

# Wage Setting Beyond Unions

Simon Jäger (MIT)

September 30, 2020

Talk based on joint work with Benjamin Schoefer, Jarkko Harju, Jörg Heining, Josef Zweimüller, Martina Uccioli, and Samuel Young.

# Worker Representation Institutions Across The World I/II

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Ex.: United States or Canada

- Owners (e.g., shareholders) control firms
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# VW's Failed Attempt To Create Works Council in Chattanooga Plant

ECONOMY & BUSINESS

## No Workplace Cooperation Allowed

By THOMAS M. JOHNSON JR. | December 10, 2015 9:00 AM



Volkswagen assembly line in Chattanooga, Tenn., 2011. (Mark Elias/Getty)

When Volkswagen tried to give workers a voice in the management of its Tennessee plant, the government said: Not without a union.

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    - Shop-floor level (works councils)
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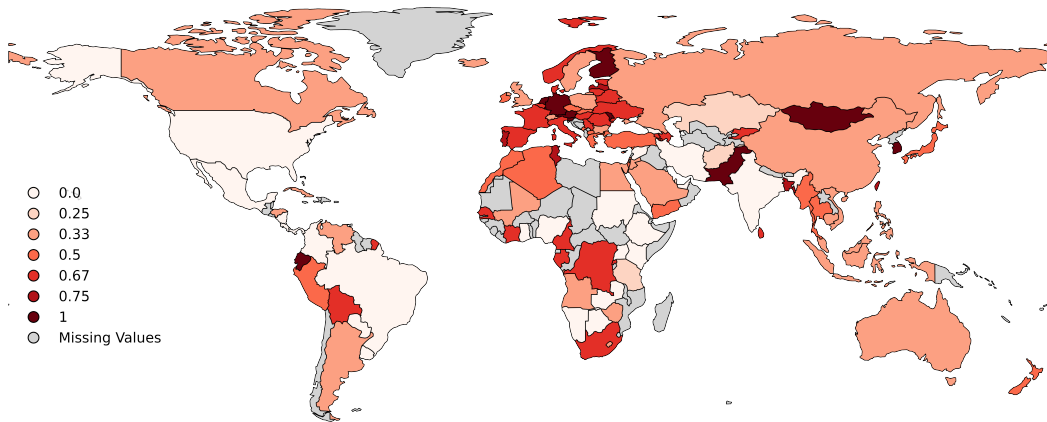
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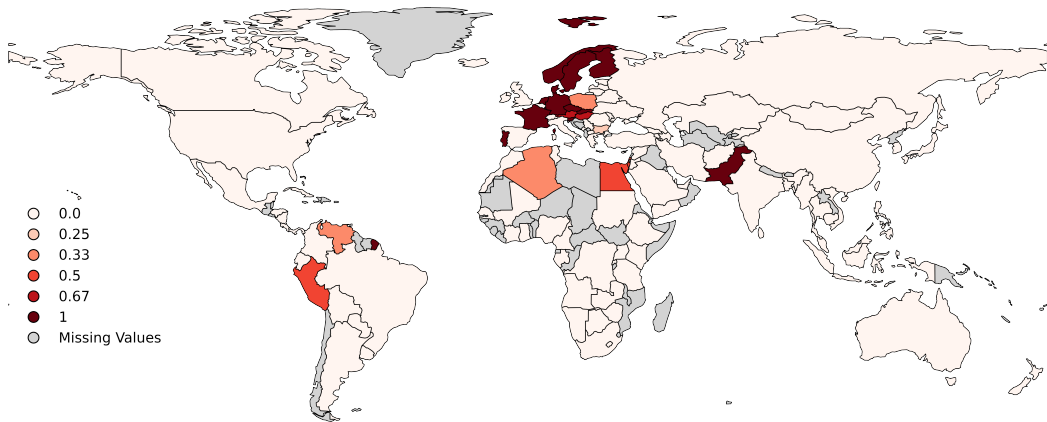
⇒ Today: wage effects of alternative models of worker representations

# Shop-Floor Codetermination Through Works Councils



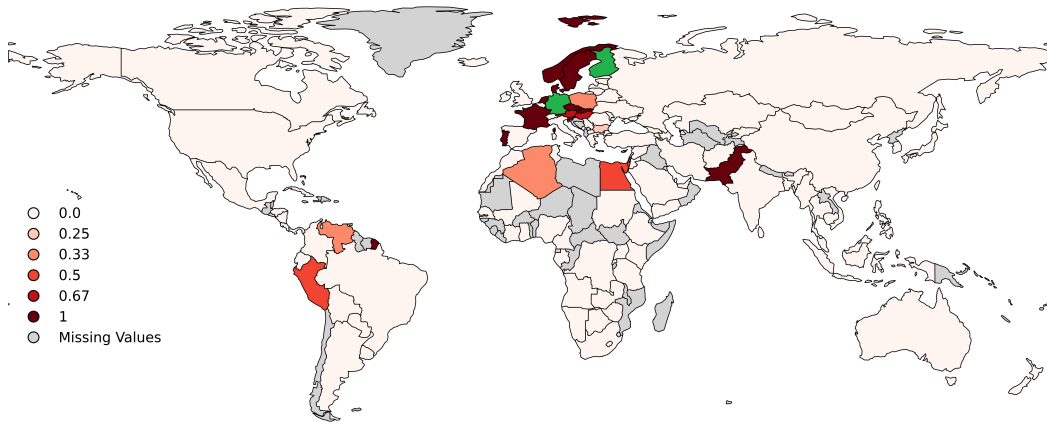
Source: Ongoing work (survey article by Jäger and Schoefer); own visualizations based on CBR Labour Regulation Index (2016).

