



Wage Setting in the Portuguese Labor Market

comment to papers by
P. Portugal/A. Carneiro

Steinar Holden
Department of Economics, University of Oslo
<http://folk.uio.no/sholden/>

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Wage Setting in the Portuguese Labor Market: A Microeconomic Approach

- . Interesting and useful survey of micro studies of the Portuguese labor market
- . Brief report of main results of each study
 - . The "low-wage model"
 - . The minimum wage
 - . Contractual wages and the wage cushion
 - . Rent sharing, insiders, outsiders
 - . Displacement risk and wage determination
 - . Cyclical behavior of real wages
 - . Wage setting in a low inflation regime

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The "low-wage" model in Portugal

- . Low wage model
 - . "one of these common sense notions for which there can be found no grounds in economic analysis"
 - . "In microeconomic terms, wages are low if they are set below the value of the marginal productivity and high if they are above"
- . But
 - . Marginal revenue is endogenous if decreasing returns or downward-sloping demand curve
 - . Lower wage leads to higher employment
 - . Wage restraint shifts wage curve and reduces equilibrium unemployment

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Contractual wages, actual wages and the wage cushion

- . Actual wages often 20-40 percent above contractual wages
 - . Difference is called wage cushion
 - . Wage level, not wage growth (wage drift)
- . Wage cushion reflects pay policies by the companies
 - . Amplifies effect of worker attributes
 - . Increases wage dispersion
 - . Gives more flexibility in actual wages
- . Questions as to institutions
 - . Is there local wage bargaining?
 - . Does a rise in contractual wages raise actual wages?

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Wage setting under low inflation and low productivity growth

- . Nominal wage cuts are forbidden in Portugal
 - . Inflation gives scope for real wage cuts
- . "The smaller the wage cushion the more difficult this manipulation becomes"
 - . Does this mean that the wage cushion can be reduced?
- . Nordic c.: bargaining at two levels
 - . Centralised level aims at wage restraint, but difficult under low inflation
 - . Local wage bargaining leads to nominal wage growth (wage drift), making problem more difficult
 - . Less room for centralised wage restraint under low inflation (Holden, SJE, 1998)

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Workers' Flows and Real Wage Cyclicality

- . Data from annual mandatory employment survey
 - . Covers all establishments and all workers
 - . Can match firms and workers
- . Very nice empirical study with great data

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- . Consider four samples of individuals
 - . All individuals present in all 12 years (long term)
 - . Individuals present in two consecutive years
 - . Newly hired worked (tenure <1)
 - . Recently separated worker (not in register in year t+1) ("soon to be separated"?)

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Empirical analysis

- . Regress log of real wage individual i
- . On
 - . Lagged unemployment
 - . Time trend and its square,
 - . Time varying worker char. (experience)
 - . Time invar. worker char (education, etc)
 - . Worker fixed effect

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Results: Find procyclical real wages

- . Long-term employees
 - . Significant effect of U, coef ≈ -1 for men; coef $\approx -.7$ for women (roughly similar to previous findings for the US)
 - . Somewhat higher coef in subsample of job stayers, in contrast to US findings
 - . Could higher effect for job stayers reflect firm or industry differences ?
 - . Same results with fixed effects

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Results contd.

- . Two-year employees
 - . Slightly larger effect of men, slightly smaller for women
 - . Effect of age smaller than for long-term employees (age better proxy for tenure for long term employees?)
 - . Much smaller coefficient for U with individual fixed effects (in contrast to long-term e.)
 - . "unobserved heterogeneity affect composition of workforce magnifying cyclical of real wages"
 - . Is larger coef with OLS driven by job entrants?
 - . Why so small coef with fixed effects?

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Results contd

- . Newly hired workers
 - . Much larger effects, coef ≈ -2 (men); ≈ -1.7 (women)
 - . Roughly consistent with previous findings
 - . Easier to find high-wage jobs in booms?
 - . Higher wage compensation for cyclical fluctuations in employment?
 - . Outside forces affect pay when workers are mobile, and mobility is greatest when hiring?
 - . Note that fixed-term contracts important for accessions and separations – is there other information about wage levels in such contracts?

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Is it possible to exploit firm dimension of the data?

- . Does cyclical of wages vary across firms and industries?
- . Does variation in wage cyclical across firms reflect
 - . differences in turnover,
 - . differences in labour market tightness
 - . industry differences
- . Test whether large wage cyclical for newly hired workers reflect
 - . differences between firms/jobs (high wage jobs more cyclical), or
 - . Labour market situation more important when workers are mobile

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Rent sharing and the role of insiders and outsiders

- The rent associated with replacement costs (recruitment, training) guarantees insider bargaining power in wage negotiations
- Shaked & Sutton (1984):

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Procyclical wages

Table 10: OLS Results (specification 2)
Long-term Employee
Alternative Wage Measures

	Wage Measure			
	AHE	AHEIOT	AHBW	AMBW
Men				
Cycle Regressor (U)	-1.00 (-15.9)	-1.04 (-16.3)	-1.10 (-21.0)	-0.74 (-15.2)
Women				
Cycle Regressor (U)	-0.75 (-7.1)	-0.70 (-6.6)	-1.08 (-11.9)	-0.28 (-3.4)

Notes: (i) t-statistics are in parentheses;

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Table 12: OLS Results (specification 2)
Long-term Employee/Job Stayers
Alternative Wage Measures

	Wage Measure			
	AHE	AHEIOT	AHBW	AMBW
Men				
Cycle Regressor (U)	-1.20 (-15.8)	-1.23 (-16.0)	-1.23 (-19.2)	-0.83 (-13.5)
Women				
Cycle Regressor (U)	-0.85 (-6.7)	-0.82 (-6.4)	-1.16 (-10.4)	-0.39 (-3.8)

Notes: (i) t-statistics are in parentheses;

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