

Are corporatist labour markets different?

Labour market regimes and
unemployment in OECD countries

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Mainstream approach to unemployment

- Flexible labour markets lead to lower (structural) unemployment
- What is flexibility? No distorting mechanisms like:
 - Employment protection legislation
 - Unemployment benefits
 - Tax wedge
 - Unions
 - Collective bargaining

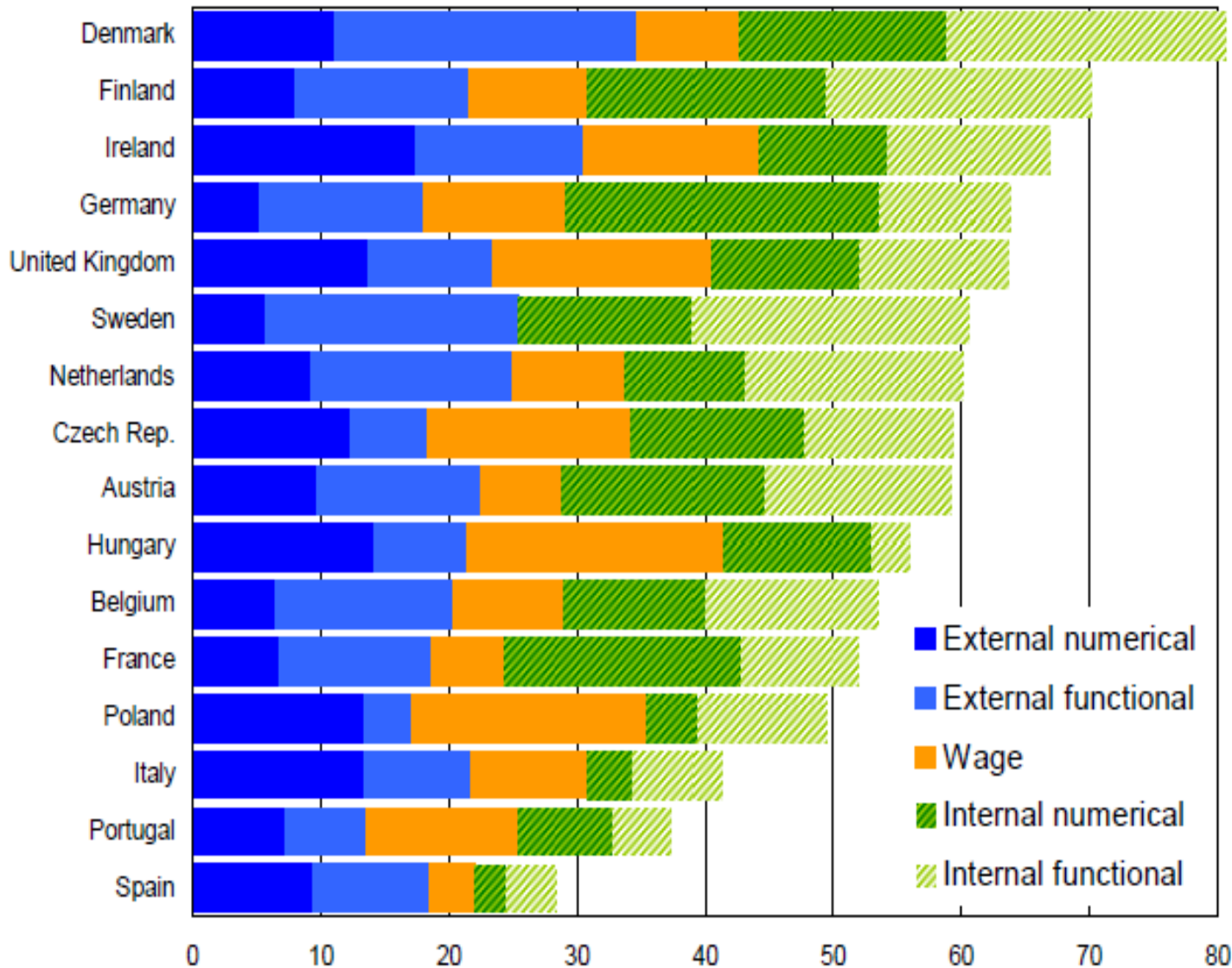
Critique No 1: “Varieties of capitalism” approach

- Institutions are elements of complex socio-economic arrangements and strategic interactions.
- They fulfil different functions within distinct regimes.
- For example employment protection legislation:
 - If employment protection is high, workers are more willing to invest in firm- and industry-specific skills.
 - This makes it more attractive for firms to invest in skill-intensive production techniques.
 - Result: International institutional comparative advantage of these firms in a particular skill-intensive production niche.
 - Strict employment protection legislation can be favourable for employees *and* employers.

