

Institution: Queen Mary University of London		
Unit of Assessment: 17 Business and Management Studies		
Title of case study: Improving Collective Bargaining Regulations and Employment Outcomes		
Period when the underpinning research was undertaken: 2009-2019		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s): Pedro Martins	Role(s) (e.g. job title): Professor of Applied Economics	Period(s) employed: 2004-Present
Period when the impact occurred: 2013-2020		
Is this case study continued from a case study submitted in 2014? N		
1. Summary of the impact		
<p>Professor Martins's research on the economic effects of collective bargaining, and specifically the extensions of collective agreements to non-unionised workers, has had a significant impact on employment policy in France, Greece and Portugal, and internationally. His research and engagement with policymakers has driven policy reforms, enhanced labour market resilience and preserved several tens of thousands of jobs in Greece and Portugal. In France, Martins's research influenced the competition authority's views on extensions and led to the establishment of a new monitoring and advice body. On an international scale, Martins's research has shaped policy making and recommendations about collective bargaining by the OECD, the European Commission and the IMF.</p>		
2. Underpinning research		
<p>Martins has led an extensive body of research on collective bargaining and employment relations. His academic expertise on the economic effects of collective bargaining, particularly on 'rent sharing' [3.1], led to European Commission funded research [EQR.3.6] on how collective bargaining extensions work in practice.</p> <p>Martins's research highlighted the role of extensions of collective bargaining agreements and provided estimates of their effects using novel econometric methodologies and data sets [3.2, 3.3]. Collective bargaining extensions are issued by the authorities of a country to widen the domain of application of collective agreements. Originally, agreements only apply to the subset of workers and firms that are affiliated with the bargaining parties (typically a trade union and an employer association, in the context of industry-level bargaining). After an extension, the agreement applies to all workers and firms in the relevant industry, regardless of their affiliation status. Extensions – and any changes in the regulations that underpin them – can therefore have a very large impact on labour markets. Martins's research found that extensions typically increase the number of workers (and firms) covered by collective agreements by 100%, 200% or more, potentially involving many thousands of workers in each case [3.2, 3.3]</p> <p>In contrast to earlier economics studies on collective bargaining, Martins examined collective agreements in detail, considering their different clauses, timelines and the different minimum wages that they set [3.6]. This information was matched to large individual and firm-level data sets, which covered periods of many years, and distinguished between firms and workers affiliated with social partners and firms and workers subject to extensions. Martins's research outlined the situations in which extensions to collective bargaining agreements may be more or less harmful to the labour market, depending on the economic situation of the country, the degree of representativeness of the trade unions and employer associations, and the relative weight attached to employment and inequality goals by policymakers. His findings illuminated the effects of collective bargaining and extension on multiple social and economic outcomes, including employment and inequality levels. He also adopted a causal analysis in his research which is of greater relevance from a policy angle as it is informative from a counterfactual perspective, i.e. it seeks to indicate what would have happened in the absence of the policy.</p> <p>Martins found that in circumstances such as those of Greece and Portugal, extensions may harm employment in the affected industries. His research demonstrated that employment decreases by</p>		

2% four months after an extension is issued, resulting from both a fall in hiring and an increase in firm closures. In addition, Martins found that such administrative extensions (which also entail the payment of substantial wage arrears) tend to increase the share of dependent self-employment (and therefore labour market segmentation) as firms seek to reduce their costs from employees. Overall, small firms, which tend to employ relatively more low-wage workers, are more negatively affected by such extensions. [3.2, p. 56]. He also found, however, that extensions may prove to be an appropriate tool to accelerate wage growth in periods in which the economy is recovering strongly, but wages are lagging. Following this, he recommended that governments exercise caution when issuing extensions, with attention to appropriate economic indicators [3.2, 3.3].

Following this, the European Commission and the International Monetary Fund funded further research on collective bargaining and extensions [3.3, 3.4, 3.5]. The resulting research compared collective bargaining in the Netherlands and Portugal and indicated that the collective bargaining system should seek to promote a closer alignment between wages and productivity at the firm level. The Portuguese experience demonstrated that putting restraints on the use of administrative extensions of collective agreements during times of crisis may help achieve wage moderation, preserve jobs and restore competitiveness. [3.4, p.110]. Additionally, the research demonstrated the complexity of building trust between social partners offering the following recommendations: making unions and employer organisations more inclusive; introducing objective criteria for both extensions and opt-outs; and encouraging regular negotiations by, for example, reducing the maximum length of time for which agreements can remain valid [3.4, p. 112]. [3.5] examines the impact of employee representatives in a context of extensions, and [3.6] examines the content of collective agreements and compares it with that of statutory employment law.

