



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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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 from 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

employment & social pacts	employment pacts	social pacts	no employment and social pacts
Belgium* Finland Greece*	France Netherlands Norway Spain	Denmark* Germany* Ireland* Italy* Luxembourg Portugal*	Austria Sweden United Kingdom

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

Source: European Foundation for the Improvement of Living and Working Conditions (1999): Pacts for Employment and Competitiveness – Concepts and Issues. Dublin.

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’.

Source: European Foundation for the Improvement of Living and Working Conditions(2000): Handling Restructuring Collective Agreement on Employment and Competitiveness, Dublin, 118ff.

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

- Hübler (2005a, 2005b, 2006) and Bellmann et al. (2008) found negative employment effects of PECs using data from the Works Councils Survey 2003 and the IAB Establishment Panel 2004 – 2007 respectively.
- The study of Bellmann/Gerner (2010) reveals insignificant effects of PECs on further training incidence and intensity using the IAB Establishment Panel 2003-2007.

4. Empirical Analyses

Method

dependent variable: rate of employment growth

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

Difference-in-Differences Estimator

$$(2) \quad \Delta N_{it} = \delta_{07}t_{07} + \delta_{08}t_{08} + \delta_{09}t_{09} + \delta_{07,C}t_{07}C_i + \delta_{08,C}t_{08}C_i + \delta_{09,C}t_{09}C_i + x'_{it}\beta + \varepsilon_{it}$$

with time dummies t_{07} , t_{08} , t_{09}

crisis indicator C

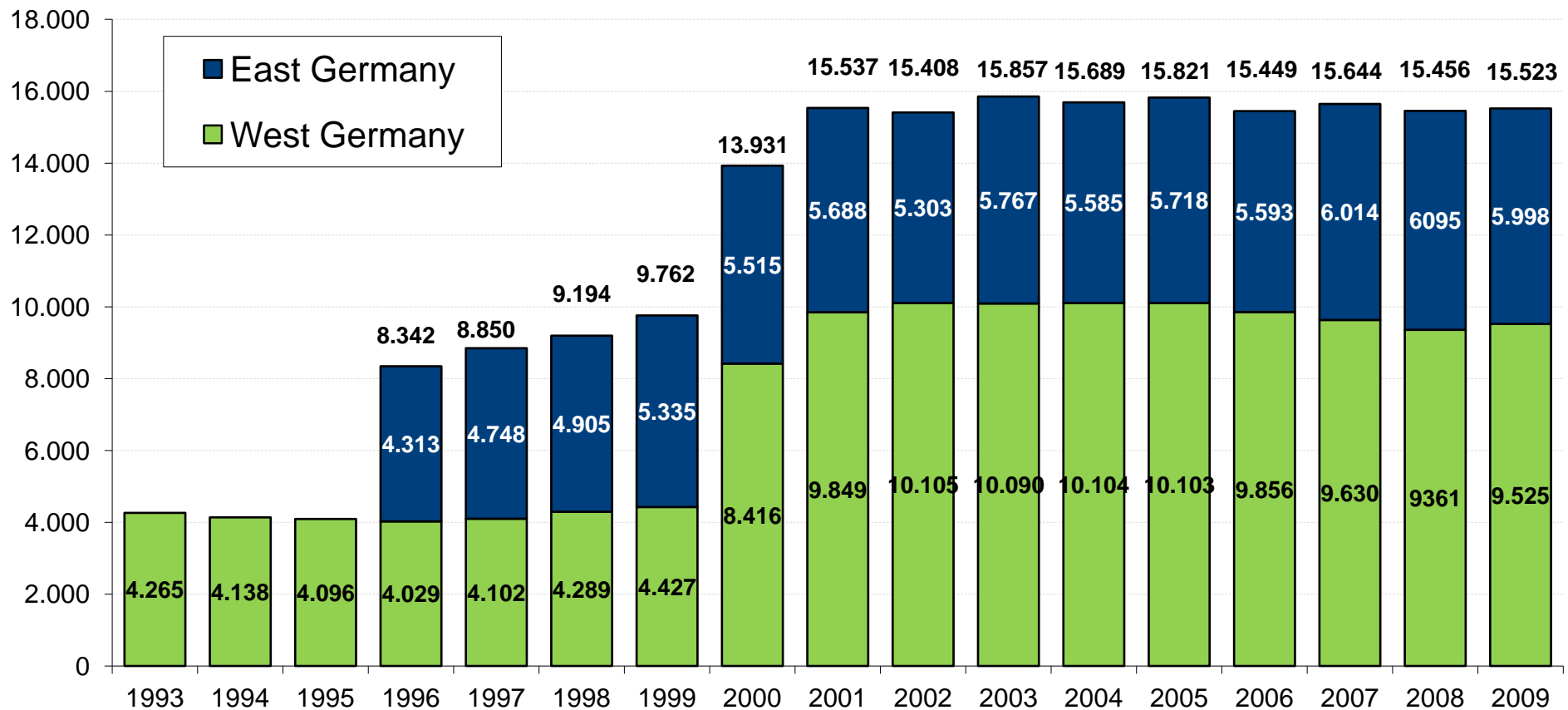
separate estimation of eq. (2) for establishments with and without PECs

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



Questions concerning PECs in the IAB Establishment Panel 2006 I

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?

