



Does product market competition increase strike activity? Evidence from the UK



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ABSTRACT

Although many studies have examined the effect of labour market characteristics, macroeconomic fluctuations and workplace-level factors on strike activity, much less is known about industry-level determinants of industrial conflict, and in particular the role of product market competition. I examine the effect of competition on strike activity using evidence from a natural experiment of policy reform, the introduction of cartel legislation in the UK in the late 1950s. My econometric analysis, which takes advantage of the fact that different industries were affected to varying degrees by cartel policy, establishes that both the number of strikes and the number of working days lost as a result of strikes increased significantly when competition intensified after the abolition of cartels. I propose an interpretation of these results with reference to theoretical models of bargaining with asymmetric information.

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1. Introduction

Although many empirical studies have examined the effect of labour market characteristics, macroeconomic fluctuations and workplace-level factors on strike activity, much less is known about industry-level determinants of industrial conflict, and in particular the role of product market competition. This paper tries to fill this gap. I examine the effect of competition on strikes using evidence from a unique natural experiment of policy reform, the introduction of cartel law in the UK in the late 1950s. My analysis takes advantage of the exogeneity of cartel policy and the fact that this affected different industries to varying degrees. The results, using a panel data set of 50 industries over a 27-year period, both before and after the implementation of cartel policy, reveal a strong positive effect of the intensification of competition caused by the abolition of cartels on the number of strikes as well as on the working days lost as a result of strikes. I also propose an interpretation of these findings with reference to theoretical models of bargaining with asymmetric information.

The existing literature offers little and contradictory evidence regarding the impact of competition on industrial conflict. Geroski et al. (1982) and Geroski and Knight (1983) have found a positive association of market concentration with strike frequency but a negative one with strike duration in the UK. For the USA, in contrast, Tracy (1986, 1987) reports a positive effect of concentration on strike probabilities and no effect on duration, whereas Abowd and Tracy (1989) have found no link of strike incidence with concentration and a negative one with import penetration. Brandl and Traxler (2010) present evidence of a negative association of economic openness (the sum of exports and imports as a percentage of GDP) with working days lost due to stoppages for a panel of 19 OECD countries, which disappears when they include year dummies in

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their regression. These results are not only ambiguous but also difficult to interpret because of methodological limitations and the lack of a clear theoretical foundation. The main problem is that variables such as concentration or imports are endogenous. Furthermore, concentration may be even positively rather than negatively related to the intensity of competition (Sutton 1991; Symeonidis 2000, 2002), whereas economic integration may also have a market expansion effect or otherwise involve more than just an intensification of competitive conduct. A further drawback is the lack of a convincing theoretical justification in the literature for a role of product market competition in industrial conflict other than as a determinant of the level of firm profitability, even though profitability is often included as a separate regressor in empirical models of strike activity.

Few studies of industrial action in Britain have made use of panel data, and to the best of my knowledge none exists for the time period I consider here. Time-series studies have obtained ambiguous results for standard explanatory variables such as the unemployment rate, the inflation rate or profitability (Pencavel 1970; Knight 1972; Shorey 1977). Cross-section analyses, including Shorey (1976) and Smith et al. (1978), have found little evidence of a consistent effect of variables such as unemployment or unionisation on inter-industry differences in strike intensity. Perhaps the most consistent finding across time-series studies is a negative effect of past wage increases on strike frequency. However, cross-section results have often revealed a positive association between earnings and industrial conflict. In this paper I confirm that many of these factors do not contribute much to explaining the evolution of strike incidence in British industries during the period examined, once one controls for product market competition as well as industry and time effects.

Strikes will always make headlines because they can cause serious disruption and economic loss, despite the decline in industrial conflict in many countries over the past few decades. Airport workers in several European countries have regularly been on strike in recent years, and industrial action by French transport workers caused considerable disruption during the European football championship in the summer of 2016. An Indian one-day general strike in September 2016 was called “the biggest industrial action in human history” by the country’s unions and several international media. The number of stoppages in China increased tenfold between 2011 and 2015 according to the China Labour Bulletin, a non-governmental organisation based in Hong Kong that promotes workers’ rights in China, and was still on the rise in the first half of 2016. In December 2016 some relatively minor disputes in Britain, affecting railways and postal services, and coming after industrial action by teachers and junior doctors earlier in the year, were somewhat hastily dubbed “the Christmas of discontent” by the media. Although it is perhaps too early to assess the long-term significance of these events, they have also come as a reminder that there are still many unanswered questions in the literature on industrial disputes.

In fact, this literature presents a paradox. There are several different theories of the causes of conflict, but none has obtained strong empirical support (see the surveys and/or critical discussions by Kennan 1986, Kaufman 1992, Card 1990, Mumford 1993, Ingram et al., 1993, Franzosi 1989, and Cramton and Tracy 2003, among others). Moreover, some of the most sophisticated and widely accepted theoretical models, such as those based on the existence of asymmetric information between employers and unions, seem to have difficulty explaining one of the most remarkable and well documented facts about industrial disputes: the large differences in strike activity across industries, time periods and countries (described, among others, by Kerr and Siegel 1954, Durcan et al., 1983, Smith et al., 1978, Kaufman 1982, Rimlinger 1959, van der Velden et al., 2007, and Brandl and Traxler 2010). No attempt will be made to fully resolve these issues in the present research. Differences in strike activity across British industries and over time will be simply controlled for using a full set of industry and year dummies. However, I will argue that the estimated strong positive effect of product market competition on industrial disputes provides support for the asymmetric information model of strikes, thus strengthening the case for economic theories of rational bargaining as compared to alternative economic models or behavioural, political and organisational approaches.

2. Competition in British industry

Explicit restrictive agreements among firms were widespread in British industry in the mid-1950s: nearly half of manufacturing and many services industries were subject to price-fixing. The agreements were not enforceable at law, but they were not illegal. Most of them provided for minimum or fixed producer prices. There were generally no restrictions on longer-term decisions such as investment in capacity, advertising or R&D expenditure. A description of the institutional changes and the evolution of competition from the 1950s to the early 1970s and a detailed survey of restrictive agreements across all British manufacturing industries can be found in Symeonidis (2002). Here I summarise the evidence and I describe the construction of the competition data for this paper.

The 1956 Restrictive Trade Practices Act required the registration of restrictive agreements, including verbal or even implied arrangements, on goods. Registered agreements should be abandoned, unless they were either successfully defended by the parties in the newly created Restrictive Practices Court as producing benefits that outweighed the presumed detriment or cleared by the Registrar of Restrictive Trading Agreements as not significantly affecting competition. Because the attitude of the Court could not be known until the first cases had been heard, the large majority of industries registered their agreements rather than dropping or secretly continuing them. The first agreements came before the Court in 1959 and were struck down. This induced most industries to voluntarily abandon their agreements rather than incur the costs of a Court case with little hope of success.

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