Overall, Martins found that that quasi-automatic administrative extensions of collective bargaining agreements had negative effects in terms of employment (including the quality of employment), as well as firm survival.

3. References to the research

- [3.1] Martins, P. S., & Yang, Y. (2015). Globalized labour markets? International rent sharing across 47 countries. *British Journal of Industrial Relations*, 53(4), 664-691. doi.org/10.1111/bjir.12050
- [3.2] Martins, P. S. (2014). 30,000 minimum wages: The economic effects of collective bargaining extensions. *British Journal of Industrial Relations*. doi.org/10.1111/bjir.12564
- [3.3] Hijzen, A., & Martins, P. S. (2020). No extension without representation? Evidence from a natural experiment in collective bargaining. *IZA Journal of Labor Economics*, 9(1). doi.org/10.2478/izajole-2020-0005
- [3.4] Hijzen, A., Martins, P. S., & Parlevliet, J. (2019). Frontal assault versus incremental change: A comparison of collective bargaining in Portugal and the Netherlands. *IZA Journal of Labor Policy*, 9(1). doi.org/10.2478/izajolp-2019-0008
- [3.5] Silva Martins, P. (2019). The Microeconomic Impacts of Employee Representatives: Evidence from Membership Thresholds. *Industrial Relations: A Journal of Economy and Society*, 58(4), 591-622. doi.org/10.1111/irel.12248
- [3.6] Martins, P. S., & Saraiva, J. (2020). Assessing the legal value added of collective bargaining agreements. *International Review of Law and Economics*, 62, 105904. doi.org/10.1016/j.irl.2020.105904

Evidence of the quality of research

- [EQR.3.2] Martins, P. [PI]. (2017-19). Economic Analysis of Collective Bargaining Extensions (CoBExt) [VS/2016/0340]. European Commission. GBP354,233.
- [EQR.3.6] Martins [Co-I]. (2020-22). Employer representation in collective bargaining [VP/2019/004/0038[1]]. European Commission. DG Employment. EUR392,000.

4. Details of the impact

Martins's research has led to policy reforms on collective bargaining in Portugal, Greece and France, which have resulted in more resilient labour markets, saved jobs and aided in economic recovery. Subsequently, the European Commission and the International Monetary Fund applied his research internationally in their recommendations on collective bargaining.

Supporting Economic Growth in Portugal through Labour Market Reform

Martins was Minister for Employment in Portugal between 2011 and 2013. The reforms he instituted have been extended by ongoing employment effects of the collective bargaining policies introduced. The reforms in the collective bargaining system of Portugal promoted greater attention to the representativeness of social partners, contributed to the decentralisation of collective bargaining, and allowed non-represented firms (i.e. firms not members of employer associations) to not have to increase the salaries of their workers at a time of economic crisis. These reforms have had a continued positive impact on the Portuguese labour market during the impact period.

The Organisation for Economic Co-operation and Development (OECD) published studies in 2017 [5.1a, 5.1b] and 2019 [5.1c] that examined the Portuguese labour market reforms based on Martins's research [3.2, 3.3, 3.5], including the new policy on collective bargaining and their extensions. The reports found that policies restricting extensions of agreements with low representativeness, in contrast to their virtually automatic nature up to 2011, facilitated a stronger link between productivity and earnings at the firm level. This then led to counterfactually higher employment levels [5.1c, pp. 51, 54, 130]. Despite the cost of lower earnings in some cases, the employment gains were particularly important in a context of increasing unemployment driven by a wider macroeconomic adjustment process. The OECD reported [citing 3.2 & 3.3] 'the Portuguese labour market reforms were a move in the right direction. Since economic growth turned positive again in early 2013, Portugal has experienced significant improvements in both employment and unemployment rates – greater, in fact, than what one would have expected given the pace of the recovery' [5.1a, p.10].

