

Discussion

„Upward nominal wage rigidity“

by

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Aims of the paper

Analyse effects of extension of collective bargaining agreements on

- (1) Worker turnover (hirings, separations)
- (2) Firm failure rates

In this context also look at importance of insider and outsider wage conditions to analyse (1) and (2).

Approach

- I. Proxy minimum wage bite at the firm level by wage bill growth implied by minimum wage extension (potential stayers)

- II. External vs. internal factors
 - a) Analyse „inside“ and „outside“ wages as determinants of wages of new hires => external wage weight
 - b) Analyse effect of external wage weight for worker turnover and firm closure

Contribution / results

- (1) Provide new measure for minimum wage impact: Importance of „external wage conditions“
- (2) New evidence on determination of wages of new hires (e.g. Pissarides 2009):
 - „internal“: 56%, „external“: „31%“
- (3) New evidence on effects of minimum wages on firm and employment dynamics (Dube, Lester, Reich 2011):
 - Wage bill growth leads to (slightly) lower hirings, significantly higher separations and firm failures
 - External wages mainly lead to (lower) hirings.

Questions / comments

1. Treatment
2. Endogeneity
3. Internal / external factors

Questions / comments: Treatment (1)

- Treatment (minimum wage increase) clearly defined at firm-level or ongoing process (presumably many job titles at one firm)?
 - What about anticipation effects?
- How large is the treatment, how to interpret size of the effect: „Result: 10 percent increase in wage bill increases probability of firm closure by 7.8 percentage points“
 - Some more descriptive evidence would be useful, e.g. on how many firms have to raise wages, how large is the average wage bill growth, ...

Questions / comments: Treatment (2)

- Wage bill growth: nominal or real?
 - Differences between regimes of high and low inflation?
- Statutory minimum wage: How important / binding?
 - Could maybe use as additional treatment (less endogenous from the point of view of the individual firm).

Questions / comments: Endogeneity

- What about endogeneity of the measures employed? E.g. unproductive firms – which have a high probability of losing workers or closing down anyway – probably feature lower wages (and therefore higher wage bill growth).
 - Include more firm controls
- Potential endogeneity of collective bargaining agreements („some firms represented in the bargaining process“): Instrument in equation 2 („full set of contract / year dummies) valid at the firm level? Strong instrument?

Questions / comments: External/internal analysis (1)

- Estimation of wages:

$$w_{ifjt} = w^I_{fjt}\beta^I_f + w^O_{fjt}\beta^O_f + \alpha_f + \lambda_t + \varepsilon_{ifjt}$$

- Potentially: omitted variables (esp. worker composition wrt age, gender, skills); not captured by firm fixed effect if time-varying
- How do you take into account that external wage weight is estimated when using it in the second stage of the estimation?
- Instrument for external wage weight („set of dummy variables identifying the ruling wage agreement“): Idea behind instrument? Valid? Strong?

Questions / comments: External/internal analysis (2)

- Analyses I and II yield differing results – reasons?
- Potentially interesting: How are wage bill growth and (importance of) external wage weight correlated at the firm level, and which factors play a role in this context?
- New insights for adjustment mechanisms at the firm level

Questions / comments: Further step (?)

- What about substitution effects between workers (worker heterogeneity)? Wage distribution at firm level affected?

Questions / comments

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