

THE DECENTRALIZATION OF WAGE BARGAINING AND INCOME LOSSES AFTER WORKER DISPLACEMENT

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Abstract

This paper uses administrative data to study the relationship between the decentralization of wage bargaining systems and the costs of worker displacement. Specifically, the paper exploits a major reform of the wage bargaining system in the Danish manufacturing sector, a reform that changed the wage-setting process from a highly centralized bargaining system at the national level to a decentralized system with a strong emphasis on firm-level wage bargaining. The results show that under the centralized wage bargaining system, displaced workers' income losses were small, whereas under the decentralized wage bargaining system, these income losses increased substantially, particularly because displaced workers experienced worse wage growth under the decentralized system. The effect persists after controlling for a variety of macroeconomic indicators, and displaced workers' income losses did not increase in sectors that were not affected by a comparable change in the wage bargaining system. (JEL: J01, J63, J65)

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