Horizontal and vertical spillovers in wage bargaining: experimental evidence

Working paper

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Abstract

Wage negotiations are not isolated events. There exist patterns of influence across different bargaining units (horizontal spillovers) and within bargaining units over time (vertical spillovers). Horizontal spillovers are commonly attributed to social comparisons or learning, vertical spillovers may be explained by the role of expectations and reputations. However, the empirical analysis of spillovers is hindered by severe identification problems. Bargaining experiments offer valuable insights in this case, as they enable us to test the behavioral assumptions underlying spillover effects in a controlled environment. This paper reports on an experimental investigation of the impact of horizontal and vertical spillovers on conflict in bargaining. We implement an unstructured, time limited two-person bargaining game with asymmetric information. The experimental treatments vary the information available to the participants and allow us to compare the impact of different types of spillover. The results suggest that while spillovers driven by social comparisons and expectations increase the level of conflict during the bargaining process, the introduction of learning opportunities and the ability for firms to build reputations offset these conflict-increasing effects.

‘If an employer cuts wages too far [...] He will get the reputation of standing out for the last penny when he gets the chance [...] “Bad employers”, it appears to the workman, are people who seize every chance of cutting rates; “good” employers have not this bad habit, and consequently maintain better relations.’ (Hicks, 1932: 55)

[An employee] ‘...feels, not only that his interests have been damaged [...] but also that he has been cheated of a legitimate expectation. [...] if [...] an employer merely refuses a demand for an advance made on the ground of fairness – because wages in similar firms, or associated trades, are rising.’ (Hicks, 1932: 138)