

Wage formation and collective bargaining

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Collective bargaining:

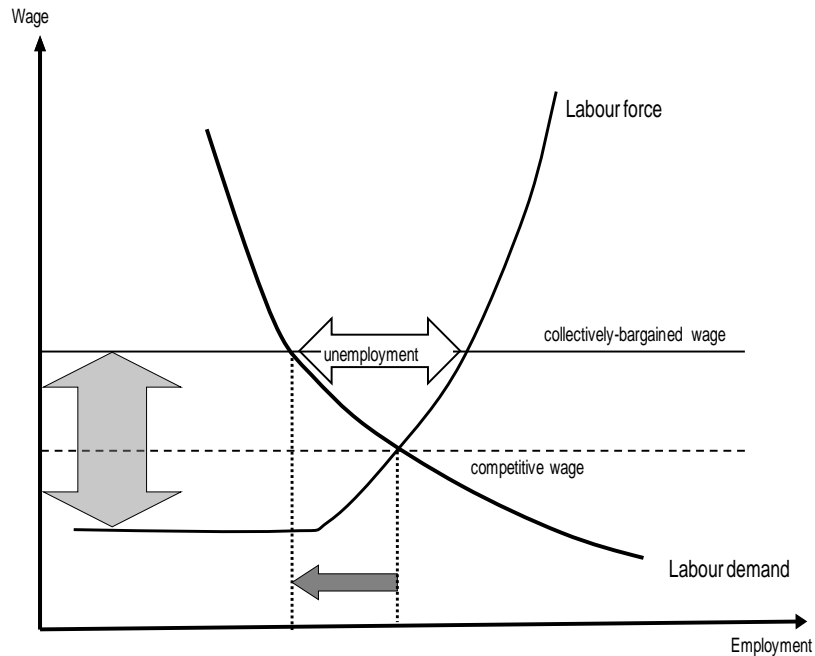
- share income (across workers, with “capital”),
- reduce employment, productivity, production,
- induce wage rigidity
 - across sectors/regions
 - before and after shocks

A tool:

- more or less suitable for various purposes,
- can be used well or badly.

Bargaining as source of unemployment

Monopoly power:

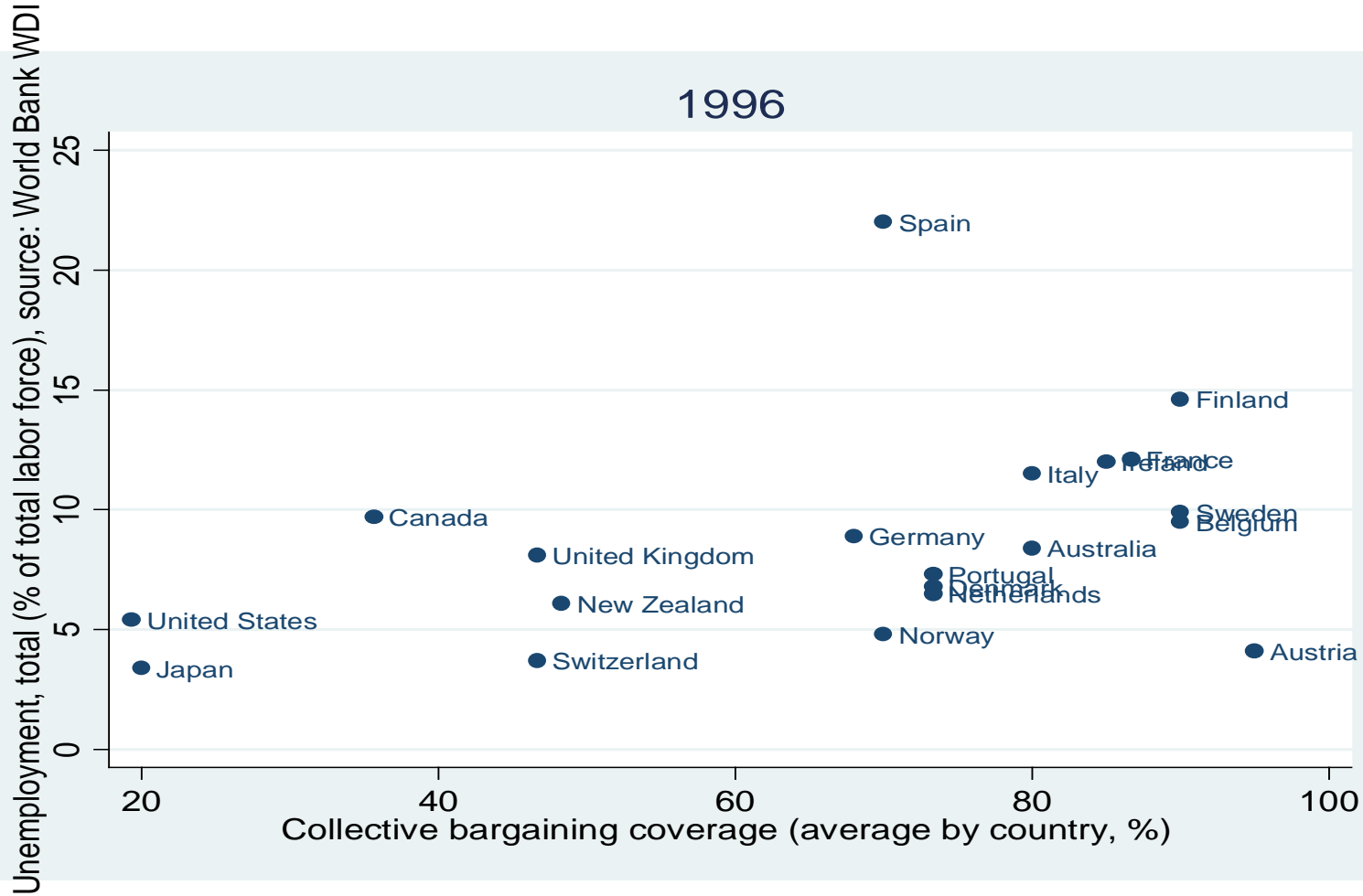


Pre-set wages
and shocks:



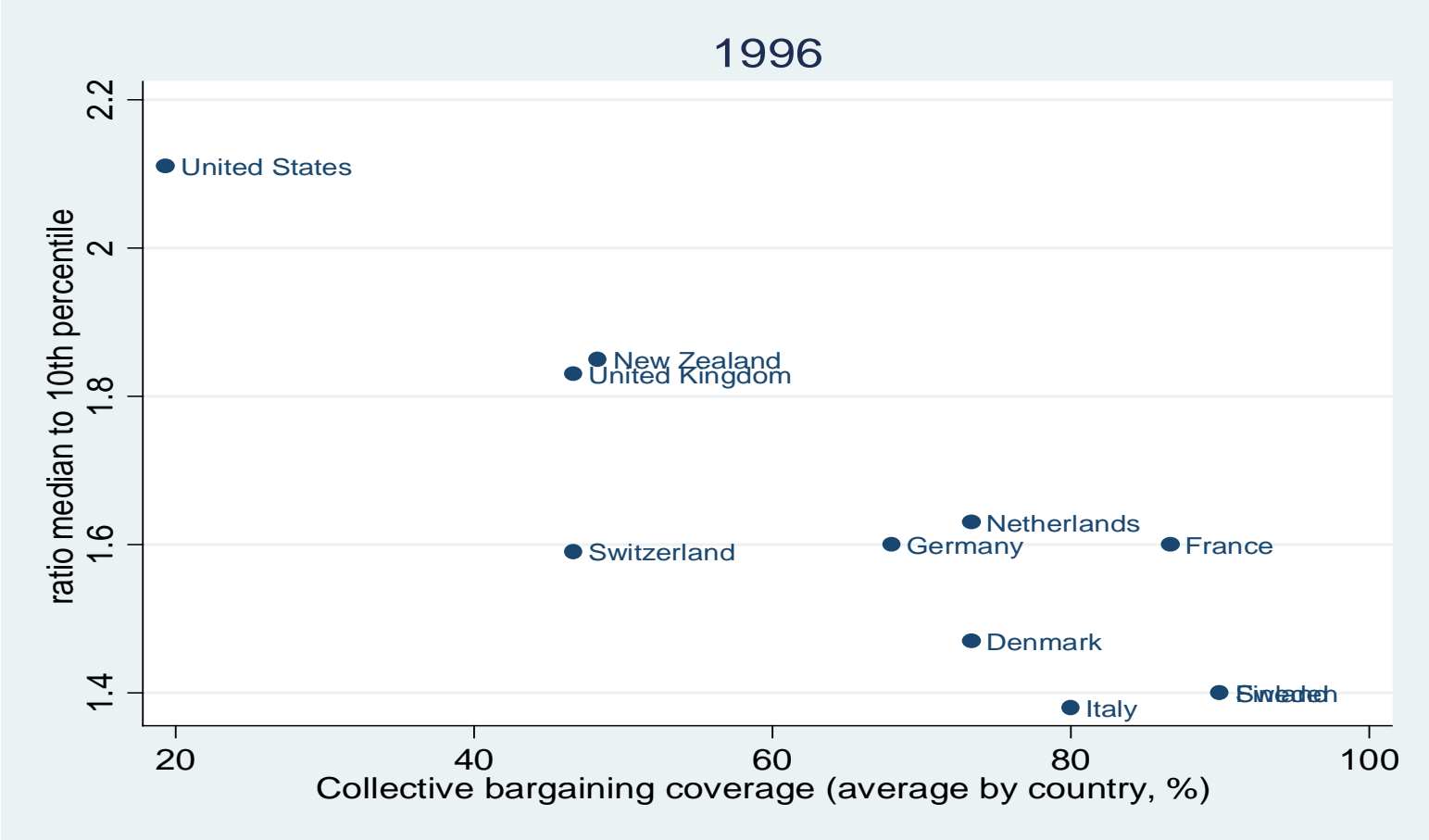
Collective bargaining coverage:

1996



Higher unemployment...

Collective bargaining coverage:



...less wage inequality.

Coordination, corporatism:

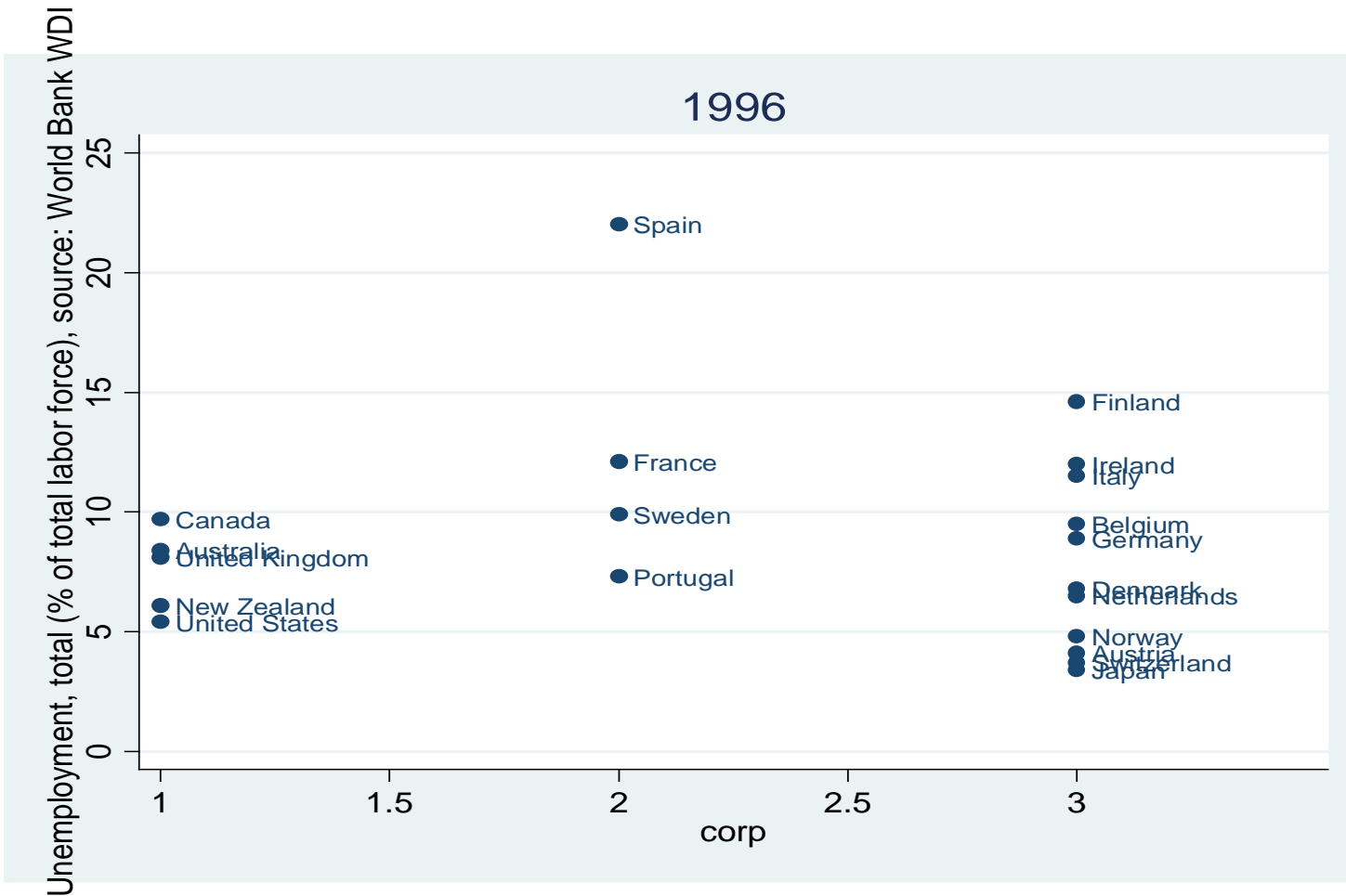
In theory (Calmfors-Driffill) can help avoid problem:

- uncoordinated wage demands
 - by unions with market power
- => externalities, inefficiently low employment

Empirically weak U-shape

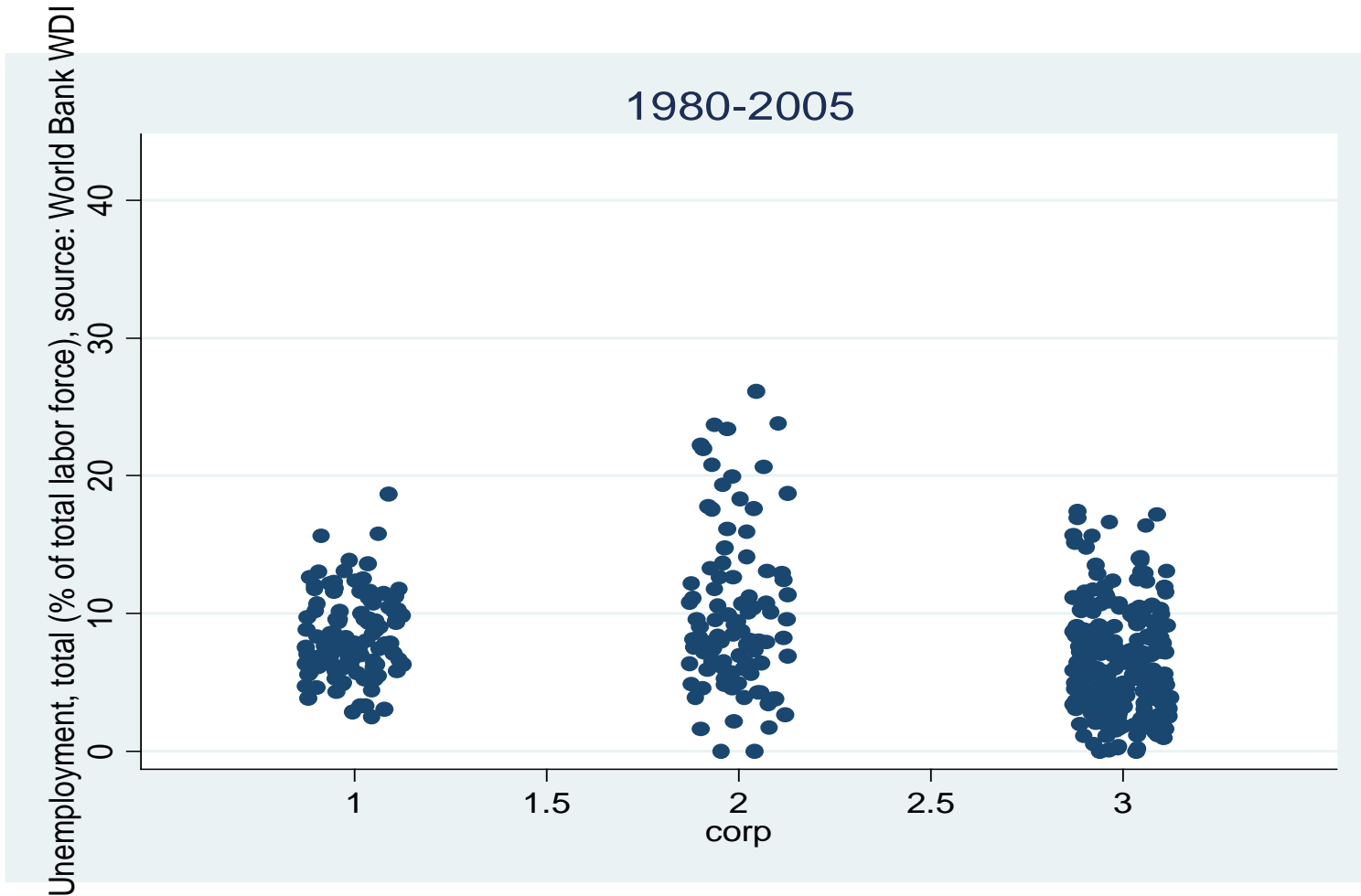
(OECD 1997 Employment Outlook)

Coordination and unemployment:



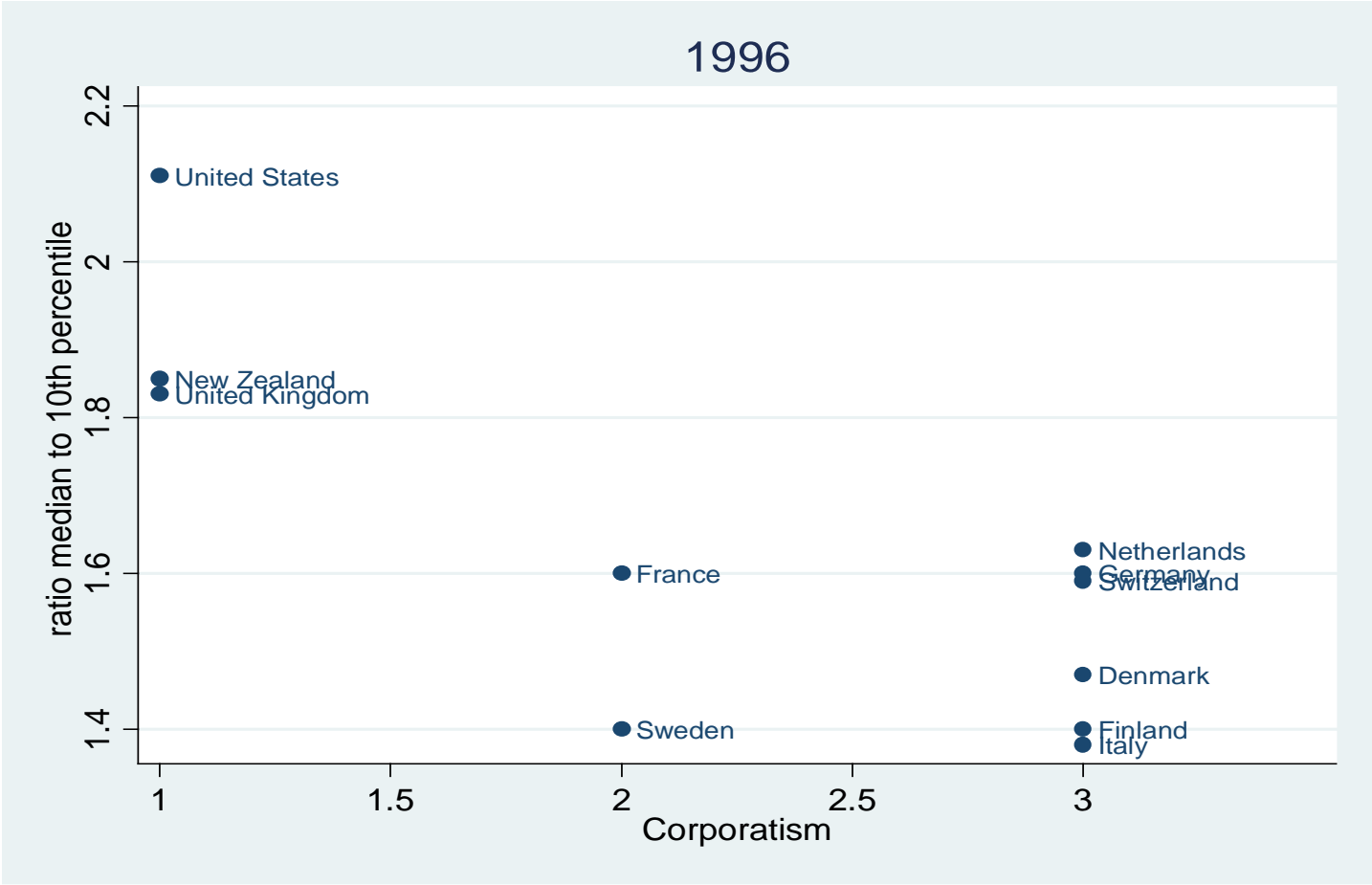
(Bassanini-Duval classification)

Coordination and unemployment:



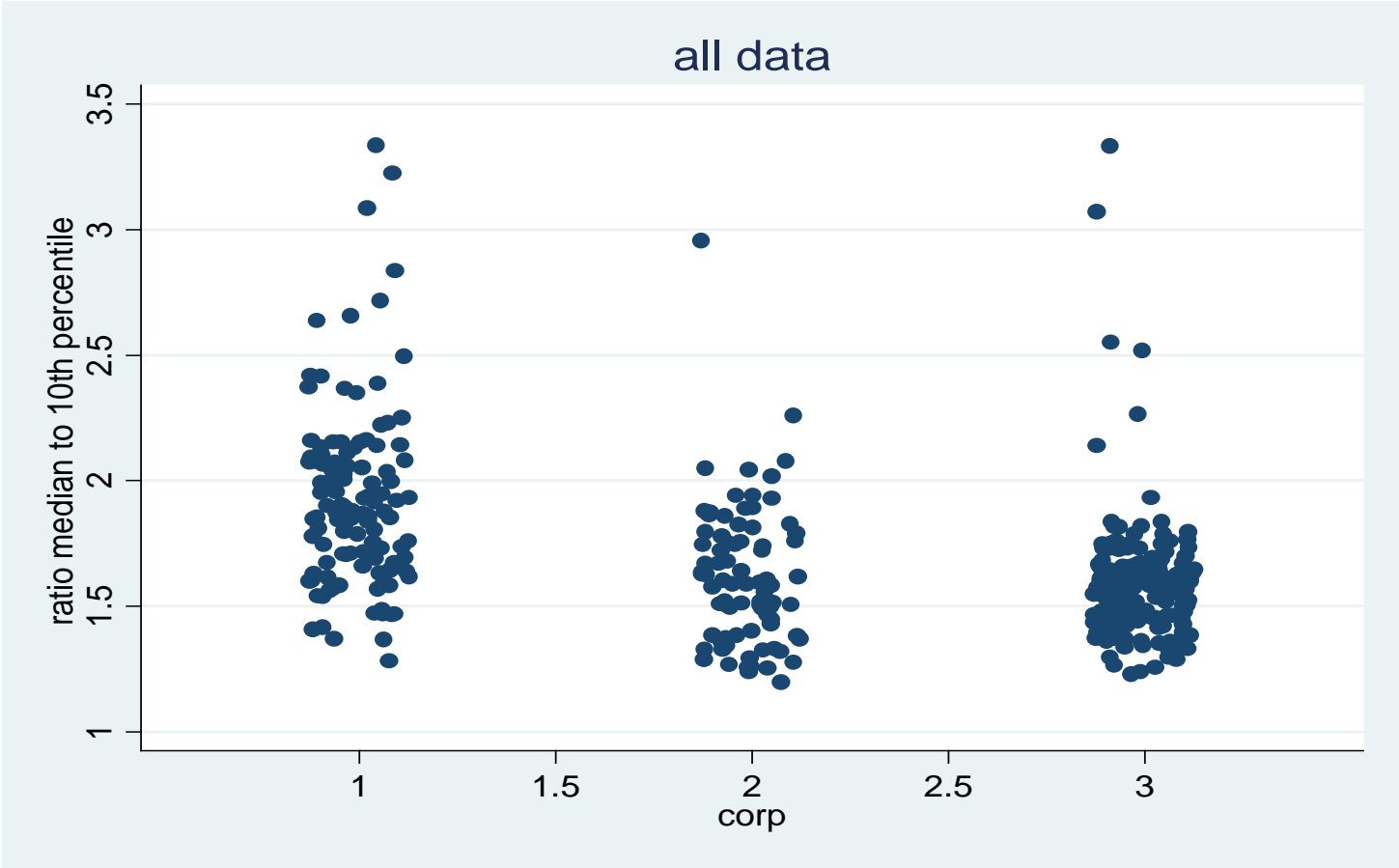
(Bassanini-Duval classification)