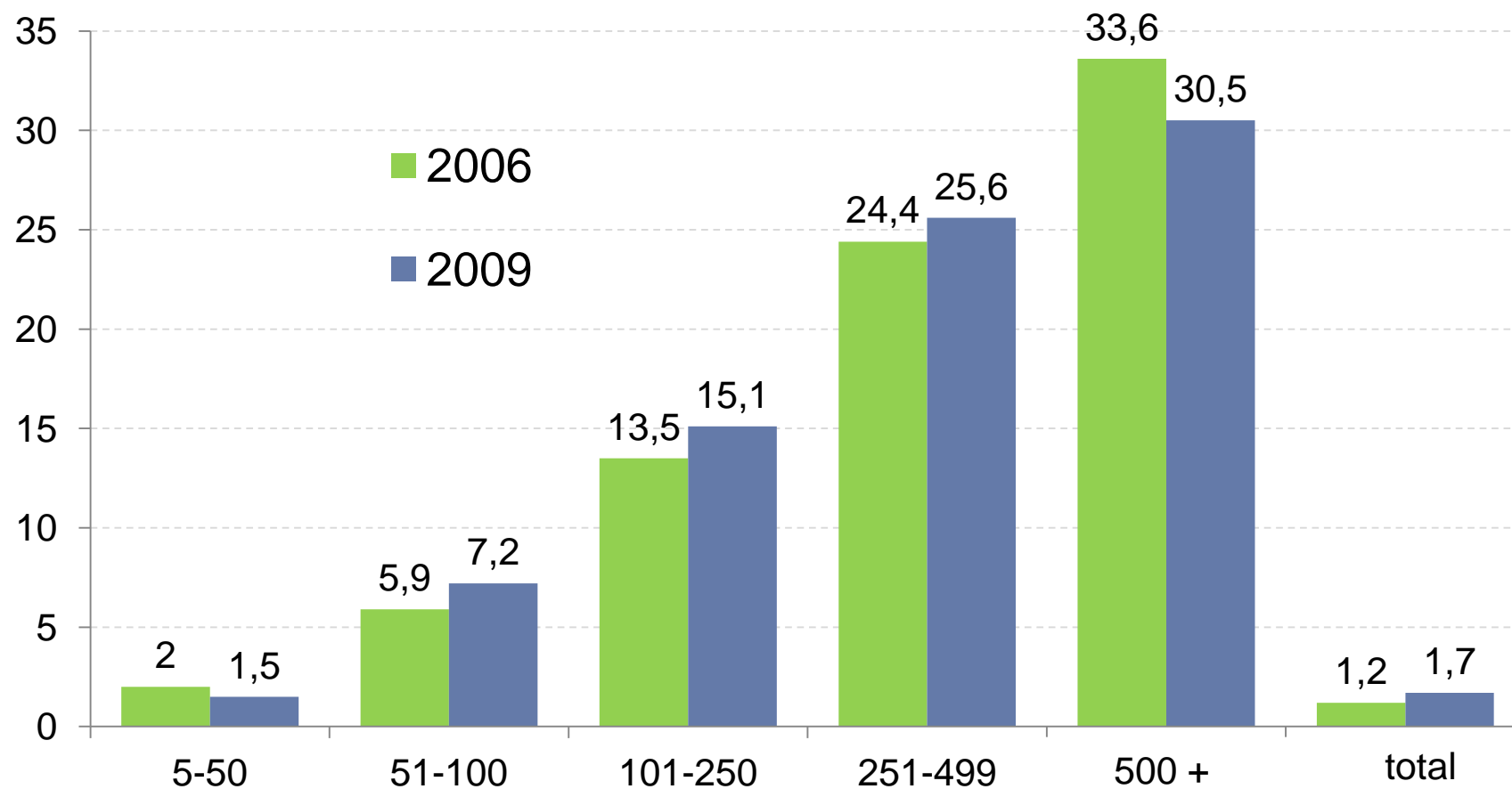
yes

no

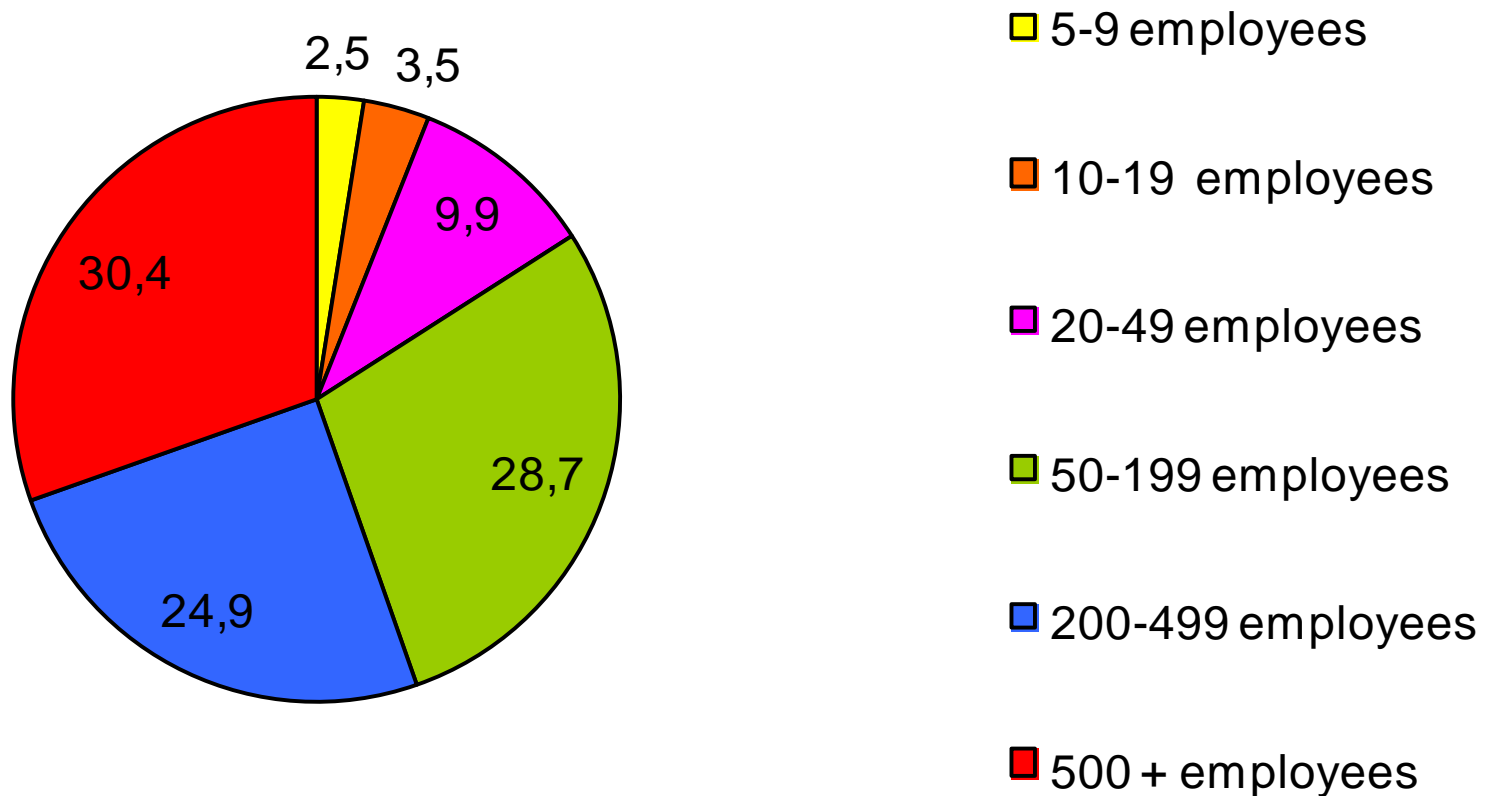
Questions concerning PECs in the IAB Establishment Panel 2006 II

- 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/Extention of early retirement
 - h) Further measures concerning working time

Proportion of establishments with PECs (in %)



PECs and establishment size (in %)



Employment development 2006-2009

time dummies	
2007	0.006
2008	0.002
2009	-0.013
interaction effects	
C* 2007	0.008
C* 2008	0.019 ***
C* 2009	-0.052 ***
sectoral wage agreement	-0.015 ***
firm-level wage agreement	0.001
works council	-0.013 ***
# observations	23 049
R ²	0.038

*** indicates significance at 1% level.

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

Employment development in crisis and non crisis plants 2006-2009

	non crisis plants	crisis plants	difference
2006/2007	0.006	0.013	0.008
2007/2008	-0.002	0.017	0.019***
2008/2009	-0.013	-0.065***	-0.052***

*** indicates significance at 1% level

	Nicht- Krisenbetriebe	Krisenbetriebe	Differenz
2006/2007	0.006	0.014	0.008
2007/2008	-0.004	0.016	0.020***
2008/2009	-0.014	-0.070***	-0.057***

*** indicates significance at 1% level

	non crisis plants	crisis plants	difference
2006/2007	0.025	0.026	0.001
2007/2008	0.037	0.043	0.006
2008/2009	0.000	-0.015	-0.015

Differences in the employment developments in plants with and without PECs

	non crisis plants	crisis plants	difference
2006/2007	0.019	0.012	-0.007
2007/2008	0.041	0.027	-0.014
2008/2009	0.014	0.055*	0.042***

***/* indicates significance at 1%-/10%-level.

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

		Fall in Employment		
		< 2%	> 2% and < 4%	> 4%
Fall in Output	< 2%	Australia Greece Norway Poland		
	> 2% and < 4%	Austria Switzerland Canada France South Korea		Spain
	> 4%	Belgium Czech Republic Denmark Germany Italy	Netherlands Portugal Turkey United Kingdom	Hungary Japan Sweden United States
				Ireland

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.

Institute for Employment
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Thank you very much
for your attention!

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