

Do in-plant alliances foster employment?

An instrument for responding to an imminent economic crisis or for increasing firm competitiveness

Keywords: in-plant alliances, decentralization of wage setting, global economic crisis, employment effects

ELEVATOR PITCH

In-plant alliances that tailor specific deviations from sectoral collective agreements on wages and working time are intended to hold down labor costs. These agreements enable reorganizations to respond to an imminent economic crisis or to improve competitiveness. They encourage social partners to take greater responsibility for employment issues. Both unions and works councils agree to such contracts because they see them as inevitable to avoid severe employment losses. Thus, these alliances substantially unburden public employment policy.

KEY FINDINGS

Pros

- + In-plant alliances can help firms survive, save jobs, and foster employment.
- + In-plant alliances reduce labor costs and thus indirectly foster a higher number of employees.
- + More flexible working-time regulations and reorganizations as part of in-plant alliances increase both labor productivity and firm competitiveness, contributing to an increase in employment as well.
- + In-plant alliances encourage social partners to take greater responsibility for employment issues.

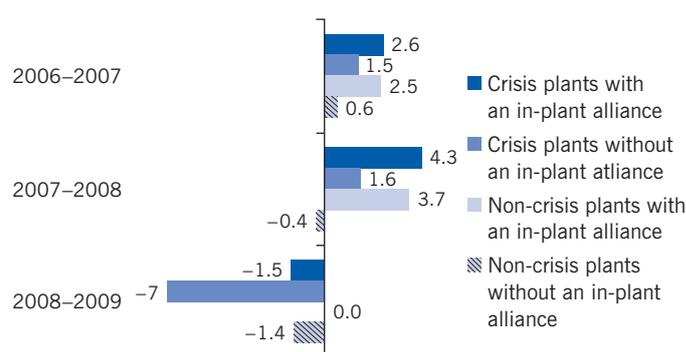
Cons

- Some pledges by employers for employment may be difficult to fulfill, especially if the firm's economic situation deteriorates.
- In-plant alliances tend to distort labor markets because they favor insiders over outsiders by restricting layoffs.
- Employment expectations could be exaggerated if in-plant alliances are seen as bucking market trends.
- In-plant alliances could erode sectoral collective agreements.
- In-plant alliances cannot deviate "too much" from the collective agreement, because unions would not agree to that.

AUTHOR'S MAIN MESSAGE

In-plant alliances can be good for employees because wages agreed in sectoral collective agreements may lead to severe employment losses during an economic crisis or if in-plant restructuring seems necessary to sustain or improve competitiveness. And their specifically tailored wage concessions, as well as flexible working-time arrangements and reorganizations, can be good for employers—and in the long term for employees. So policymakers should encourage the social partners to conclude in-plant alliances.

In-plant alliances preserve jobs in Germany (%)



Source: Based on Figure 3. Partial effects are presented.