

# Wage-setting Institutions and Outcomes

2004 OECD Employment Outlook  
Chapter 3

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# Overview of presentation

## □ Wage-setting institutions:

- Updating the OECD indicators of union density and bargaining coverage.
- Updating the OECD indicators of the concentration and coordination of wage bargaining.
- Other dimensions and developments (governability, opt-out clauses, social compacts).

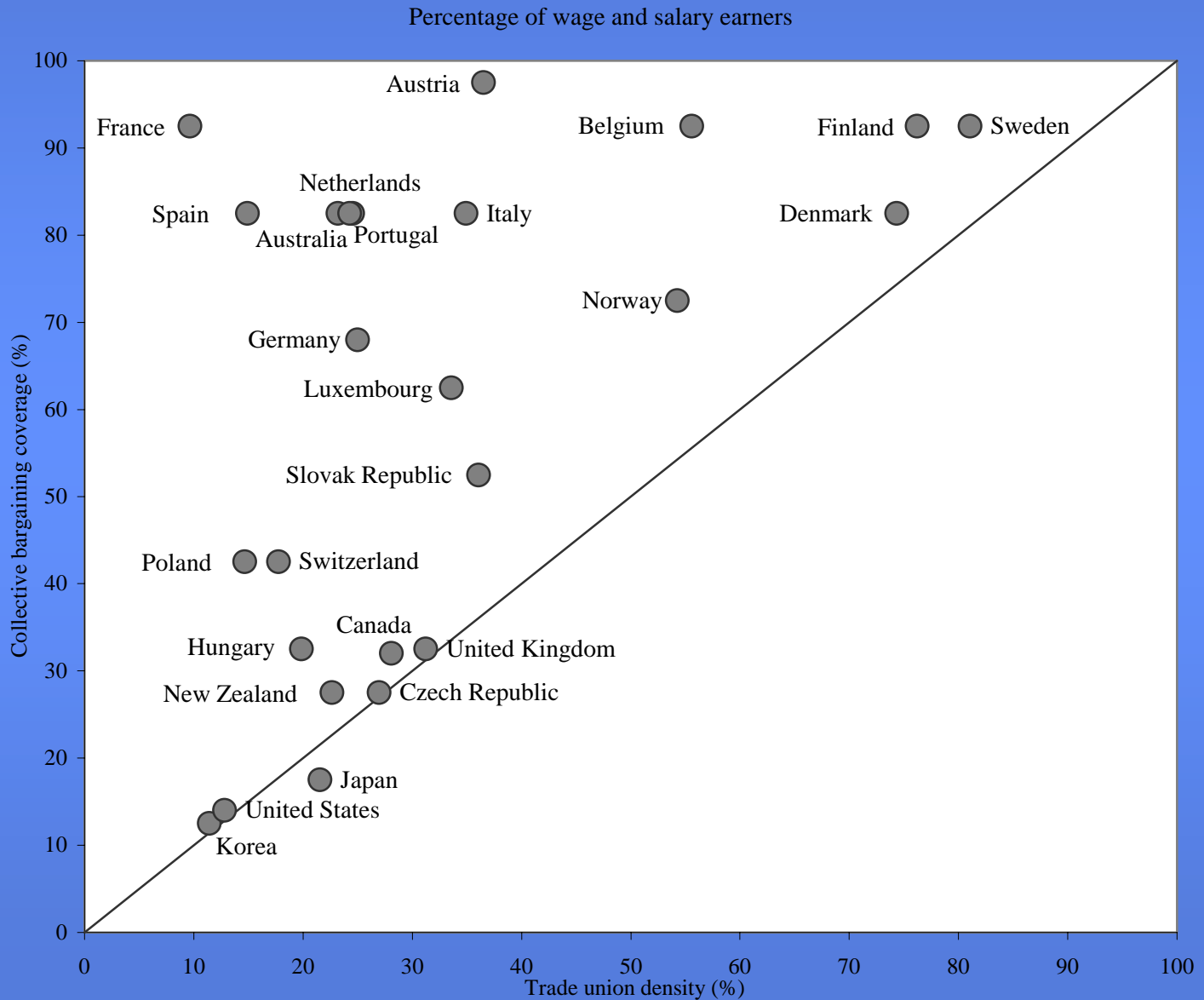
## □ Implications for economic performance:

- Is there a robust link between the CB indicators and labour market performance?
- Broader survey of wage outcomes and their association with employment performance.
- 2006 reassessment of the OECD Jobs Strategy will revisit these issues.

