

Trade Liberalization and Unemployment in Unionized General Oligopolistic Equilibrium*

Keita Kamei[†]

Abstract

The paper investigates how trade liberalization affects the unemployment rate of low-skilled workers. I construct a general oligopolistic equilibrium model in which all of the firms in the low-tech sectors must (at the least) pay the union wage that is set by the sectoral trade unions. The model has two labor markets: high-skilled workers and low-skilled workers. The sectoral trade unions determine the union wage based on the number of employment and unemployment compensations, which is endogenously determined by the equilibrium wage in each sector. I investigate the effects of trade liberalization and compare two open economies: 1) a partially open economy and 2) a fully open economy. In the partially open economy, all of the low-tech sectors are shielded and all of the high-tech sectors are tradable. In this case, trade liberalization increases the unemployment rate of the low-skilled workers and decreases welfare. In the fully open economy all of the sectors are tradable. In this case, trade liberalization reduces the unemployment rate of low skilled workers and improves welfare.

Keywords: Unemployment; Trade Union; Wage inequality; Oligopoly

JEL classification: L16, F12, F16

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[†]Faculty of Literature and Social Sciences, Yamagata University. 1-4-12 Kojirakawa-machi, Yamagata 990-8560, Japan. E-mail: kamei@human.kj.yamagata-u.ac.jp