# Board-Level Codetermination



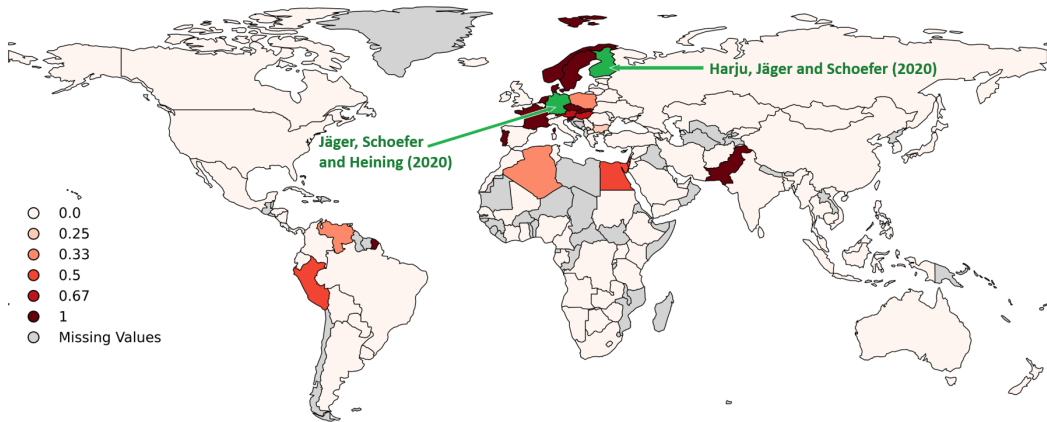
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# Policy Proposals: Board-Level Codetermination to Boost Wages

## Bloomberg Opinion

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Markets

### To Help Improve U.S. Wages, Check Out Germany

Giving workers a say on boards helps them without harming companies.

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By Nir Kaissar

March 29, 2019, 5:00 AM EDT



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  - Shareholder values view: codetermination as agency cost leading to disinvestment  
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Jensen and Meckling (1976,'79)
- Ideal experiment: randomly assign firms to shared governance

# Quasi-Experimental Evidence: Labor in the Boardroom

- Jäger, Schoefer and Heining (2020): quasi-experimental evidence on causal effect of worker-elected directors on corporate board  $\Rightarrow$  wages, rent sharing, and capital formation in Germany
- Cohort-specific reform of shared governance in German stock corporations
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- Legal form: shareholder vs. other corporations

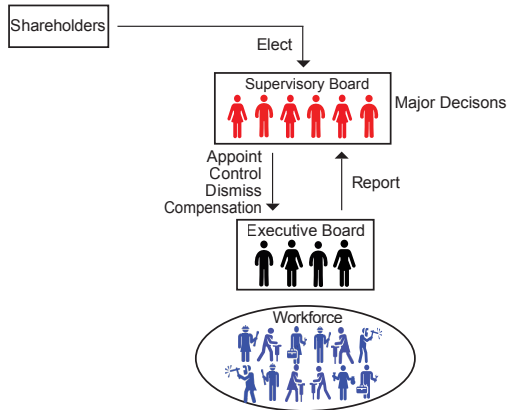
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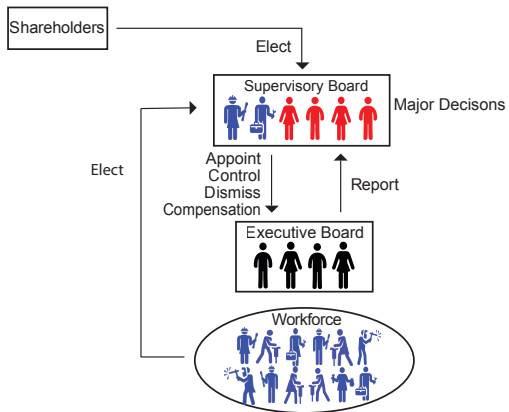
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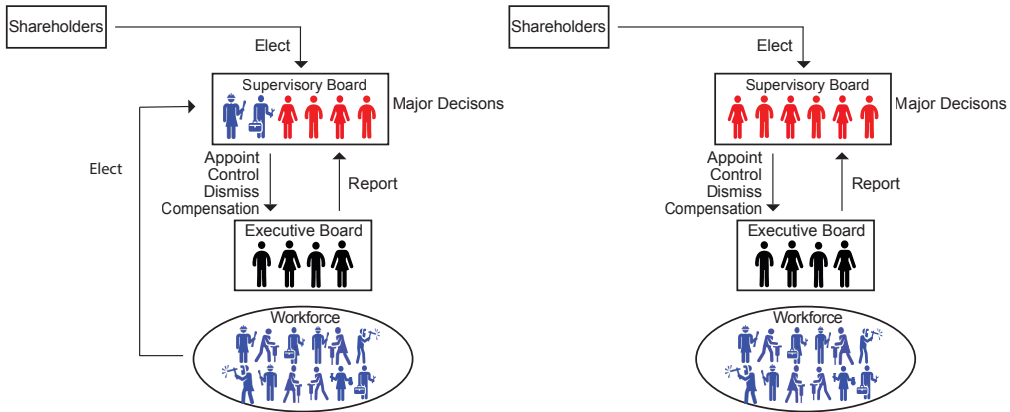
# Governance Without Worker Representation