# Trade union density and collective bargaining coverage in OECD countries, 1990-2000

	Trade union density (TUD)				Collective bargaining coverage (CBC)			
	1990		2000		1990		2000	
	%	Ranking	%	Ranking	%	Ranking	%	Ranking
Australia	40	8	25	10	80+	4	80+	5
Austria	47	6	37	5	95+	1	95+	1
Canada	33	11	28	8	38	13	32	14
Denmark	75	2	74	3	70+	8	80+	5
Finland	72	3	76	2	90+	2	90+	2
France	10	19	10	19	90+	2	90+	2
Germany	31	13	25	9	80+	4	68	11
Hungary	63	4	20	14	..	..	30+	12
Ireland	51	5	38	4	..	..	..	
Italy	39	10	35	6	80+	4	80+	5
Japan	25	15	22	13	20+	14	15+	15
Korea	17	16	11	18	20+	14	10+	17
Mexico	43	7	18	15	..	..	..	
Netherlands	25	14	23	12	70+	8	80+	5
Portugal	32	12	24	11	70+	8	80+	5
Spain	11	18	15	16	70+	8	80+	5
Sweden	80	1	79	1	80+	4	90+	2
United Kingdom	39	9	31	7	40+	12	30+	12
United States	15	17	13	17	18	16	14	16
<b>OECD unweighted average</b>	<b>40</b>	<b>-</b>	<b>32</b>	<b>-</b>	<b>66</b>	<b>-</b>	<b>60</b>	<b>-</b>
<b>Coefficient of variation</b>	<b>54</b>	<b>-</b>	<b>68</b>	<b>-</b>	<b>38</b>	<b>-</b>	<b>48</b>	<b>-</b>
<b>OECD weighted average</b>	<b>26</b>	<b>-</b>	<b>20</b>	<b>-</b>	<b>40</b>	<b>-</b>	<b>36</b>	<b>-</b>

# Union density and coverage, 2000



# Wage-setting institutions in OECD countries, 1970-2000

	Centralisation			Co-ordination		
	1970-74	1980-84	1995-2000	1970-74	1980-84	1995-2000
Australia	4	4	2	4	(4.5)	2
Austria	3	3	3	5	(4.5)	4
Belgium	4	3	3	4	(4)	(4.5)
Canada	1	1	1	1	1	1
Denmark	5	3	2	5	3	(4)
Finland	5	(4)	5	5	(4)	5
France	2	2	2	2	2	2
Germany	3	3	3	4	4	4
Hungary	..	..	1	..	..	1
Ireland	4	1	4	4	1	4
Italy	2	(3.5)	2	2	(3.5)	4
Japan	1	1	1	4	4	4
Korea	1	1	1	1	1	1
Netherlands	3	3	3	3	(4.5)	4
New Zealand	3	3	1	4	4	1
Norway	(4.5)	(3.5)	(4.5)	(4.5)	(3.5)	(4.5)
Portugal	5	3	4	5	3	4
Spain	5	4	3	5	4	3
Sweden	5	(4.5)	3	4	(3.5)	3
United Kingdom	2	1	1	(3)	1	1
United States	1	1	1	1	1	1

# Degree of collective bargaining centralisation in the 1970's and 1990's

		Predominant bargaining level in the 90's				
		Relatively centralized		Intermediate	Relatively decentralized	
		(5)	(4)	(3)	(2)	(1)
Predominant bargaining level in the 70's	Relatively centralized	(5) Finland	(4) Norway Portugal Ireland	(3) Sweden Spain Belgium	(2) Denmark	(1) Australia
	Intermediate			Austria Germany Netherlands	Switzerland	New Zealand
	Relatively decentralized				France Italy	United Kingdom Canada Japan Korea United States

