

The Effects of Institutional Instability in Collective Bargaining

*A Long-Term Analysis of Changing Collective
Bargaining Actors and Structures?*

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Toward a Genuine Economic and Monetary Union

September 10 and 11, 2015

Oesterreichische Nationalbank (OeNB)

Motivating the study

- ***Observation 1: institutional **change of collective bargaining structures** ‘accelerated’ recently***
 - In many European countries collective bargaining structures changed, i.e. were reformed, since 2008
 - One reason for this is that there is some kind of ‘pressure’ to reform
 - European Semester (2010), Euro plus pact (2011), Sixpack (2011), Employment Package (2012)
- ***Possible reason for changes: some ‘economic **imbalances**’ might be ‘related’ to specific national **institutional structures of collective bargaining*****
 - Given that there is **empirical and theoretical evidence** and ‘political debate’ that different **institutional structures** have **different effects**
 - there is reason for informed policy making to **reform towards ‘better performing’ institutional structures**

Motivating the study

- ***Observation 2: impression*** that the (past and recent) ***reform agenda*** in many European countries is ***not inspired by theoretical and empirical evidences*** as well as is ‘*erratic*’ and ‘*inconsistent*’
- In this *paper* we address the question of what the ***pros and cons of institutional change of collective bargaining structures*** are and what the ***effects of institutional stability (or instability)*** are on socio-economic aggregates

Structure and contents

- I. Collective bargaining structures and institutional change**
- II. The effects of institutions and institutional change**
- III. Empirical analysis**
- IV. Conclusions and outlook**

I. Collective bargaining structures and institutional change

National differences and the diversity of wage determination

- The *institutional structures of collective bargaining differ* in the EU member states

- **Overview EU 28, 2014 (Source: Bechter and Brandl for EC 2015)**

Dominant <i>level</i> of collective bargaining	Countries
<i>Central</i>	BE, ES, FI
<i>Intermediate</i>	AT, BG, CY, CZ, DE, DK, FR, IT, LU, PT, RO, SE, SI, SK
<i>Company</i>	EE, EL, HR, HU, LT, LV, MT, PL, UK

Predominant type of <i>coordination</i>	Countries
<i>High degree</i>	AT, BE, ES, FI, SE
<i>Medium</i>	DE, DK, IT, NL, PT, SI, SK,
<i>Low</i>	EL, BG, CY, CZ, EE, FR, HR, HU, IE, LT, LU, LV, MT, PL, RO, UK

Institutional differences and change

- **‘Historical’ reasons for differences in the institutional collective bargaining structures between countries (Crouch, 1993)**
 - ‘Path dependencies’
- **Collective bargaining structures always changed and transformed over time (Brandl and Traxler, 2011)**
 - In some countries **‘smooth’ and/or from within** (e.g. Austria in the early 1980s)
 - In some countries **‘conflictual’ and/or from outside** (e.g. UK in the early 1980s)
 - Examples that (external) *change can be very costly* (strikes, social unrest, economic disruptions, etc.)

The incidence of institutional change: country differences

- *Countries also differ* with respect to the **frequency of institutional changes** of collective bargaining structures over time
 - *In some countries* there are almost **no changes** over time
The **institutional structures** of collective bargaining **are STABLE**
 - *In other countries* there are **many changes** over time
 - The **institutional structures** of collective bargaining **are UNSTABLE**

Country	Number of changes	Since when	Percentage of years with no change	Dominant Level
<i>Austria</i>	1	1965	98 %	4
<i>France</i>	4	1965	91 %	2
<i>Germany</i>	0	1965	100 %	4
<i>Ireland</i>	9	1965	80 %	4
<i>Italy</i>	5	1965	89 %	2
<i>Portugal</i>	13	1978	61 %	3
<i>Slovenia</i>	4	1990	81 %	4
<i>Spain</i>	7	1977	79 %	3
<i>UK</i>	7	1965	85 %	1
<i>USA</i>	2	1965	96 %	1
<i>Japan</i>	2	1965	96 %	4
<i>Switzerland</i>	1	1965	98 %	4

II. The effects of institutions and institutional change

The history of the theoretical and empirical debate on the effects of wage bargaining structures in a nutshell

- **Corporatist perspective:** the more *central* wages are set the better the performance, e.g. Cameron (1984)
- Challenged by '**Hump-shaped**' theory, i.e. Calmfors and Driffill (1988), *decentralized and centralized* lead to better performance
- Challenged by Soskice (1990), Traxler (1995): *coordination* matters
- *Currently: There is a kind of 'official political consensus' that there is **no 'one best'** collective bargaining system*
 - OECD (2004), European Commission (2011), Eurofound (2015)
- **Did the academic and political debate matter** for policy making and institutional change?
 - Did **policy makers take up advices** ... and if so, which advice?
 - Was there an **impact on (informed) policy making**?

