International Journal of Applied Business and Economic Research
Volume 17, Number 2, 2019, ISSN : 0972-7302
available at http: www.serialsjournals.com

A CRITICAL NOTE ON UNION-FIRM BARGAINING IN ALTERNATIVE PAY SCHEMES IN INDIA.

Dr. Anita
Associate Professor, Dept. of Commerce, Delhi College of Arts & Commerce, Netaji Nagar
University of Delhi-23

Abstract: The Indian Journal of Labour Economics (2006) examines the outcomes of negotiating between a monopoly corporation and its risk-neutral union under various agendas (right-to-manage, RTM vs. efficient bargaining, EB) and compensation schemes (fixed salary vs. piece rate), as well as the implications for societal welfare. This note demonstrates that, using the same hypotheses, RTM negotiations under a profit-sharing system match the EB's piece-rate outcomes.

Keywords: Bargaining, a set salary, Profit-sharing and piece-rate Assistance to the poor.

INTRODUCTION

Workforce relations are negotiated between employers and unions in most advanced economies. Salary negotiations solely, or both employment and wage rates are given attention in the economic literature. When negotiations come to an agreement on a wage rate, employers have the right to decide on their workforce; the equilibrium solution is determined by the firms' need for workers. In other words, employers and unions must simultaneously negotiate wages and employment, with the Pareto-efficient equilibrium located on the contract curve's locus, which is to the right of the firms' labour demand. These models use fixed wage assumptions. Very few companies have discussed altering compensation structures in negotiations. Both profit-sharing and piece-rate wage schedules were studied in the setting of a unionised monopoly (Pal, 2006). Hoe and Moene (1988) found that using an RTM and profit-sharing yields the same results as using fixed salaries (1989). (In contrast, Pal (2006) explores the effects of introducing a piece-rate wage schedule in negotiations on social welfare.) Major findings of Pal (2006) are as follows. EB is always more socially just than RTM. The more bargaining power a union has, the greater is the social welfare; the higher is the labour productivity, the better for everyone. In the end, when it comes to negotiating strength, the union has more bargaining power than RTM has. EB does not always result in increased social welfare because it is dependent on wage negotiating objectives and union bargaining power. According to Pal's assumptions, this note reveals that negotiating under the RTM with a profit-sharing scheme results in the same social welfare outcomes as negotiating with a piece-rate wage. The rest of the note is as follows. the findings are documented in Section 2 This comment concludes Section 3.

THE MODEL AND THE RESULTS

The model contains two entities: a monopolist corporation and its labour union. Exogenously provided members are considered sufficient to meet the firm labour demand. The union's bargaining power is. The firm's bargaining position is therefore determined by. Unions are risk-averse and increase the net wage bill.

$$U = (w - r)l \,, \tag{1}$$

exogenous reservation wage rate, total wage per worker, and firm employment There is only one factor of production in a CRS world: workers. Gross profit for the company is as follows:

$$\pi = pq - wl \quad (2)$$

with $p = A - q$ the linear market demand curve Pal (2006) suggests a profit-sharing plan under the RTM. profit-sharing equals total income per worker

$$w = w_b + (\lambda/l)\pi \,, \quad (3)$$

In the RTM, the employment decision is determined unilaterally by the firm. As usual, the two-stage game is solved by backward. Therefore, given the definitions of p and q, in the second stage the firm maximization problem becomes

$$\max \Lambda(l) = (1-\lambda)[(A-\theta l)\theta l - w_b l] \,. \quad (5)$$

The first-order condition for (5) yields

$$l = (\theta A - w_b)/2\theta^2 \,. \quad (6)$$

Substituting back (6) into (2)-(3), the following expressions are obtained

$$\pi = (\theta A - w_b)^2/4\theta^2 \,;\; w = w_b + (\lambda/2)(\theta A - w_b) \,.$$

The wage and share parameter wage and share parameter parameters Equilibrium wage is set by solving this optimization problem.