# Bargaining governability in OECD countries, 2000

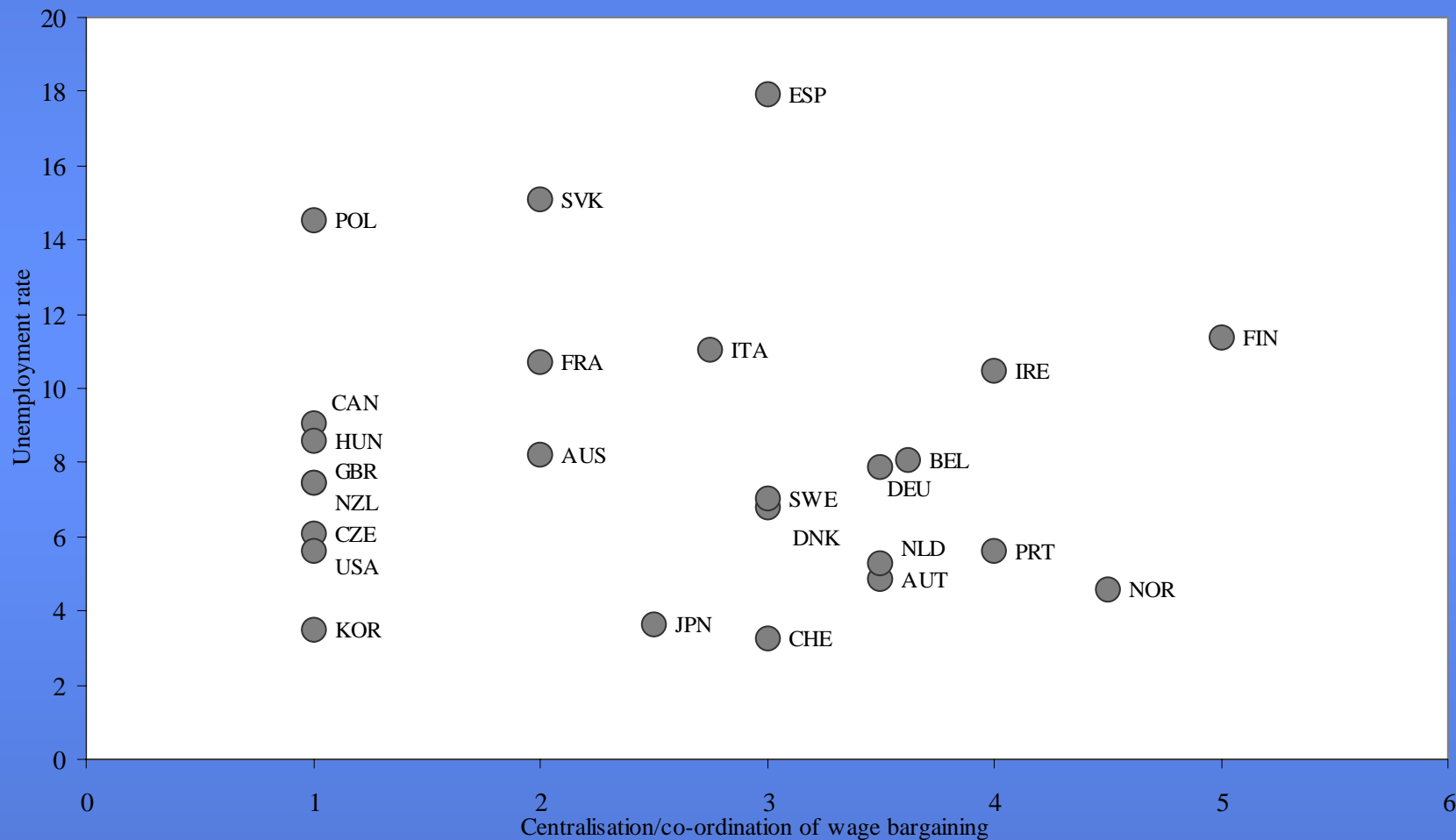


# Wage and nonwage outcomes

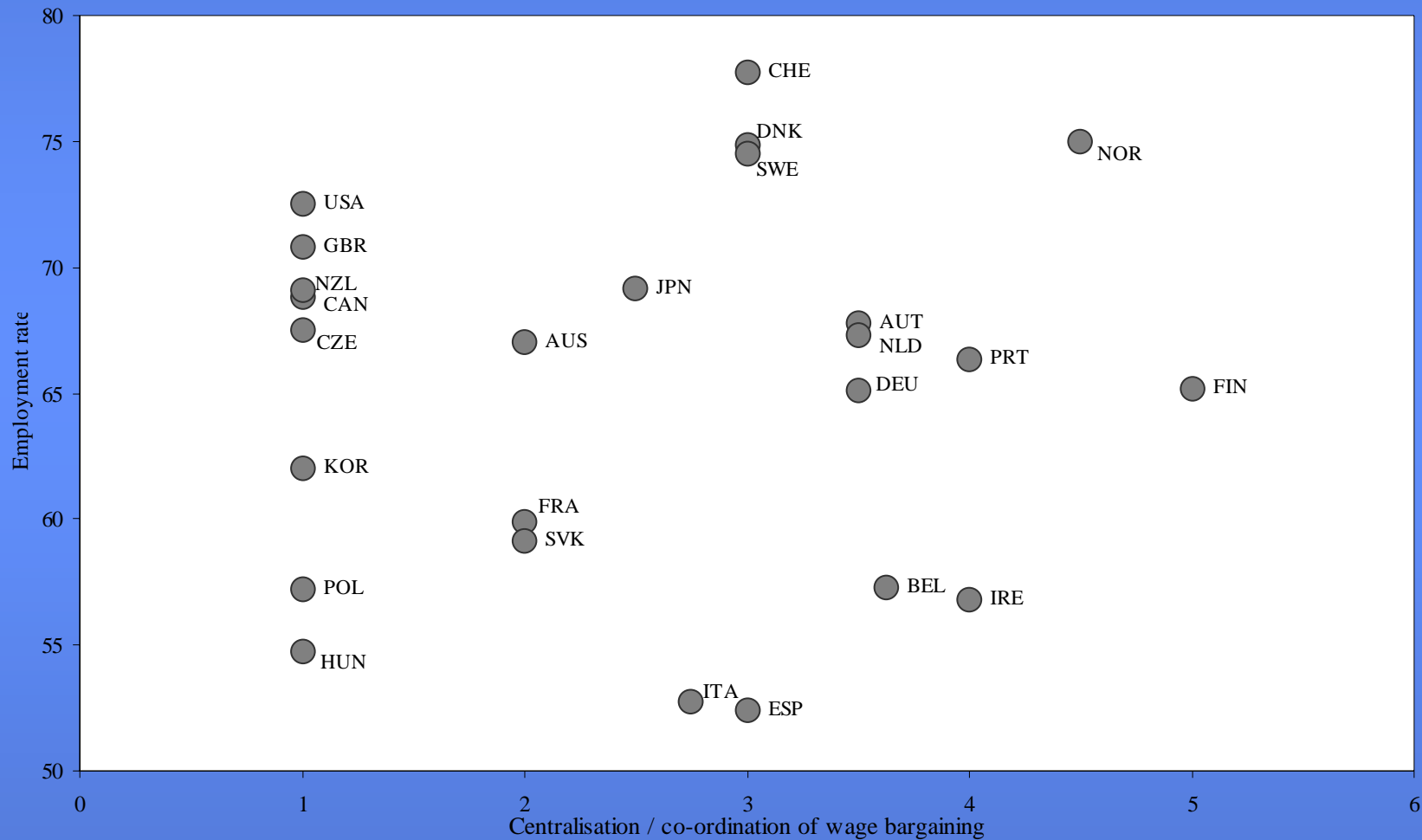
- Wage-setting institutions and outcomes:
  - Bivariate associations between the CB indicators and labour market outcomes
  - Simple regression analysis
- Broader review of wage outcomes and their implications for employment performance:
  - A trend towards aggregate wage restraint?
  - What's happened to wage dispersion?
  - Have differences in how wages developed mattered for employment performance?
- 2006 Jobs Strategy Reassessment will revisit these issues and their implications for policy.