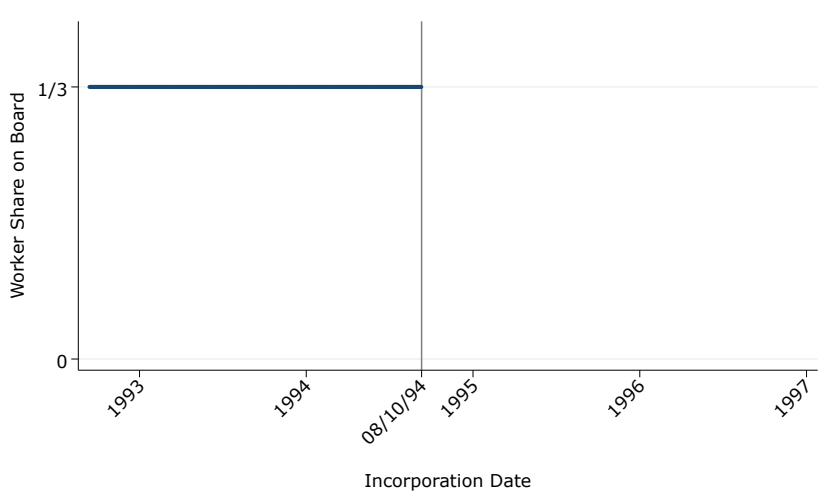
# Shared Governance With Worker Representation



# Governance With and Without Worker Representatives

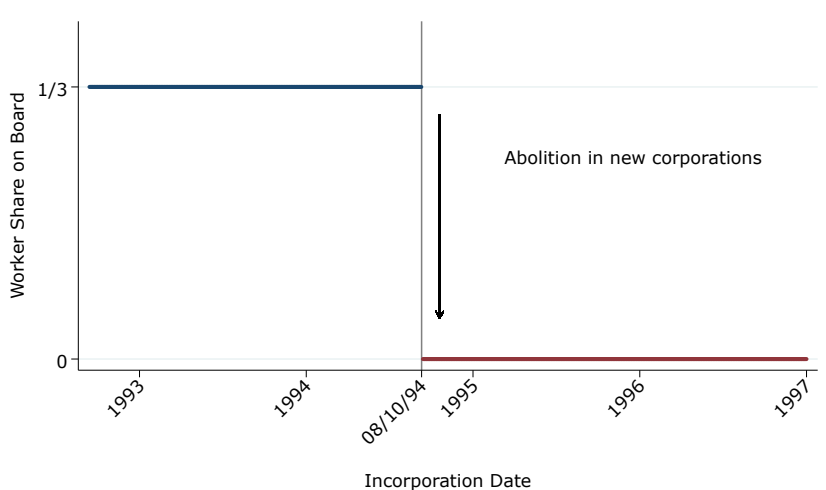


# Worker Representation for Stock Corporations (Pre-Reform)



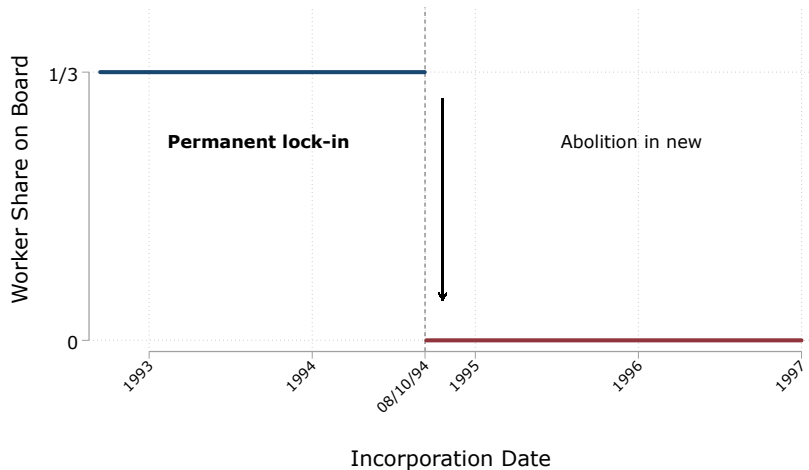
Note: rules for stock corporations  $\leq 500$  employees.

