Representativeness of labor market institutions

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Abstract

In several countries, including France, industry-level agreements are binding for all firms of the industry, whether they sit at the negotiating table or not. This paper provides a theoretical framework showing that such agreements can be used by dominant firms to reduce competition. In this framework, the higher the over-representation of large firms in employers federations, the larger the bargained wage floors, which entails in turn the eviction of small firms. This prediction is tested using French administrative data. We document the domination of large firms within federations and devise an instrumental strategy to causally show that the larger the bargaining firms relatively to the other firms of the industry - ie the lower the federation's representativeness, the higher their incentives to raise wage floors.

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