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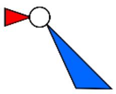
<497/c>	can not penetrate the ranks of the insiders and, as a result, can no longer influence the course of wage bargaining. Once the level of insider employment has levelled out at L 2 there is no longer an incentive to moderate the pace of money wage demands which will continue at 5%. The volume of equilibrium unemployment has therefore been swollen by the influx of former insiders: NAIRU has risen. The key feature of all models of hysteresis is obviously present in the insider-outsider model: it is only during the process of adjustment from a higher to a lower level of employment that there will be significant downward pressure on the rate of increase of money wages and prices. Figure 8.9 Hysteresis as insider-outsider phenomenon As was intimated earlier, less formal approaches to the inflationary biases which may be endemic within certain systems of industrial relations have been in circulation among Keynesians for many decades. For many Keynesians, and certainly Keynes himself, the celebrated 'problem of money wages' was essentially one which could only be tackled on a political as opposed to an economic front. Generally speaking the 'political' cure for inflation comprised some form of prices and incomes policy, and was regarded as the only alternative to the less palatable 'economic' cure of demand deflation. In the heady days immediately following the Keynesian revolution, many of Keynes's followers began to express concern at the consequences which might flow from a commitment to full employment. Whereas the massive unemployment which had plagued the interwar period has at least served to keep the lid on money wages, the switch to Keynesian policies, with their emphasis on the objective of maintaining full employment, might open a Pandora's box of inflationary money wage claims. The transformation of the industrial relations climate which would be brought about by adherence to Keynesian principles could produce a potentially catastrophic spiral of money wage increases leading to price increases leading to a build-up of inflationary expectations. Many Keynesians went further. They argued that, even if governments were prepared to use demand restriction and high unemployment to reduce, or at least to contain, upward pressure on money wages, there was no longer any guarantee that such policies would work. In the British case the problem lay in the structure of collective bargaining. Trades unions, which regarded their principal objective as being to protect the interests of their employed members (insiders), were not particularly moved - public rhetoric apart - by the plight of outsiders. Providing that there was no threat to their members' jobs, trades unions felt that they had a free hand in wage negotiations, often seeming to pluck numbers out of thin air and try it on with employers.
 Key: **Footprint** **ConEn1** **Footprint** **ConEn2** **Footprint** **ConEn3**	**A long list of criteria**
	was trundled out to justify the eminent reasonableness of their wage claims**: their members had fallen behind in the league table of wage differentials**; **the cost of living had increased**; **productivity had risen**; **firms' profits were high and their**

	members were entitled to their 'fair' share. And lurking behind the smoke screen of public utterances justifying their case, there remained that most potent of sanctions, the strike threat, and with it the knowledge that employers would not defy the union by taking on and training outsiders to fill the boots of striking insiders. The problem, neatly summarized by Blackaby (1980), was that Britain's collective bargaining structure lay betwixt and between two polar extremes: at one extreme was the highly centralized system which was prevalent in some countries of continental Europe; at the other extreme was the model of atomistic competition in labour markets which appeared to feature only in textbooks. Britain's union structure was one of a series of 'fragmented monopolies', each monopoly looking over its shoulder at other monopolies and exploiting the comparison whenever it was to its advantage. The behaviour of these fragmented monopolies is unlikely to be affected by abnormally high levels of unemployment. Admittedly the zeal with which trades unions seek to achieve increases in the money wages of their members is likely to be tempered in times of rising unemployment, an outcome which is also predicted in the more formal models of hysteresis. The difference between the old Keynesian and the new Keynesian approaches arises from the latter's retention, albeit in radically modified form, of the notion of an equilibrium unemployment rate, and the former's wholesale rejection of the usefulness of the NAIRU concept. Hysteresis and the long-term unemployed A second line of inquiry focuses on the role played by the long-term unemployed in the wage bargaining process. Statistically there appears to exist a stable relationship between the proportion of the long-term unemployed in the total unemployment rate, denoted by the symbol LT, and the actual unemployment rate. This relationship is represented in Figure 8.10. A rise in the unemployment rate from U 1 to U 2 tends to raise the proportion of that rate consisting of the long-term unemployed from LT 1 to LT 2. Enter the distinguishing behavioural hypothesis of this version of the hysteresis model: the higher the proportion of long-term unemployment in overall unemployment, the smaller will be the impact of any given unemployment rate upon the bargaining power of trades unions. </bncdoc>