Martins's research is cited as evidence that 'quasi-automatic administrative extensions of collective bargaining agreements in Portugal have harmed competitiveness and employment' [5.1a, p. 56], and was used to support policy changes in relation to wages and productivity at firm level [5.1a, p. 112]. Following the strong economic recovery, the extensions policy was changed from 2016.

Advising the Greek Government on Policy Change in Collective Bargaining

In 2016, Martins's research and expertise was instrumental in a decision by the Greek Government to reverse a previous policy favouring the widespread issuing of collective bargaining extensions. As Dr Alfonso Arpaia, Deputy Head of the European Commission's Labour Market Reforms Unit notes 'because of his policy experience in the Portuguese Government... [] and his research record, [Martins] was chosen [by the European Commission and the Government of Greece] as one member of the group of independent experts created to advise the Greek government on the necessary labour market reforms' [5.2]. The resulting report [5.3 pp. 45-58], used Martins's research to support the recommendation that collective bargaining extensions should not be issued widely [3.2, 3.3]. This included the relevance of establishing carefully monitored representativeness criteria for the extension of collective agreements and the importance of restricting extensions during periods of high unemployment. In discussions of collective bargaining agreements, Martins's perspective was significant. The expert's group was split, with a number of members following Martins's in supporting the continuation of the suspension. Because the decision to reintroduce the extensions needed to be unanimous, this was essential in ensuring they remained suspended.

The Greek government subsequently implemented the recommendations on extensions, which changed their previous policy favouring widespread extensions, to one that ensured extensions were not issued if they did not meet the representativeness criterion proposed in the report. The Deputy Head of the European Commission's Economic Unit stated that the 'policy relevance' of

Martins's research on 'different fields of labour economics and industrial relations, most notably on segmentation and collective bargaining' was 'very effective in dealing with relevant policy questions, including in the context of the work done by above-mentioned group of independent experts.' Martins's ability to communicate 'policy relevant research' to a 'non-technical audience' helped the Greek government in their consideration on necessary labour market reforms [5.2]. These policies have continued to be enforced by the two subsequent governments in power; the suspension policy was extended from 2016-2018, and subsequently reinstated in 2020 in response to changes in the labour market [5.4, pp. 37-38]. According to an OECD report [5.4, pp. 37/38], the suspension was continued for two more years, when 'The extension and favourability procedures were reinstated when Greece completed the Stability Support Programme in August 2018' and a number of extensions were issued ('Fifteen out of 16 occupational and 23 sectoral collective agreements were extended'). The suspension was subsequently reinstated ('Since then [as of October 2020], no extension of sectoral collective agreements has been signed').

Informing Reformation of the Labour Code in France

Martins's research has underpinned a variety of French governmental reports, policy changes and the foundation of new public bodies concerned with collective bargaining reforms [5.6], following invitations to present his findings on collective bargaining [3.2, 3.3] at policy and academic events in France between 2014 and 2018. The invitations were issued by various organisations, including the Ministries of Finance, the Economy and Employment, the Central Bank, the Council for Employment Orientation, and several universities and research centres [5.5].

In 2017, Martins's [3.2, 3.3] research informed the Government of France's reformation of the Labour Code, which 'introduced a number of additional changes in France that can be argued to have been shaped, among others, by Professor Martins's finding' [5.6]. This included the requirement that 'under some circumstances, extensions can only be issued if the underpinning collective agreement contains special provisions for firms that employ 50 or fewer workers (Article L2232-10-1)' [5.6]. Additionally, it included legally allowing the non-extension of agreements and the greater decentralisation of collective bargaining, particularly in terms of working hours (article 2261/25 of the Labour Code). Martins's research was cited in official documents issued by the French Government at this time [5.7].

In 2018, the French government created a new public body in the Ministry of Employment, tasked with monitoring the effects of the extension of collective agreements in the country. According to the group's Chair, Martins's research directly 'contributed to the research evidence base that led to the creation of the group' and his research on the economic and social effects of 'largely ignored labour market policy' has continued to inform the group's work [5.6].

