Facts and Fantasies about Wage Setting and Collective Bargaining

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In this article, we document and discuss salient features of collective bargaining systems in the OECD countries, with the goal of debunking some misconceptions and myths and revitalizing the general interest in wage setting and collective bargaining. We hope that such an interest may help close the gap between how economists tend to model wage setting and how wages are actually set. Canonical models of competitive labor markets, monopsony, and search and matching all assume a decentralized wage setting where individual firms and workers determine wages. In most advanced economies, however, it is common that firms or employer associations bargain with unions over wages, producing collective bargaining systems. We show that the characteristics of these systems vary in important ways across advanced economies, with regards to both the scope and the structure of collective bargaining.

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