tangible and intangible capital in response to rent-seeking behaviour of unions such that labour unions appropriate the returns from the investment (Hirsch Citation2004). According to Agrawal and Matsa (Citation2013) and Chemmanur, Cheng, and Zhang (Citation2013), unionized workers claim some compensation such as higher wages and extra benefits, if they see the physical investment so risky that could make their jobs unstable.Footnote5

Table 2. Labour union and investment in human resource vs. physical capital

Table 3 shows the regression results that stand for the relationship between labour union and firm’s performance. The columns (2) and (4) particularly show the results for the sample matched on propensity score in both of Table 3a and 3b. Table 3a uses 𝑆𝑎𝑙𝑒𝑠 for total factor productivity while Table 3b employs 𝑇𝑜𝑏𝑖𝑛𝑄 for firm valuation one year ahead or two years ahead as dependent variables, respectively. The coefficients of 𝑈𝑛𝑖𝑜𝑛𝑖,𝑡−1 are negative and significant in all the columns (1)–(4) of Table 3a. Consequently, we get negative and significant coefficients of 𝑈𝑛𝑖𝑜𝑛𝑖,𝑡−1 in all the columns (1)–(4) of Table 3b. In short, associated with the above results in Table 2, these empirical facts imply the followings. As labour unions engage in raising shares of employees joining the unions just as rent-seeking behaviour, firms allocate their limited resources so distortedly as to invest more in human resource but less in physical capital as above in Table 2. For this reason the firms with labour unions get less productive, and consequently, the capital market valuates them less.

Table 3. Labour union and firm performance

IV. Conclusion

We have empirical evidence that labour unions enlarge human resource investments but reduce physical capital investments, which consequently leads to low productivity and low market valuation of firms.Footnote6 We interpret these findings to mean that the labour unions engage in rent-seeking behaviour that distorts firms’ decisions on investment in the long term. Recently some labour unions have asserted such rights of recommendation on outside directors to extend their participation in management considerably, and this has raised the issue of infringement of management right in Korea.Footnote7 Most of all, our empirical findings suggest that the problem of deciding proper investment for current and future profits could become more serious, if the labour unions participate in management and exercise their collective bargaining power to accomplish their interests as rent-seekers.

#### Unionization tanks investment due to higher financing costs.

Maksimovic ’25 [Vojislav and Liu Yang; April 2025; PhD, Chair in Finance and Professor of Finance at the Smith School of Business, University of Maryland; PhD, Associate Professor in Finance at the Smith School of Business, University of Maryland; “What Do Unions Do? Incentives and Investments,” https://damore-mckim.northeastern.edu/wp-content/uploads/2025/05/4\_Union\_Northeastern\_Conference\_2025.pdf]

Our variable of interest, β1, captures the effect of unionization on investment. Table 6 columns 1, 3, and 5 present our findings. Unionized plants have lower capital expenditures (β1 < 0) in both equipment and structures. Controlling for industry, location, and other observable firm characteristics such as size, age, and human capital, unionized plants invest 3% less relative to non-unionized plants during the same period. The difference is significant at a one percent level. The lower investments observed in unionized plants can be attributed to various factors. Hirsch (1991) argue that unions have direct and indirect effects on investment. The direct effect arises from the “union tax” imposed on the returns to long-lived capital, while the indirect effect is linked to higher financing costs due to reduced profitability for unionized firms. Bradley et al. (2017) shows that passing a union election results in declines in patent quantity (quality) three years after the election. We show that unionized plants also have higher wages, weaker incentives, and lower productivity, all of which can lead to adverse effects on investments within the framework of the neoclassical model. This raises the question: To what extent can these differences account for the lower investment levels observed in unionized plants?

#### Investors would perceive reduced profitability.

Abraham ’19 [Steven E. and Paula B. Voos; 2019; PhD, JD, Professor in the School of Business at SUNY Oswego; PhD, Professor of Labor Studies and Employment Relations at Rutgers; Advances in Industrial and Labor Relations, “New Evidence from the Stock Market On Right-To-Work Laws,” vol. 25]

The results for RTW passage are consistent with prior capital market research on the impact of unions and events related to unionism. Investors have been shown to be negative in their assessment about the economic effects of unions on corporations in all of the event studies of which we are aware (Bronars & Deere, 1990: Lee & Mas, 2009; Olson & Becker, 1990; Thomas & Kleiner, 1992). This may be a reasonable economic evaluation of unions – whatever else they do, they raise compensation by redistributing profits from shareholders to employees. There is some evidence that the market reacts more to events when there is extensive or vivid news coverage (Abraham, Schur, & Voos, 2015). Therefore, while some of the market reaction to an event like the passage of a RTW law may be colored by the attention these laws tend to receive in the media, the market is rational, but rational in a way that is limited by information and widely shared mental filters like animus toward unions.

Event studies of RTW impact need to be interpreted in light of what other scholars have found regarding the impact of RTW laws in recent years. In 2000, we concluded from our first event study of the passage of RTW laws that they are more than symbolic – that passage of a RTW law increased shareholder wealth for those holding shares corporations located in a RTW state. Other scholars then found RTW laws reduce union organizing, increase free riding by individuals represented by unions, and reduce the percent organized in a given state. This then reduces union bargaining power and anticipated union ability to increase members’ compensation.

But is that likely to be enough to fuel the RTW shareholder wealth effects reported here for a state like Oklahoma? In a low-wage, low-union membership state like Oklahoma, the probability of union organizing was already low before RTW passage. It is hard to imagine that RTW laws further reduced the probability of union organizing to such a degree as to account for gains in shareholder wealth of the magnitude reported here or that they reduce existing union bargaining power in Oklahoma enough to drive such a substantial increase in expected future profits for all Oklahoma corporations, most of which are nonunion. In short, it does not seem likely that the RTW law in Oklahoma operated simply by reducing the probability of unionization or the power of existing unions.

So what is likely driving investor’s expectations? Insofar as RTW laws reduce nonunion employee earnings in a given state, these latest measures of their impact on profitability and shareholder wealth become much more plausible. For this reason, we interpret this study as providing indirect evidence in support of recent studies demonstrating that RTW laws reduce nonunion employee compensation (Gould & Kimball, 2015; Gould & Shierholz, 2011). But unlike those studies which are cross-sectional (and do not control for all state-level policies/legislation affecting business), this study provides evidence on the impact of RTW based on enactment of a RTW law alone, holding constant the other business climate variables that correlate with RTW (such as the absence of a state minimum wage that is above national levels; the existence of prevailing wage statutes; the generosity of social welfare programs; and so forth).

A broad interpretation of the results reported here would be that RTW laws enhance shareholder wealth by reducing nonunion employee earnings and increasing the expected future profitability of employers, at least in those contexts in which the state RTW law is likely to stay on the books for many years into the future. That conclusion must be regarded as tentative given the limitations of the event study method and the fact that one of the six states in which RTW laws have been passed (Michigan) had a low measured impact.

A more limited conclusion would be that in thinking about the impact of RTW laws, it is important to draw conclusions after analyzing a combination of various types of empirical evidence – all of which have both strengths and limitations. Clearly, the preponderance of evidence indicates that RTW laws increase anticipated future profitability of corporations in a given state, most likely by weakening unions and reducing the compensation of both union and nonunion employees.

#### 3. EFFICIENCY---Sectoral bargaining locks in inflexible labor terms, complexity, and industrial strife---dragging down productivity.