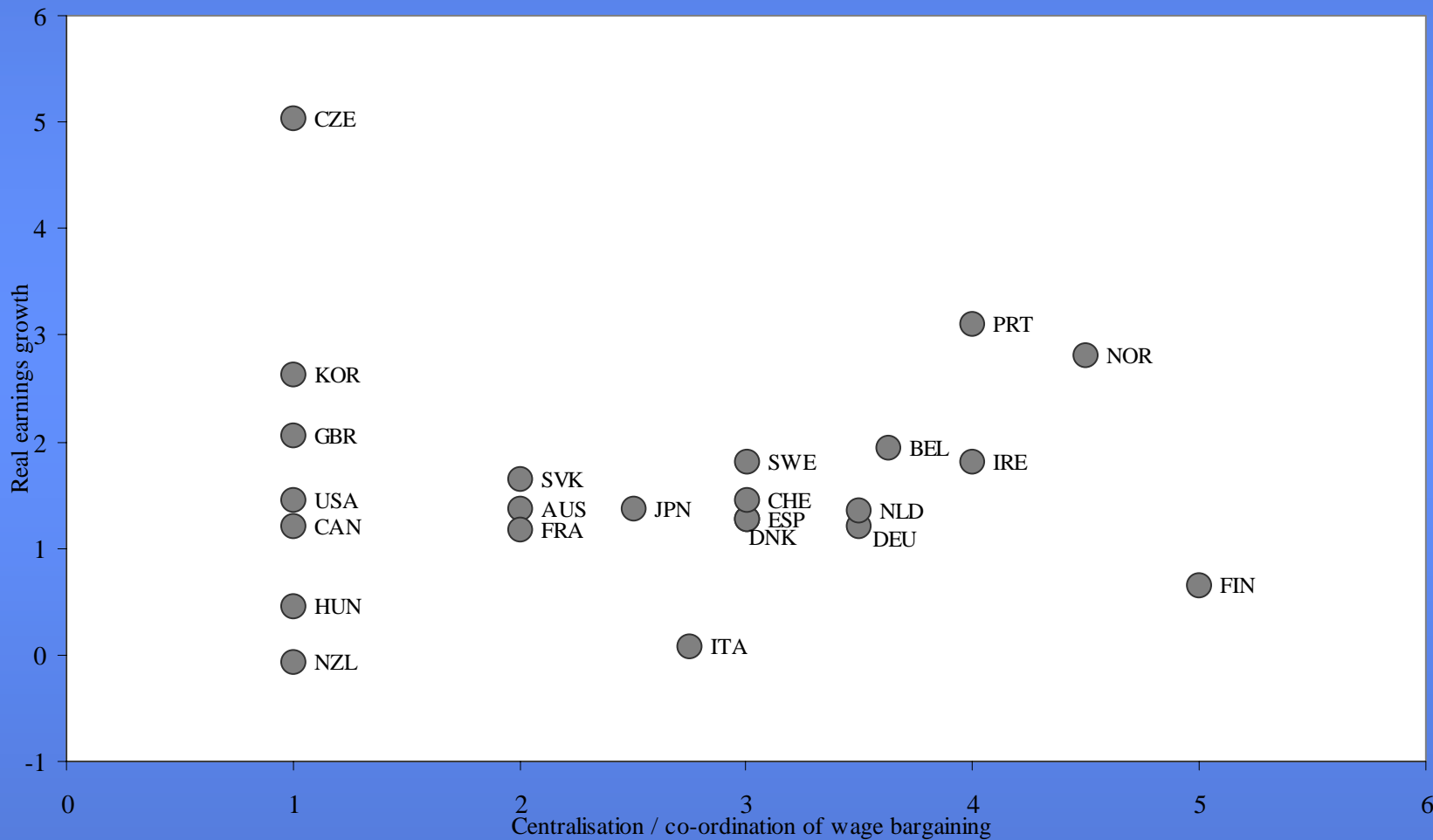
# Centralisation/co-ordination (CC) of wage bargaining has not been a good predictor of unemployment (1990-2002)



...nor of the employment-population ratio...  
(1990-2002)



# ...nor of real wage growth (1990-2002)



# Descriptive regressions relating characteristics of the collective bargaining system to wage outcomes (1970-2000, panel regressions without controls)

