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Conspicuous Consumption and Trade Unionism

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Abstract: This paper examines the equilibrium optimality with consumption-induced social comparisons in a unionized economy which entails unemployment. We show that social comparisons of consumption lead to excessive labor supply for employed workers, but trade unionism results in under-employment. When conspicuous consumption meets trade unionism, the labor force exhibits an “intensive margin” under which the excessive labor supply caused by social comparisons of consumption is restrained by unionization. Conspicuous consumption can then achieve the social sub-optimum, without a need for government intervention, creating no distortions in consumption, capital accumulation, and output in a competitive equilibrium. When social comparisons in consumption are more intensive, a higher degree of unionization is required for restoring optimality. Given a specific degree of social comparison in consumption, a higher degree of unionization is socially desirable if the output elasticity of labor, the elasticity of labor supply, or the elasticity of substitution between working hours and employment is high. By contrast, a lower degree of unionization is socially desirable when the trade union displays a more favorable orientation toward wages. By shedding light on the role of trade unionism, our study also provides a reconciliation of the disparity between the theoretical prediction and the empirical findings.

JEL Classification: D31; J52; O41

Keywords: Conspicuous consumption, trade unionism, intensive/extensive margin of labor supply, social optimum.

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