# 1994 Reform: Shared Gov. Abolished in New Stock Corporations



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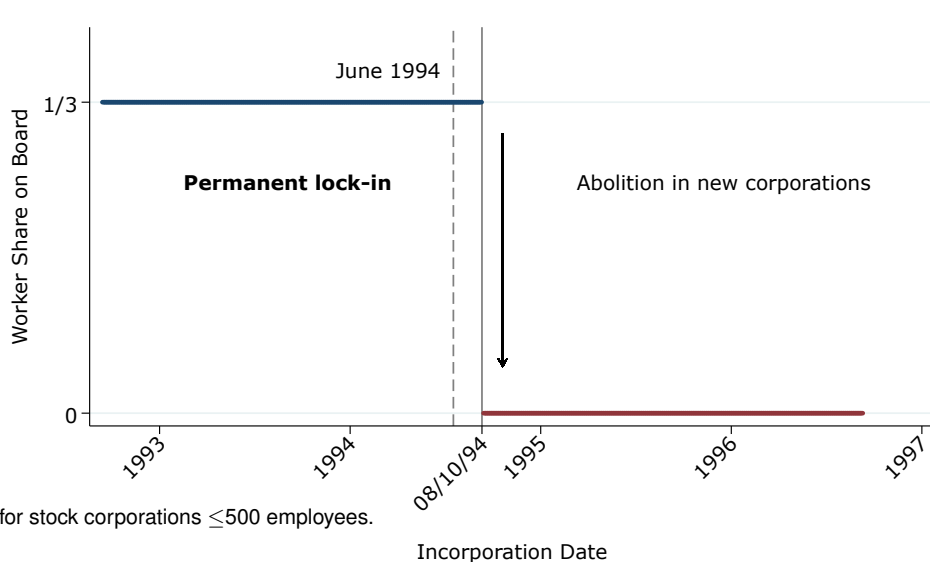
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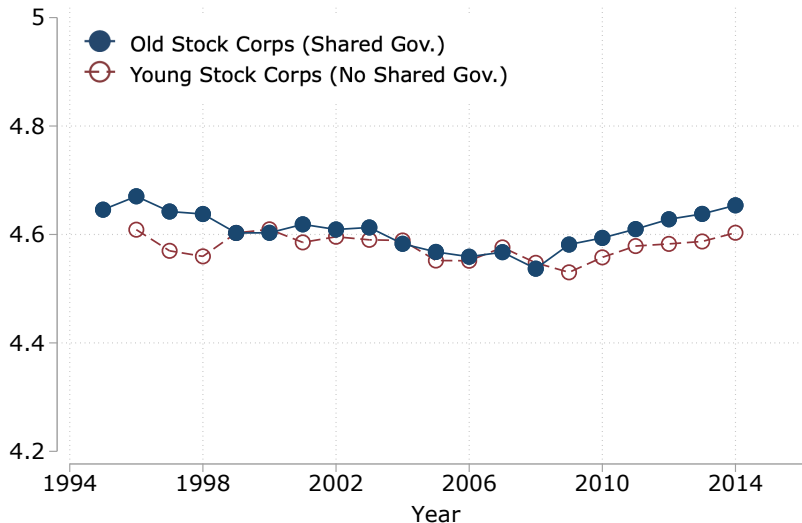


# 1994 Reform: Last-Minute Political Compromise



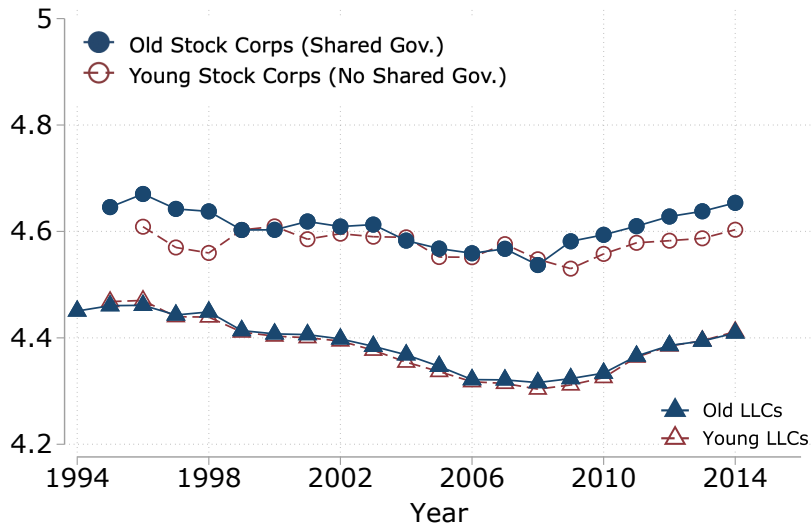
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# Board Level Representation and Wage Setting (Log Wage)



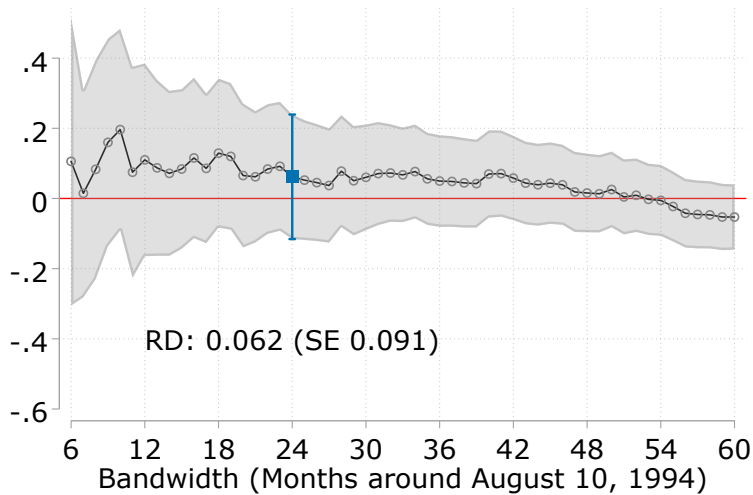
Source: Jäger, Schoefer and Heining (2020)