Partridge ’19 [Roger and Bryce Wilkinson; 2019; LLM, Chairman and Senior Fellow of The New Zealand Initiative; PhD economics, Senior Fellow at The New Zealand Initiative; New Zealand Initiative, “Why Fair Pay Agreements would be bad for labour,” https://www.nzinitiative.org.nz/reports-and-media/reports/work-in-progress-why-fair-pay-agreements-would-be-bad-for-labour/document/553]

Lack of flexibility

Collective bargaining of the sort contemplated by the FPAWG lacks flexibility. FPAs are intended to be applied across industries and across occupations. Consequently, by design, they ignore the needs and circumstances of individual employers and their workers trying to meet the demands of a competitive domestic and international marketplace.

How likely is it that an FPA will:

• permit bespoke changes to shift arrangements desired by one innovative firm in an industry, but not by others; or

• permit changes to terms and conditions unanimously agreed to by the workforce of a specific employer but which make different trade-offs – and therefore infringe the “favourability principle”?

Furthermore, union officials in the centralised bargaining structure envisaged by the FPAWG cannot hope to be informed about – or take account of – the varying needs and circumstances of each and every employer of the workers they are mandated to represent. Nor can the statutory body whose task it is to adjudicate if agreement cannot be reached by representatives tasked with negotiating an FPA.

Collective bargaining of the sort contemplated by the FPAWG lacks flexibility

This lack of flexibility with sector- or occupation-wide collective bargaining will be exacerbated by the FPAWG’s proposed prohibition on employers – individually or collectively – from initiating changes to collective bargaining arrangements.131

The adverse impacts of a system of FPAs will be amplified by disruption from automation and innovation to the future workplace. Drawing on research from the McKinsey Global Institute, the report A Future that Works from the Prime Minister’s Business Advisory Council predicts that New Zealand workplaces face technological disruption at 10 times the pace of the Industrial Revolution.132 The report notes that automation holds enormous potential for New Zealand through increased productivity. However, the report concludes that the extent of the benefits will depend on the speed of automation adoption relative to international competition.133

Consequently, it may never have been more important that our labour market regulations operate flexibly to enable individual firms to make timely changes to the terms and conditions of employment to meet the rapidly changing needs of a competitive marketplace. Yet centralised, compulsory collective bargaining of the sort envisaged by the FPAWG would institutionalise inflexibility. Rather than permit individual firms to respond nimbly to the opportunities presented by automation and innovation, firms will be straddled with terms and conditions that are fixed across entire industries or occupations. FPAs will be no prescription for the challenges to the future of work. Rather, they will present an obstacle to businesses trying to meet those challenges.

Perhaps the most blunt and inflexible aspect of the FPAWG’s recommendations is the proposal to extend the terms and conditions of FPAs to all workers in an occupation, including contractors.134 Treating contractors as employees would have profound implications for businesses and contractors alike – especially in sectors like transport, where market-based outcomes have led to many businesses using fleets owned and operated by contractors.135

Feedback from businesses interviewed in the course of our research indicated alarm at the adverse implications for productivity from treating owner-operator drivers as employees.136 Recognising the impracticality of its recommendation, the working group acknowledges the view that “contractors operate under a business model, rather than [an] employment model”, and that its recommendation raised “broader issues” that the government may want to address “by other means”.137

Even if FPAs do not extend to contractors, the FPAWG’s recommendations will significantly reduce the flexibility of New Zealand’s labour markets for reasons outlined above.

Poor incentives

FPAs may also reduce incentives for workers to innovate and work hard. That is the conclusion of the OECD in its Employment Outlook 2018 report.138 The OECD’s conclusion relies on findings in several recent European studies that decentralised wage-setting is associated more with higher productivity than the centralised wage-setting recommended by the FPAWG.139

The OECD conclusion is also consistent with New Zealand’s experience of comparatively rapid increases in multi-factor productivity in the 1990s following the ECA reforms. As we saw in Chapter 3, this sustained period of productivity growth followed a long period of moribund productivity growth under New Zealand’s former system of industrial awards.140

While the OECD also notes the potential for centralised collective bargaining to increase aggregate productivity by setting higher wage floors, forcing unproductive firms to exit the market,141 this means firms failing and jobs being lost. As noted earlier, this is hardly a sensible strategy for labour market reform in New Zealand.142

Cost and complexity

Experience from overseas suggests the centralised, compulsory collective bargaining framework envisaged by the FPAWG will introduce higher cost and complexity to the operation of our labour markets.

Complexity will arise from, among other matters, the need:

• to determine the limits on an “industry” or “occupation”, including whether a particular business falls within a specific “industry” or whether a particular role falls within a specific “occupation”;

• to determine whether the thresholds for triggering or initiating an FPA process have been met;

• to determine which unions and employer organisations are mandated and entitled to represent which workers and businesses. As noted in Chapter 1, so-called “demarcation” disputes between unions (of which there are 135 in New Zealand) were a common phenomenon under New Zealand’s former awards system;

• for consultations between the various representative bodies on the above issues and on the terms and conditions to be decided and being negotiated (in itself an immensely complicated issue when the recommendations envisage negotiations across whole industries or occupations); and

• to determine outcomes judicially if agreement cannot be reached between employee and employer representatives.

These matters may seem simple. In practice, they will create uncertainty and complexity in the operation of the labour market. And they will create a field day for lawyers.

Experience from overseas suggests the centralised, compulsory collective bargaining framework envisaged by the FPAWG will introduce higher cost and complexity to the operation of our labour markets

Box 1 provides some examples from Australia of the types of complications expected to arise from the working group’s recommendations. They are outlined in more detail by John Slater in Industrial Relations in Australia: A Handbrake on Prosperity. 143

A reduction in the dynamism and fluidity of labour markets will adversely affect economic growth and productivity. Unfortunately, the FPAWG report shows few signs of understanding either the risks its recommendations will create, or the adverse consequences for wages, workers and welfare.

Harm to industrial relations

Compulsory industry- or occupation-wide collective bargaining in the form of FPAs also risks taking the “relations” out of industrial relations. Instead of a firm and its workers sitting around a table and discussing their respective wants and needs – and the trade-offs each is willing to make in the interests of a harmonious and productive workplace – negotiations will take place between remote representatives from one or more unions and business organisations.

The change in dynamics will be profound, even for New Zealand’s larger businesses. As one <<BOX 1 OMITTED>> employer put it to us, “[Under FPAs] I will stop being an employer of labour and become a user.”148 Another noted, “Together with the unions we have invested heavily in processes both within and outside bargaining that promote collaborative problem-solving by ‘the people closest to the problem’ with real success. That will be lost with negotiations undertaken by strangers with strangers.”149

It is little wonder that pre-ECA industrial relations in New Zealand were characterised by industrial strife (well-illustrated by Figure 1).

To mitigate this risk under a system of compulsory FPAs, the FPAWG recommends that workers should be prohibited from taking industrial action in connection with the FPA process. However, even without strike action, the representative role envisaged for unions will be a significant logistical exercise, requiring multiple stop-work meetings to enable consultation with workers across entire industries or occupations. Consultation will be needed for initiation, the course of negotiations, and ratifying the final terms of FPAs. Consequently, the FPA process will involve extensive industrial disruption, even when industrial action is not taking place.

