

The effect of trade unions on causing labour market failure today essay sample

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Labour Market Failure (LMF) occurs when the market forces of demand and supply do not result in an efficient allocation of labour resources. A major cause of LMF is the abuse of trade union. However as the market changes, this cause of LMF is losing significance. Trade Unions are organisations which act on behalf of workers to gain better rights and benefits through collective bargaining, they are attractive to workers as the bargaining power of a union is always more powerful than that of an individual.

Trade unions have, for many years been a major cause of LMF and to an extent, still are. Since their inception, trade unions' main aim has been to increase wage rates for workers. Whilst this is a great benefit for union members, it can cause significant market failure. The below diagram shows that the new wage rate may cause market failure through unemployment. As the market forces of supply and demand settle on a wage rate of W_1 , the presence of a union increasing the rate to W_2 will cause LMF by causing employment to drop from L_1 to L_3 .

This is despite there being L_2 amount of labour supplied, the gap between potential labour force and the actual employment rate means there are unused resources. And thus the market is not efficient, meaning LMF. This effect is still present today. As the government attempts to pull the economy out of recession, extra unemployment may have made LMF more significant as funds would be allocated to social security as opposed to education and training (which are used to stimulate employment).

In recent years, it may be easier for unions to force this wage increase, as many unions are merging into larger unions, making their action more

powerful. On the other hand, LMF caused by unions as more employers are now monopsony's, meaning the sole employer of labour, in this case, monopsony's use MRP theory to determine their employment figures, trade unions end up causing a rise in cost of labour, this would result in a higher MRP and an increase in employment, meaning no LMF.