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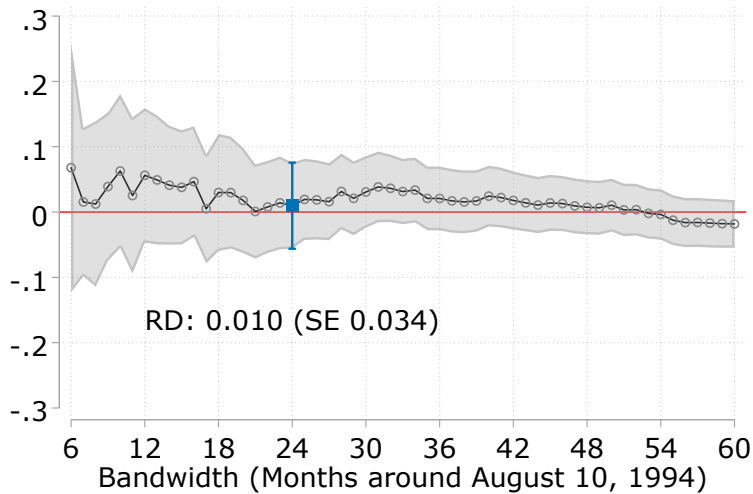


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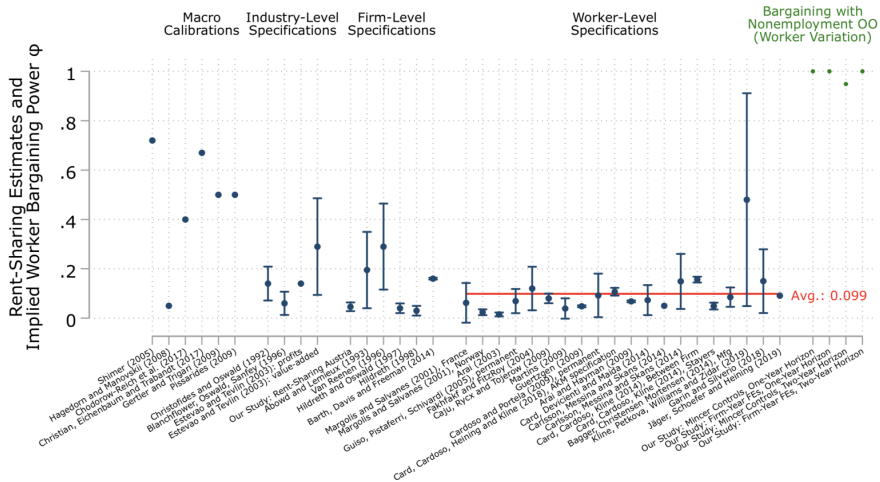
## RD Bandwidth Plot (Log Wage)



## RD Bandwidth Plot (AKM Pay Premia)

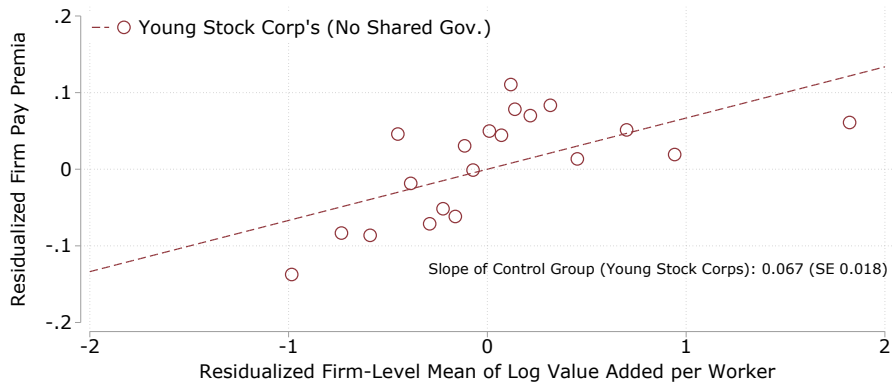


## Overview of International Evidence



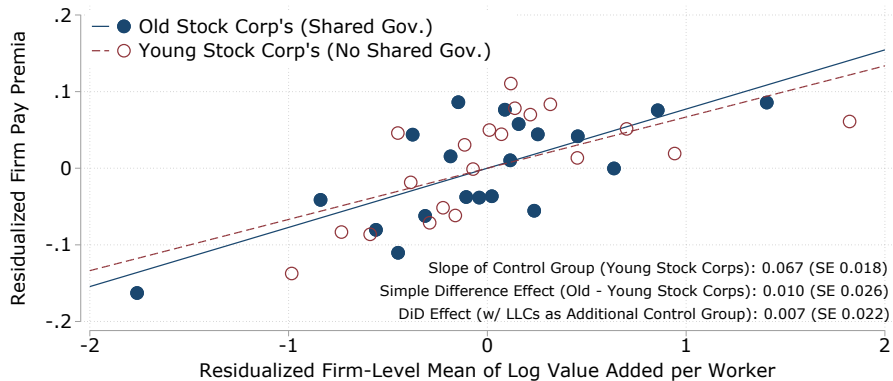
Source: Jäger, Schoefer, Young and Zweimüller (2020)

