

Do you agree that if a
trade union
persuades employers
to increase wage
rates



**ASSIGN
BUSTER**

Trade unions can be very powerful organisations, however their power does not inevitably lead to increases in wage rates, but not always. The power that the union has can have a big impact upon whether or not it can affect the wage rates within that particular market. It largely depends upon the financial status of the employer. If the union is powerful enough to get wages to rise then it may not lead to a loss in jobs, because it shows that the employer has money in which to raise the wages of its employees and still make supernormal profits.

A very powerful trade union may be able to negotiate this rise with the employer, but it would depend on the type of job, if the workers were skilled and difficult to replace then it is likely that an employer would raise wages. However if the employer is operating on tight marginal figures then it would lead to a loss in jobs, so that the total amount paid out stays the same but the overall number of employees drops. A Government intervention could lead to a fall of labour within the market.

The minimum wage can actually reduce employment because employers who employ workers for as little as possible often mean that the minimum wage is higher than they would have originally paid. Restaurants were found out to be paying employees less than the minimum wage and the topping up their salaries with tips. When this was found out 5% of restaurant workers lost their jobs because the restaurants were paying out more than they were originally, and could not afford to keep their staff.

Government intervention does not always lead to a reduction in employment, often the Government can subsidise certain areas of work that need more

employees meaning that wages might rise and so might staff, because of how the Government are acting. Labour is a derived demand; Labour demand is a derived demand, in other words, the employer's cost of production is the wage, in which the business or firm benefits from an increased output or revenue. The determinants of employing the addition to labour depend on the Marginal Revenue Product (MRP) of the worker.

If each extra worker that is employed is adding to the companies output then the business will continue to grow. However as soon as a new employee does not add anything to the business then no more will be employed. This should not change if the wages rise, because as long as the employee is adding value to the business then they are worth employing, meaning that if a union does employ as many workers as it feels is enough to add value to the business then the price of labour should be irrelevant. If the economy is booming then there is likely to be a rise in wages to entice new people to work for certain companies.

This could mean that a trade union forces a rise in wages because of how it views that the company is likely to have more money than previously meaning that it could raise the prices of its wages whilst keeping the same number of employees. This force by the trade union could lead to a standoff between the trade union and the employer, because the employer would argue that the workers were prepared to work before hand, and therefore it does not see the value in raising its wages just because the company is doing well at that point in time.

The diagram to the left shows how a trade union can force a rise in wages, but it could lead to a cut in the number of jobs. If the union secures the rise in wages from W_1 to W_2 , the trade union mark up, then this leads to an increase in wages. However it also intersects the demand curve at a much higher point meaning that the number of employees falls from Q_1 to Q_2 . This agrees with the question that it is likely lead to a decrease in the number of people employed.

Some workers would benefit from higher wages whilst others would lose their job because there would be an excess in supply at wage rate W_2 . The status that some jobs come with may lead to unions asking for more pay. A doctor is held very highly within society because of the duty that they perform, and therefore they might feel that they are entitled to more money. The union that they belong to may then apply pressure to employers to raise wages so that the union gets the best for their members.

This would probably lead to a fall in labour because of how employers will want the best employees that it can have for the money it can have available, meaning it may have 2 doctors for more money than 3 doctors for the same amount, because of how it feels it has a higher calibre of employee. To say that a fall in employment is inevitable if there is an increase in wages is not entirely true. It depends on other factors such as how well the general economy is doing, or how the business in particular is doing. However it is likely to have an effect on it.

Many businesses may feel that they cannot stretch to giving every single employee a pay rise, and therefore they may have to let someone go. Also

Government interventions may also have an effect on the number of people employed within a certain business so to promote competition or to ensure employees rights are being met. Overall I would probably agree with saying that when an employee gains more money it is likely to lead in a fall in the labour market because of how it is a derived demand, and how pressure from trade unions can result in more money but less workers as shown in the diagram.