The history of (informed) policy making and change in a nutshell (examples)

- **Early 1990s: the time of institution building in CEE countries**
 - Knowledge: Hump-shaped thesis: Very *decentralized and central institutions perform well*
 - Impact/result: *Decentralized employment relations*
- **Late 1990s/early 2000s: the time of EMU and the Euro**
 - Knowledge: *Coordination matters* (compliance and governability of actors), i.e. coordinated institutional arrangements on sectoral level perform best
 - *Sectoral imbalances are widening* (exposed/sheltered sectors)
 - Impact/result: none
- **Since 2008: the New Economic Governance**
 - Knowledge: ?
 - Decentralization and weakening of collective bargaining
 - Impact/result: ?

The impression of past reforms and changes in a nutshell

- There seems to be a *'Zeitgeist'* with *'role models'* which **inspired institutional change**
 - *Americanization*
 - *Denmarkization*
 - *Cyprusianization*
 - *Germanization*
- The *question* is whether it is **a good idea to follow the 'latest trends'** when it is about institutional change(?)
 - Institutions evolved and are embedded in a socio-economic context
- In this paper *we addressed* the question what are the *pros and cons of institutional change and explicitly*
 - *How costly are changes* in the institutional structures of collective bargaining?
Are *stable/instable institutional structures beneficial* for the efficacy of collective bargaining

The costs of change and instability

- **Institutional change** causes '*transaction costs*' (North, 1990)
- The reason for the 'transaction costs' is that *trust is lost* after an institutional change and in order to restore full functioning of collective bargaining *trust needs to build up again*
 - Every institutional change implies a *change of actors* and in the '*rules of the game*' which have to be learned again
- *Long-term wage strategies and commitments need stable institutions* and have a *beneficial effect* on the *efficacy* of (collective) wage determination
 - Actors need to know if commitments can be made and any 'favours' returned

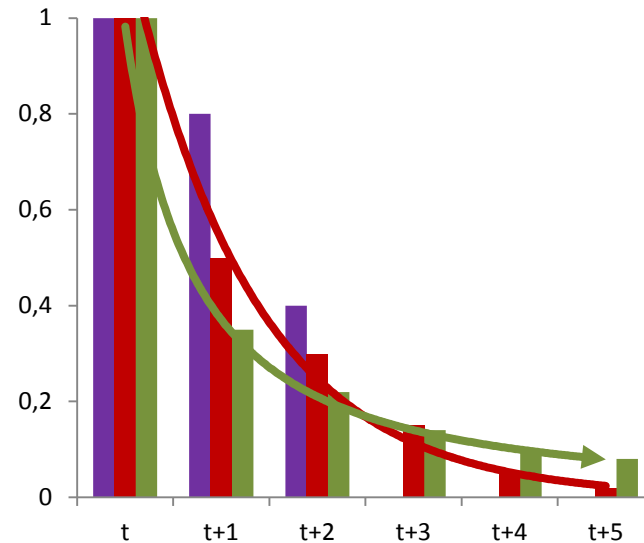
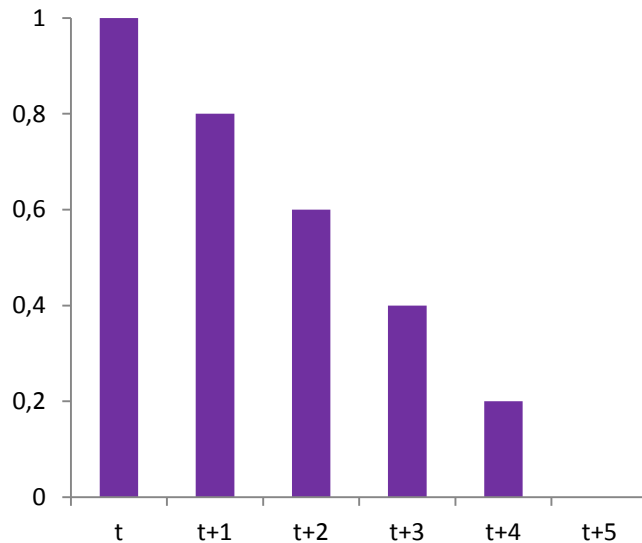
III. Empirical analysis

