Wage Determination and the Bite of Collective Contracts in Italy and Spain: Evidence from the Metalworking Industry

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1. Motivation
• Unions and employer federations bargain skill-specific wage floors in many OECD countries that are binding for all workers and employers.
• “Explicit” contracts view: the whole wage distribution is bargained infrequently—wage growth reflects labor market conditions when the collective contract was signed (Effros and Temponi, 2007; Bryskland, Carlson, and Skans, 2019).
• Spot markets view: Wages above the minima react to contemporaneous labor market conditions (Cardoso and Portugal, 2005; Schubert, Edling, and Nannuzzo, 2015).
→ Different implications for the propagation of macro shocks.

2. What we do
• Collect data on union contracts in the Italian and Spanish metalworking industry (15,000 skill-specific wage floors and 1,000 signature dates) → merge to Social Security records.
• Highly unionized industry, tradable, 15% workforce in Italy, 7% in Spain.
• Compute “wage cushion”—distance of wages to skill-specific floors.
• Test explicit contracts vs spot markets by estimating the response of wages to unemployment rates at time t and at renewal.
• Responses by distance to each worker’s minimum illustrate which model works for whom.
• Two countries with different bargaining systems: national in Italy, provincial in Spain.

3. Accumulation around the min

• Wage floors are binding (pretty low non-compliance).
• 2.5% of metal workers in Italy and 4% in Spain earn a wage that is exactly equal to their corresponding wage floor by occupation and province.

4. The degree of centralization of collective bargaining matters

• Both countries: large gap in economic performance between the South and the North.
• Italy: Collective bargaining takes place at the national level → larger bite of collective contracts in the South.
• Spain: Decentralization of collective bargaining at the province level → more homogeneous bite across the territory.

5. U renewal determines negotiated W

• The unemployment rate (national in Italy, provincial in Spain) is taken into account while setting negotiated wages.

6. Test spot markets vs explicit contracts

Italy: \[ w_{it} = \beta_0 + \beta_1 U_{it} + \beta_2 \text{U negotiated}, + \gamma_1 t + \gamma_2 t^2 + \mu_i + \nu_t + \epsilon_{it} \]
Spain: \[ w_{it} = \beta_0 + \beta_1 U_{it} + \beta_2 \text{U negotiated}, + \gamma_1 t + \gamma_2 t^2 + \mu_i + \nu_t + \epsilon_{it} \]

• Wages do adjust to current local unemployment conditions.
• The relevance of unemployment rate at renewal is limited.

7. Wage growth adjusts among workers with large cushion

8. Comparison w/ the literature

• Our estimates are in the same range as those for the EU and the US (stayers).
• Bigger cyclical component of wage complements in Italy and Spain than in Portugal.

9. Comparison w/ theoretical benchmark

• Estimated elasticities for Italy and Spain are smaller than the theoretical benchmark.
• This is the case also for the UK and Germany where collective bargaining in limited.
• The gap narrows if we consider workers with a large cushion.

10. Conclusions

• Wage floors in the metalworking industry of both Italy and Spain are binding.
• Accumulation of 2–4% right at the skill-specific wage floors.
• The data do not support the explicit contract hypothesis.
• The economic conditions at the time of bargaining explain the evolution of wages close to the wage floors.
• For the rest of the distribution, wages respond predominantly to changes in current economic conditions.
• Elasticity falls short of the predictions of an off-the-shelf search and matching model.
• Wage responses to the local cycle vary across Italian regions, less so in Spain.
• Possible role of national (IT) vs provincial bargaining (ES).

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