Of more concern, perhaps, is the risk of a return to industrial action commonly described as “second-tier bargaining”. The history of New Zealand’s pre-ECA industrial relations suggests the FPA process risks raising workers’ expectations for high wage increases. To enable less-profitable employers to cope with award outcomes, the 1960s and 1970s saw some conservative awards that did not meet workers’ expectations (the most notorious of which was the “nil” wage order of 1968 referred to in Chapter 1). Workers subsequently put pressure on individual employers to negotiate “above award” settlements. This “second-tier bargaining” contributed to New Zealand’s historically high levels of strikes and lockouts during the 1970s and 1980s.150

The adverse implications for productivity of a return to the industrial strife experienced in New Zealand’s recent past casts a shadow over the FPAWG’s recommendations to return to compulsory sector-wide collective bargaining.

#### 4. COMPETITION---Sectoral bargaining enables big firms to evict competition, causing industry consolidation.

Valtat ’19 [Antoine; November 26; PhD candidate at École Polytechnique; Essays on sectoral-level wage bargaining, “Large firms’ collusion in the labor market: Evidence from collective bargaining,” p. 11-12, https://theses.hal.science/tel-02381257v1/file/86088\_VALTAT\_2019\_archivage.pdf]

Wage setting can occur at different levels, from the most decentralised level - firm level - to the most centralised one - national level. In their seminal paper, Calmfors and Driffill (1988) show that the intermediate level of centralisation - industry level - leads to the worse macroeconomic performance. The simultaneity of the German decentralisation of wage bargaining and resurgence of the German economy in the 1990s seems to corroborate such findings (Dustmann et al., 2014). We argue in this paper that some common features of industry-level wage bargaining can produce the effect of an anti-competitive tool. Indeed, in several countries, among which France, Italy or Portugal, the bargained wages are extended to all firms of the industry, whether they sit at the negotiating table or not, and firms cannot opt out from these agreements. Because of this extension system, the characteristics of bargaining firms are a crucial component of the bargaining outcome. If bargaining firms have different characteristics, and thus different objectives, as the average firm in the industry - ie are unrepresentative of the industry, the bargained wage may favour affiliated firms. In particular, the domination of employers federations by large firms 1 - that we will denote unrepresentativeness in the following - , tilts the bargaining process in their favour, generating a cartel effect. Therefore, dominant firms can use collective bargaining as a tool to raise the labor cost of competitors, and in doing so, reduce the number of producing firms. The following quote, extracted from an Economic survey of the OECD on Portugal (see OECD (2012)), summarizes this mechanism.

“[...] dominant firms impose wage and working conditions on others via the administrative extension of collective agreements, reducing competition and entry, thereby hurting competitiveness.”.

OECD, Economic surveys Portugal, 2012.

In the first two parts of the paper, we compare within a Melitz-type model (Melitz (2003)) two different levels of wage bargaining : firm-level and industry-level bargaining. First, we find that the higher the productivity-level of the firm, the higher the rent to be shared, so the higher the wage negotiated at the firm-level. As a consequence, when there is an industry-level wage floor, it is binding only for small firms, and it raises the wages they pay above their optimal level, thus driving them out of the market . The higher the domination of large firms on the employers federations, the higher the wage floors, which is detrimental to small firms. Equivalently, the more employers federations are dominated by large firms, the higher the negotiated wage floor and, as a result, the lower the product market concentration. We depict the main results of our model in Figure 1.1.

FIGURE 1.1 : Results from our theoretical model

<<FIGURE 1.1 OMITTED>>

We then empirically confirm the collusion effect highlighted by the model. We first derive novel stylized facts on the relation between the representativeness of employers federations and the degree of competition of an industry. To measure representativeness we construct a novel proxy using unique data from the Minister of Labour. This dataset enables us to compare for the first time the average size, for each industry agreement, of the bargaining firms as compared to the average size of all firms of the industry - ie bargaining and non-bargaining firms. The index built therefore proxies the domination of employers federations by large firms, ie the federations’ unrepresentativeness. We find a positive correlation between unrepresentativeness and product market concentration, as well as between unrepresentativeness and small firm’s destruction rate.

In our model, the mechanism explaining the positive correlation between federations unrepresentativeness and product market concentration is that bargaining firms have higher incentives to raise wage floors the larger they are compared to the average firm of the industry - ie the more unrepresentative the employers federation. Our model indeed establishes that large firms always have higher incentives than small firms to raise the wage floors because it enables them to evict the small firms from the market. However, for that to translate into higher wage floors, bargaining firms must be the large firms. Therefore, the over-representation of large firms in employers federations - that we call unrepresentativeness of federations - is a crucial component to understand the outcomes of the bargaining system. In other words, bargaining firms have differential incentives to raise wage floors whether they are representative or not of the average firm in the industry.

#### Incumbent firms and unions will rig the wage floor to kill off competitors---gutting R&D spending, employment, AND innovation.

Valtat ’19 [Antoine; November 26; PhD candidate at École Polytechnique; Essays on sectoral-level wage bargaining, “Impact of sectoral agreements on creative destruction,” p. 62-63, https://theses.hal.science/tel-02381257v1/file/86088\_VALTAT\_2019\_archivage.pdf]

Acemoglu et al. (2005) persuasively argue that the institutions of a country are the main forces generating economic growth. The reason is that they modify the rewards of innovations, and so the incentives of economic actors to pay the cost of research activities. The economic theory vastly backs up this theory (see Aghion and Griffith (2008) for a summary). Likewise, this has been highlighted empirically. For example Alesina et al. (2005) studied the effect of suppressing entry barriers and state ownership on innovation in India, and found that it increased long-run capital investments in those sectors. Therefore, it clearly appears in economic history that institutions are key parameters to explain the capacity of a country to raise its level of output per worker.This paper focus on the effect of labor market institutions, and more specifically on the level at which bargaining takes place, on the benefits extracted from innovations, and therefore on productivity growth. Entrepreneurs use binding minimum wages negotiated at the industry-level in order to increase the labor cost of competitors and, in doing so, to reduce the returns of innovations. As a consequence the research effort of competitors decreases, as do the probability to become technologically obsolete. On the employees side, this is associated with a reduction of the probability to be dismissed from the firm.

In the first part, I use a model, which is built on the previous work of Klette and Kortum (2004), Aghion et al. (2014) and Lentz and Mortensen (2008), where growth is generated by Schumpetarian creative destruction process. There are two industries, one that produces a single homogeneous good, and the other one which is composed of a continuum of products, of a fixed size, between which exists a monopolistic competition. Furthermore, within the differentiated industry, there is a continuum of firms which produce several distinct products. In order to increase its size a firm must innovate, and , symmetrically, in order to start to produce a potential entrant must also innovate. For each of them, the probability to do so is a positive function of investments and past innovations. In case of success the entrepreneur has a monopoly over a product, and surpasses the former producer in terms of productivity. Consequently, innovation is sensitive to its returns, as entrepreneurs arbitrate between the cost of R&D and its potential payoffs.

The model has several implications. First, when negotiating at the industry-level, incumbent firms and the union take into account the lowering effect of a decrease of profits on the research effort of competitors. Therefore, this decreases the negative impact of a labor cost increase on a firm’s objective, as as it drives down the probability to be replaced. Furthermore, a lower probability for the firm to be outperformed implies that workers have a lower probability to loose their job. This rent-sharing between incumbent firms and their workers generates a wage surplus when it’s negotiated at the industry-level, compared to the situation where the wage is negotiated at the firm-level. The raise of the labor cost in turn reduces employment and production. The use by incumbent firms of labor market institutions to reduce the returns of innovations decreases the overall national research effort, and so the GDP growth.