Empirical analysis: testing the effect of institutional change

- **Effects on dependent variables:**
 - *Unemployment rate*
 - *Inflation*
 - *(Unit labour costs, i.e. competitiveness)*
- **Panel data: 27 countries; 1965 - 2010 (yearly observations)**
- **Two-Stage Least Squares: change in *union authority* (instrument)**
Change in union authority might cause a change in collective bargaining structure but not directly on inflation and unemployment
- **Country fixed effects, panel corrected standard errors, checks for robustness and stability: various lags, endogeneity tests, various alternative specifications, different ‘shadows of the past’, etc.**

Empirical analysis

- **Key independent variable:** *Instability (change from one coordination structure to another)*
 - Two versions:
 - ‘Shadow of the past’ of 4 years
 - ‘Shadow of the past’ of 2 years



Empirical analysis

- **The institutional structure of collective bargaining:**
 - **Two versions**
 - *Linear*
 - *Non-linear* (hump-shape)
- **Further independent variables (‘control variables’):**
 - *Industrial relations:*
Trade union density; Fragmentation (# of actors); Extension mechanisms of collective agreements; Work council
 - *Economic factors* (all lagged by $t-1$):
Inflation or unemployment rate; GDP growth; Openness of the economy (share of imports and exports); Terms of trade; Exchange rate
 - *Others:*
German unification, lags of the dependent variable

Empirical analysis

<i>Dependent variable: Shadow of the past:</i>	Unemployment rate				Inflation			
	4 years		2 years		4 years		2 years	
	Non-linear (hump-shape)	Linear	Non-linear (hump-shape)	Linear	Non-linear (hump-shape)	Linear	Non-linear (hump-shape)	Linear
<i>Collective bargaining relationship:</i>	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Collective bargaining:</i>								
Instability	0.9727** (0.4777)	0.9104** (0.4324)	1.1977** (0.5251)	1.1290** (0.4800)	1.8774** (0.8935)	1.7222** (0.7858)	2.0857* (1.1236)	1.9202* (1.0172)
Coordination structure	-0.0099 (0.0061)	-0.0771* (0.0416)	-0.0129* (0.0066)	-0.0959** (0.0453)	-0.0038 (0.0103)	-0.0478 (0.0691)	-0.0030 (0.0129)	-0.0397 (0.0887)
<i>Industrial relations:</i>								
Union density	-0.0110 (0.0107)	-0.0097 (0.0098)	-0.0087 (0.0089)	-0.0076 (0.0083)	-0.0091 (0.0182)	-0.0061 (0.0162)	0.0158 (0.0166)	0.0180 (0.0155)
Fragmentation	0.0264 (0.0537)	0.0246 (0.0523)	0.0362 (0.0520)	0.0349 (0.0508)	0.0282 (0.0912)	0.0232 (0.0878)	0.1977 (0.1517)	0.1939 (0.1497)
Extension	0.1216 (0.1441)	0.1229 (0.1410)	0.1954 (0.1566)	0.1971 (0.1538)	0.1328 (0.2502)	0.1259 (0.2442)	0.0355 (0.2849)	0.0249 (0.2805)
Work council	-0.0569 (0.1238)	-0.0557 (0.1219)	-0.0755 (0.1213)	-0.0721 (0.1193)	0.8306*** (0.2428)	0.8309*** (0.2384)	0.4634 (0.3445)	0.4661 (0.3407)

Continued

Empirical analysis (specifications continued)

Economic:

Inflation	0.0120 (0.0328)	0.0136 (0.0321)	0.0100 (0.0310)	0.0112 (0.0304)	-	-	-	-
Unemployment rate	-	-	-	-	-0.1073 (0.0815)	-0.1032 (0.0793)	-0.2574* (0.1477)	-0.2532* (0.1465)
Terms of trade	-0.0255*** (0.0085)	-0.0253*** (0.0083)	-0.0267*** (0.0087)	-0.0265*** (0.0085)	-0.0279* (0.0163)	-0.0272* (0.0157)	-0.0323 (0.0201)	-0.0318 (0.0197)
Openness	0.0805 (0.1288)	0.0716 (0.1253)	0.0988 (0.1289)	0.0898 (0.1254)	-0.1937 (0.1980)	-0.2146 (0.1877)	0.1425 (0.2363)	0.1206 (0.2269)
Exchange rate	-0.0091* (0.0050)	-0.0091* (0.0048)	-0.0088* (0.0052)	-0.0088* (0.0051)	0.0130 (0.0134)	0.0129 (0.0131)	0.0125 (0.0150)	0.0123 (0.0147)
Economic growth	-13.8750*** (1.6977)	-13.8490*** (1.6635)	-13.9662*** (1.7133)	-13.9501*** (1.6815)	8.9316*** (3.2979)	9.1681*** (3.1785)	-11.4620* (6.4429)	-11.2260* (6.3781)

