Collective Bargaining, Rent-sharing, and the Propagation of Shocks

Job Market Paper (Preliminary, do not circulate)

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Abstract

Many countries organize their labor market into collective bargaining units, in which unions and employer associations negotiate provisions for workers, such as wage floors. I study the implications of this institutional structure for the allocation of labor market rents and its adjustment to economic shocks. To do so, I leverage novel administrative data which allows constructing the network linking firms to collective bargaining agreements (CBAs) in Argentina. My research design exploits exogenous changes in world import demand in 2009–2013 to construct plausibly exogenous shocks to firm revenue and average CBA revenue. I find that wages increase more strongly as a response to a CBA shock than to a firm shock, and that this effect is driven by changes in wage floors, highlighting the role of collective bargaining in rent-sharing. However, whereas a positive firm shock also increases employment, a positive CBA shock does not. These results imply that CBAs spread the effect of economic shocks to firms and workers not directly affected by them. I develop a general equilibrium model of the labor market with collective bargaining to study what features of CBAs affect the propagation of shocks. The estimated model reveals that shocks propagate more strongly when unions have more bargaining power and when CBAs are more homogeneous in terms of productivity.

Keywords: Collective bargaining, Rent-sharing, Wage floors, Trade Shocks, Networks.

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