



[Unions in a Frictional Labor Market](#)

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We analyze a labor market with search and matching frictions where wage setting is controlled by a monopoly union. Frictions render existing matches a form of firm-specific capital which is subject to a hold-up problem in a unionized labor market. We study how this hold-up problem manifests itself in a dynamic infinite horizon model, with fully rational agents. We find that wage solidarity, seemingly an important norm governing union operations, leaves the unionized labor market vulnerable to potentially substantial distortions due to hold-up. Introducing a tenure premium in wages may allow the union to avoid the problem entirely, however, potentially allowing efficient hiring. Under an egalitarian wage policy, the degree of commitment to future wages is important for outcomes: with full commitment to future wages, the union achieves efficient hiring in the long run, but hikes up wages in the short run to appropriate rents from firms. Without commitment, and in a Markov-perfect equilibrium, hiring is well below its efficient level both in the short and the long run. We demonstrate the quantitative impact of the union in an extended model with partial union coverage and multi-period union contracting.