Company-level pacts for employment in the global crisis 2008/2009: First Evidence from a representative German establishment level pact data

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Hans-Dieter Gerner
Agenda

1. Introduction
2. Pros and Cons of PECs
3. Employment Effects of PECs
4. Empirical Analyses
5. Conclusions & Research Perspectives
1. Introduction
Within **Pacts for Employment and Competitiveness** (PECs) employees‘ concessions e.g. concerning wage and working time are given for employers‘ employment and investment guarantees e.g.

Reciprocal exchange is strongly emphasized

In contrast, many agreements characterized by concession bargaining in the USA did not involve any substantial return form employers.
Pacts for Employment and Competitiveness (PECs)

bring together the three elements at the heart of EU economic and social policy

- competitiveness
- employment
- social dialogue.
Guideline developed by the Extraordinary Jobs Summit in November 1997

- pacts at local, regional and national level
- continue wage moderation
- agree on flexible working arrangement
- with the aim of making enterprises competitive and
- achieving a balance between flexibility and security.
# Collective Agreements Between the Social Partners and Government at National and Regional Level in the 90s

<table>
<thead>
<tr>
<th>employment &amp; social pacts</th>
<th>employment pacts</th>
<th>social pacts</th>
<th>no employment and social pacts</th>
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<tbody>
<tr>
<td>Belgium*</td>
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<td>Austria</td>
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<td>Greece*</td>
<td>Norway</td>
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<td></td>
<td>Spain</td>
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<td></td>
<td></td>
<td>Luxembourg</td>
<td></td>
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<td></td>
<td></td>
<td>Portugal*</td>
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</tbody>
</table>

Social (employment) pacts (do not) involve the government.

* Also social pacts at the regional level

Source: Zagelmeyer (2000)
Research question

Are PECs successful in the sense
- avoiding employment reduction
- or gaining employment growth?
2. Pros & Cons of PECs
Pros and Cons from Managements‘ Perspective

😊 reduce labour costs
😊 improve flexibility of working time and work practices

😐 strengthening of negotiation position of the unions
😢 concern of impossibility to deliver
Pros and Cons from Employee Representatives’ Perspective

- 🌟 save jobs
- 🌟 help organisations to remain viable
- 😞 entering only symbolic agreements
- 😞 making to far reaching concessions
- 😞 erosion of multi-employer bargaining
Pros and Cons from Governments‘ Perspective

😊 encourage social partners to take greater responsibility for employment issues

😢 concern of demands for more involvement in economic policy

😭 concern of exaggerated expectations to go against the market trend

Main Criticisms in the light of the Eurofound Report 2000 😞

- Employee representatives encourage a form of ‘regime competition’ in which one workforce is set against another.
- Managements’ focus on investment into new technology, products or services is reduced.
- PECs distort labour markets, because they involve a gain for ‘insiders’, but a loss for ‘outsiders’.

3. Employment Effects of PECs
Hypotheses I

- PECs mean wage decentralisation with positive employment effects (Calmfors/Driffill 1988)
- PECs can be interpreted as „efficient bargaining“ with gains for both partners (Solow/McDonald 1981)
- PECs reduce costs

but

- Improvement of economic situation may lead to re-negotiations and higher wages (Fitzenberger/Franz 1999, 2000)
- Concessions may decrease employees‘ motivation
Hypotheses II

- Expected employment effects are small in a worse economic situation (Hübler 2005)
- PECs should consist of consistent bundle of measures
Empirical Studies


4. Empirical Analyses
Method

dependent variable: rate of employment growth

(1) \[ \Delta N = \frac{(N_t - N_{t-1})}{[(N_t + N_{t-1}) \times 0.5]} \]

Difference-in-Differences Estimator

(2) \[ \Delta N_{it} = \delta_{07}t_{07} + \delta_{08}t_{08} + \delta_{09}t_{09} + \delta_{07,C}t_{07}C_i + \delta_{08,C}t_{08}C_i + \delta_{09,C}t_{09}C_i + x_{it} \beta + \varepsilon_{it} \]

with time dummies \( t_{07}, t_{08}, t_{09} \)

crisis indicator \( C \)

separate estimation of eq. (2) for establishments with and without PECs
Data and Descriptives
German IAB Establishment Panel Survey

- since 1993 in West Germany
- since 1997 also in East Germany
- annual survey of almost 16,000 establishments
- face-to-face interviews
- panel response rate over 85 %
- all establishment sizes and sectors covered
- linked with the employment statistics register
The IAB Establishment Panel 1993 - 2009
41a) Is there a pact for employment and competitiveness in the establishment which is concluded between the management and the employees on their representatives? We mean contracts, which consist of reciprocal exchange between both parties.

yes  no

41b) If no: Was such a pact concluded in the past and expired in the meantime?

yes  no
Questions concerning PECs in the IAB Establishment Panel 2006 II

42) The pact was concluded in which year?

