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PRESS RELEASE

Rent-sharing under different bargaining regimes: Evidence from linked employer-employee data

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It is often recommended that wage bargaining should be decentralised so that firms can better align their pay policies with their specific needs. However, wage-setting decentralization may also broaden the scope for local rent-sharing. Indeed, if wage bargaining takes place at the firm level, workers (possibly represented by trade unions) may be able to extract a larger part of the rents generated by their companies. This could have important economic consequences, as it may prevent an efficient allocation of labour across firms, increase wage inequality, lead to smaller employment adjustments, and affect the division of surplus between capital and labour.

Surprisingly, there is little evidence regarding the impact of wage bargaining structures on rent-sharing. A growing body of literature examines the microeconomic effects of wage-bargaining institutions on wages and a large number of papers document the existence of rent-sharing. Yet, the link between rent-sharing and wage-bargaining institutions has been almost exclusively analysed for the Anglo-American world through a comparison of unionised and non-unionised sectors. Findings suggest that rent-sharing is not a distinctive feature of unionised sectors. For most European countries, focusing on the union status is not particularly interesting as collective agreements generally tend to be extended to non-unionised members too. The impact of the bargaining regime is therefore better illustrated by the level of wage negotiations (industry vs. firm-level agreements). So far, only one paper has examined how rent-sharing in European countries is influenced by the level of wage bargaining. Drawing on German micro-data for the mining and manufacturing sector, it found that individual wages are positively related to firm-specific quasi-rents in the non-unionised sector and under firm-specific contracts. Industry-level agreements, however, seem to suppress firm-level rent-sharing.

A major issue ignored in this particular study (as in most of the literature on the wage effects of bargaining institutions) was that the degree of wage bargaining centralisation varies strongly across industries. This is an important limitation as the level at which wages are bargained does not have the same meaning in centralised and decentralised industries. The point is that industry agreements set much lower industry-wide standards (i.e. minimum wages by category of workers) and are less detailed in decentralised industries. Therefore, industry agreements are more often improved upon at the firm level in decentralised industries. This may be done through collective bargaining when there is a firm-level collective agreement or through individual bargaining when workers are covered solely by an industry agreement. As a result, the impact of industry- and firm-level agreements on wages is likely to be very different in centralised and decentralised industries. Moreover, since most firms covered by a firm-specific agreement are found in decentralised industries, the literature is not able to distinguish between the effect of the level at which wages are set and the impact of the degree of centralisation in the industry. Our paper is the first to investigate the impact of both of these dimensions of collective bargaining on the sensitivity of wages to firm-specific rents.

More precisely, this paper examines the following questions:

- 1) Is there more rent-sharing in decentralised than in centralised industries?
- 2) Does the presence of a firm-level agreement (in addition to an industry agreement) similarly affect rent-sharing in centralised and decentralised industries?

On the basis of detailed matched employer-employee data for Belgium, with unique information on collective-bargaining institutions, we show that there is substantially more rent-sharing in decentralised than in centralised industries, even when controlling for the endogeneity of profits, worker and firm heterogeneity, and differences in characteristics between bargaining regimes. This finding is not in line with the argument that unions do not operate as rent-seekers in corporatist countries. Indeed, it seems that this depends

heavily on the degree of centralisation of the industry. Moreover, in centralised industries, rent-sharing is only found to concern workers that are covered by a firm-specific agreement. This finding was quite logical since industry-wide agreements do not take firm-specific characteristics into account. Finally, our results indicate that, within decentralised industries, both intra-firm and industry-wide bargaining generate rent-sharing to the same extent. They suggest that workers in decentralised industries, who are not covered by a firm-level collective agreement, receive wage supplements that are paid unilaterally by their employer. The fact that these workers also benefit from rent-sharing indicates that pay-setting does not need to be collective to generate rent-sharing. This is in line with the Anglo-American literature showing that rent-sharing is not a peculiarity of the unionised sector.

Overall, our findings indicate that it may be quite misleading to examine the wage effects of bargaining institutions in Europe by focusing solely on the level at which wages are negotiated (industry- vs. firm-level agreements). Indeed, it is shown that: i) wages are strongly influenced by the degree of centralisation of collective bargaining in the industry and ii) the impact of industry- and firm-level agreements on wages is very different in centralised and decentralised industries.