# No Boosts to Rent Sharing



Source: Jäger, Schoefer and Heining (2020)

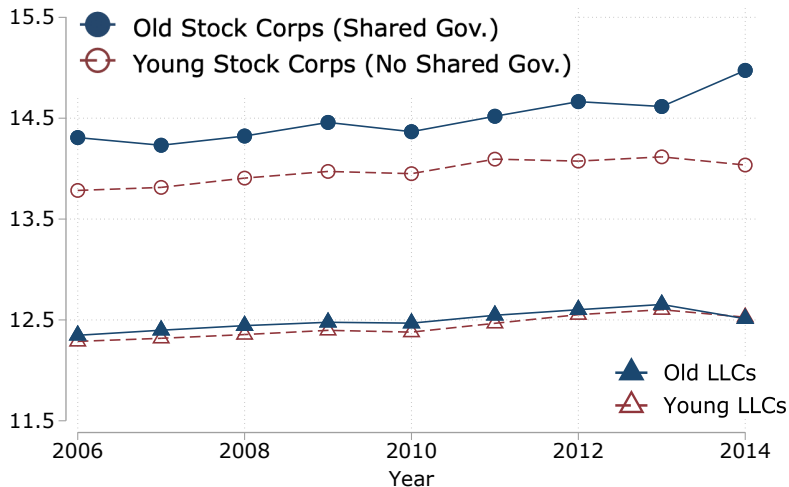
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# Board Level Representation and Log Fixed Assets: No Evidence For Holdup



Source: Jäger, Schoefer and Heining (2020)

# Quasi-Experimental Evidence from Finland

- Harju, Jäger and Schoefer (2020): Effects of rights to shared governance and employee representation in boards
- Board-level codetermination: Size cutoff induced by 1991 reform ( $\leq 150$  employees)
  - $\geq 150$ : employees have right to nominate their representatives (20%) to participate in firm-level decision making
- Shop-floor codetermination: Size cutoff for shop-floor representation shifted by 2007 reform ( $\leq 20$  vs. 30 employees)
- Research design:
  - Introduction DiD with firms  $\leq 150$  employees
  - Firm-level RD

# First Stage 1991 Reform: $\geq 150$ Employment & $\geq 1991$

Source: Harju, Jäger and Schoefer (2020).

# 1991 Reform Does Not Increase Labor Costs

Source: Harju, Jäger and Schoefer (2020).

# Board-level Representation Does Not Shift Rent Sharing

Source: Harju, Jäger and Schoefer (2020).

# No Wage Effects of Expanding Shop-Floor Codetermination (2007 Reform)

Source: Harju, Jäger and Schoefer (2020).

# Take-Aways from Quasi-Experimental Evidence on Codetermination

- Wage-boosting effects *not* borne out in the data
- But no evidence for adverse effects on firms
  - If anything, investment and capital increased
- Hypothesis: cooperative nature of institution and minority vote constrain power
  - When does codetermination shift surplus to workers?
- Open question: effects on other worker-level outcomes
  - Voice and agency
  - Well-being
  - Alienation
- Who becomes representative? Whose preferences represented?

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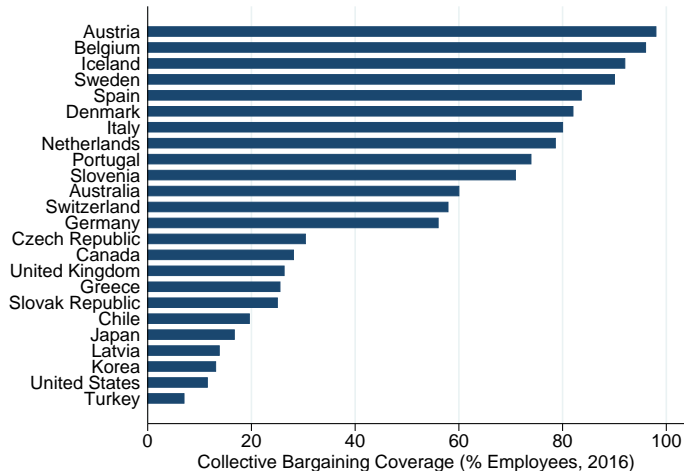
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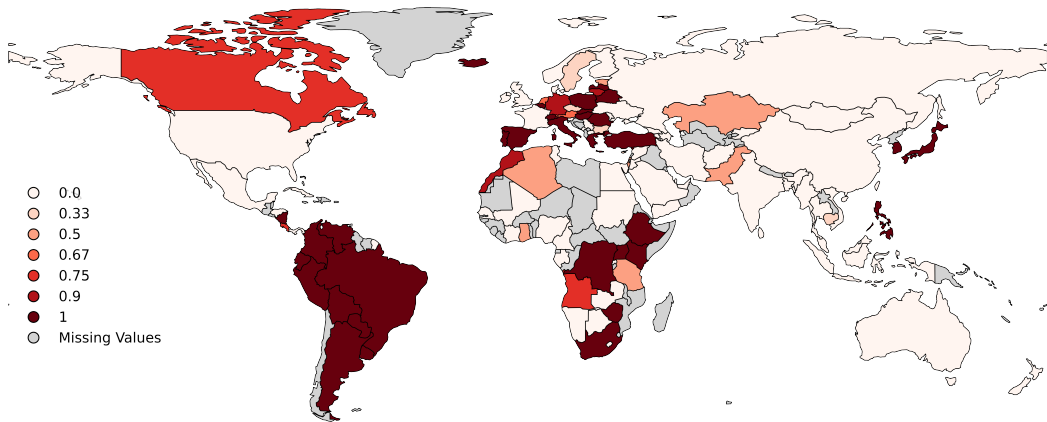
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- Related institution: wage boards in, e.g., Australia (Dube 2019)

