

SESSION II: WAGE FORMATION AND COLLECTIVE BARGAINING MODELS

Discussion

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Main objectives

Spain, like any other country, needs a system of wage setting that helps to achieve two broad goals:

- A growth rate of wages compatible with macroeconomic stability and low levels of structural unemployment.
 - ▶ Nominal wage growth in line with inflation target;
 - ▶ Negative relationship between unemployment rate and real wages;
 - ▶ In the long-run equal growth rates of real wages and labor productivity;
- The relative wages need to provide the right incentives for labor mobility and investment in human capital.

Diagnosis

The present system of collective bargaining (CB) performs poorly on both accounts:

- Poor link between productivity and wages at firm level and across sectors;
- Low responsiveness of real wages to changes in labor market conditions;
- Inflation bias and inertia in nominal wages;
- The interaction between wage rigidity and EPL creates excessive labor market volatility;

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Tradeoffs

- Spain needs to put a restraint on the growth of wages to restore competitiveness and to reduce unemployment;
 - ▶ Calls for **centralization or co-ordination** (Calmfors & Driffil)
- Spain needs a profound sectoral reallocation of workers and activity;
 - ▶ Calls for **decentralization of wage setting**

“The devil is in the details”

The OECD indicators provide at best modest guidance for the design of reforms. Centralization at intermediate levels is clearly not optimal.

But the overall impact of reforms depends on complicated interactions with other labor market institutions (notably EPL) and details of wage setting that are poorly captured by aggregate indicators.

- Automatic extension despite low union density
- Difficulty to use opt-out clauses
- Extensive use of indexation clauses
- Silent extension of expired agreements (ultra-actividad)
- Quality of labor relationships or trust (Blanchard & Philippon)

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Risks associated with further centralization

- A further centralization of wage bargaining would go against the international trend to decentralize wage setting (in large countries);
- And without profound reforms to flexibilize the collective agreements the outcome might be worse;
 - ▶ Excessive degree of wage compression (stifles competition, entry);
 - ▶ May delay necessary sectoral reallocation
 - ▶ Incentives for use of simple rules (2 % plus avg. productivity);
 - ▶ Further concentration of bargaining power and erosion of representativeness;
 - ▶ Even poorer link between wages and local conditions;

Potential benefits of decentralization

Decentralization of wage setting to the level of firms (where possible) offers a number of advantages. Besides a much closer link between wages and productivity

- Superior knowledge of the firm and market may lead to richer agreements (training, restructuring);
- Stronger bond between workers and firms;
- Firm-level bargaining facilitates “company employment pacts” during crises;

But decentralization needs to be accompanied by mechanisms to improve **co-ordination** and **reforms of EPL**.

International experience - decentralization

An example of successful decentralization is Germany since the 90's.

- 1 A substantial increase in share of company agreements at expense of regional/branch level;
- 2 Lower hurdles for opt-out clauses (threat of statutory right);
- 3 Company employment pacts in vital industries (automobiles);
- 4 Substantial decrease in unit-labor costs over the same time horizon (causality?);

Limit: important difference in the firm-size distribution.

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Detailed reform proposals

Bentolila and Jimeno (2002) (BJ) offer a blueprint for a reform to decentralize and flexibilize wage setting:

- Reinforcement of conditions for representation (suppress arts. 87.2(c)-(d) of ET)
- More freedom for opt-out clauses so that firm-level agreements may dominate sectoral/regional agreements.
- Suppress automatic extension of contracts (art. 82.3 ET)
- Limit on “silent extension” of expired agreements (ultra-actividad)

A weaker alternative

The reform proposal of BJ would imply a radical overhaul of the process of CB and is likely to meet fierce opposition.

A somewhat weaker alternative:

- Introduce an administrative decision procedure for extension;
- Introduce a statutory right to opt-out by mutual agreement between firm and worker representatives;

Main difference: collective agreement at higher level is the default after extension. In BJ the default are the legal provisions.

International experience - coordination

Spain should consider adopting the Belgian system of wage guidelines.

- Close monitoring of competitiveness over the cycle;
- Periodic wage guidelines;
- Medium-run objectives in terms of effective real exchange rate rather than just real wages;
- Preferably accompanied by revision of indexation clauses;

Recently advocated by OECD (2006), Bruegel Institute (2010).

Already present in BJ's proposals.

International experience - institution building

The Dutch example shows that co-ordination is more efficient within a stable institutional setting for CB.

- Foundation of Labour
- Fixed schedule of meetings with central government

It also leads to continuity in reforms and build-up of trust among social partners. In the long-run beneficial to employment (Blanchard & Philippon, 2006).

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Concluding remarks

- The Spanish system of CB faces important challenges and needs profound reforms;
- The necessary reforms are not feasible without legal reforms;
- And should be part of a comprehensive reform that includes EPL reforms;
- The recent decision to delegate reforms of CB to the social partners (in exchange of a wage pact) repeats earlier mistakes.