Secondly, I focus on potential entrants. I assume that their innovative process is similar to the one of incumbent firms. In addition, in order to correspond to empirical evidences (see Earle and Sakova (1999)), I assume that the size of the cohort of potential entrants is positively correlated with the returns of innovations. Those two elements imply that the total investments made in R&D by potential entrants are more sensitive to the reward of innovation than those of incumbent firms. Consequently, the share of new entrants is lower when the wage is negotiated at the industry-level, compared to the situation where it’s negotiated at the firm level. At the equilibrium, this lower share of entrants leads to a situation where the distribution of firms size is more skewed. Indeed, the proportion of large firms increases. As a consequence, the rent-sharing between negotiating firms and their workers contributes to foster the domination of very large firms. This impact on the distribution of firms size has, to the best of my knowledge, never been highlighted. Due to this force, which fosters the domination of large firms, the economy departs from the situation of perfect competition.

In the second part of this paper, I assess numerically the magnitude of the previous effects by calibrating the model to the Danish economy. This country is chosen because Lentz and Mortensen (2008) estimated the value of several parameters used in the model on Danish data. I first estimate the significance of the effect on the negotiated wage. I find that the wage surplus generated is important and equals to 2.8% which, in turn, reduces employment by 6.2% and production by 4.8%. Then, I estimate the effect on endogenous variables related to growth. I find that the effect is less significant, as the reduction of growth when the wage is negotiated at the industry-level is estimated as being equal to 2.4%.

#### Competition is key to productivity.

Backus ’19 [Matthew; April 2019; PhD economics, associate professor in the Economic Analysis and Policy Group at Berkeley Haas; NBER Working Paper, “Why is Productivity Correlated with Competition?” No. 25748, https://www.nber.org/papers/w25748]

There is a perennial paper in the productivity literature which presents the following result, updated for contemporary innovations in attitudes towards data and econometrics: firms that are in more competitive markets are more efficient. This correlation has been identified cross-sectionally across industries (Caves and Barton, 1990; Green and Mayes, 1991), and in panels as well (Nickell, 1996; Hay and Liu, 1997); in the US (Dertouzos et al., 1989) and abroad (Porter, 1990); papers in the trade literature have identified this result using policy changes (Pavcnik, 2002; Sivadasan, 2009), and the correlation remains stark in industry-level studies (Graham et al., 1983; Olley and Pakes, 1996; Fabrizio et al., 2007).

The existence of a positive correlation between competition and productivity is of first-order significance for several reasons. The most salient is the possibility of productive efficiencies of competition, which are, as Williamson (1968) observed in the setting of merger evaluation, infra-marginal and therefore prima fascia larger than allocative efficiencies. The potential for such gains could motivate competition policy. Second, the correlation is relevant to recent work on international trade following Melitz (2003), which highlighted productive efficiencies as an important source of gains from trade liberalization. Third and finally, from a business economics standpoint, the correlation offers some leverage on the productivity dispersion puzzle: that establishments in the same industry with the same inputs often produce vastly different quantities of output.

Though the existence of a positive correlation between competition and productivity bears on fundamental questions, the mechanism generating it remains controversial. I focus on two leading hypotheses: first, that competition has a direct causal effect on productivity and second, that the correlation is driven by selective attrition of low-productivity establishments in more competitive markets; respectively, the treatment effect and the selection effect. The treatment effect hypothesis says that competition behaves as if it were an input of the production function. Therefore, if one could, ceteris paribus, transplant a firm from a less– to a more competitive market, the treatment effect hypothesis implies that it would exhibit an increase in measured productivity. The language “treatment effect” here stands in for real economic phenomena within the firm; in fact, there exists several models consistent with such an effect of competition on productivity — more competitive markets may give firms better incentives to monitor managers or invest in productivity enhancements, or they may create positive informational externalities. Complementary to this, a number of historical studies have documented examples where competition — or the threat of competition — spurred reorganization, renegotiation of contracts, and higher productivity.

#### Unionization creates several drags on innovation.

Bradley ’17 [Daniel, Incheol Kim, and Xuan Tian; 2017; PhD, Professor in the School of Business and Finance AND Chair in Finance and Sustainability, University of Southern Florida; PhD, Associate Professor in Finance, University of Texas Rio Grande Valley; Chair and Professor of Finance, Tsinghua University; Management Science, “Do unions affect innovation?” vol. 63]

An alternative hypothesis makes the opposite empirical prediction. Unionization may create misaligned incentives among employees and impede firm innovation. There are at least three plausible reasons for such a reduction in innovation. First, because innovation requires considerable investment in intangible assets such as research and development (R&D) contracts that effectively motivate innovation are almost always incomplete. Once the investment has been made and the innovation process begins, workers may have incentives to expropriate rents by demanding higher wage concessions recognizing that the costs are sunk. This ex-post holdup problem on the part of employees in turn leads to an ex-ante underinvestment in R&D (Grout, 1984; Malcomson, 1997), which ultimately impedes innovation. Second, unionizing the workforce could encourage shirking because the negative consequences for supplying less effort are reduced. That is, unionization reduces the probability of dismissal, so it lowers the cost of shirking and could lead to lower productivity among workers. Third, unions alter the distribution of worker wages, leading to a reduction in wage inequality among workers (Frandsen, 2012). To the extent that innovative and talented workers are in demand in the labor market, reduced wage gaps may force out innovative employees, which contributes to the decline in innovation in unionized firms. While the three underlying mechanisms discussed are different, they are all related in the sense that unionization creates misaligned incentives and impedes innovation. We refer to the general decline in innovation after unionization stemming from any one or all of these potential consequences as the misaligned incentives hypothesis.

We test the above two hypotheses by examining whether unions promote or impede firm innovation. Following existing literature that uses patenting data to capture firms’ innovativeness (i.e., Aghion et al., 2005; Nanda and Rhodes-Kropf, 2013; Seru, 2014), we use the number of patents granted to a firm and the number of future citations received by each patent obtained from the National Bureau of Economic Research (NBER) Patent Citation database to measure innovation output. The former captures the quantity of firm innovation and the latter captures the quality of firm innovation. We collect union election results from the National Labor Relations Board (NLRB), which allows us to compare changes in innovation output for firms that elect to become unionized to those that vote against it.

The empirical challenge of our study is to identify the causal effect of unionization on firm innovation. A standard ordinary least squares (OLS) approach that regresses innovation output on a unionization variable suffers from potentially severe identification problems. Union election results could be correlated with firm unobservable characteristics that affect firm innovation output (the omitted variable concern) or firms with low innovation potential may be more likely to pass unionization elections (the reverse causality concern). Both problems could make it difficult to draw causal inferences from unionization to innovation. To attempt to establish causality, we use a regression discontinuity design (RDD) that relies on “locally” exogenous variation in unionization generated by these elections that pass or fail by a small margin of votes. This approach compares firms’ innovation output subsequent to union elections that pass to those that do not pass by a small margin. It is a powerful and appealing identification strategy because for these close-call elections, passing is very close to an independent, random event and therefore is unlikely correlated with firm unobservable characteristics.

After performing various diagnostic tests to ensure that the key identifying assumptions of the RDD are satisfied, we show that unionization has a negative effect on firm innovation. According to our nonparametric local linear regression estimation, passing a union election leads to an 8.7% decline in patent counts and a 12.5% decline in patent citations three years after the election. This result is robust to alternative choices of kernels and bandwidths, and is absent at artificially chosen thresholds that determine union election outcomes. The negative effect of unionization on innovation is present in both manufacturing (where most unions form) and nonmanufacturing industries, but is statistically insignificant in firms located in states with right-to-work legislation where unions have less power to expropriate rents. We show that a cut in R&D spending, reduced productivity of current and newly hired inventors, and the departure of innovative inventors are possible underlying mechanisms through which unionization impedes firm innovation. Finally, we find that firms shift innovation activities away from states where union elections are successful.