# Wide Variation in Prevalence of Collective Bargaining



Source: OECD (2019)

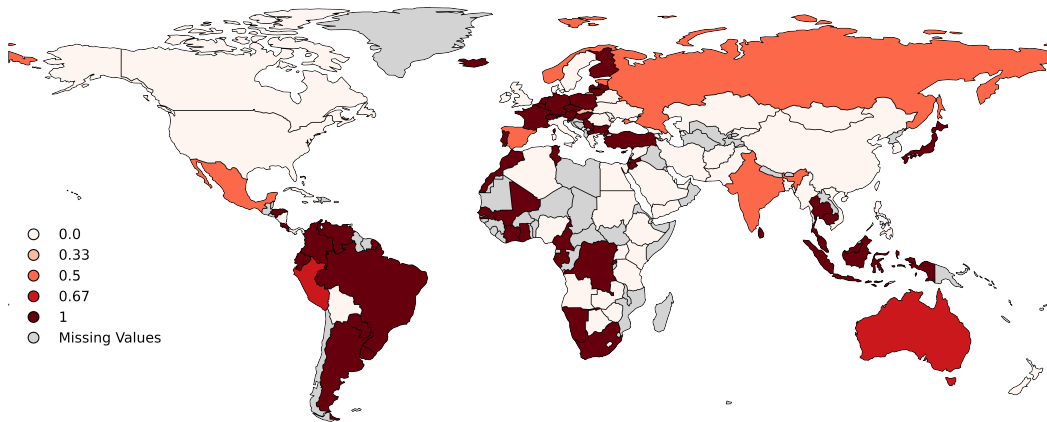
# Right to Collective Bargaining



Source: Own visualizations based on CBR Labour Regulation Index (2016)

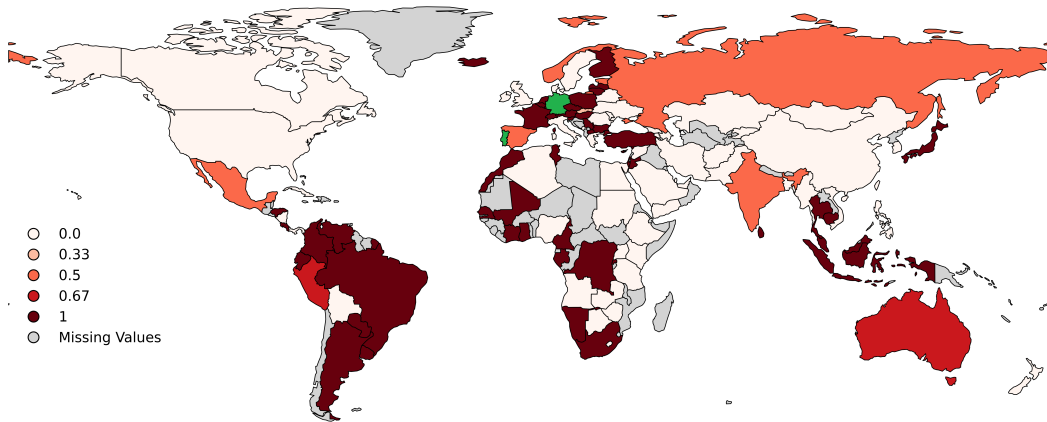


# Extensions of Collective Agreements



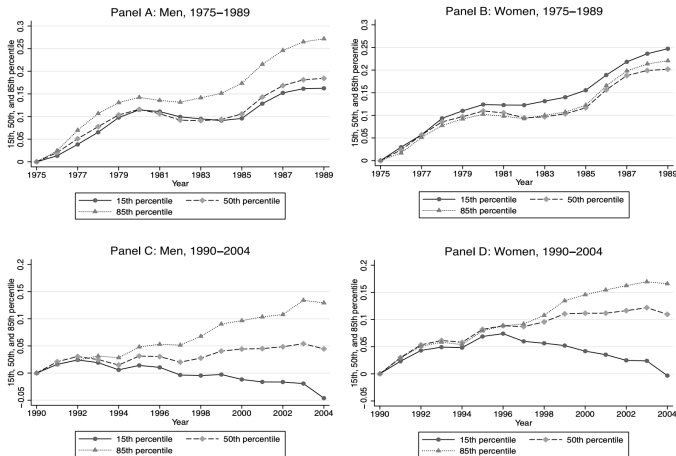
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# Stark Increases in Wage Inequality in German Labor Market