46) I read different measures concerning working time. Please indicate which measures are included in the pact of employment and competitiveness of your establishment
   a) Introduction/Extension/Re-Regulation of working time accounts
   b) Reduction of over-time work
   c) Prolongation of working time with wage adjustment
   d) Prolongation of working time without wage adjustment
   e) Reduction of working time
   f) Transformation of full-time into part-time jobs
   g) Introduction/Extension of early retirement
   h) Further measures concerning working time
Proportion of establishments with PECs (in %)

Source: IAB Establishment Panel 2006 and 2009 extrapolated values
PECs and establishment size (in %)

- 5-9 employees: 2.5%
- 10-19 employees: 3.5%
- 20-49 employees: 9.9%
- 50-199 employees: 28.7%
- 200-499 employees: 24.9%
- 500+ employees: 30.4%

# Employment development 2006-2009

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<tr>
<th>time dummies</th>
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<tr>
<td>2007</td>
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<td>2008</td>
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<table>
<thead>
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<td>0.008</td>
</tr>
<tr>
<td>C* 2008</td>
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<tr>
<td>C* 2009</td>
<td>-0.052 ***</td>
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<tr>
<td>firm-level wage agreement</td>
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<td>works council</td>
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<table>
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<td>R²</td>
<td>0.038</td>
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</table>

*** indicates significance at 1% level.

Variables also included are: profit situation, state of technical equipment, % qualified, % part time, % female and dummies for sector affiliation

Own calculations with IAB Establishment Panel 2006-2009
Employment development in crisis and non crisis plants 2006-2009

<table>
<thead>
<tr>
<th></th>
<th>non crisis plants</th>
<th>crisis plants</th>
<th>difference</th>
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<tr>
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*** indicates significance at 1% level

Own calculation with IAB Establishment Panel 2006-2009
Employment development in plants without PECs

<table>
<thead>
<tr>
<th></th>
<th>Nicht-Krisenbetriebe</th>
<th>Krisenbetriebe</th>
<th>Differenz</th>
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<tr>
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<td>-0.070***</td>
<td>-0.057***</td>
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*** indicates significance at 1% level

Own calculation with IAB Establishment Panel 2006-2009
## Employment development in plants with PECs

<table>
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<tr>
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<td>2008/2009</td>
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Differences in the employment developments in plants with and without PECs

<table>
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***/* indicates significance at 1%-/10%-level.

Own calculation with IAB Establishment Panel 2006-2009
5. Conclusions & Research Perspectives
Conclusions

- Especially in larger establishments PECs were concluded.
- Our regressions reveal a significantly positive effect of PECs on employment change in crisis plants.
- These results are different than those obtained by Hübler (2005a, 2005b, 2006) and Bellmann et al. (2008).
## Co-movement of Output and Employment 2008/09

<table>
<thead>
<tr>
<th>Fall in Output</th>
<th>Fall in Employment</th>
<th>&lt; 2%</th>
<th>&gt; 2% and &lt; 4%</th>
<th>&gt; 4%</th>
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<tbody>
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<td>Norway</td>
<td>Poland</td>
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<tr>
<td>&gt; 2% and &lt; 4%</td>
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<td>Switzerland</td>
<td>Canada</td>
<td>France</td>
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<td></td>
<td></td>
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<td>South Korea</td>
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<td>&gt; 4%</td>
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<td></td>
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<td>United States</td>
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</tbody>
</table>

Source: Bell and Blanchflower IZA DP 4455 (2009) from OECD Main Economic Indicator and own calculations.
Research perspectives

- Analyses of the impact of PECs on the economic situation of a company and investments.
- Consideration of a longer panel.
- Investigation of the effect of PECs on hirings and separations for groups of employees using the IAB linked employer-employee data.
Thank you very much for your attention!

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