The Competition Authority of France also issued an important report on extensions of collective labour agreements, which has informed industry regulations. Martins's research in relation to examining these changes within a global economic system on a company/sector specific level, rather than through industry-wide agreements [3.2, 3.3, 3.5], are directly cited in the report [5.7b]. Further to this, following a talk given by Martins's (and others), the French 'Council for Employment Orientation' report that 'Reforms undertaken [...] have therefore helped improve the countries' cost-competitiveness [5.7a, p. 11]

Contributing to International Recommendations on Labour Reform

Martins's expertise on collective bargaining led to an invitation to participate in a closed meeting in 2017 with European Commission officials, to discuss a report on social dialogue in the EU Member States [5.5].

In 2017, and 2019, the OECD issued four major policy reports on collective bargaining to its 36 member countries, all of which reference Martins's research ([5.1a, b, & c], citing [3.3, 3.4 & 3.5]). The reports' recommendations are consistent with Martins's findings on the relevance of extensions and their potential negative effects when based on limited representativeness and when issued in recessions.

Similarly, in 2019 the IMF issued a report on labour-market institutions, making several recommendations to governments around the world (and especially developing economies) reflecting the findings of Martins's research on the 'adverse employment effects of administrative extensions in both advanced economies and emerging market and developing economies' [5.8, p. 25]

In 2020, the European Commission launched a proposal for an EU Directive to ensure that the 'workers in the EU are protected by adequate minimum wages allowing for a decent living wherever they work' [5.10]. Martins's research informed the proposal's sections on collective bargaining, where his findings on the role of positive collective bargaining has been used (among others) to address wage inequality. The proposal's impact assessment cites Martins's research in relation to 'the potential to limit wage inequality by setting common working conditions within sectors' [5.9, f.n. 131].

5. Sources to corroborate the impact

[5.1] [Reports] OECD reports and working papers

[5.1a] 'Labour Market Reforms in Portugal 2011-15: A Preliminary Assessment' (2017) <https://www.oecd.org/employment/labour-market-reforms-in-portugal-2011-15-9789264269576-en.htm>

[5.1b] 'Collective bargaining in a changing world of work', employment bargaining, (2017)

[5.1c] Negotiating Our Way Up: Collective Bargaining in a Changing World of Work, OECD Publishing, Paris, (2019) <https://doi.org/10.1787/1fd2da34-en>. (<https://www.oecd-ilibrary.org/docserver/1fd2da34-en.pdf?expires=1574257771&id=id&accname=guest&checksum=BF7D5A886F6122CBB61228253ED29FE2>) p.51 [Corroborator 1]

[5.1d] [Testimonial] Director of Country Studies, Economics Department, OECD; former Minister of the Economy and Employment, Portugal

[5.2] [Testimonial] Deputy Head of the Labour Market Reforms Unit, DG Employment, European Commission [Corroborator 2]

[5.3] [Reports] 'Recommendations - Expert Group for the Review of Greek Labour Market Institutions, Government of Greece and European Commission', 2016

[5.4] [Reports] OECD Working Papers, no. 1622.

[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP\(2020\)30&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP(2020)30&docLanguage=En)

[5.5] [Feedback] Portfolio of Feedback and invitations to present the High Level seminars

[5.6] [Testimonial] Chair of the Expert Group 'chargé d'apprécier les effets économiques et sociaux de l'extension des conventions collectives', France [Corroborator 3]

[5.7] [Reports] Martins's studies were cited in official documents issued by the French Government

[5.7a] The French 'Council for Employment Orientation' report, following a talk I and others gave there, states that 'Reforms undertaken [...] have therefore helped improve the countries' cost-competitiveness.' (Page 11)

<https://www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/coe-labour-markets-reforms-europe-novembre-2015.pdf>

[5.7b] 'Extension of industry sector collective agreements: towards better anticipation of potential effects on competition'

<https://www.autoritedelaconcurrence.fr/en/press-release/extension-industry-sector-collective-agreements-towards-better-anticipation-potential>

[5.8] [Report] 'Designing labour market institutions in emerging markets and developing economies: Evidence and policy options' (2019)

<https://www.imf.org/~media/Files/Publications/SDN/2019/SDNEA2019004.ashx> and Dr Romain Duval (IMF research department; head of structural reforms unit) [Corroborator 4]

[5.9] [Reports] 'Advancing the EU social market economy: adequate minimum wages for workers across Member States'

<https://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=9808&furtherNews=yes>