Can industry-wide wage bargaining improve output, employment and inequality?

Juraj Briskar
University of Edinburgh

Discussion by Alessandro Ruggieri (University of Nottingham)

IAAEU Workshop on Labour Economics

March 25, 2021

Introduction

- Motivation:
  - large share of employees covered by collective wage agreement in continental EU
  - disconnect with canonical labor search models where wage bargaining happens at individual level
- Research question: what are the aggregate implications of centralized bargaining?
- This paper:
  - builds a search model where firms are heterogeneous and "large"
  - explore two wage settings
    - individual intra-firm bargaining as in Stole and Zwiebel (1994)
    - two-tier collective bargaining at industry level
  - calibrate the model separately to US and Sweden
  - shows that collective agreement could raise employment and outside and reduce wage inequality

The model

- Model features:
  - firm heterogeneity in productivity
  - search frictions in the labor market
  - firms post vacancy to hire workers s.t. convex costs
  - decreasing return to scale in production
  - firm entry and exit
- Three main inefficiency of intra-firm bargaining
  - firm entry
    - firms face high wage when they are young and far from their target size, discouraging entry
  - firm selection
    - low-productivity firms face lower wage, reducing selection
  - over-employment relative to social optimum
    - firms' incentive to over hire to lower total wage bills

Major comments

- How specifics are the results of this paper to the assumption of intra-firm bargaining protocol?
  - Consider a model with linear production function and match-specific individual bargaining
  - Firm size still determined by convex vacancy cost
  - Wages only function of firm-level productivity - independent of firm size
  - No over-employment inefficiency and no firm-entry effect
  - Would collective bargaining still dominate?

Major comments

- What if firm-level productivity were not time-invariant?
  - Consider the case of stationary process (e.g. AR(1)) or non-stationary process (e.g. through innovation)
  - This could re-establish positive correlation between wage and firm-size. No firm-entry effect
  - Collective bargaining could have adverse effect:
    - lower wage of large and stable firms
    - raise wage of small and growing firms

Minor comments

- How does this paper differ from Felbermayr et al (2011)? Under Appendix B, there is a section with two collective bargaining protocols:
    - firm and the union bargain *efficiently* about both wages and employment
    - right to manage setup: unions negotiate wages and firms have freedom to set employment
- Is the absence of firm-level bargaining in case of industry-level bargaining failure credible?
- Why double calibration to US and Sweden?