Abstract

James A. Schmitz (2005) documents, in a well-known case study, a dramatic rise in productivity in the U.S. and Canadian iron-ore industry following an increase in competition from Brazil. Prior to the increased competition, the industry was not competitive. Surplus in profits was divided between business and unions. Schmitz attributes the increase in productivity to a change in work practices in the industry, as old negotiated union work rules were abandoned or modified. This research formalizes a mechanism through which a rise in competition can lead to increased productivity in the iron-ore industry.