

The Impact of Unions on the Compensation for Job Risks

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This study examines the worker's behaviour in choosing their job risks and the role of trade unions in influencing the wage-risk trade-off. It also analyses the problem of sample selection and its effects on the estimated compensation for job risks. The empirical results provide a strong support for the efficiency of labour market in deriving the optimal risk level. They also imply that the unionists receive a higher compensation for work related risks than the non-unionists. Allowing for sample selectivity produces a downward bias in the estimated union wage differentials for deadly hazards. The estimated values of life and injury might be useful for policy makers, international agencies and researchers in evaluating the health projects in India.

I Introduction

In the job selection process, workers consider a multitude of pecuniary and non-pecuniary job characteristics. Wage rates, pension benefits, convenience of work hours and health and safety risks are but a few of the pertinent job characteristics. Almost inevitably, a worker must trade-off some valued characteristics for other job attributes when selecting from his job opportunities. The wage and job related risks are likely to be the most important job components to workers considering potentially dangerous jobs (Viscusi, 1979). If a worker takes a job and knows that it is risky, there must be some other valued characteristics to compensate for the risk. If other non-monetary attributes of the job are equivalent to those for less risky jobs, this compensation will take the form of a higher wage. This wage-risk relationship is the central component of the theory of compensating or equalizing differentials, originally conceived by Adam Smith. He observed that "the whole of the advantages and disadvantages of the different employment of labour and stock must in the same neighborhood be either perfectly equal or continually tending to equality". This simple proposition and its reconstruction by Rosen (1974) form the basis of recent economic analyses of job risks. The methodology adopted in this approach is called the hedonic (i.e., the quality-adjusted) wage function approach.

The hedonic approach posits that jobs with bad characteristics require a wage premium to attract workers, other things remaining the same. This extra wage or premium is called a compensating wage differential. These premiums are the result of the interaction of both labour demand by firms and labour supply decisions of workers. This approach specifies an earning function that includes both worker and job characteristics and forms as an empirical tool for the analysis of the determinants of wage rates. The theory is helpful in interpreting the coefficients of risk variables on the wage equation estimates.

In recent years, the hedonic approach has received a considerable amount of attention in the labour economics literature. In part, this attention has resulted from the

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