AN ANALYSIS OF UNION BEHAVIOUR AND WAGE FORMATION IN A GLOBALISED WORLD

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During the last decades, three important evolutions have been occurring in European countries. *First*, there is the process of globalisation, defined as the increasing integration of markets for products, factors and technology. Whereas there has been a steady increase in capital mobility since the 1970s, the process of worldwide product market integration has mainly started since the 1990s, pushed within Europe by the Single Market Initiative of the European Union (1992). One of the main economic aims of the European integration process is to foster growth through the benefits of increased competition. *Second*, the opening up of Central and East European countries can be considered as part of the globalisation process. These countries have become favourite destinations for foreign direct investment from western European companies. *Third*, the process of product market deregulation has been accompanied by a process of labour market deregulation, although at a different speed. While the process of product market deregulation has been widespread, labour market reforms have been more piecemeal.

One of the most debated issues related to worldwide product market integration concerns the influence of integration on the labour market. Since the Battle of Seattle in November 1999, the world has seen a wave of anti-globalisation protests surrounding the WTO, IMF and World Bank meetings. These protests reveal that many people fear that globalisation may aggravate labour market conditions. At the same time, proponents of globalisation have emphasised the gains in efficiency, dynamism and economic welfare that open markets bring. This doctoral dissertation contains three contributions which investigate labour market and product market performance in an international context.

For Europe, it has been shown that labour market consequences of worldwide product market integration do not derive primarily from increased mobility of labour but from interactions between imperfectly competitive labour and product markets. To capture this situation, the *first contribution* analyses price-setting behaviour in both the product and the labour market of Belgian manufacturing firms over the period 1988-1995. We study the heterogeneity in the price-cost mark-up and the workers' bargaining power among 18 sectors within the manufacturing industry and the relationship between both parameters. Intuitively, we analyse how the size of the surplus available for sharing between the workers and the firm as well as the distribution of that surplus is related to the workers' bargaining power. Our results strongly reject the hypothesis of perfect competition in both the labour and the product market. A new result concerns the remarkable positive relationship that we observe

among sectors between estimated price-cost mark-ups and estimated union bargaining power. The stronger the union, the higher the price-cost margin at the sectoral level. In other words, the more powerful the union, the larger the proportion of product rents going to the workers and the larger the size of total rents that can be shared. The first relationship shows how labour market (de)regulation changes the factor income distribution in an Efficient Bargaining framework. The second relationship suggests that labour market and product market imperfections are likely to go hand in hand. This observed positive correlation can be interpreted in more than one way. One interpretation runs from labour market to product market imperfections. The intuition is that strong unions imply higher wage rents and a smaller proportion of rents left to the firms. This change in factor income distribution leads to exit of firms, which decreases the degree of product market competition and raises price-cost mark-ups. The results can also be interpreted in terms of product market imperfections affecting labour market imperfections. The idea is that workers are less likely to join unions unless they are able to extract some surplus from the firms and this is most likely to happen if there is imperfect competition in the product market. This is a standard interpretation in the trade union literature. Another explanation going from product market imperfections to labour market imperfections is that firms with higher price-cost margins may employ high-skilled workers who are harder to replace than low-skilled workers and therefore more powerful.

The *second contribution* focuses on worldwide product market integration. We investigate how globalisation has affected workers' wages in general and their bargaining power in particular in the Belgian manufacturing industry over the period 1987-1995. In our analysis, we test three channels through which international trade can influence bargained wages in an Efficient Bargaining framework. First, we test whether increased international trade has changed workers' wages through movements in the workers' outside option. By doing so, we capture the fear that increased competition might lower employment opportunities considerably. Given that imports of goods are potential substitutes for labour, higher import shares may lower employment opportunities and decrease the reservation wage. Second, we test the standard effect of product market competition on wages in a rent-sharing framework, i.e. the effect of globalisation through changing the size of the rents that can be shared between the workers and the firm. The main contribution of the paper lies in the third channel through which globalisation might influence wages: through changing the bargaining power of the workers. Our results allow us to conclude that globalisation affects wages through the three channels mentioned above. As far as the first channel is concerned, we find that the higher the import share, the lower the workers' outside option (and hence workers' wages) while the opposite is true for the export share. Concerning the second channel, our results reveal that increased foreign competition in the form of lower export prices reduces both rents and wages per worker. Regarding the third channel, our results suggest that in sectors with fierce import competition or with many foreign-owned firms, the proportion of rents going to the workers is squeezed. In contrast, in sectors that are shielded from competition by higher tariff levels, workers are able to cream off a larger share of the rents.

As shown in the second contribution, foreign direct investment seems to reduce union bargaining power in Belgium. Transition countries have been favourite destinations for western companies. Does that mean that workers in these host countries gain from the globalisation process? The *third contribution*, focusing on wage formation in Bulgaria, investigates that question. We contribute to the empirical rent-sharing literature by concentrating on the heterogeneous character of the rent-sharing coefficient. To be specific, we test the hypothesis that the ownership status of the firm (state-, private domestic- or foreign-owned) is an important

determinant of both the wage intercept and the degree of rent sharing. Our results confirm that hypothesis. The overall effect of foreign ownership on workers' wages is positive. This suggests that workers in host countries of foreign direct investment benefit in terms of remuneration as a consequence of globalisation. The results strongly confirm the existence of a multinational wage premium in Bulgaria. Rent sharing, however, is far less pronounced in private domestic and foreign firms. It is much more prevailing in state-owned firms. We point to technological superiority and international rent sharing as two valid explanations for the significant multinational wage premium in Bulgaria. The resulting high wage level may prevent insiders in foreign firms from translating productivity gains into wage increases. This may partly explain the result that the share of rents taken by workers in foreign companies is considerably less than the part taken by state-owned employees. Two other explanations for the differences in rent-sharing behaviour across ownership categories are the concentration of foreign ownership in firms with a high value-added profile and the footloose nature of foreign firms. The high value-added profile implies that workers in these firms need to capture only a small fraction of the rents to secure an acceptable wage. The possible outsourcing of production decreases the bargaining power of the workers in favour of the bargaining power of the firm.