Critique No 2: What about internal flexibility?

- A significant share of overall flexibility is due to internal flexibility, not external:
 - Cyclical reduction of working hours: Short-time working schemes, working-time accounts, variation of usual working time
 - Reacting on changing demand with a flexible organization of the production process
- There seem to exist institutional preconditions for high internal flexibility:
 - Social partnership
 - Strict employment protection legislation

Quantifying external and internal flexibility



Source:
Eichhorst/Marx/
Tobsch (2009):
Institutional
Arrangements,
Employment
Performance and the
Quality of Work, p. 18

Critique No 3: What about macroeconomic determinants?

- Unemployment might not only be caused by institutions, but also macroeconomic variables:
 - Long-run real interest rates
 - Capital accumulation
 - Monetary policy in recessions
 - Fiscal policy in recessions

Core ideas of this article

- Test if the impact of labour market institutions on unemployment depend on the labour market regime.
- Labour market regimes are defined as labour markets with or without a corporatist wage-bargaining and economic policy environment.
- I estimate standard reduced-form unemployment regressions, but allow the coefficients of the labour market institutions to depend on the labour market regime.
- Further, I test for the impact of several macroeconomic variables.

Empirical investigation

- Data-set including information on several labour market institutions for 20 OECD countries over the period 1985-2008.
- A dummy for corporatism was constructed, based on categorical information on wage bargaining coordination, wage bargaining centralisation and routine involvement of unions and employers' organisations in policy making.
- Estimation equation:

$$U_{it} = b_1 LMI_{it} + b_2 (LMI_{it} * CORPORATISM_{it}) + b_3 MACRO_{it} + b_4 GAP_{it} + \alpha_i + \lambda_t + \varepsilon_{it}$$

- I cluster standard errors to account for within-group serial correlation and heteroskedasticity.

Results

Table 2. Determinants of unemployment (1985–2008, annual data, 20 OECD countries)

	1	2	3	4	5
	Standard specification (fixed effects, estimated by OLS)	= 1 allowing for different effects of unemployment benefits and EPL	= 1 allowing for different coefficients for all institutions	= 2 with long-term real interest rate and monetary and fiscal policy stance in recessions	= 2 with capital accumulation
Union density	0.06 (1.28)	0.05 (1.09)	0.07 (1.37)	0.02 (0.49)	0.05 (1.21)
Tax wedge	0.22*** (4.14)	0.24*** (4.98)	0.14** (2.07)	0.21*** (4.72)	0.16*** (5.06)
EPL	-0.45 (0.69)	0.09 (0.18)	0.81 (1.31)	-0.36 (0.72)	0.87 (1.53)
Unemployment benefits	0.08*** (2.90)	0.14*** (5.39)	0.13*** (4.84)	0.11*** (4.61)	0.12*** (3.89)
Corporatism	-1.15*** (2.62)	-1.56*** (3.58)	-1.50*** (3.51)	-1.32*** (2.95)	-1.34*** (2.82)
EPL x corporatism	—	-0.65** (2.55)	-1.54** (2.41)	-0.58** (2.01)	-0.73** (2.00)
Unemployment benefits x corporatism	—	-0.08*** (4.00)	-0.07*** (3.19)	-0.06*** (2.93)	-0.10*** (3.21)
Union density x corporatism	—	—	-0.02 (0.69)	—	—
Tax wedge x corporatism	—	—	0.13** (1.98)	—	—
Long-term real interest rate	—	—	—	0.18** (2.48)	—
Monetary policy reaction to recession	—	—	—	-0.33 (0.32)	—
Fiscal policy reaction to recession	—	—	—	0.26** (2.26)	—
Capital accumulation	—	—	—	—	-1.03*** (5.81)
Output gap	-0.61*** (7.99)	-0.63*** (7.92)	-0.62*** (7.94)	-0.60*** (9.49)	-0.37*** (4.71)
Time dummies	yes	yes	yes	yes	yes
Country dummies	yes	yes	yes	yes	yes
Adjusted R-squared	0.65	0.67	0.68	0.70	0.74
Observations	480	480	480	480	480

Summary

- I find empirical evidence that different labour market regimes exist.
- Deregulation in corporatist countries might not increase flexibility, as internal flexibility may be reduced. A success-model may be destroyed through deregulation.
- High real interest rates, low capital accumulation, restrictive fiscal policy in recessions are important determinants of unemployment. Macroeconomic variables are crucial to explain unemployment.