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The Role of Profit Sharing in Dual Labour Markets with Flexible Outsourcing

by Erkki Koskela, Jan König
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Abstract:

We combine profit sharing for high-skilled workers and outsourcing of low-skilled tasks in partly imperfect dual domestic labour markets, when the wage rate for low-skilled worker is set by a labor union, to analyze how the implementation of profit sharing influence flexible outsourcing and low-skilled labour market outcome. Profit sharing has a positive effect on the low-skilled wage and thus an outsourcing enhancing character. Profit sharing for high-skilled workers increases the low-skilled wage and helps to decrease the wage dispersion. Concerning the employment effects there is an employment reducing effect due to higher low-skilled wage, which can be offset by the employment increasing effect of higher effort of the high-skilled worker. Therefore, the employment effects of profit sharing are ambiguous.

Text: See [Discussion Paper No. 5798](#)



[Back](#)