

Political Economy of Inequality

Session 3: Labor Markets I: The role of trade unions

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Welcome back!

What we will focus on today:

- ▶ Trade unions and collective bargaining institutions
- ▶ Their role in different market economies and the way in which these institutions shape economic outcomes

Quick recap

▶ **Gold standard** (19th century-WWII)

- ▶ Ideological and economic factors inhibit fiscal expansion
- ▶ State as a 'night-watchman'
- ▶ A 'Marxian' world: Class differences explain inequality better than location differences
- ▶ Low wage growth, sensitive to economic fluctuations and unemployment

▶ **Post-WWII and Embedded liberalism**

- ▶ Full employment regime
- ▶ Closed capital accounts force capitalists to invest in domestic markets
- ▶ Sweden: Employee funds and the Rehn-Meidner model (Blyth 2001)

Inflation and unemployment



Inflation and unemployment



Figure 1: “We’ll take inflation, but we cannot take unemployment”
(Nixon)

Let us focus on wages and labor: The Fordist mode of production

- ▶ Institutionalization of collective bargaining → Wages no longer flexible and responsive to labor market conditions, but indexed to labor productivity
- ▶ Historical compromise between employers and labor: accept capitalism in return for a better standard of living (Pizzorno 1978)
- ▶ Welfare state and increased fiscal spending
- ▶ But then: oil shocks, declining profit shares, trade liberalization and inflation

And then, this happened...

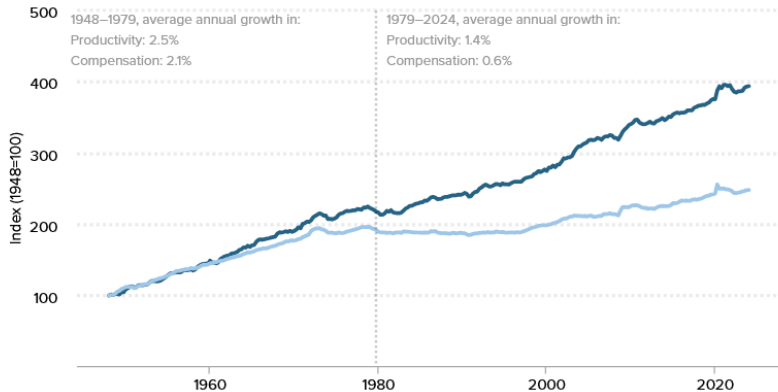


Figure 2: Economic Policy Institute

Trade union density

Percentage of employees,^a 1985-2015

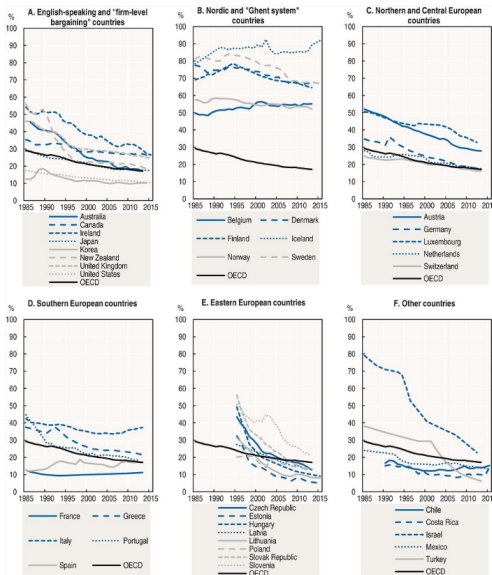


Figure 3: OECD

Collective bargaining

Percentage of employees with the right to bargain, 1985-2015

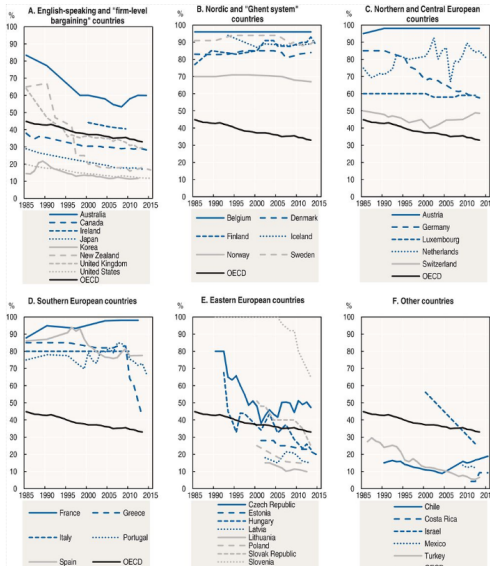


Figure 4: OECD

Different variables, different measurements

- ▶ Union density (workers who are unionized as % of all workers)
- ▶ Collective bargaining coverage (% of workers who are covered by a collective bargaining agreement) → Also includes non-unionized workers
- ▶ Wage-setting coordination and centralization

What accounts for the declining influence of unions?

