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Economics Revision Focus: 2004

A2 Economics

Trade Unions in the Labour Market

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Revision Focus on Trade Unions in the Labour Market

A2 Syllabus Requirements:

Candidates should understand the various factors that affect the ability of trade unions to influence wages. The use of relevant models, including diagrams, to analyse the impact of trade unions and monopsonistic employers is expected

Trade Unions

Trade unions are organisations of workers that seek through **collective bargaining** with employers to protect and improve the real incomes of their members, provide job security, protect workers against unfair dismissal and provide a range of other work-related services including support for people claiming compensation for injuries sustained in a job.

Union Membership Trends

1. There has been a large decline in union membership over the last twenty-five years
2. Membership has decline from 8.9 million in 1989 to 7.4 million in 2003
3. The proportion of employees who were union members in the UK was 29.1 per cent in 2003
4. The number of employees covered by a collective pay agreement was 8.75 million in autumn 2003, 35.8 per cent of all employees
5. 32% of full-time workers are members of a trade union whereas only 21% of part-time workers are unionised
6. Union density is highest in the North east and Northern Ireland (both at 43%) in contrast to the South East where only 23% of full-time workers are union members
7. Union membership is very low among people working for small businesses. Where less than 25 people are in a place of work, union membership is only 15%
8. Union membership is high in the public sector (59%) but only 18% in the private sector

Union power

Unions have less power and influence in the labour market than they did two decades ago although in several big industries they can still exert their "industrial muscle". Power has gradually ebbed away for a variety of reasons:

1. **Employment legislation** which has outlawed illegal strikes, given employers the right to seek compensation for the effects of certain forms of industrial action and requires all unions to hold secret ballots of their members before any strike action is permitted
2. **The effects of increased competition in product markets** – in nearly every domestic market for goods and services, there is greater competition than there was a few years ago. Be it the intensity of global competition from lower-cost producers or the deregulation of markets that has increased market contestability, trade unions have had to adjust to a world where the pricing power of manufacturers and service industries has been severely curtailed. Hence the increasing demand from employers to link pay and conditions to indicators of performance such as productivity. There are still some fairly militant trade unions around – notably in the public sector

services including transport. The train drivers' union, ASLEF, has been one of the more militant unions in recent years, conducting strikes on the rail network and London Underground.

3. **Patterns of employment:** There has been a long term change in the structure of employment in the British economy *away* from traditionally strong union sectors such as heavy engineering, coal-mining, steel and textiles, towards service sector jobs in the private sector where union density is much lower

Unions and wage negotiations – labour market theory

Unions might seek to exercise their **collective bargaining power** with employers to achieve a mark-up on wages compared to those on offer to non-union members. For this to happen, a union must have some **control over the total labour supply** available to an industry. In the past this was possible if a union operated a **closed shop agreement** with an employer – i.e. where the employer and union agreed that all workers would be a member of a particular union. However in most sectors, the closed shop is now history.

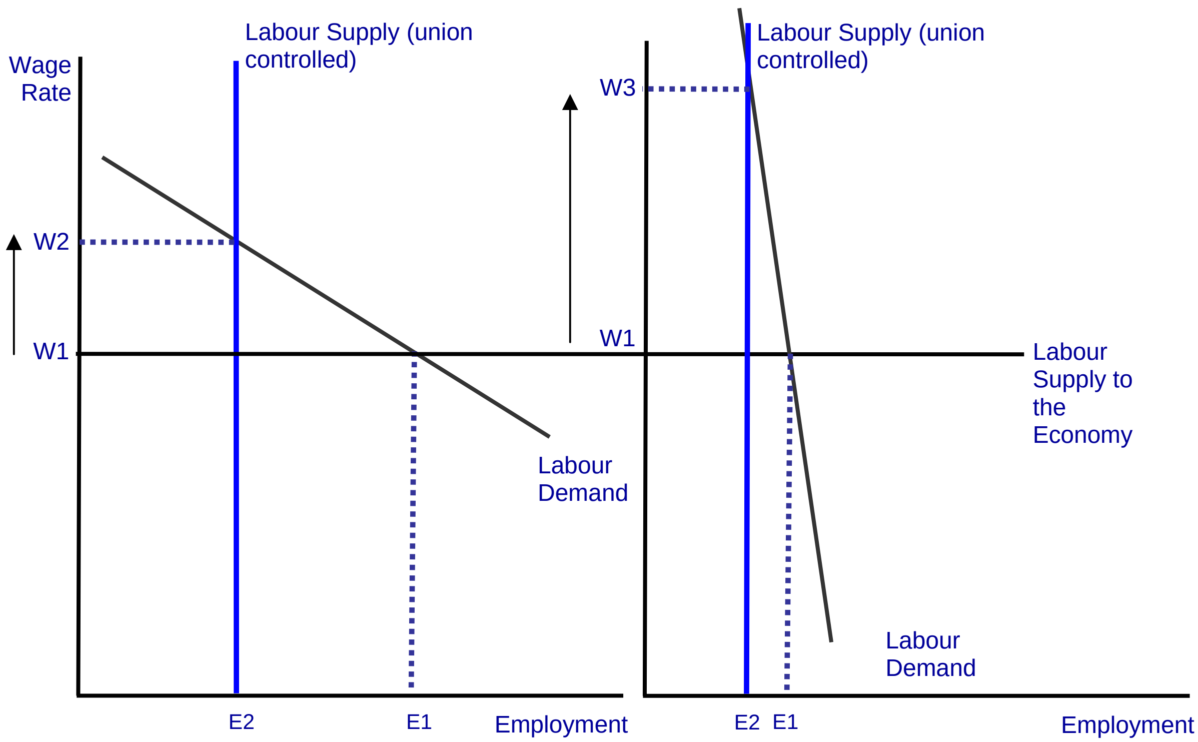
More frequently, a union may simply bid through **bi-lateral negotiations** with employers to achieve an increase in wages ahead of the rate of inflation so that real wages rise, and other improvements to working hours and conditions.

