Sharing economic rents with workers?: Evidence from matched employer-employee data in Vietnam

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Context

- Well suited for the theme of today's workshop!
  - Adjustments in Firms and Labour Markets Under an Uncertain World
- Positive economic rents – firm specific premium in profits
  - Not expected under the perfect competitive market
- These rents are shared with employees?

Motivation

- Yamashita and Ha (2022), *Participation in Global Value Chains and Rent Sharing by Small Firms in Viet Nam*

a study on economic rents sharing of GVC firms

- Offer higher wages
- Little rent sharing
- Compensate workers for more volatile in firm performance

This paper is a follow up study

- **Expand the scope and time period**

What does this paper do?

- Examine whether economic rents are shared with employees (in the form of pay) for SMEs in Vietnam

- **Matched employer-employee dataset, 2007, 2009, 2011, 2013, and 2015**

What important?

- Rare opportunity to examine the matched employer-employee dataset
- Dynamic emerging economy, Vietnam
- SMEs vs large firms in developed countries

Today's talk

1. Framework
2. Data
3. Identification approach
4. Key takeaways
5. Conclusion and policy

Analytical framework

Three theoretical considerations

- **Monopsonoy**
- **Union bargaining**
- **Risk sharing (wage insurance)**

Data

Vietnamese SME data

- the Vietnamese Small and Medium Enterprise surveys (SMEs) in the manufacturing industries
- 2005, [**2007, 2009, 2011, 2013, 2015]**

- Matching Enterprise and Employee Modules (matched employer-employee dataset)

- Employee data – subset of firms with employees (max. 7 workers for each)
- Can be person panel (not used this time)

Table 1: Main Sample

	(1)	(1)
Survey year	# of firms	# of employees
2007	413	806
2009	401	1,032
2011	462	1,153
2013	448	1,236
2015	408	1,078
Total	2,132	5,305

Industry distribution of firm

	# of firm	Share, %
Fabricated metal products	401	18.8
Foods	392	18.4
Wood products	239	11.2

Rent-share equation

$$\ln(w)_{ijt}=\alpha\ln(R_{jt-1})+\boldsymbol{X}_{i,t}\phi+\delta_t+\delta_j+\varepsilon_{ijt}$$

- ***i*** for employees, ***j*** for firms and ***t*** for the year (year 2007-2015)
- *W* is monthly wage (June)
- *R* is economic rents (value added per employee)

- ***X*** contains human capital variables (Age, Educ, Training, Occupation)
- Firm and year FEs
- (can be person panel only for last three years)

Identification Approach

Searching for an instrument for <u>firm-level economic rents</u>

- Extremely hard to come by (Card et al., 2018)

- Literature uses patent data and the corresponding market returns
  - Not possible in this study
- Previously we tried many instruments (ended up not using them after all…)

Findings

Comparisons to other studies

- ***0.11-0.16*** **(our estimates)**
  - Interpretation; **10% increase in economic rents would increase wages by about 1%**

- Wage-profit elasticity **0.05-0.20** on average based on the employer-employee data sets in 15 studies (surveyed by Card et al. 2018)