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- ▶ Political economy/structural changes
- ▶ White-collar workers are more difficult to unionize
- ▶ Fraying alliance with social-democratic parties
- ▶ Competitive corporatism/social pacts not great PR for unions (Molina and Rhodes 2002)
- ▶ Labor market insiders vs. outsiders (Häusermann, Schwander, et al. 2012)

How to assess the performance of collective bargaining

Aidt and Tzannatos (2008)

Levels of wage-setting bargaining:

- ▶ Centralized: Sector-level
- ▶ Decentralized: Firm-level

How to assess:



$$y_{it} = g_{it}(x_{i,t}, z_{i,t})$$

- ▶ $Y_{i,t}$ = Dependent variable for country i at time t
→ Unemployment, inflation, inequality
- ▶ $X_{i,t}$ = Independent variable, vector of institutional labor market indicators (e.g. union density, collective bargaining coverage, wage-setting coordination)
- ▶ $Z_{i,t}$ = Control variables, vector of economic and political control variables

Different types of data structures: What makes quantitative research in this area difficult

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<i>i</i>	<i>t</i>
Australia	1970
Australia	1971
Australia	1972
Australia	1973
Australia	1974
Australia	1975

Figure 5: Time series

<i>i</i>	<i>t</i>
Australia	1970
Austria	1970
Belgium	1970
Bulgaria	1970
Canada	1970

Figure 6:
Cross-sectional

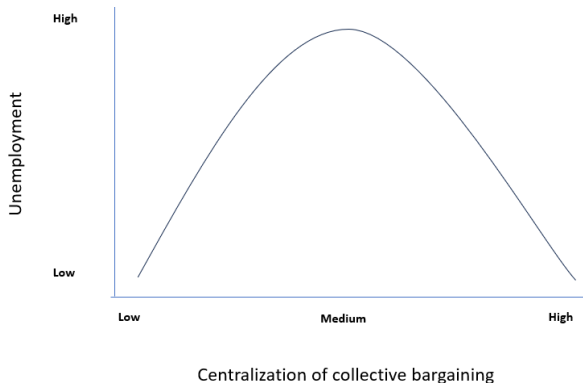
<i>i</i>	<i>t</i>
Australia	1970
Australia	1971
Australia	1972
Austria	1970
Austria	1971
Austria	1972
Belgium	1970
Belgium	1971
Belgium	1972

Figure 7:
Panel
data

Also, let us think about data collection for a moment

- ▶ How can one we find out about unionization rates? Different definitions of who is a member
- ▶ Who should we ask?
- ▶ Which actors can credibly claim to represent workers in signing collective bargaining agreements?

The Calmfors-Driffill hypothesis: When to internalize costs and when to push for more



Wage-setting centralization

- ▶ Centralized wage bargaining results into more compressed wage distribution
- ▶ Wage restraint and sheltered vs. exposed sector
- ▶ Reduction in inter-firm/inter-sectoral wage differences
- ▶ Solidaristic wage policy (especially in Scandinavian countries)
- ▶ High levels of unionization and decentralized wage bargaining can lead to higher unemployment/inflation
- ▶ The role of a *credible* central bank (Cukierman and Lippi 1999,)

Unions and inequality: What is the connection?

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- ▶ Increase bargaining power of workers, trade unions increase the labor share of national income (Ahlquist 2017)
- ▶ Wage compression and wage solidarity between different types of workers and sectors
- ▶ Public policy: extend wage agreements to workers who are not members

Structural and associational power (Wright 2000)

- ▶ *Structural power*: What economic power does a worker have? How easy is it to replace a worker?
- ▶ *Associational power*: How easy is it for workers to organize?
- ▶ (*Institutional power*): What institutions are there to protect workers? Employment protection legislation, unemployment benefits, conciliation and arbitration systems.

Power resource theory

In short:

- ▶ Distribution of power between capital and labor not statistic in time, but rather shaped by class conflict
- ▶ Alliance between workers + social-democratic parties explain variation in social policy outcomes Refslund and Arnholtz (2022)
- ▶ During post-WWII era: 'Siamese twins' (Ebbinghaus 1995)

However:

- ▶ Is the working class still best represented by unions?
- ▶ Voter realignment
- ▶ Are workers' interest uniform? Inter-class vs. intra-class differences (e.g. exporting vs. sheltered companies)

Interesting case study: the statutory minimum wage

- ▶ Out of all EU member states, only 5 countries do not have a statutory minimum wage, any guesses?

Interesting case study: the statutory minimum wage

- ▶ Out of all EU member states, only 5 countries do not have a statutory minimum wage, any guesses?
- ▶ Unions preferences is not to have the state intervene in wage-setting: collective bargaining autonomy (Meyer 2016)
- ▶ Problem of a minimum wage:
 - ▶ Lower unionization
 - ▶ Lower pay
- ▶ But once a statutory minimum wage is introduced difficult to go back

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