Others:

Germany	0.4881** (0.2201)	0.5031** (0.2145)	0.5069** (0.2137)	0.5198** (0.2093)	-0.0571 (0.2518)	-0.0338 (0.2413)	0.0622 (0.2888)	0.0792 (0.2827)
Y_{t-1}	1.2289*** (0.0582)	1.2277*** (0.0575)	1.2058*** (0.0580)	1.2046*** (0.0574)	0.3591*** (0.0636)	0.3636*** (0.0626)	0.2716* (0.1572)	0.2751* (0.1562)
Y_{t-2}	-0.4861*** (0.0896)	-0.4834*** (0.0883)	-0.4600*** (0.0899)	-0.4576*** (0.0887)	-	-	-	-
Y_{t-3}	0.1312** (0.0521)	0.1287** (0.0509)	0.1283** (0.0526)	0.1262** (0.0516)	-	-	-	-
Constant	1.2536*** (0.3018)	1.3578*** (0.3120)	1.1779*** (0.2849)	1.3085*** (0.2959)	-0.3427 (0.5277)	-0.2845 (0.5375)	-0.2029 (0.6684)	-0.1456 (0.6912)

$N \times T$	979	979	1005	1005	984	984	1013	1013
R-squared	0.9417	0.9440	0.9395	0.9390	0.3745	0.4121	0.3067	0.3264
Adj. R-squared	0.9387	0.9412	0.9366	0.9710	0.3445	0.3839	0.2744	0.2951

Empirical analysis

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The results in a nutshell

- **Key results hold for**
 - both **inflation and unemployment and**
 - **all operationalization of the change/stability variable** (shadow of the past)
 - The two **‘functional’ relationships** of the impact of the structure (i.e. linear, non-linear)
- **A number of independent variables (‘control variables’) matter**
 - *Industrial relations variables, economic factors, etc.*
- **Many ‘institutional’ variables (of the ‘system’) are not significant**
 - *Perhaps TOO MANY controls + Fixed Effects.*
- **MOST IMPORTANTLY: in all versions there is a significant (negative) effect of the institutional change variable!**
 - *At least in the next 4 years of the change*

IV. Conclusions and outlook

Conclusions and outlook

- **What do we know about the effects of collective bargaining and institutional change?**

“[...] *There are things we know that we know.*

There are *differences in the performance of different institutional structures* and there are *various* institutional structures which **can perform well**, but we also know that *change is costly* and *instable institutions impair the efficacy of wage determination*

There are known unknowns.

Which system is ‘best suitable’ for which country

That is to say there are things that we now know we don't know.

Reform towards decentral collective bargaining *always* increases ‘performance’ (i.e. ‘America’ should be the reference)

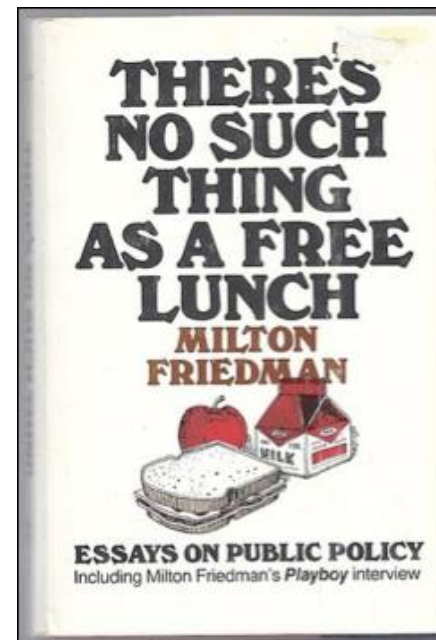
But there are also unknown unknowns. There are things we do not know we don't know. [...]”

What to do?

There is the urgent *need for change* (in some countries and/or sectors)



There is (strong) evidence that any *change is 'costly'*



Why is this research interesting/relevant?

- *It shows that **negative effects have to be taken in account** and any reform might have to overcompensate (any?) positive effects*
- *It clearly shows that policy makers should be very careful with their reforms and they should **not reform repeatedly!***
- *It also shows that the **timing of the reforms** should be taken in consideration!*
 - *Even though the institutional reform might be beneficial in the long run it might counterproductive*
 - *In particular in times of economic crisis: A reform might make things even worse!*

Thank you for your attention!