	Real hourly earnings growth	Efficiency wage growth	Wage share	Earnings inequality	Relative earnings of youths	Relative earnings of older workers	Relative earnings of women
Trade union density	0.0011 (0.0097)	-0.0099 (0.0091)	-0.0006 (0.0004)	-0.0096 ** (0.0041)	0.0027 *** (0.0004)	-0.0001 (0.0008)	0.0013 * (0.0006)
Centralisation /co-ordination	-0.0376 (0.1619)	-0.0831 (0.1560)	-0.0023 (0.0059)	-0.2040 *** (0.0644)	-0.0058 (0.0067)	0.0228 * (0.0125)	0.0092 (0.0101)
Period dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country dummies	No	No	No	No	No	No	No
Number of observations	112	97	121	70	44	42	46
R-squared	0.37	0.25	0.21	0.40	0.62	0.40	0.43
F-Statistic	8.71 ***	4.20 ***	4.41 ***	5.89 ***	8.49 ***	3.28 ***	4.03 ***

# Descriptive regressions relating characteristics of the collective bargaining system to non-wage outcomes (1970-2000, panel regressions without controls)

	Unemployment rate	Employment rate	Inflation (GDP deflator)	Growth in real GDP per hour worked	Relative employment of youths	Relative employment of older workers	Relative employment of women
Trade union density	-0.0195 (0.0206)	0.1583 *** (0.0412)	0.0527 *** (0.0198)	-0.0046 (0.0073)	0.0019 *** (0.0007)	-0.0001 (0.0008)	0.0042 *** (0.0007)
Centralisation/co-ordination	0.0529 (0.3382)	-0.6771 (0.6767)	-0.9492 *** (0.3231)	-0.0017 (0.1214)	-0.0125 (0.0118)	-0.0073 (0.0125)	-0.0149 (0.0117)
Period dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country dummies	No	No	No	No	No	No	No
Number of observations	105	105	125	114	105	105	105
R-squared	0.20	0.15	0.44	0.14	0.11	0.16	0.48
F-Statistic	3.51	2.46 **	12.89 ***	2.52 **	1.68	2.62 **	12.93 ***

# Collective bargaining and the relative employment of youths, older persons of working age, women and the low skilled

(1985-2000, panel regressions with controls)

