

# Agglomeration and wage bargaining\*

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## Abstract

In location decision, this paper examines the role of trade union and the type of wage bargaining in monopolistically competitive sector. In our setting, union bargaining is held between immobile workers and mobile entrepreneurs. It is shown that stronger trade unions in both regions would put a stronger pressure toward agglomeration. This is due to the fact that the stronger bargaining power of trade union makes Home Market Effect larger. Under core-periphery distribution of firms, this effect can get the role as anchorage. Stronger trade unions in home region can keep the firms remain in their region. Moreover, we extend to several employment circumstances, which are the outside option of workers. We show that difference in bargaining structures and employment circumstances could affect the stability of symmetrically distributed firms, namely symmetry break point.

When there are unemployed, unemployment insurance is introduced. 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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