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What a Difference Trade Makes – Export Activity and the Flexibility of Collective Bargaining Agreements

Besides the decline in collective bargaining coverage, the introduction of opening clauses may indicate a decentralisation of wage setting. Increasing competition on international product markets is assumed to be one reason for the decentralisation of wage bargaining. Existing theoretical approaches explaining a decentralisation of wage setting refer to increased firm-level differences in the exposure to international competition. As wages and employment are more volatile in exporting firms and as exporters face lower profits, it is assumed that they are more exposed to international competition than non-exporters. In contrast to non-exporting firms, exporters require greater wage flexibility at firm level.

The reason why some firms export and some do not, may be due to the elasticity of substitution of domestically produced goods for foreign produced ones, which varies mainly among firms of different industries. However, even within the same industry, firms' needs for wage flexibility appear to differ. Assuming that exporters and non-exporters are equally exposed to international competition, new trade theories referring solely to industries producing tradable goods suggest that firms differ from each other in how they adjust to increasing competition depending on their export behaviour as a measure of productivity.

Based on a trade model by Bernard, Eaton, Jensen and Kortum (2003), we are able to explain verbally how a decentralisation of wage bargaining arises due to different labour demand reactions of exporters and non-exporters. When competition becomes tougher, exporting firms will expand into new foreign markets. Sales and profits will increase. As a result, these firms have to take on workers and probably have to increase wages. By contrast, non-exporting firms face tougher import competition resulting in an increased cost pressure. A decline in sales and profits forces non-exporters to reduce employment. Lower wages might prevent them from doing so. The social partners may take into account the greater need for wage flexibility in non-exporting firms by introducing wage-reducing options as opening clauses into the collective bargaining agreement.

As the introduction of opening clauses increases wage flexibility at firm level, we investigate empirically whether exporting or non-exporting firms require greater wage flexibility by examining firm-level determinants of the use of opening clauses. Using establishment-level data provided by the Institute for Employment Research (IAB) on the western German manufacturing sector, we find that the information on whether firms are allowed to use opening clauses is less reliable. Therefore, we add information on the prevalence of opening clauses in bargaining agreements from data from the Institute for Applied Economic Research (IAW).

The results of logit estimations partially confirm the theory on differences between firms in their reaction to tougher competition. We find that exporters supplying EMU countries are less likely to use opening clauses than non-exporting firms are.

However, it seems that there is no difference between non-exporters and firms exporting to the remaining EU countries or beyond. Furthermore, firms with a profit situation evaluated as poor have a higher probability of using opening clauses than prosperous firms. Our results concerning firm size and wage level are ambiguous. Some models suggest that mainly large firms use opening clauses. This effect vanishes partially when controlling for the firm's wage level. Regarding the wage level, results slightly suggest that the propensity to use opening clauses increases along with a firm's average wage level.

Overall, our results slightly support the hypothesis that the reaction to increased competition is crucial for whether a firm uses opening clauses or not. In contrast, we find no support for the theory on firm differences in the exposure to international competition.

Hence, the discussion on greater wage flexibility at firm level should be resumed taking into account that a firm's trade openness also represents its ability to cope with international competition. Negative effects on employment might be prevented if the social partners agree on elements of flexible wage setting being developed to allow for divergent labour market reactions due to increased competition.