

Agglomeration and wage bargaining

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Abstract

This paper examines the role of trade union in manufacturing sector in “new economic geography” model of location. In our setting, union bargaining is held between immobile workers and mobile entrepreneurs. In particular, we allow the unemployment circumstances, which is the outside option of workers, and the bargaining process to vary across several cases. It is shown that the different unemployment circumstances affect the stability of symmetrically distributed firms and there are specific links among the different unemployment circumstances. When there are unemployed, unemployment insurance is introduced in a lump sum manner. We show that while unemployment rate acts as a centripetal force, not only the degree of bargaining power of trade union but also unemployment benefit can play a role as a centrifugal force. A key message of the paper is that generous unemployment benefit and higher trade union make the distribution of firms more uneven.

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