### Link---AT: Bryson and Dale-Olsen 21---1NR

#### This is a neg card. It’s about LOCAL bargaining---not the plan---and it agrees sectoral bargaining specifically is worthless for innovation.

Alex Bryson & Harald Dale-Olsen 21. Professor of quantitative social science at University College London, Ph.D. in sociology from the University of Bristol. "Union effects on Product and Technological Innovation." *Norwegian Research Council*, 202647.1, 20-21.

VIII. CONCLUSION AND DISCUSSION

To our knowledge, this is the first empirical workplace comparative analysis of the links between union bargaining and innovation. We compare union links to innovation in Britain and Norway, two very different countries in terms of union arrangements. Britain is akin to the U.S. with low levels of unionisation and, where union bargaining exists, it takes the form of local union agreements. In Norway, on the other hand, although multi-employer agreements dominate, a majority of the unionised workplaces also face local bargaining. The distinction we make between product and technological process innovations proves informative. Indeed, failure to disaggregate between types of innovation would have produced misleading results. Theoretically, we show that unions prefer product innovation to potentially labour-reducing technological process innovation, and that the former kind of innovation might offset the detrimental impact of the latter on union utility. Thus, when we address these issues empirically, our expectations are clear. Furthermore, our efforts to distinguish between aspects of unionisation within country prove informative since we find results differ somewhat according to whether the union agreement is at local or multiemployer level, i.e., sectoral bargaining is of no importance for innovations in Norway and its occurrence is negligible in Britain. That said, there are stark differences in innovation rates and the links between innovation and union status of workplaces across our two countries, which seem to relate to the broad characterisations of the two union systems in the literature.

Empirically we find strong support for the notion that local bargaining is related to more innovations - product and technical process innovations together, or just product innovations only. This is seen in the simple descriptive Table 3, and is confirmed in the multivariate analysis, with key results summarised in Table 6. The picture described by the descriptive table holds when taking into account industry-, size-, market- and skill-differences across workplaces. In most cases, our estimates of the marginal effects are significant at a 1-percent level and imply economically important differences. The magnitude of the impact is slightly sensitive to whether one treats bargaining as an exogenous or endogenous variable in the innovation processes, but results appear economically significant regardless of treatment. When treated as exogenous, the estimated average marginal effects are quite comparable in Britain and Norway: local bargaining workplaces are roughly 8 percentage points more likely to conduct both product and process innovations than non-bargaining workplaces (which have a baseline probability of 22 percent).

Thus, our results are as expected, and as indicated by the theoretical model, that unions prefer product innovation to labour-saving technological innovations. When both occur, this might entail a loss of workers to the plant and the union, but this utility loss for the union is offset by increased demand and wages following product innovations.

These empirical findings challenge the notion that local union bargaining is detrimental to innovation. However, many of the existing studies finding this were conducted some time ago: recent empirical studies of union effects on productivity indicate that unions are not detrimental to productivity. First, the empirical literature on unions and productivity suggests that relative productivity in the union sector has risen over time. For example, Blanchflower and Bryson (2009) show that the negative association between unionisation and productivity observed in the 1980s in Britain had disappeared by the 1990s. Second, Barth et al. (2020) show on Norwegian data that increasing union density is causally related to higher productivity and higher wages, but productivity more so. If productivity and innovations are related, our results are thus in line with these latter studies. Future research will reveal if our findings pertain to other innovations measures and will be robust over time.

### Link---AT: Indict---2NC

#### Economics lit overwhelmingly agrees the net effect of unions is negative---particularly on investment, profit, and R&D. Chart inserted.

Palagashvili ’25 [Liya and Revana Sharfuddin; May 7; PhD economics, senior research fellow and director of the Labor Policy Project at the Mercatus Center; MA development economics, predoctoral researcher at the Labor Policy Project at the Mercatus Center; Mercatus Center, “Do More Powerful Unions Generate Better Pro-Worker Outcomes?” https://www.mercatus.org/research/working-papers/do-more-powerful-unions-generate-better-pro-worker-outcomes]

Bargaining power plays a central role in determining whether the labor union’s voice face or monopoly face will prevail. A labor union’s ability to extract monopolistic gains for its members is shaped by the degree of competition and constraints on substitution facing both the employer and the union. When a single union represents all workers in collective bargaining, there is no competition from other unions, and the firm cannot bypass the union by negotiating directly with individuals. At the same time, workers also face constraints on substitution, as they cannot individually bargain for better terms or seek employment under a different union within the same firm or, in some cases, industry. This mutual lack of alternatives strengthens the union’s monopolistic position and bargaining power, giving it significant leverage in negotiations. A labor union’s ability to extract monopoly gains for its members is determined by the degree of competition and constraints on substitution facing both the employer and labor union. The monopolistic power of US labor unions is a legal construction that can be altered—we discuss this in more detail in the section on policy recommendations, where we suggest that limiting the legal monopoly status of labor unions could diminish their negative, monopolistic aspect while shrinking any short-lived wage premiums for unionized members. Theoretical models have long warned that union power doesn’t just boost wages indefinitely; in fact, press for unsustainable terms, and it can backfire—reducing union income by stifling investment and worsening cost-price imbalances, ultimately driving investors away.[47]

Figure 1 provides a visual interpretation of the empirical effects that labor unions have on worker and firm-level outcomes beyond wages (which we covered in the previous section). The chart summarizes the directional effects of unionization based on the selection of papers included in our study. The values represent the net count of studies reporting either positive (green) or negative (red) effects for each outcome. For instance, the “Employment” variable reflects the number of studies finding either adverse (red) or favorable (green) employment effects due to unionization.

Figure 1. Net number of studies reporting positive or negative effects (excluding wages)

A graph with red and green squares

Description automatically generated

Note: The variable Resource Allocation refers to the impact of unionization on how resources, such as labor and capital, are distributed within firms or across sectors. Studies included under this variable examine whether unionization enhances or hinders the efficient allocation of resources. Investment refers to long-lived tangible capital. Other variables on topics less central to the focus of this paper, such as Product Quality, Self-Employment, and Supply of High-Quality Labor, are omitted from the chart for clarity but included in table A1 in the appendix.

Source: Authors’ findings based on their analysis of the literature on labor unions

As shown in figure 1, most outcomes—including employment, investment, productivity, firm survival, profit, R&D, resource allocation, and output—exhibit predominantly negative effects (red bars), suggesting that most studies show adverse consequences of unionization in these areas. The chart visually emphasizes that unionization’s impact is more often associated with negative outcomes than positive ones across these metrics.

### U---2NC

#### Productivity growth is rock-solid. Tariffs priced in.

House ’8-7 [Sarah and Nicole Cervi; 2025; MS, managing director and senior economist for Wells Fargo’s Corporate and Investment Bank; MA, economist for Wells Fargo Corporate and Investment Banking; Wells Fargo, “Productivity: Through the Ups and Downs, Firm Trend,” https://wellsfargo.bluematrix.com/links2/html/a87b9bf5-4950-4589-aabb-89f9f54a2350]

Output per hour worked increased at a 2.4% annualized rate in Q2, bouncing back from the prior quarter's decline and helping to keep the underlying trend in nonfarm labor productivity growth solid. Unit labor costs rose at a 1.6% annualized rate and the four-quarter moving average is up 2.2% over the past year. As such, the still solid pace of nominal compensation growth remains unlikely to be the force that keeps inflation meaningfully above the Fed's 2% inflation target.

