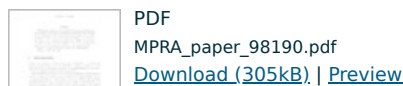


Featherbedding and labour market reforms

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Abstract

When labour unions are able to use first-best price discrimination, they can extract a wage above the marginal product of labour. In other words, employment is above the firm's own optimum -- this is featherbedding or overmanning. This effect can capture the importance that unions put on maximizing employment. While labour market reforms are usually beneficial in the long run, they can be detrimental in the short run if investment does not pick up quickly enough.

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