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Wage spillovers in public sector contract negotiations: the importance of social comparisons

Linda Babcock^a, John Engberg^b, Robert Greenbaum^{c,*}

^a *Carnegie Mellon University, USA*

^b *RAND, Pittsburgh, USA*

^c *The Ohio State University, 2100 Neil Ave, Columbus, OH 43210, USA*

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Abstract

We explore the existence of wage spillovers in public sector teacher contract negotiations. We focus on the role that informal social comparisons have in determining wages. Using a combination of survey and administrative data, we estimate the relationships among a district's negotiated salary and the wages negotiated in that district's reference districts. Using panel data and spatial econometrics, we control for observed and unobserved factors that jointly determine salaries in a local labor market to isolate the causal influence of wage spillovers. We find that there are indeed causal relationships among salaries and that union "strength" influences these relationships.

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1. Introduction

Estimating the magnitude of wage spillovers in collective bargaining has been a popular research area for the past 50 years. However, most previous research has been quite narrow in its focus, concentrating on the role that formalized union pattern bargaining has had on negotiated outcomes (Budd, 1992, 1995, 1997; Erickson, 1992, 1996; Ready, 1990; Levinson, 1960; Alexander, 1961). In pattern bargaining, the union selects a target employer to negotiate with first and then attempts to impose this "pattern" on other employers in the industry.

* Corresponding author. Tel.: +1-614-292-9578; fax: +1-614-292-2548.

E-mail address: greenbaum.3@osu.edu (R. Greenbaum).

While pattern bargaining may be an important determinant of wages in some sectors, it ignores the more pervasive, less formal, convention of referring to sets of wage “comparables” during collective bargaining (Horowitz, 1994). Both union and management engage in this practice of “social comparisons,” and it can have significant implications for the outcomes that are negotiated.

There are several reasons why both sides refer to wages negotiated in other organizations. First, management and union negotiators are able to reduce uncertainty and minimize transaction costs by referring to a set of mutually agreed upon referents. This allows them to more quickly narrow in on a smaller set of potential outcomes. However, each side will also introduce referents that deviate from the common set in ways that serve their own constituencies. They may do this to gain a strategic advantage or because they have come to believe this biased set is the appropriate comparison group (Babcock et al., 1996).

Second, union negotiators may use reference groups because workers are concerned explicitly with how their wages compare to those of workers in similar organizations. Research has indicated that workers care about the fairness and equity of relative wages (Easterlin, 1995; Dusenberry, 1949; Frank, 1985; Kahneman et al., 1986; Felstinger, 1954; Pollack, 1976). This will put pressure on elected union negotiators to bring the workers’ wages in line with those of their referents.

Third, success at the negotiating table relative to comparable organizations may provide a useful signal to the negotiators’ constituencies. This is especially important in public organizations where direct measures of managerial competence may be less available than, say, the stock price of a private company. In agency models, such as the one laid out by Besley and Case (1995), voters compare local outcomes to the “yardstick” of outcomes in similar jurisdictions and base votes on this evaluation of their elected officials’ performance. If constituents base their votes on relative wages, then public management negotiators will explicitly care about these yardsticks. Indeed, union members may also use relative wages as a signal of their leadership’s skills in dimensions for which they lack direct measures.

This paper explores the extent to which the references that both sides make to wages in other organizations affect negotiated outcomes of teacher salary contracts in public school districts. In doing so, we extend the literature on wage spillovers in several ways. First, rather than focusing only on the union’s use of pattern bargaining, we examine how the choice of referents that both sides make may affect the negotiated outcome. Our effort distinguishes the impact of the set of referents that both sides agree upon from the impact of those chosen by only the union and those chosen by only the employer. Second, we explore whether the impact that each sides’ referents have on the negotiated outcome depends on each side’s “bargaining power” in the negotiations. For example, it may be that in environments in which the union is very powerful, their list of referents greatly affects the negotiated outcome. In environments in which the union is not powerful, their referents may hardly matter. By uncovering the circumstances under which unions can use their strength to achieve their goals, we will gain insight into the mechanisms by which union strength is exerted.

There has been a lively debate about whether it is possible to obtain legitimate estimates of wage spillovers. Contributors to the pattern bargaining literature have recognized that it is difficult to isolate true wage spillovers that arise from institutional factors in the negotiations process from spurious correlation due to market forces (Mitchell, 1982; Budd,

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