<<CHART OMITTED>>

Source: U.S. Department of Labor and Wells Fargo Economics

Q2 Productivity Rebound Keeps Unit Labor Costs Friendly for Inflation

Amid lingering concerns about inflation and more recent worries of economic activity wobbling, the firm trend in labor productivity is a welcome bright spot. Output per hour worked increased at a 2.4% annualized rate in the second quarter, bouncing back from the prior quarter's decline (chart). The rebound was underpinned by a sharp recovery in output growth (+3.7% annualized) that outpaced a 1.3% annualized gain in hours worked. While a solid outturn, output has been more volatile than usual due to massive swings in trade flows, which has distorted readings of productivity recently.

Smoothing with a four-quarter moving average, nonfarm labor productivity is up 1.8% year-over-year (chart). This pace matches its average annualized increase since the end of 2019 and is notably stronger than the past cycle's average of 1.5%. With workers more productive, firms have generally enjoyed increased profitability and employees have seen real earnings growth. Solid productivity growth also provides firms the flexibility to absorb higher costs of production without needing to mark up their selling prices to the same degree, which could help to counterbalance the inflationary impulse from tariff-related price pressures today.

#### AI and new businesses are already yielding dividends, teeing up a productivity boom.

Lahart ’25 [Justin and Lauren Weber citing John Haltiwanger; January 2; WSJ reporters; PhD economics, Distinguished University Professor of Economics at the University of Maryland-College Park; Wall Street Journal, “The American Worker Is Becoming More Productive,” https://www.wsj.com/economy/jobs/worker-productivity-america-growing-36f4c90c?st=HqWBCM&reflink=desktopwebshare\_permalink]

America is getting better at getting things done.

Take Vic Viktorov, a gym owner who increased revenue at his Boston business in 2024 by 30% without adding a single salesperson to the two already on staff. Instead, he has been using an artificial-intelligence model loaded with company documents, sales materials and other information. Now, he can complete in just minutes work that used to take hours, such as writing marketing plans, email drafts and social-media posts.

“It allows us to be lean, nimble and fast,” said Viktorov.

Productivity in the U.S., as measured by how much the average worker gets done in an hour, has been on the rise. That matters because the faster that productivity grows, the faster the economy can grow as well. The success of the U.S. economy, and why it has grown so much compared with other countries over the past century and more, has hinged on its productivity.

Productivity—the total output of the economy divided by hours worked—rose 2% in the third quarter compared with a year earlier, according to the Labor Department. That marked the fifth quarter in a row with an increase of 2% or better. In the five years before the pandemic, there were only two such quarters.

The gains in part reflect massive changes in the U.S. economy since the onset of Covid-19. Companies learned new ways of doing things and adopted new technologies, while an upheaval in the labor market moved workers into more productive jobs.

Another big change in the American labor force—a massive influx of immigration—might also have played a role. Immigrants are often slotted into manual-intensive jobs, which could allow other workers to move up to more highly skilled jobs.

Businesses learned new ways to operate: QR codes instead of paper menus at restaurants, for example, or a videoconference instead of a time-consuming trip out of town. There has also been a big and continuing jump in the number of new businesses getting started.

And workers, for their part, moved themselves into better-paying and higher-skilled jobs. When restaurants, hotels and retailers reopened after briefly shutting down, they struggled to find workers and were more inclined to offer bonuses or promotions. That made it easy for, say, a cashier at a poorly run store to get work at a well-run one—where he might earn more money, have more responsibilities and get more done.

Of course, increased productivity isn’t always good news for workers: One way that companies get more productive is by laying off employees. New technologies such as AI can create new jobs and make workers more efficient—or take their jobs.

The recent dockworkers strike was fueled in part by port employers’ desire to expand the use of automated machinery on docks. President-elect Donald Trump threw his support behind the dockworkers, saying in December that automation threatened jobs.

And it isn’t clear that the move up in productivity growth will last. The figures are both volatile and subject to revision. The wave of job switching after the pandemic hit has run its course. And so far, productivity isn’t experiencing anything like the boom in the 1990s, when the wide-scale adoption of the personal computer and the advent of the internet reshaped the economy.

But at the least, it looks better now than before the pandemic, when economists worried the U.S. was stuck in a low-productivity funk.

With labor scarce in recent years, Novae, a Markle, Ind.-based maker of trailers for pickup trucks, built a state-of-the-art factory that opened six months ago. It cost $35 million, about seven times more than typical plants in the industry, and output is already 35% higher per worker, according to Chief Executive Manish Bhandari. He expects even better results over time, partly because the new factory helps the company retain its skilled workers.

At the plant, Novae automated some processes and incorporated improvements suggested by workers. One employee designed a bin that hangs 3 inches away from assemblers’ hands and holds a fastener used in the trailer’s frame.

The company also worked with Streamliners, an operations consulting firm, on an older factory near Minneapolis, with a goal of increasing productivity by 70%. Lacking additional room to expand, the team designed a whole new layout for the existing space.

“There is no silver bullet here,” Bhandari said. “It’s hundreds of small decisions.”

‘They don’t have anything to lose’

The stakes are high. Economic growth fundamentally relies on how many people are working and how much they can produce while they are on the clock.

But America’s scope for expanding its labor force is limited: The population is increasing slowly, the baby-boom generation is retiring, and Trump has promised to heavily restrict immigration and deport millions of immigrant workers who are already in the U.S. Stronger productivity would help bolster the economy and support an aging population.

Productivity also helps keep inflation in check: A more efficient business can be more profitable and pay its workers more without raising prices.

In November, there were a seasonally adjusted 157,678 “high-propensity” new-business applications, those with a high likelihood of turning into businesses with payroll, according to the Census Bureau—nearly 50% above the monthly levels that prevailed before the pandemic.

That is a positive sign for productivity, for two reasons, according to University of Maryland economist John Haltiwanger.

First, when there are new opportunities for innovation, as with cars a hundred years ago or computers in the 1980s and 1990s, new businesses proliferate. Second, new businesses are quicker to adopt new technologies. That can allow them to hire fewer workers to get things done.

“They’re more likely to do radical things,” Haltiwanger said. “They don’t have anything to lose, so to speak.”

Hybrid-work arrangements might have also helped productivity for white-collar workers by creating a balance between the quiet of home and face-to-face interactions of the office. Hybrid work also appears to improve employee retention, said Stanford University economist Nick Bloom, meaning businesses don’t lose time training new workers.

### U---China---1NR

#### Past is not prologue---China’s productivity growth is slowing.

Torre ’23 [Ignacio de la; December 21; Head Economist at Arcano Partners, PhD in History and MsC in Economics; IE University, “Why the United States Is Growing Faster than China,” https://www.ie.edu/insights/articles/why-the-united-states-is-growing-faster-than-china/]

The second factor – productivity growth – benefits China more than the United States (it was around 1.5% in China over the period 2000-19), as it is easier to grow productivity from poor performance levels than from high levels. However, Chinese productivity is increasing less and less, which can be explained by the fact that China is an over-invested economy (which will lead to lower future capital stock growth), as well as by the fact that the public sector is progressively displacing the private sector (the former is less productive than the latter) in the economy, and by the collapse in the flow of foreign direct investment, which negatively affects productivity. These dynamics are gradually narrowing the productivity growth difference between the two countries.