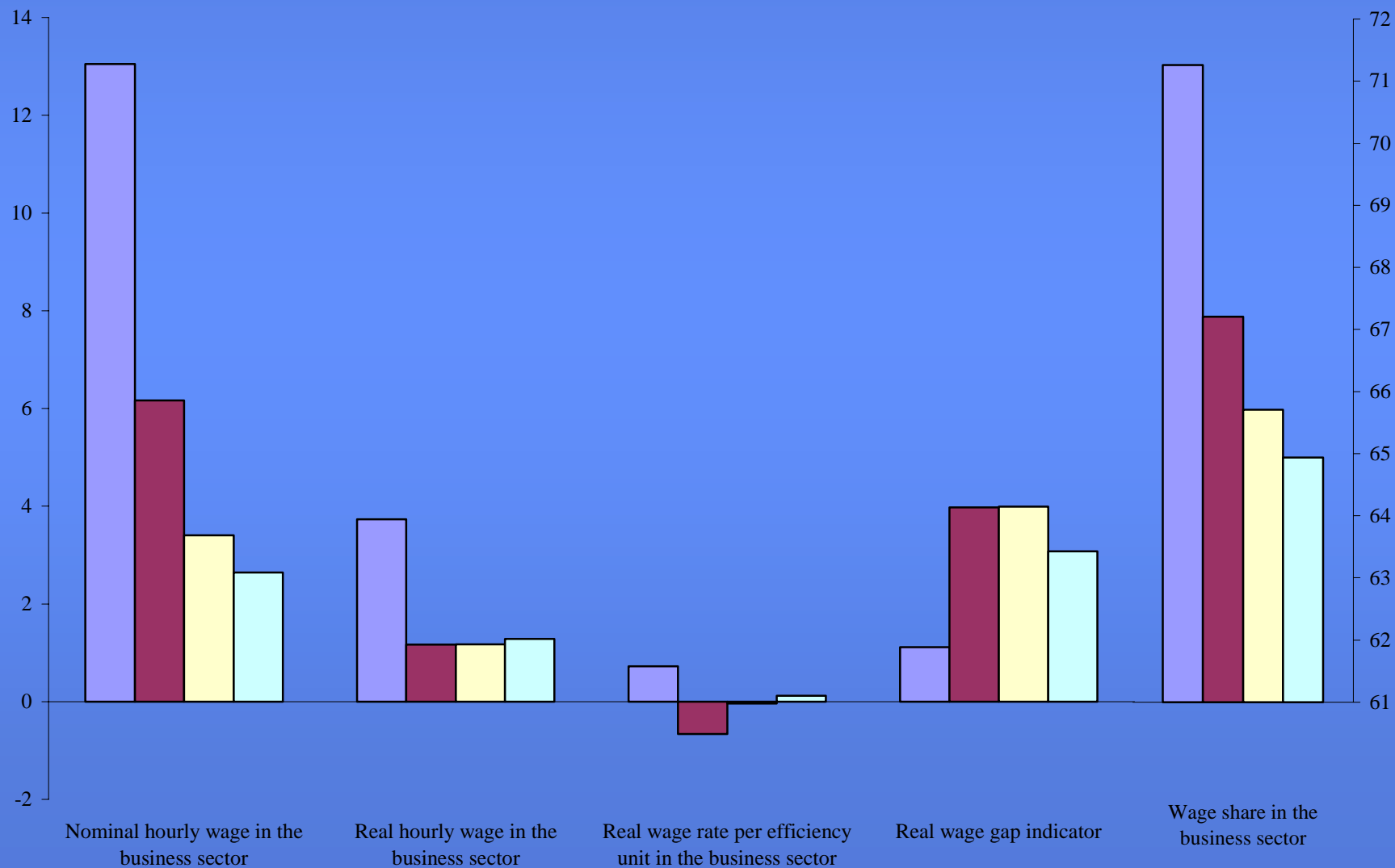
Random effects, GLS

	Relative employment of youths		Relative employment of older workers		Relative employment of women		Relative employment of low-skilled workers	
Union density	0.004 ***	0.001	0.001	0.001	0.004 ***	0.001	0.001	0.001
Bargaining coverage	-0.002 *	0.001	-0.003 ***	0.001	0.002 ***	0.001	0.002 ***	0.001
Centralisation / co-ordination index	-0.063 ***	0.016	0.008	0.011	-0.025 ***	0.008	-0.027	0.017
F-test	99.7 ***		85.8 ***		195.7 ***		65.4 ***	
B-P LM test	683.0 ***		364.8 ***		178.9 ***		532.2 ***	
Hausman test	2652.0 ***		13.3		9.3		25.1 ***	
Simulated effect of a 1-standard deviation increase in the 3 collective bargaining variables	-0.043		-0.055		0.118		0.027	
No. of observations	276		184		135		211	
No. of countries	19		18		15		19	
No. Of control variables	7		7		10		7	