**FIGURE II**  
Indexed Wage Growth of the 15th, 50th, and 85th Percentiles: The Pre- versus the Postunification Period

# Collective Bargaining Coverage Associated With Higher Wage Growth At Lower End

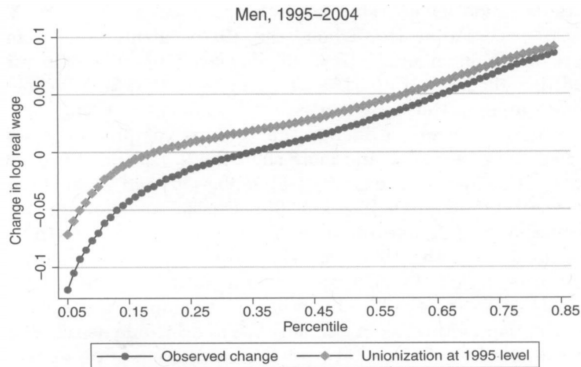
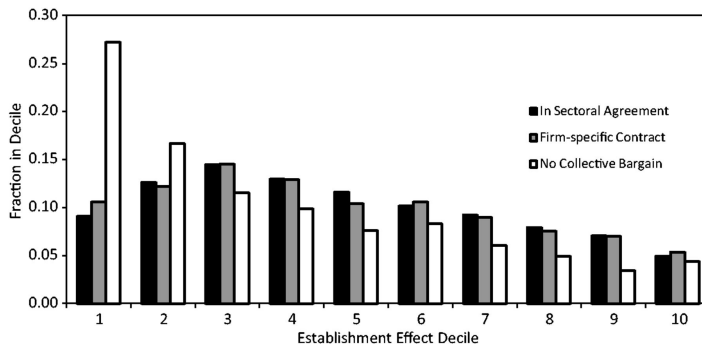


FIGURE IV

Observed versus Composition-Constant Wage Inequality: The Role of De-unionization

Source. LIAB (1995–2004) for men between 21 and 60 years of age working full-time.

# Collective Bargaining Coverage Associated With Higher Firm Pay Premia



Source: Card, Heining and Kline (2013)

# Mandatory Extensions in Portugal Associated With Moderate Wage Increases At Lower End (2011 Quasi-Experiment)

Panel A. Fuzzy RDD								
	(1) $\Delta p5$	(2) $\Delta(p50-p5)$	(3) $\Delta p10$	(4) $\Delta(p50-p10)$	(5) $\Delta p15$	(6) $\Delta(p50-p15)$	(7) $\Delta p20$	(8) $\Delta(p50-p20)$
Treatment effect	0.0805 (0.0373) **	-0.0865 (0.0481) *	0.0695 (0.0400) *	-0.0755 (0.0532)	0.0710 (0.0566)	-0.0770 (0.0721)	0.0289 (0.0285)	-0.0349 (0.0453)
Constant	-0.0286 (0.0221)	0.0501 (0.0296)	-0.0082 (0.0205)	0.0296 (0.0297)	-0.0248 (0.0327)	0.0463 (0.0419)	-0.0109 (0.0165)	0.0324 (0.0259)
Relative time effects	Linear	Linear	Linear	Linear	Linear	Linear	Linear	Linear
Observations	62	62	62	62	62	62	62	62
R-squared	0.0875	0.1217	0.2290	0.2353	0.1727	0.1858	0.0644	0.1265
Panel B. Sharp RDD								
	(1) $\Delta p5$	(2) $\Delta(p50-p5)$	(3) $\Delta p10$	(4) $\Delta(p50-p10)$	(5) $\Delta p15$	(6) $\Delta(p50-p15)$	(7) $\Delta p20$	(8) $\Delta(p50-p20)$
Treatment effect	0.0493 (0.0232) **	-0.0476 (0.0294)	0.0494 (0.0213) **	-0.0477 (0.0306)	0.0519 (0.0296) *	-0.0502 (0.0392)	0.0184 (0.0147)	-0.0166 (0.0242)
Constant	-0.0310 (0.0213)	0.0522 (0.0282) *	-0.0087 (0.0185)	0.0300 (0.0275)	-0.0266 (0.0298)	0.0478 (0.0389)	-0.0109 (0.0155)	0.0321 (0.0247)
Relative time effects	Linear	Linear	Linear	Linear	Linear	Linear	Linear	Linear
Observations	58	58	58	58	58	58	58	58
R-squared	0.1019	0.1442	0.2675	0.2510	0.2170	0.2120	0.0756	0.1275

Results based on residuals from individual-level log base wage regression on job category dummies, collapsed by firm type (affiliated vs non-affiliated), collective agreement and year.  $\Delta p5$  denotes the change in the 5<sup>th</sup> percentile (of the cell's log base wage residual) between 2011 and 2010,  $\Delta(p50-p5)$  denotes the difference between the median and the 5<sup>th</sup> percentile in 2011, and similarly for the remaining dependent variables.

# Take-Aways and Open Questions: Collective Bargaining

- Evidence consistent with moderate wage increases at lower end of wage distribution
- How binding are CBAs?
- Political economy of employer associations? (Patault and Valtat 2020)
- What are the wage effects of introducing/expanding/strengthening CBAs?
- What are the (unintended) consequences of CBA extensions?
  - Adverse employment effects (Martins 2020)?
  - Positive investment effects by alleviation of holdup (Acemoglu 2001)?