#### China’s productivity growth is in the dumps.

Smith ’24 [Noah; PhD in economics at the University of Michigan, assistant finance professor at Stony Brook University, economics columnist for Bloomberg Opinion; Asia Times, “Why China’s productivity keeps slowing down,” https://asiatimes.com/2024/12/why-chinas-productivity-keeps-slowing-down/#]

China’s economy is having major problems. Despite the country’s dominance of global manufacturing, its living standards are starting to stagnate at a level far below that of developed countries.

China’s growth has slowed down dramatically, from around 6.5% before the pandemic to 4.6% now, and there are credible signs that even that number is seriously overstated. See this, this, this and this on the theme. I think everyone cited here is broadly in agreement.

But in the background, China has another problem that’s weighing on its people’s prosperity and also making it harder to respond to the macroeconomic crisis. This is the problem of chronically low productivity growth.

I don’t quite believe the official numbers that say China’s total factor productivity (TFP) has fallen over the past decade and a half, but it’s undeniable that it has grown much more slowly than in previous periods.

Why? Paul Krugman points to a sectoral shift toward real estate — an industry with slow productivity growth — after the global financial crisis of 2008. I think that’s definitely a part of the story, but probably not all of it.

Back in 2022, I wrote a post thinking through various possible reasons why China’s productivity growth declined long before it reached rich-world living standards.

So in light of China’s current struggles, which have only gotten worse in the intervening 2.5 years, I thought it might be helpful to repost it now. I think what I wrote holds up pretty well.

It’s always an interesting experience to read books about China’s economy from before 2018 or so. So many world-shaking events have changed the story since then — Trump’s trade war, Covid, Xi’s industrial crackdowns, the real estate bust, lockdowns, Russia’s invasion of Ukraine. Reading predictions of China’s evolution from before these events occurred is a little like reading sci-fi from 1962.

When I started China’s Economy: What Everyone Needs to Know®, by the veteran economic consultant Arthur Kroeber, I was prepared for this surreal effect. After all, it was published in April 2016 — not the most opportune timing. So I was pleasantly surprised by how relevant the book still felt.

Most of the book’s explanations of aspects of the Chinese economy — fiscal federalism, urbanization and real estate construction, corruption, Chinese firms’ position within the supply chain, etc. — are either still highly relevant, or provide important explanations of what Xi’s policies were reacting against. Dan Wang was not wrong to recommend that I read it.

But China’s Economy is still a book from 2016, and through it all runs a strain of stubborn optimism that seems a lot less justifiable six years later.

Most crucially, while Kroeber acknowledged many of China’s economic challenges — an unsustainable pace of real estate construction, low efficiency of capital, an imbalance between investment and consumption, and so on — he argued that China would eventually overcome these challenges by shifting from an extensive growth model based on resource mobilization to one based on greater efficiency and productivity improvements.

This was despite his acknowledgement of the fact that productivity growth had already slowed well before 2016, and that Xi’s policies so far didn’t seem up to the challenge of reviving it.

In many ways, productivity growth is the thread that ties together the entire story of the Chinese economy since 2008. Basic economic theory says that eventually the growth benefits of capital accumulation hit a wall, and you have to improve technology and/or efficiency to keep growth going.

Some countries, like Japan, South Korea, Singapore, and Taiwan, have done this successfully and are now rich; others, like Thailand, failed to do it and are now languishing at the middle-income level. For several decades, Chinese productivity growth looked like Japan’s or Korea’s did. But slightly before Xi came to power, it downshifted to look a bit more like Thailand. Here’s a graph from a Lowy Institute report:

Source: Lowy Institute

In fact, the Lowy Institute’s numbers are more optimistic than some other sources. The Penn World Tables has China’s total factor productivity growth at around 0 or negative since 2011:

And the Conference Board agrees.

Personally, I suspect these sources probably underestimate TFP growth (for all countries, not just for China). But even Lowy’s more reasonable numbers show a huge deceleration in the 2010s. If this productivity slump persists, it will be very difficult for China to grow itself out of its problems — such as its giant mountain of debt — in the next two decades.

The question then becomes: Why has Chinese productivity growth slowed to a crawl? There are several main candidate explanations, and they have important implications for whether Xi will turn things around.

The first reason, of course, is that China had several tailwinds that were helping them become more productive, and these are mostly gone now.

Reason 1: Hitting natural limits

One thing helping Chinese productivity growth was simply their distance from the technological frontier. When you don’t even know how to do fairly simply industrial processes, it’s pretty easy to learn these quickly.

China imported basic foreign technology by insisting that foreign companies set up local joint ventures when they invest in China, by sending students overseas to learn in rich countries, by reverse-engineering developed-country products, by acquiring foreign companies, etc. Also by industrial espionage, of course, but there are lots of above-board ways to absorb foreign technology too.

The problem is, this has limits. As you reach the frontier, the remaining technologies you need to absorb to keep growing productivity quickly become more and more complicated — not the kind of thing you can easily learn from looking at blueprints or taking a class. Companies guard these higher-level secret-sauce technologies much more carefully.

A case in point is that China has had trouble building its own fighter jets, because the metallurgy to build the specialized jet engines that make modern top-of-the-line fighters possible is only known to a few companies in a few countries. So over time, the ability to absorb foreign technology peters out and it becomes necessary to start inventing your own stuff.

A second tailwind was demographics. Everyone (including Kroeber) talks about China’s unusually large demographic dividend in terms of labor input — when you have a ton of young people with few elders or kids to take care of, they can go work a lot — but it’s also probably a factor in productivity.

Maestas, Mullen & Powell (2016) shows a negative relationship between population age and productivity at the US state level, while Ozimek, DeAntonio & Zandi (2018) find that the same is true at the firm level. The mechanism is unknown, but the pattern is pretty robust. In any case, China began to age rapidly right around 2010, when its working-age population peaked as a percentage of the total (and peaked in absolute terms shortly afterward):

A third tailwind for productivity was rapid urbanization. As Arthur Lewis famously noted, simply moving people from low-productivity agricultural work to high-productivity urban manufacturing work raises productivity a lot. Agglomeration economies are another force by which urbanization raises productivity.

And economists find that China hit its “Lewis turning point” — i.e. ran out of surplus agricultural laborers to move to the cities — right around 2010. Of course, China also limited urbanization unnecessarily by using its hukou (household registration) system to keep migrant laborers from settling permanently in cities. But in any case, this tailwind also appears to be over.

So in the last decade, three big tailwinds that were driving Chinese productivity growth probably dried up. And there’s not really anything that Xi Jinping or any leader can do about that. But there are probably other factors dragging down China’s productivity growth as well, that might be more amenable to policy fixes.

Reason 2: Low research productivity

If you can no longer import foreign technology, one thing you can do is to invent your own. In fact, this is a good thing to do even if you do import foreign technology, since companies should create new products and new markets instead of just aping foreign stuff. And indeed, China has been spending a lot more on research and development in recent years. Here’s a chart from the blog Bruegel:

Source: Bruegel

Unfortunately, research input doesn’t always lead to research output. A 2018 study by Zhang, Zhang & Zhao finds that Chinese state-owned companies have much lower R&D productivity than Chinese private companies, which in turn have much lower productivity than foreign-owned companies. And a 2021 paper by König et al. finds that while R&D spending by Chinese companies does appear to raise TFP growth, the effect is quite modest:

Source: König et al. (2021)

The authors suggest misallocation of resources as a major culprit in low R&D productivity — in other words, a lot of this spending is being done by state-owned companies that are just throwing money at “research” because the government tells them to, but not really discovering much. They also note that some companies simply reclassify normal investment as “R&D” in order to take advantage of tax breaks (note that companies do this everywhere).

