to look at individuals chance over time – heterogeneity of workers, employees sorting out least efficient
- hwvr, the Unemployment Assistance Board had a quota of long term unemployed who were temporarily hired, prospects of employment greatly improved afterwards – suggests that this was not all efficient screening

- insider-outsider theory
- explain model – could be explanation for persistence
- long term unemployed definitely outsiders – can't effect real wage, can't be priced back in – forced to remain outsiders
- union workers threaten strikes or fall in effort/disruptions if outsiders hired
- crafts – ran a regression of effect of long term and short term unemployment on real wage
- long term – stock, short term- flow
- found that long term unemployment not able to force wage down- 1% increase in long term would actually raise the real wage
- strong evidence for insider outsider theory
- may have been willing to work for lower wages but couldn't

<u>Trade unions</u>

- Unionisation increased up to the 1920s, especially WW1
- Could be argued this caused nominal wage rigidity and therefore is responsible for some of the unemployment
- Membership peaked at around 8 million in 1921
- Resulted in a more institutionalised wage setting
- The basic wage was determined for the whole industries in many industries
- Only coal had this before WW1
- Trade boards were also set up-1918-minimum wage for industries with a lot of wage flexibility/hard to organise or very low wages
- It's estimated that collective agreements covered some ¾ of the labour force
- Wartime government set the trend of collective bargaining in post war period – set up systems such as the whitley system to accommodate collective bargaining

Centralisation

- It has been argued by some that the wage setting process was not centralised enough which lead to high unemployment
- If wage setting is only done on a firm wide or local level, unions account for the highly elastic demand for labour, a small wage increase though wage bargaining could result in firms looking else where for workers
- Equally, setting the wage at an economy wide level will result in unions accounting for the negative effects on total unemployment of too high a real wage set, they will account for the unemployed.
- Wages set at an industrial level will result in enough market power to set a high wage but quite limited effects on overall unemployment of setting the wage too high in each individual industry