Stronger association with wage equality:



(Bassanini-Duval classification)

Stronger association with wage equality:



(Bassanini-Duval classification)

Effects and balances differ across countries
and periods,

depending on

- character of shocks,
- structural features.

When and where is the tool

- more useful?
- more usable?
- used better?

Coordinated collective bargaining:

useful if big common challenges...

- macro policy independent and not credible,
- large macro shocks,
avoid wage spiral.

Role of policy:

- Tripartite approach can ease negotiations, transfers support efficient wage moderation,
- public sector wages can steer equilibria.

Big Common Challenges:

Key to 1970s-80s performance,

Oil shocks...disinflation and fiscal stabilization.

Also along path to EMU:

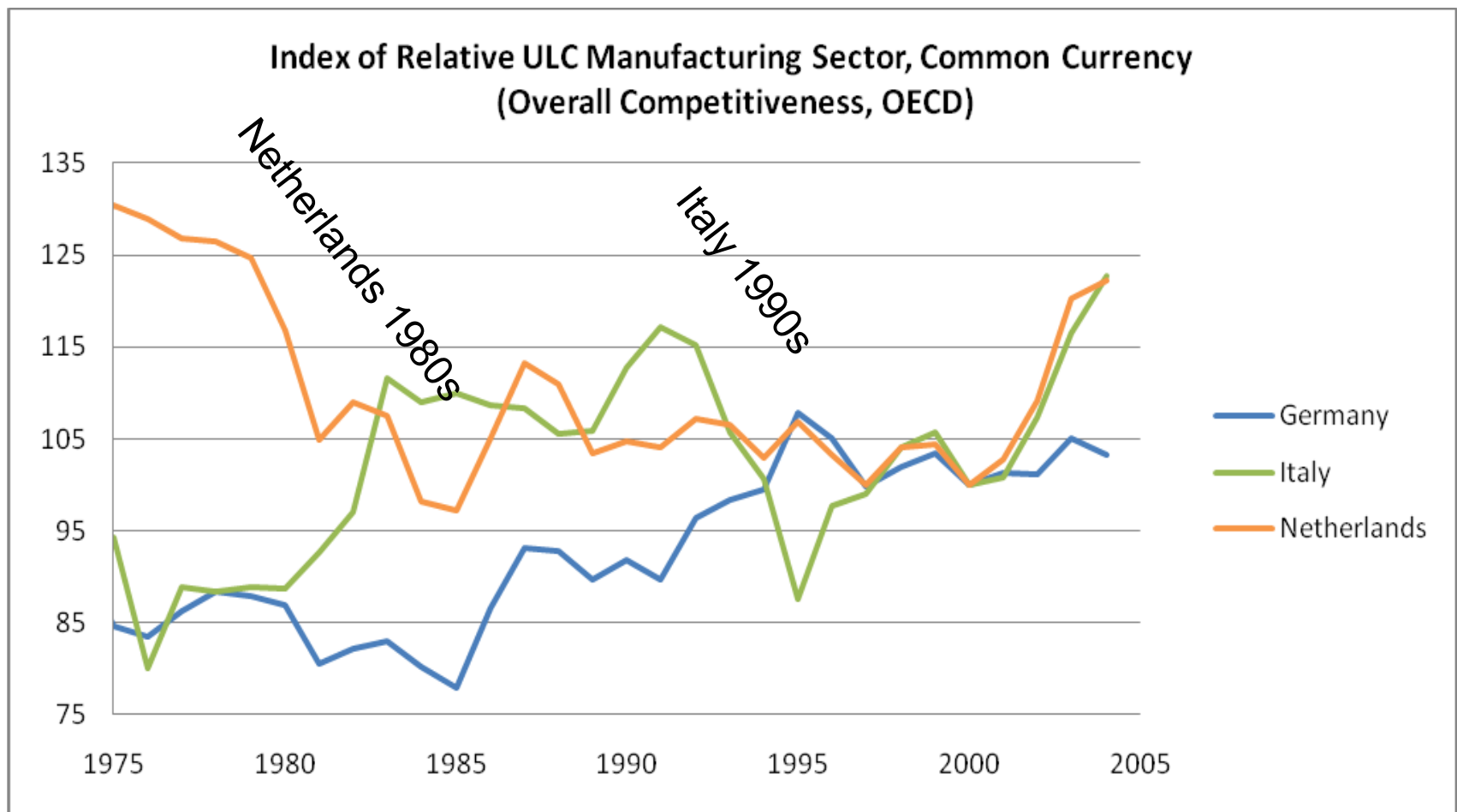
New roles for (still National) corporatism.