# Recent trends in aggregate earnings suggest considerable wage restraint

Employment-weighted averages for selected OECD countries, 1970-2003

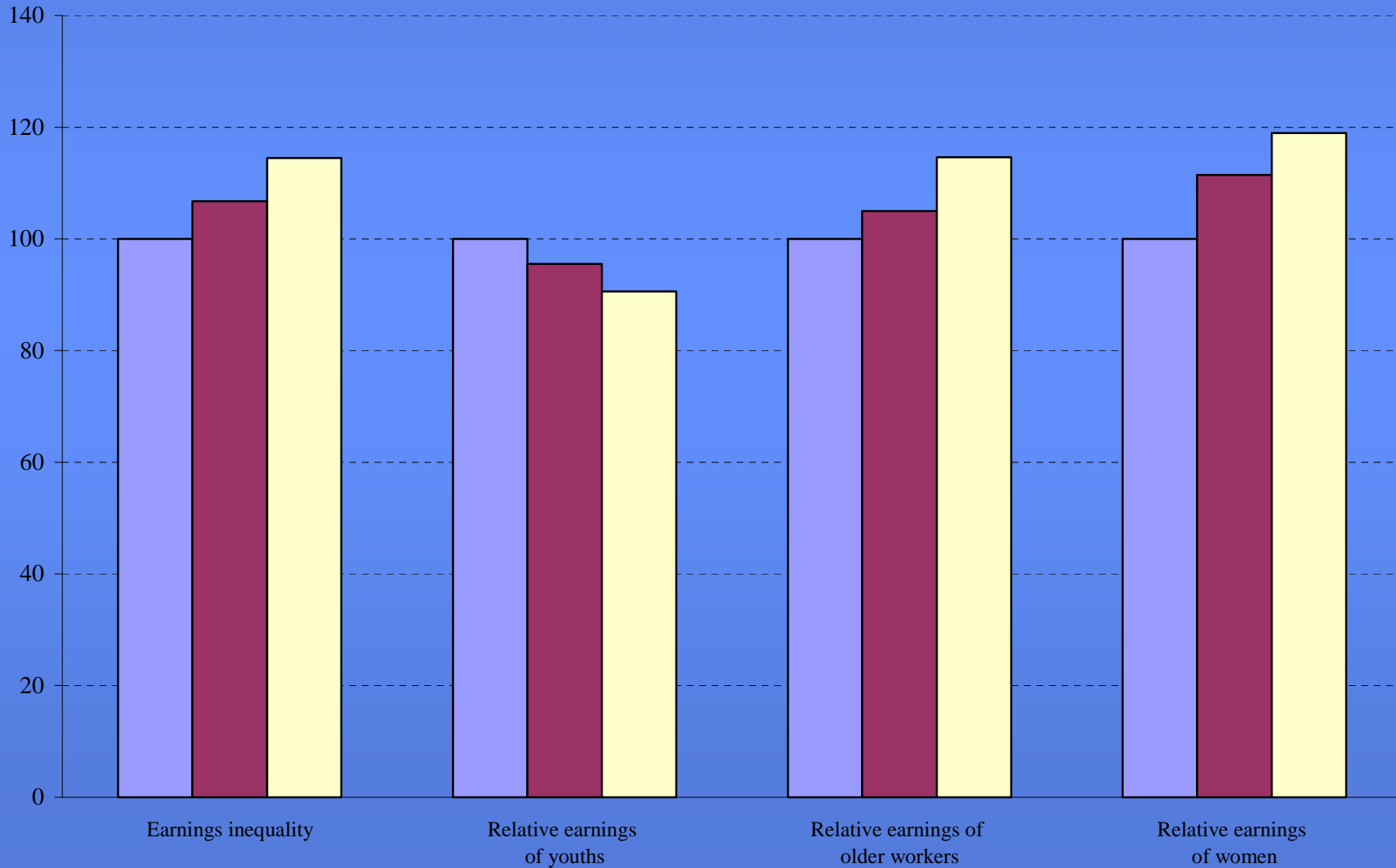
1970-79
  1980-89
  1990-99
  2000-03



# An overall trend toward rising dispersion, but also gains for women

Employment-weighted averages for selected OECD countries, 1970-79=100

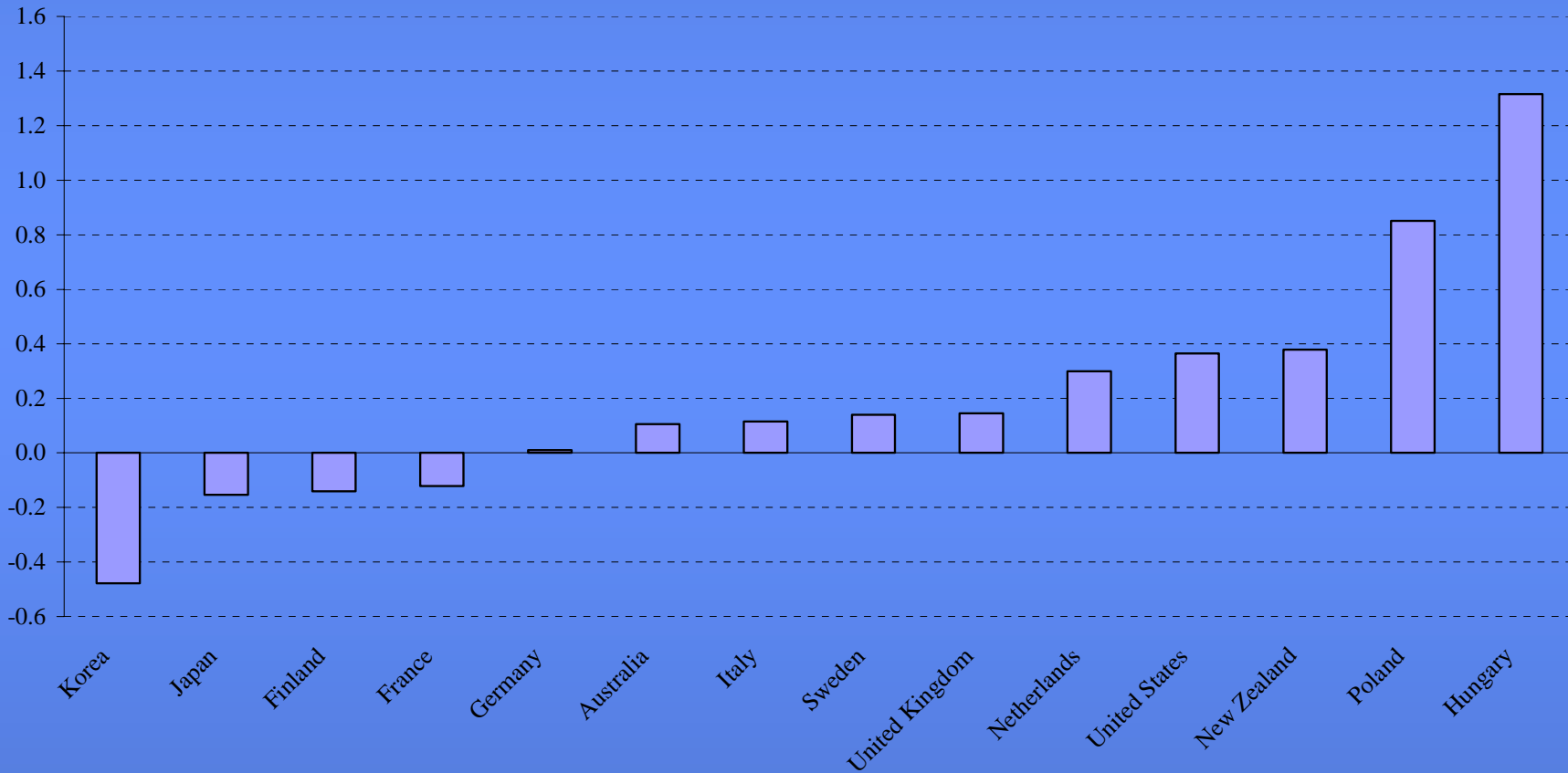
1970-79      1980-89      1990-2001





# 10-year changes in earnings inequality

10-year change, 1985-89 to 1995-99



# Correlations between wage and employment measures suggest possible trade-offs

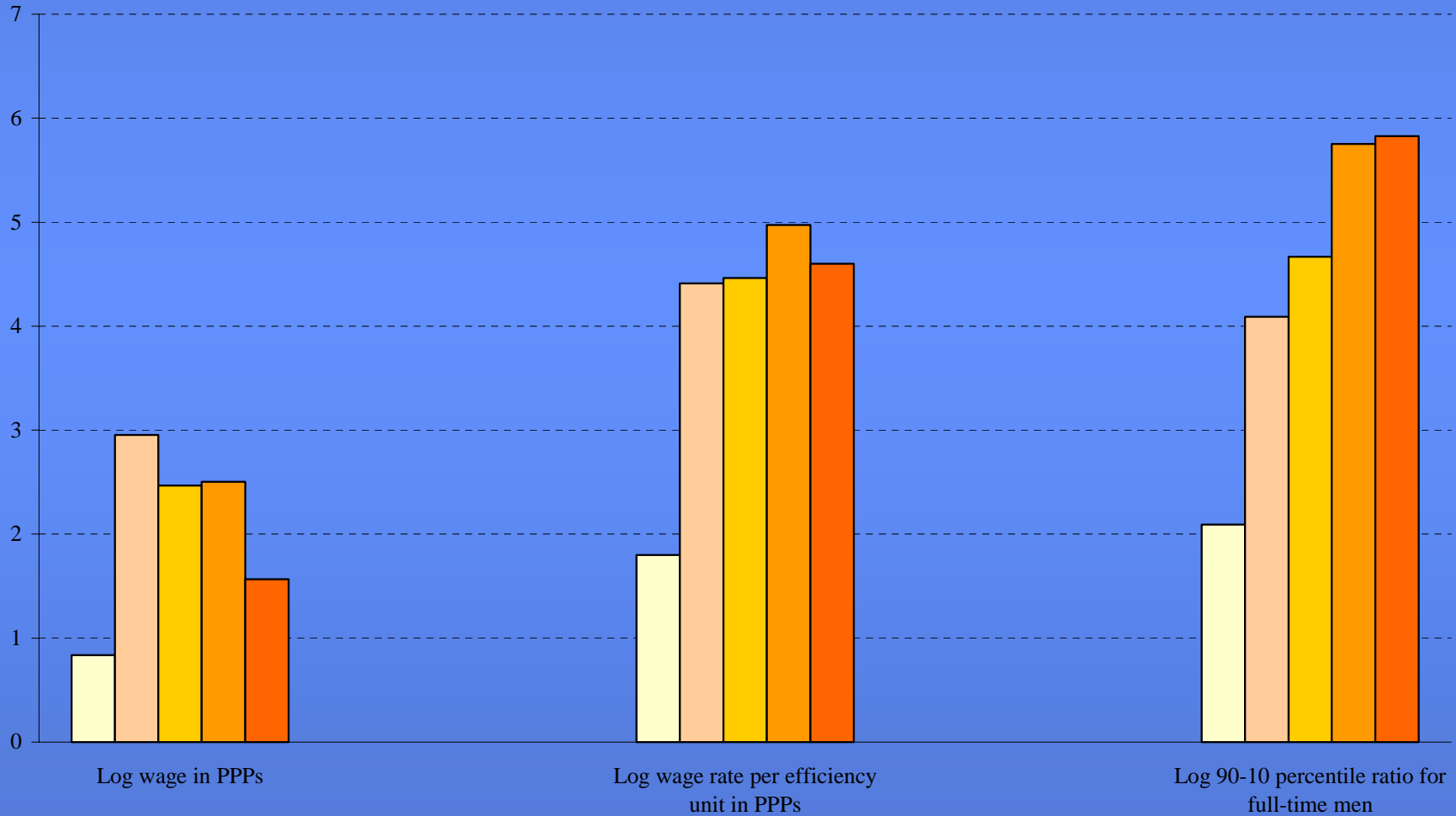
Five-year-averaged data for 1970-2000 in selected OECD countries, after removing period and country effects

	Employment measures				
	Aggregate		Relative employment rates		
Wage measures:	Unemployment	Employment-population ratio	Young men (under 25 years)	Older men (55-64 years)	Prime-age women (25-54 years)
Log real hourly wage in the business sector (PPPs)	0.20 *	-0.42 ***	-0.48 ***	-0.03	-0.23 **
Log efficiency wage in the business sector (PPPs)	0.12	-0.17	-0.12	-0.01	-0.60 ***
Earnings dispersion	-0.44 ***	0.45 ***	0.57 ***	0.44 ***	0.25 *

# Shifts in the apparent "trade-off" between wages and unemployment, 1970-2000

Estimated increase in unemployment at a given wage outcome between 1970-74 and the period indicated

1975-79    1980-84    1985-89    1990-94    1995-2000



# Summary and conclusions

## □ Wage-setting institutions are evolving:

- Union density and bargaining concentration have declined quite strongly, while bargaining coverage and coordination have been more stable.
- Much (rising?) diversity across OECD countries.

## □ Implications for economic performance:

- The impact of bargaining structure on outcomes appears to be contingent on other factors...
- except that strong unions and centralised/coordinated bargaining reduce wage inequality.
- Recent trends towards greater wage restraint and rising wage dispersion...
- yet strong evidence that employment performance benefited is still lacking.