What about university research? This is an extremely important part of how the US keeps its technological edge. And China has indeed been throwing huge amounts of money at university research, such that its expenditure now nearly rivals that of the US China recently passed the US in terms of published scientific papers, including highly cited papers.

But the quality of this research has been called into question. Investigations regularly find that despite all this publication activity and all this spending, Chinese universities are not the leaders in most fields of research.

Basically, the story is that Chinese scientists are under tremendous pressure to publish a ton of crappy papers, which all cite each other, raising citation counts. In the words of Scientific American, this has led to “the proliferation of research malpractice, including plagiarism, nepotism, misrepresentation and falsification of records, bribery, conspiracy and collusion.”

So the low productivity of Chinese R&D may help explain why the country’s domestic innovation hasn’t risen to take the place of foreign technology absorption.

Reason 3: Limited export markets

As everyone who reads this blog knows, I’m a big fan of the development theories of Joe Studwell and Ha-Joon Chang. A pillar of the Chang-Studwell model is the idea of “export discipline.”

Basically, when companies venture out into global markets, they encounter tougher competition and also ideas for new products, new customers, and new technologies. This raises their incentive (and their ability) to import more foreign technology, and in general makes them more productive and innovative.

After the global financial crisis of 2008 and the recession that followed, the US wasn’t able to absorb an ever-expanding amount of imports from China. So Chinese exports to the US market slowed in the 2010s, and then Trump’s trade war slowed them even more. China’s exports to the EU rose a bit, but not that much.

Developed-country markets simply became saturated with Chinese goods, and there wasn’t much more room for expansion. Developing countries are buying somewhat more Chinese goods, but they simply don’t have the purchasing power of the rich countries. So China’s exports as a share of GDP have actually fallen quite a bit since the mid-2000s:

Many people (including Kroeber) talk about this as a shift from export-led growth to growth led by domestic investment. And so it is. But if productivity benefits from exporting, then this is also a challenge for long-term growth, because there’s less opportunity for export discipline to work its magic.

In fact, this might be one reason that it’s harder for big countries to grow relative to small countries. It’s a lot harder to be an export-led economy when you have 1.4 billion people than when you only have 50 million people (as South Korea does), because the world simply gets saturated with your exports.

Which raises the question of why the US manages to be so productive — more productive even than most European and rich East Asian economies. Consumption might have something to do with that.

Reason 4: Not enough consumption

The US is a very large economy that is geographically distant from most other major economies. This explains why the US has a very low amount of trade relative to GDP — just 23%, compared to 81% for Germany and 69% for South Korea.

But the US is also a highly productive economy, more productive than all but a few small rich nations. Exports certainly helped the US grow, but to a large extent it simply sold stuff to itself.

As the chart above shows, China increasingly does the same. But unlike the US, China’s domestic economy is heavily weighted towards investment in capital goods — apartment buildings, highways, trains, and so on. China’s final consumption is only 54% of GDP, compared to over 80% in the US.

And private household consumption accounts for only 39% of China’s GDP, compared with 67% in the US. Of course, China is still at an earlier stage of development, but as Kroeber notes in his book, even countries like Japan and South Korea had significantly higher consumption shares at equivalent stages of their own growth stories.

Usually this gets discussed in the context of “imbalances.” But what if it also affects productivity? Consumers have a preference for differentiated goods that spurs companies to develop new products, increase quality, offer new features, and so on.

The strategy professor Michael Porter argues that when companies compete by differentiating their products instead of simply competing on costs, it results in higher value-added — in other words, it makes them more productive.

Over the past decade, China has been building a lot of buildings and a lot of infrastructure. But it hasn’t been developing a lot of innovative and high-quality cutting-edge consumer products. Various government policies that funnel resources toward domestic investment rather than domestic consumption may inadvertently be holding back Chinese productivity.

And the biggest such policy might be macroeconomic stabilization.

Reason 5: Macroeconomic stabilization

It’s important to stabilize the economy. Recessions throw people out of work and create tons of suffering, and probably also lead to underinvestment by companies. They can damage the cohesion of entire societies. The US rediscovered this lesson the hard way in 2008-11 when our insufficient fiscal stimulus resulted in a recession that was longer and more painful than it had to be.

But there may be such a thing as too much stabilization. As I explained in a post last September, China avoided going into recession both in 2008-11 and again in 2015-16 (after a big stock market crash) by pumping money into real estate, via lending by state-controlled banks, often to SOEs and to local governments.

This likely saved the Chinese economy from experiencing recessions in 2008-11 and 2015-16. But it had a big negative effect on productivity growth, for three reasons.

First, SOEs simply aren’t very productive compared to other Chinese companies. Second, the money was shoveled out the door very quickly, meaning that there wasn’t much time or incentive to figure out which projects were worth investing in.

And third, real estate and construction are sectors of the economy with notoriously low rates of productivity growth. This last is probably the scariest, as it led China’s economy to be more dependent on real estate than any other in recent memory:

Source: Rogoff (2021)

Anyone who has followed the saga of China’s Covid lockdowns will sense a familiar pattern here. The Chinese government, eager to preserve the appearance of invincibility, often goes overboard in unleashing the tools of control.

But while recessions are not healthy things, the lengths to which Chinese policymakers went to make absolutely 100% sure they never had even the slightest recession may have left their economy with a huge hangover of low-productivity industry.

Will Xi bring back productivity growth?

So there are plenty of reasons why China’s productivity growth crashed to a low level in the 2010s and 2020s.

But speeding it back up again — which every analyst, including Kroeber, seems to recommend — will be no easy task. The tailwinds driving productivity higher are gone. And China’s misallocation of resources toward low-quality research and low-quality real estate industries will not be easy to reverse; these systems have a way of getting entrenched.

Xi Jinping, of course, is going to try. Part of his effort consists of industrial policy — the Made in China 2025 initiative and the big push for a domestic semiconductor industry. It remains to be seen whether those will bear fruit.

But in the last three years, Xi has undertaken a second, more destructive effort to reshape China’s industrial landscape. Instead of simply boosting the industries he wants, he has attacked the industries he doesn’t want.

He has cracked down on consumer internet companies, finance companies, video games and entertainment. And he has attempted to curtail the size of the real estate industry, resulting in a slow-motion crash that’s still ongoing.

Essentially, Xi is trying to crush industries he doesn’t like, in the hopes that resources — talent and capital — flow to the industries he does like. This is a new kind of industrial policy — instead of “picking winners”, Xi is stomping losers.

One of the saddest things about optimistic 2016-era analyses like Kroeber’s is how much hope they place in internet companies like Alibaba, Tencent, and Baidu as heralds of a new, more innovative China. Xi has declared that these companies are not, in fact, the future.

But it’s far from clear that an economy works like a tube of toothpaste, where smashing one end will send resources squirting out the other end. If you’re a budding entrepreneur, do you really think that starting a semiconductor company instead of an internet company will win you Emperor Xi’s favor?

What if next week he decides that he doesn’t need more chip companies and that your company isn’t one of his preferred champions? What if after you get rich and successful, Xi decides you’re a potential rival and appropriates your fortune?

An economy where the leader is always smashing companies and industries he doesn’t like is inherently an economy full of risk. Yes, Chinese engineers and managers will obey Xi’s will and go into the industries he wants them to go into. But the loss of entrepreneurship and initiative might make this a pyrrhic victory.

In other words, escaping China’s low-productivity-growth trap is going to be tough, and Xi’s strategy doesn’t fill me with a ton of confidence so far.