

Trade Unions and the Scale and Scope of Multi-Product Firms

Michael Koch

University of Bayreuth

Hartmut Egger

University of Bayreuth

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Introduction

Motivation

- In recent years trade economists have highlighted the role of Multi-Product Firms
- Existing models assume perfect labor markets
- High trade union presence in OECD countries

Aim

- Consequences of unions wage setting on firm scale & **scope**
- Discuss important policy reforms in closed economy:
 - Deunionization – labor market deregulation
 - Increase in number of competitors – product market deregulation
- Trade liberalization for union wage setting as well as firm scale & scope

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The Model

GOLE-framework, Neary (2009)

- Continuum of industries with small number of firms

+MPF's along the lines of Eckel and Neary (2010)

- Firms produce a range of differentiated products
- Core competence & Flexible manufacturing
- Scale & scope determined simultaneously in Cournot competition

+Unionized-GOLE by Bastos and Kreickemeier (2009)

- Trade unions active in a subset of industries
- Monopoly union model
- Unions set wages industry wide and firms choose employment

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Closed Economy

Union wage claim

- Unions set a markup on the competitive wage
- Hence firms in unionized sectors have lower scale & scope
- Union wage claims are lower if firm scope is endogenous
- Wage claims depend on number of competitors

Policy reforms in closed economy I

Labor market deregulation

Deunionization: Decline in the share of unionized industries and thus a fall in union density and coverage

- Increase in labor demand raises competitive and union wage
- This leads to a decline in firm scale and scope
- Since union wage premium shrinks, effects are more pronounced in non-unionized sectors

Policy reforms in closed economy II

Product market deregulation

Increase in the number of competitors

- Increase in labor demand raises competitive and union wage
- Fall in firm scale & scope
- Again, effects are more pronounced in non-unionized sectors
- But now, industry-wide output differential increase
- And number of varieties increase

Open Economy I

Trade – Assumptions

- Trade between two fully symmetric countries
- No transport costs
- Segmented markets

Trade – Effects

- Increase in market-size
- Pro-competitive effect for firms and unions
 - Partial equilibrium effect lowers union wage claim
 - General equilibrium effect raise competitive wage and hence union wage
- Which effect dominates depends on trade union density

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Open Economy II

Trade effects in non-unionized sectors

- Competitive wage unambiguously raise
- Hence, firms lower their scale and scope

Trade effects in unionized sectors

Union density	Union wage	Scope	Scale (home market)
low	↓	↑	↑
intermediate	↓	↓	↓
high	↑	↓	↓

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Conclusion & Outlook

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- Labor market imperfections strongly affect firms scale and scope
- Firm-level adjustments depend crucially on the prevailing labor market institutions
- Unionized and non-unionized industries are affected by trade liberalization in different ways

Outlook

- Trade Costs
- Asymmetries between countries

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