Netherlands 1980s (Wassenaar),

Exploit larger employment gains from
competitiveness in D-mark zone

Italy 1990s (TIP),

Gain credibility and macro stability.



Coordination:

- Easier in small homogeneous country.
 - Less in large, heterogeneous.
- More useful (also easier?) in crisis.

What happens once in EMU?

Wage (and employment) rigidity:

stabilize income,

useful when and if financial (and other)
markets malfunction...

...harmful if need to handle diversity:

- restrain wage differentials,
- incentives to move to higher-productivity jobs.

...more important in
stable, integrated economies
great moderation and globalization.

In the euro area:

What is macro and what is micro?

Different countries, regions, sectors.

Does a small country need national unions?

Does a large region? an Europe-wide industry?

No,

If most labor market shocks at region or industry level,

macro policy independence no longer a source of national economic problems...

Integrated economy:

- Markets respond more to costs and shocks.
- Larger employment cost of high wages.

No devaluation/fiscal escape routes:

- Penalty for high wages is less employment,
in sectors exposed to competition.

Competitiveness not automatic: some

- workers sheltered from job loss threat,
- sectors sheltered from international competition:
public and private services, real estate.

Conditions matter for bargaining pros and cons

In EMU:

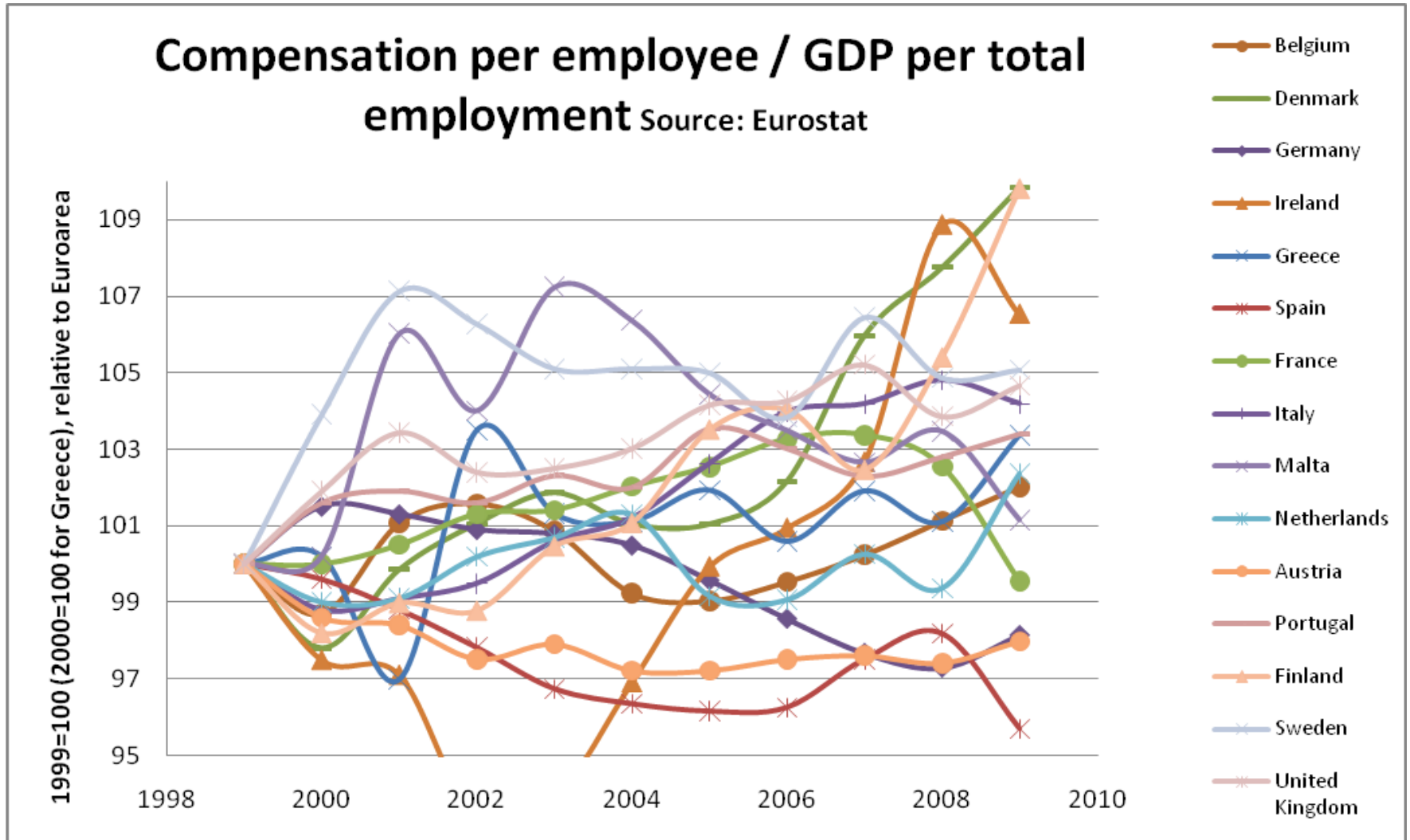
- Coordination still useful for country-specific shocks (nominal wage flexibility substitutes exchange rate)
- Centralization harmful for sectoral/regional shocks (compresses and insulates relative wages)

Different countries, different problems:

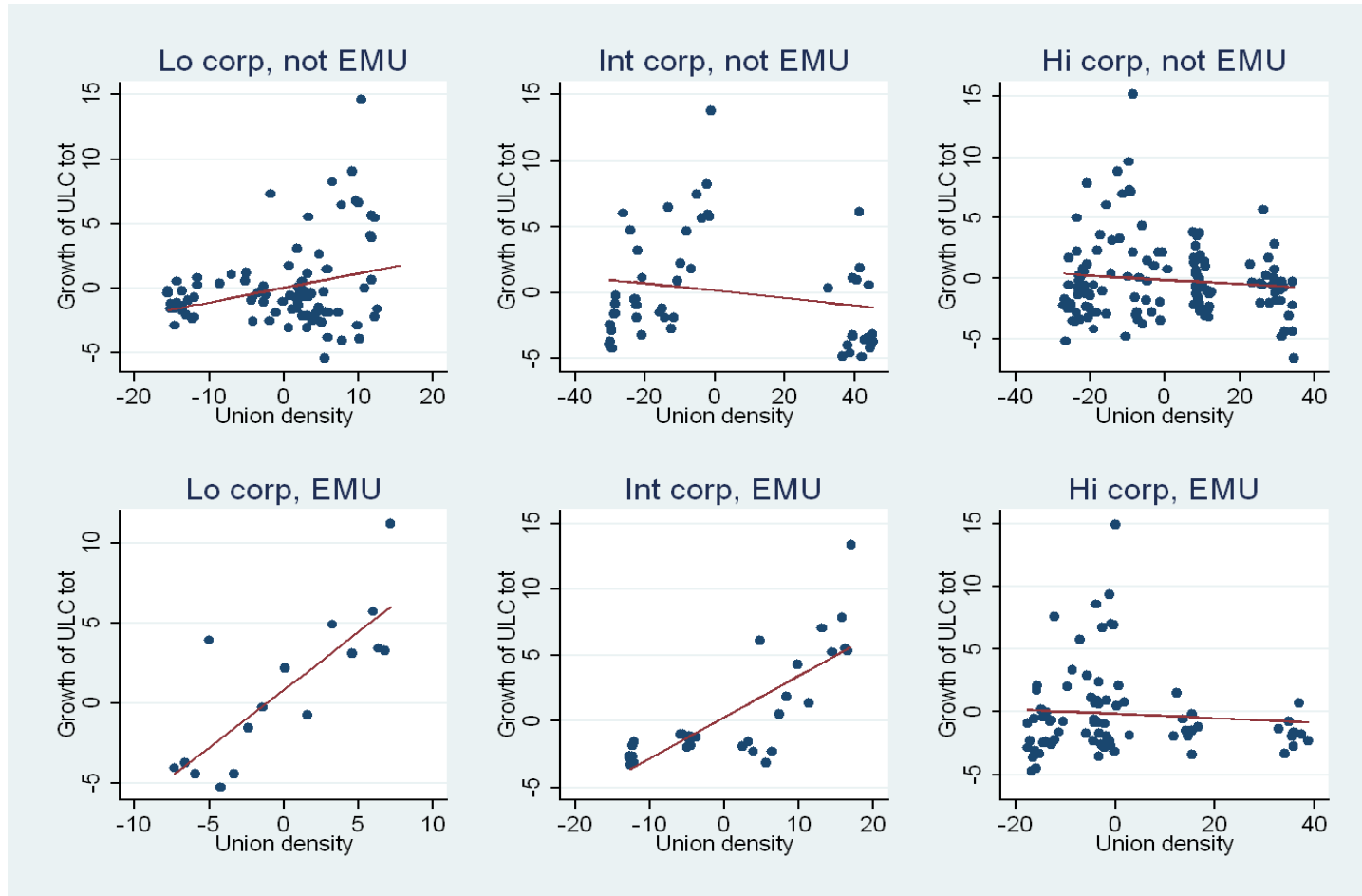
- Small country with independent macro policy: coordination useful and feasible.
- Sectoral and regional shock in integrated country: decentralization useful, feasible?

Structural and institutional change, trends
and fluctuations:

Lots of changes in competitiveness.



Not enough time and data to tell shape and role of wage-setting in and out of EMU



new contracts change the margin of adjustment

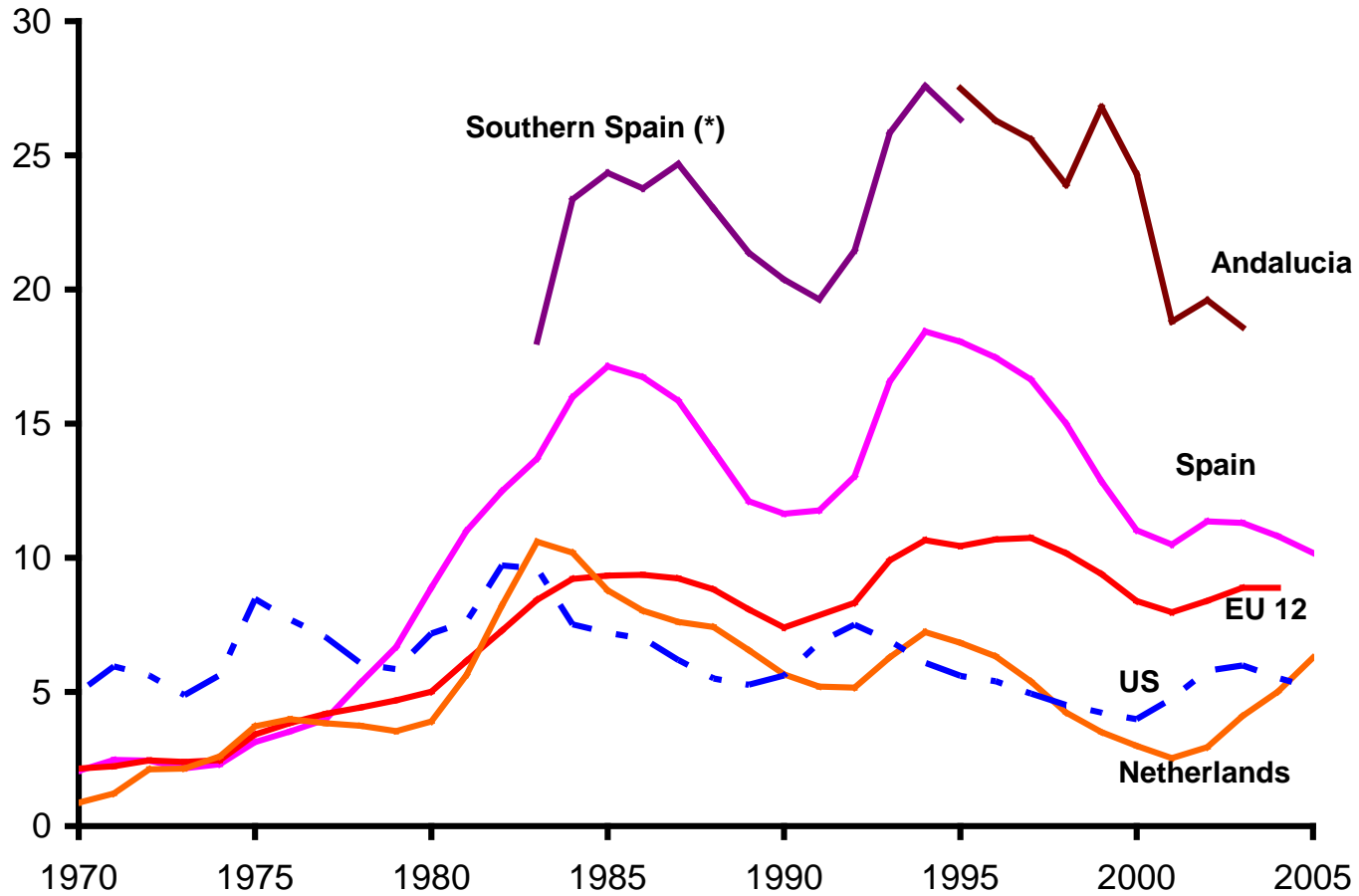
The crisis: big challenge, common?