The **balance of power between employers and a trade union** in their periodic wage negotiations depends on a range of factors:

1. **Unemployment:** when labour is scarce and there are shortages of skilled workers, then the balance of power tilts towards unions. Unions are always less powerful when the demand for labour is falling and labour is less scarce.
2. **Competitive pressures in product markets** – when a firm is enjoying a dominant monopoly position and high levels of abnormal profit, the unions will know that the employer has the financial resources to meet a more generous wage settlement

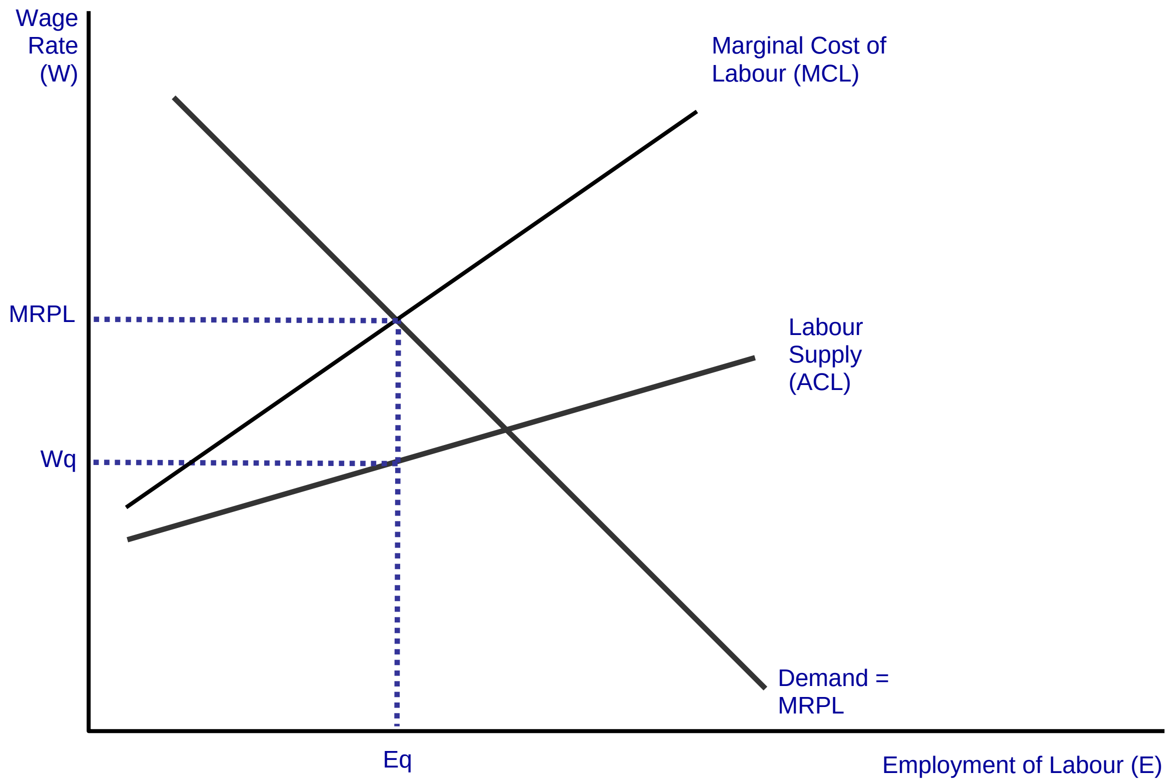
Elastic labour demand – union control of labour supply forces wages higher – but employment contracts

Inelastic labour demand – unions may be more effective in negotiating higher pay levels and increasing total factor earnings



Monopsony in the labour market

A monopsony is a market dominated by a single buyer. A monopsonist has the market power to set the price of whatever it is buying (from raw materials to labour inputs)



A monopsony producer has significant **buying power in the labour market** when seeking to employ extra workers. A monopsony employer may use their buying-power to **drive down wage rates.** The monopsonist knows that they face an upward sloping labour supply curve, in other words, to attract more workers in their industry, they must pay a higher wage rate – so the **average cost of employing labour** rises with the number of people taken on. Because the average cost of labour is increasing, the **marginal cost of extra workers will be even higher,** since we assume that an increase in the wage rate paid to attract one extra worker must also be paid to existing workers. This is shown in the diagram above.

The profit maximising level of employment is where the **marginal cost of labour equates with the marginal revenue product of employing extra workers**. In the diagram, Eq workers are taken on, but the monopsonist can employ these workers at an average wage rate of Wq – a pay level below the marginal revenue product of the last worker. In this sense the monopsonist is exploiting labour by not paying them the full value of their marginal revenue product.

Trade unions may seek to counterbalance the monopsony power of an employer by controlling aspects of the labour supply and by using whatever collective bargaining power they possess to negotiate wages higher without being at the expense of employment levels.

Examples of monopsony employers

Good examples might be the major employer in a small town (e.g. a car plant, a major supermarket or the head office of a bank); nursing homes as employers of care assistants, the government can also have monopsony power as the major employer in the teaching profession or the NHS (the third largest employer in the world behind the Indian Railways and the Chinese Red Army!