

ABSTRACT

This paper analyzes the time consistent and efficient solution for wages and employment in intertemporal insider-outsider models of bargaining with endogenous membership. We show that, in partial equilibrium, the presence of quits causes the only difference in the dynamics of employment between expansion and contraction. If one abstracts from quits, membership dynamics do not generate employment dynamics, and the adjustment to the steady state(s) is immediate. However, when the reservation wage is made endogenous in a general equilibrium context, insider-outsider models can generate a more fundamental asymmetry in the adjustment of employment to the steady state. In an upturn, employment increases gradually toward the new equilibrium, while in a severe downturn, employment first decreases sharply because of layoffs and then declines more gradually due to quits. In a mild recession, the firm and the union rely solely on quits.