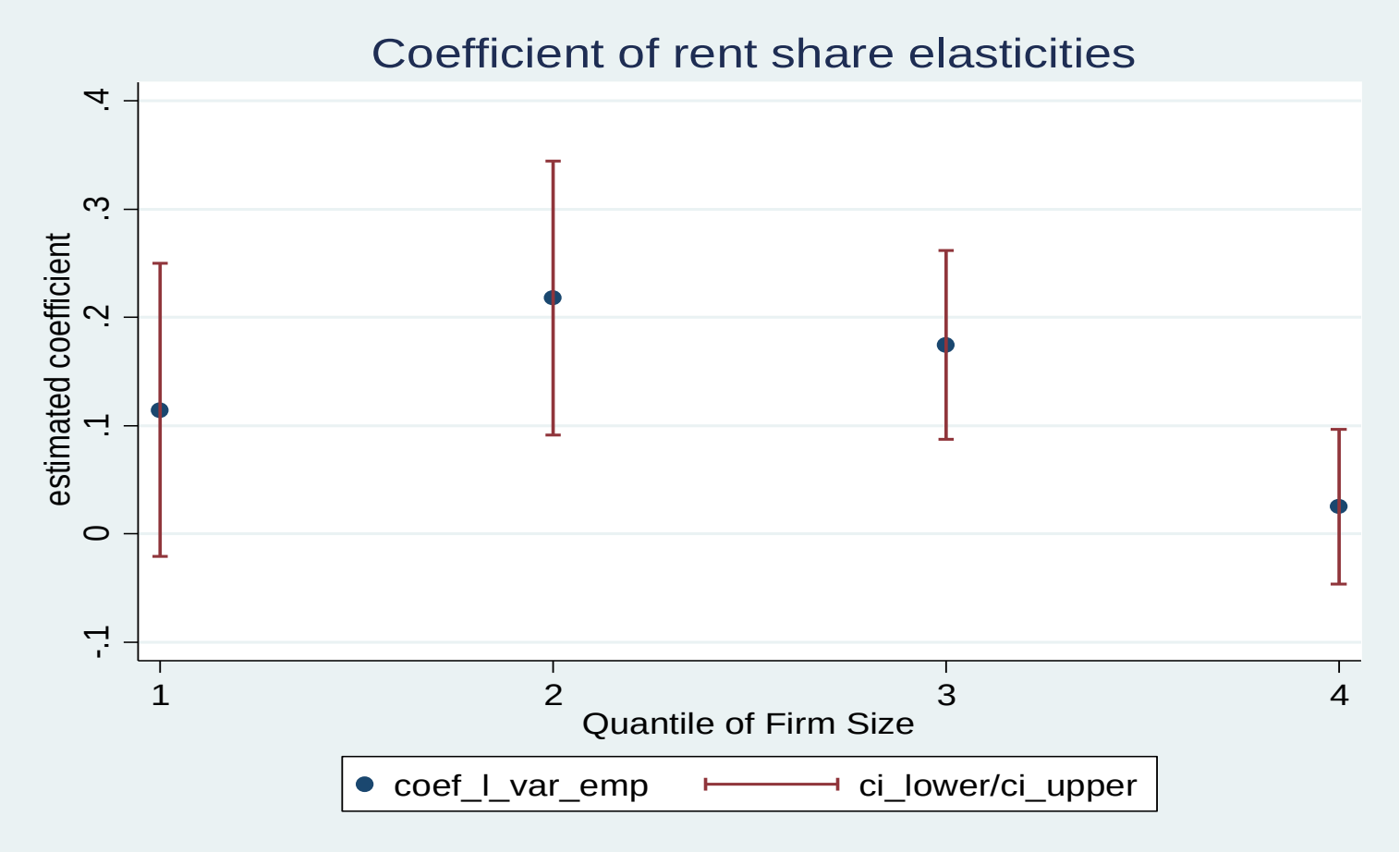
Heterogeneity

- ***Wage response greater for***
  - *Family (household) firms*

- ***Statistical significance for***
  - *Non-exporters, but not exporting firms*

- Wage sharing pronounced only for "***related to owners"***
- Production workers
- Rent sharing is not driven by contracts or unions

Market power and wage sharing



- Quantile 1=employment between 1 and 4
- Quantile 2=employment between 5 and 8
- Quantile 3=employment between 9 and 20
- Quantile 4=employment between 21 and 499

Summary

- Market power
- Union and formal contracts (wage insurance)

- Rent sharing also seen as ‘risk sharing’
  - Ups and downs in economic rents

- Larger and capable firms (exporters)
  wage insurance

Thank you

Firm characteristics

	N	Mean	SD	Median	min	max
Employment	2,128	20	35	8	1	499
Value added per employee	2,128	81,858	137,077	55,810	250	3,500,000

Characteristics by quantiles in employment

	N	Mean	Std. Dev.	Median	min	max
Employment	571	3.19	0.79	3	1	4
Value added/revenue	571	0.34	0.14	0.32	0.00	0.92
wage bills/revenue	571	0.13	0.09	0.11	0.00	0.50
Profit/revenue	571	0.20	0.10	0.19	-0.20	0.75
Capital/revenue	571	2.43	5.68	1.00	0.02	101.31
	N	Mean	Std. Dev.	Median	min	max
Employment	552	6.28	1.12	6	5	8
Value added/ revenue	552	0.36	0.15	0.34	0.02	1.03
wage bills/ revenue	552	0.17	0.11	0.15	0.00	0.69
Profit/ revenue	552	0.19	0.09	0.18	-0.21	0.69
Capital/ revenue	552	2.71	8.17	1.08	0.04	173.04
	N	Mean	Std. Dev.	Median	min	max
Employment	526	13.72	3.62	13	9	20
Value added/ revenue	526	0.38	0.29	0.36	0.02	5.89
wage bills/ revenue	526	0.20	0.17	0.18	0.00	2.83
Profit/ revenue	526	0.18	0.16	0.16	-0.11	3.05
Capital/revenue	526	2.16	3.52	1.03	0.00	50.80
	N	Mean	Std. Dev.	Median	min	max
Employment	479	62.77	53.7	45	21	499
Value added/ revenue	479	0.34	0.18	0.32	0.01	1.49
wage bills/ revenue	479	0.18	0.13	0.15	0.00	0.85
Profit/revenue	479	0.15	0.10	0.13	-0.24	0.75
Capital/revenue	479	1.26	2.35	0.65	0.01	27.15

Characteristics of employee

	N	Mean	Std. Dev.	Median	min	max
Male (=1)	5287	0.59	.49	1	0	1
Education dummy	5287	0.6	.49	1	0	1
Age	5287	32.92	9.75	31	14	72
Training dummy	5287	0.4	.49	0	0	1
Tenure	3453	6.02	5.1	5	0	40
Real wage rate	5287	1,650.46	782.72	1,496.56	14.37	14,966.18

Notes: Based on SME data, Vietnam. Real wage rate (1,000 VND)