max

$$B(w_b, \lambda) = U^{\gamma}\Lambda^{(1-\gamma)} = \left\{[2(w_b - r) + \lambda(\theta A - w_b)](\theta A - w_b)/4\theta^2\right\}^{\gamma}[(1-\lambda)(\theta A - w_b)^2/4\theta^2]^{(1-\gamma)} \,. \quad (7)$$

The first-order conditions for (7) lead to

$$w_b = r + [\theta A(\gamma - \lambda)/(2-\lambda)] ,\; \lambda = \left\{[\gamma(\theta A + w_b - 2r) - 2(w_b - r)]/(\theta A - w_b)\right\} \,. \quad (8)$$

Solving the expressions in (8), it is obtained that $w_b = r$ [1] and $\lambda = \gamma$. Consequently, the equilibrium wage is $w = r + (\gamma/2)(\theta A - r)$ and the firm's net profit is $\Lambda = (1-\lambda)(\theta A - r)^2/4\theta^2$. Using the equilibrium wage, it can easily be checked that these findings, as well as the expressions for output, employment, and union utility are identical to those of the EB with the piece-rate scheme described in Pal (2006). The social welfare is given by $SW = (3-2\gamma)(\theta A - r)^2/8\theta^2$. Thus, the following results are derived.

Proposition 1. *The social welfare expressions under RTM negotiations are given by:* $SW_{FW} = 3(2-\gamma)(A-r)^2/32$, $SW_{PR} = (3+2\gamma)(\theta A - r)^2/[8\theta^2(1+\gamma)^2]$ *(Pal, 2006), and* $SW_{PS} = (3-2\gamma)(\theta A - r)^2/8\theta^2$, *where the lower scripts FW, PR and PS stand for fixed wage, piece-rate and profit-sharing, respectively. Then, the following relations apply:*

$$\begin{array}{ll} \text{if } \theta \le \theta_0 : & \\ SW_{PS} > SW_{FW} > SW_{PR} & \text{for } \gamma \in [0,.37); \\ SW_{PS} > SW_{PR} \ge SW_{FW} & \text{for } \gamma \in [.37,.78); \\ SW_{PR} \ge SW_{PS} > SW_{FW} & \text{for } \gamma \in [.78,1]; \end{array}$$

$$\begin{array}{ll} \text{if } \theta > \theta_0 : & \\ SW_{PS} > SW_{PR} > SW_{FW} & \text{for } \gamma \in [0,.78); \\ SW_{PR} \ge SW_{PS} > SW_{FW} & \text{for } \gamma \in [.78,1]. \end{array}$$

Proof: Directly from comparison of social welfare expressions. □

CONCLUSIONS

RTM negotiations, on the whole, result in ineffective negotiating outcomes. This note has shown that RTM discussions with an optimal profit-sharing contract mirror the outcomes of the EB, where both wage and employment are bargained, even when the wage is represented by a linear piece-rate payment scheme, using the same assumptions as Pal (2006). The following is the implication of this result. If a country's labour market institutions do not believe that employment enters the negotiating protocol, with employment established unilaterally by the firm, social welfare can be improved by enacting legislation that includes a profit-sharing payment plan. By implementing a profit-sharing system, it is possible to ensure that, if labour productivity grows sufficiently, societal welfare will rise as a result of the presence of various performance-related compensation schemes. From a political standpoint, this idea may be more viable than mandating employment in the negotiating process.

References

Gielen, A. C., Kerkhofs, M. J. M. and van Ours, J.C. (2010). How Performance Related Pay Affects Productivity and Employment. *Journal of Population Economics*, 23: 291-301.

Haskel, J. and Martin, C. (1992). Margins, concentration, unions and the business cycle, *International Journal of Industrial Organization*, 10: 611– 632.

Hoel, M. and Moene, K. O. (1988). Profit Sharing, Unions and Investments. *Scandinavian Journal of Economics*, 90 (4): 493-505.

Kraft, K. (1998). The Codetermined Firm in Oligopoly. *Economics Letters*, 61 (2): 195-201.

Kraft, K. (2001). Codetermination as a Strategic Advantage? *International Journal of Industrial Organization*, 19: 543-566.