3 Do Unions Reduce Redundancies?
Barry McCormick and Peter Shelley

3.1 INTRODUCTION

It has become commonplace to attribute the recent increase in European redundancies and long-term unemployment to the 'rigidity' of its labour markets in comparison with those in Japan and United States. Yet this popular assertion has been supported by relatively little study of the forces which are ordinarily held to be responsible for these conjectured rigidities.

The institution that perhaps above all others is most frequently mentioned in both popular and academic discussions of labour market distortions and unemployment is the nature of trade union bargaining. Undergraduate economists are taught early in their careers that unions are a major source of wage rigidity, and thus are one of the crucial 'institutional factors' which enable aggregate demand shocks to influence employment. It is unsurprising therefore that there exists a broad popular impression that greater cyclical employment dislocation occurs in unionised markets. The UK government's recent trades union policy proposals have been ostensibly directed at the nature of industrial relations, but might also be interpreted as being intended to weaken union bargaining power and thereby reduce inflexibility and increase average employment levels.¹

The idea that unions cause rigid wages dates back at least to Lionel Robbins but the basis of modern empirical study was laid by Dunlop (1950), Rees (1951) and Lewis (1963). Work by Lewis in particular established the idea that union-non-union wage differentials in the United States widen during a trough, and thus that wages in unionised firms do indeed respond less to changes in demand. While this has remained established wisdom, more recent studies – and especially the contributions of Medoff (1979) and Freeman and Medoff (1984), for example – have raised further questions about what else the influence of unions might extend over. These newer conjectures will be taken up in the next section.

53
The plan of this chapter is as follows. In section 3.2 we briefly describe the theories and the evidence to date concerning unions and labour market cyclical flexibility. We shall then overview in section 3.3 the experience of high and low union density industries in the UK during the recent recession, and contrast it with a recent period of expansion. This provides some evidence concerning how the cyclical pattern of output, employment, redundancies and wage rates differs by union density. In section 3.4 we develop a new model in which a firm and a union of productively heterogeneous workers, bargain over wages and firing rates, and in which an efficient bargain allows the firm to be free to determine the hiring rate. In section 3.5 we examine empirically the proposition that unions reduce the firing rate below that obtained in a competitive labour market.

3.2 TRADE UNIONS AND LABOUR MARKET ADJUSTMENT

Views of the impact of unions on adjustment have developed considerably in the past decade as theoretical and empirical studies of trade unions have suddenly blossomed. Yet to a great extent these substantial new advances are characterised by the separate development of the new theoretical approaches and the empirical findings. On the one hand labour economists and industrial relations specialists have examined empirically a variety of ways in which trade unions might alter the behaviour of employees and the firm. In these studies a rich pattern of empirical relationships has been described concerning the effects of unions on profit, productivity, turnover, discrimination, training, etc., and suggests that the consequences of union activity for various of the firm's decisions and social welfare are broader and more favourable than models which focus on wages alone would suggest. Several of these new findings bear directly upon the process of adjustment and we shall return to them below.

The theoretical studies of union behaviour that have been recently advanced follow the more conventional route of first formulating a bargaining model, and then characterising the results in a way which addresses an issue of interest or which enables a test of some power to be constructed. With only a few exceptions these models have been set in a single period and examine cyclical adjustment using comparative static analysis of wages and employment with respect to the price level. The resulting implications for wage and employment