1 Summary

On behalf of the Danish Competition and Consumer Authority, we have investigated the extent of the use of price lists agreed upon as a part of collective agreements in the Danish construction sector and whether price lists may hinder competition, innovation and productivity.

A price list describes the minimum remuneration for piecework tasks. The exact rules regarding the use of piecework remuneration, including price lists (minimum salaries for piecework), have been agreed upon by the labour market parties. Several hundred prices have been defined for various subtasks in various industries. Typically, each industry has one common price list to which various collective agreements accede. In some cases, different price lists are agreed upon for different parts of the country.

In this report, we describe the use of price lists and their impact. The analysis is partly based on interviews conducted with six selected employers' organisations and trade unions and 15 companies in different industries, and partly on payroll data for the electrical and plumbing industries.

1.1 Use of piecework remuneration

Piecework is used when the task is easy to define and observe

We find piecework remuneration to be used mainly for tasks which are easy to define and observe. This applies i.e. to new-build projects and major construction projects, where the size and nature of the task are known in advance.

Considerable variation in the application of piecework remuneration

The extent to which piecework remuneration is used varies greatly from industry to industry. In the painting and decorating industry, piecework remuneration is applied on virtually all tasks, while only 10-30% of the tasks executed by carpenters, masons, plumbers and electricians are remunerated on a piecework basis.

The hourly rate is higher for piecework than for time-based work

In the analysis, we document that piecework remuneration on average results in a higher hourly rate than time-based work. Our interviews provide two contrasting explanations for this. One explanation is that piecework remuneration leads to enhanced productivity. Another explanation is that the price list is not adjusted downwards sufficiently when a task becomes faster to complete because of innovation in e.g. working methods or materials. Based on the analysis, we find both explanations to be valid.

1.2 Impact of price lists and piecework remuneration

In our interviews, we asked about the effects of applying price lists and piecework remuneration in the Danish construction sector. The opinions of companies, employers' organisations and trade unions argue that the use of price lists may have an adverse impact on competition, innovation and productivity, while piecework remuneration contributes positively to the productivity in the sector.

Price lists hamper the incentive to innovate

If the price lists are to be fair, innovation which makes tasks faster to complete must lead to the relevant prices being reduced accordingly on the price list. According to our interviews, this is not the case since the price list has been negotiated and the trade unions have no incentive to accept a lower price. This inhibits the incentives for companies to invest in innovation and as a result restricts competition between companies on innovation. Unless the price list is successfully renegotiated, companies will not gain a competitive advantage by being the first to implement a new technology or to invent their own smarter working methods.

If the employer still chooses to invest in innovation, there are, however, negative consequences of the price list unless it is adjusted: If the company's costs are not reduced, the final price remains unchanged and consumers do not therefore profit from innovation. Both the lack of innovation and the unchanged final prices hamper productivity.

Price lists may impair competition on price

The application of price lists helps to standardise the labour costs of companies, particularly in situations where competing companies use the same calculator or calculation software and when labour intensity is high. At the same time, the use of price lists and calculators means that, to some extent, companies have greater knowledge of each other's costs. In theory, companies with similar costs and knowledge of each other's expenses have less incentive to undercut each other, which will naturally lead to higher profits. In order to examine whether this harms competition in practice, we have analysed the data for the electrical and plumbing industries. The result of the analysis concludes that the data do not indicate higher earnings for companies using piecework remuneration.

The fact that no higher profit can be proved for companies using piecework remuneration may be due to several factors. First, the profit goes towards higher wages in those cases where the price list has not been updated over time, and, second, piecework is used in new-build projects more often than for service and maintenance tasks. Here, the earnings are lower than for service and maintenance tasks.
Since it is not possible to correct for type of project and fully for labour costs, the notion that price lists hinder price competition cannot be rejected.

Price lists makes it easier (and less costly) to calculate the costs of a task

When isolated, price lists make it easier for companies to calculate the costs of a project because the price list specifies a number of subcomponents of the work, which means they do not need to be negotiated in each individual company and for each project.

Piecework remuneration contributes positively to productivity

The very fact that piecework remuneration is used can contribute positively to productivity in the sector for two reasons: First, the pieceworker has an incentive to be efficient, since the gains from less time spent goes to the worker. This increases productivity, especially when labour intensity is high.
Second, piecework remuneration shifts the risk from the employer to the employee, which may be expedient in cases where the worker can best monitor time overruns and other risks.