- What role for collective bargaining if unprecedented, large, unbalanced shock in integrated international economy?

It depends.

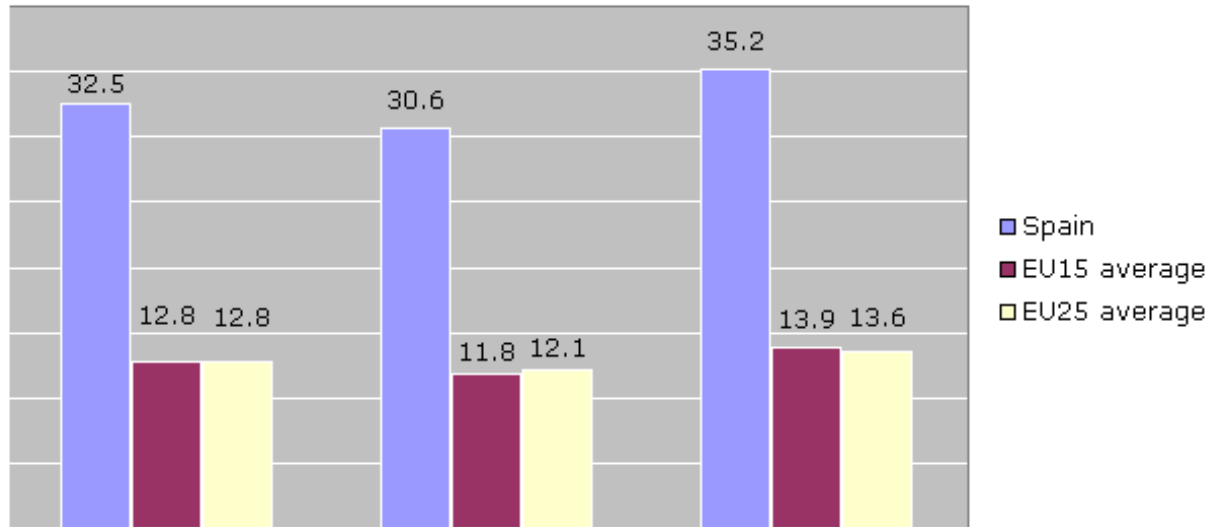
- What about a large (and diverse, and institutionally complex) country faced by
 - Huge shock to overall growth prospects,
 - Sectoral shift into and out of construction,
 - ...

Features of Spain.



Regional diversity.

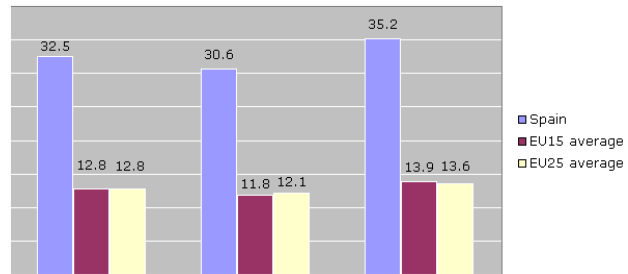
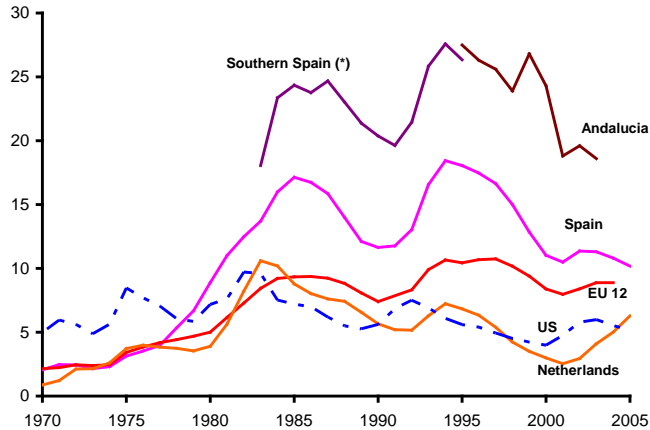
Features of Spain.



The highest temporary employment rates in 2004 can be found in Andalusia (44.5%), Extremadura (41.8%), Murcia (39.6%) and the Canary Islands (39.4%), whereas the lowest rates are in Madrid (22%) and Catalonia (21.3%). All of the Spanish regions have temporary employment rates higher than the EU average.

Institutional complexity.

Features of Spain.



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Dangerous mix if

- Macro rigidity from sheltered segment.
- Poor coordination from regional structure and flexible segment.

Facing crises.

Compare Ireland: failed early 1980s stabilization due to generous unemployment insurance, no wage reductions in the public service, speculative attack (Patrick Honohan discussing Dornbusch, 1989).

Now: 20% wage cut, EMU, Honohan central banker.

Ireland is small...

Greece, too. Perhaps necessary, certainly not sufficient.