

How Wage Bargaining and Pay Policy Influence Wage Dispersion at the Establishment Level? The Case of France

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In this paper, we question the influence of wage bargaining and pay policy on wage dispersion within French establishments. The literature usually highlights two main explanations of wage dispersion: the first one concerns the increase in relative demand of skilled workers due to technical change and globalization phenomenon (Freeman and Katz, 1999) and the second one focuses on changes in institutional factors as deregulation of labor market, setting of minimum wages and decline in unionization (Fortin and Lemieux, 1997). More recently some researchs also attribute to contractual arrangements at the firm level an important influence on wage inequalities. In the vein of incentives theory, the implementation of performance pay systems may increase wage dispersion as they are supposed to more directly reflect worker heterogeneity in effort and productivity. Some empirical studies thereby show a positive correlation between performance pay and wage inequality in UK (Marsden and Belfield, 2003) and in US (Lemieux *et alii*, 2009). At the same time, numerous studies focus on the influence of unionism on wage dispersion and find that wage dispersion is weaker in unionized environments (Freeman and Medoff, 1984). However, far less attention has been given to the question of how bargaining may influence the wage dispersion effect of performance pay. **Can the presence of unions mitigate performance pay systems' influence on wages?** Recently, Bart *et al.* (2009) explicitly address such a question and they show union density tends to reduce the worsening effects of performance pay on wage inequalities.

Since the 1980s, wage inequalities appear to be on the rise in almost all OECD countries, except for France where they are relatively stable (Atkinson, 2008). At the same time, Belfield and Marsden (2010) showed the spread of incentive pay for non-managers is more widespread in France than in the UK. More generally, payment systems in France are shaped by an increase in individual incentive pay during the 1990s and a raise of collective schemes of incentive pay since the 2000s (Chaput, Wolff, 2009). Furthermore, wage bargaining is compulsory in France since 1982 and more recently, compulsory bargaining of working time reduction favoured such practices. Consequently, our research is guided by two questions. The first question deals with the impact of performance pay on wages: does performance pay favour wage dispersion in France as in other countries? Second, we focus on the role of wage bargaining in mitigating the impact of performance pay on wages.

To assess the influence of wage bargaining and pay policy on wage inequalities, we mobilise two data sources. The first source is the REPONSE 2004-2005 survey (Relations Professionnelles et Négociations d'entreprise). It is a large-scale establishment survey which supplies very rich information about HR practices and bargaining process. The second source, the DADS (Données Anuelles de Déclarations Sociales), is an administrative data file based on workplace declaration of individual wages to the French tax authority. This data file enables to analyse wage distribution within establishments.

Our empirical strategy is two staged. First, we define a set of variables of interest. We

determine pay system profiles based on an exploratory and classification analysis of pay strategy indicators. Indicators at stake refer to the use of individual *versus* collective incentive pay schemes and individual *versus* collective wage increase. Each indicator is differentiated for non-managers and managers. Regarding the role taken by unions, we take into account the share of unionized employee within establishments. Yet to have a more appropriate picture of the situation of the establishment, we also refer to the presence and form of wage bargaining at the establishment level and to the role given to collective industry-wide agreements. Second, we run OLS estimations of the wage level and wage dispersion at the establishment level including wage policy profiles and variables describing unions' role among independent variables.

Our results show that performance pay systems are associated to lower wage level but higher wage dispersion (at the bottom as at the top of the distribution). Introducing the variables describing unions' role or not does not change the link between pay policy profiles and wage level or dispersion. Yet unions' presence influences the wage level, even if it has less impact than wage policy profiles. Considering unions impact, our study first uncovers a negative correlation between very high unionization rates and wage dispersion, especially at the top of the distribution. Second, we find the bargaining process influences wage dispersion depending on the bargaining level at stake. Making reference to industry-wide collective agreements is associated to lower wage dispersion and level, especially at the bottom of the wage distribution while unions bargaining at the establishment level does not have any significant influence on wages. Finally, our results are consistent with the hypothesis that the well-known stability of wage dispersion in France is first and foremost linked to the French institutional setting and notably its bargaining process rather than pay profiles.