

Employment and wage effects of extending collective bargaining agreements

Sectoral collective contracts reduce inequality but may lead to job losses among workers with earnings close to the wage floors

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ELEVATOR PITCH

In many countries, the wage floors and working conditions set in collective contracts negotiated by a subset of employers and unions are subsequently extended to all employees in an industry. Those extensions ensure common working conditions within the industry, mitigate wage inequality, and reduce gender wage gaps. However, little is known about the so-called bite of collective contracts and whether they limit wage adjustments for all workers. Evidence suggests that collective contract benefits come at the cost of reduced employment levels, though typically only for workers earning close to the wage floors.

KEY FINDINGS

Pros

- ⊕ The extension of collective contract provisions reduces wage inequality by setting occupation-specific minimum wages within an industry.
- ⊕ Collective contract extensions reduce gender wage gaps, mainly at the bottom of the wage distribution.
- ⊕ Collective contract extensions provide job stayers with partial insurance against transitory productivity fluctuations or economy-wide fluctuations associated with the business cycle.
- ⊕ In the absence of full mobility across jobs, collective contract extensions avoid opportunistic cuts in job quality and wages.

Cons

- ⊖ Sector-wide minimum wages increase labor costs to all covered firms, inhibiting employment growth.
- ⊖ Collective contract extensions impose working conditions on employers and employees who did not participate in the bargaining process.
- ⊖ Extending collective contracts reduces competition by deterring firm entry and small business creation.
- ⊖ Collective contract extensions introduce wage rigidities among workers close to wage floors, which may limit the ability of firms to adapt to economic shocks.

AUTHOR'S MAIN MESSAGE

The overall impact of extending a collective contract to all firms in an industry depends on how much employment is lost due to the contract's provisions on minimum wages and other working conditions. Assessing the impact of collective contract extensions on wages and employment outcomes requires linking information on collective contracts registers to longitudinal data on employers and employees. New evidence based on such data sheds light on the so-called bite of negotiated minimum wage floors and shows that wage and employment responses are mostly confined to workers with earnings close to the minima. Policy mechanisms such as representation requirements and "opt-out" clauses may alleviate these concerns in some settings.

