Strengthening and Re-Building Collective Bargaining

RDW ILO, Geneva July, 9 2019
Substantial decline of CB in Europe 2000 -2016: Mainly due to a decline in multi-employer CB

Source: Vaughn-Whitehead: (2019), Reducing Inequalities in Europe
Strong link between coverage by CB and inequality: Rate of coverage by collective agreements and share of low-wage work in the EU (2014)

Correlation: -0.82

Source: Visser 2015, Eurostat, own calculations
Wage distribution in a liberal market economy with MW and in coordinated market economy with high coverage by collective agreements
Two real cases: DK 2016 and UK 2018

Hourly wage in Denmark, 2016

Hourly pay (£)

Source: Low Pay Commission 2019;
Wages curves in Chile (no or decentralized CA’s) and Germany (industry-wide CA’s but since 1995 declining coverage)

Links between MW’s and CA’s important

MW’s important but not the silver bullet
• an important baseline for wages
• limits for increases (*living wages cannot replace CA’s*)
• but “one size for all” - no guarantee for fair remuneration of skills, responsibility, hard working conditions ..... 

Only Collective Agreements with differentiated pay scales can
• guarantee fair remunerations
• create stable middle incomes classes

Positive interactions between MW’s and CA’s crucial
# Links between MW and in 6 EU countries

<table>
<thead>
<tr>
<th>Coverage by CA’s 2015/2016</th>
<th>France</th>
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<th>UK</th>
<th>Hungary</th>
<th>Denmark</th>
<th>Germany</th>
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<tbody>
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<td>49,0</td>
<td>51,2</td>
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<tr>
<td>Minimum Wage: Kaitz-Index 2016</td>
<td>46,7</td>
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<tr>
<td>Minimum Wage for skilled work</td>
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<th>Type</th>
<th>Direct Interaction</th>
<th>Distant Co-Existence</th>
<th>Isolated MW</th>
<th>Extensive MW</th>
<th>Autonomous CB</th>
<th>Mixed Model</th>
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- **Coverage by CA’s 2015/2016**
- **Extended Collective Agreements**
- **Collective Agreements**
- **Minimum Wage**
- **Minimum Wage for skilled work**

The chart illustrates the coverage of collective agreements and minimum wages in France, Belgium, UK, Hungary, Denmark, and Germany, categorized by type: Direct Interaction, Distant Co-Existence, Extensive MW, and Autonomous CB. The chart also includes a Kaitz-Index for each country, showing the percentage of wage agreements and minimum wages in 2015/2016.
A shift of paradigm at least in research, not yet in politics!

OECD and IMF showed positive employment effects of coordinated CB

- “... the erosion of labour market institutions in the advanced economies is associated with an increase of income inequality” (Jaumotte/ Buitron 2015: 27, International Monetary Fund).

**Chart:**

Difference in percentage points with respect to fully decentralised systems

- Employment rate
- Unemployment rate

**Legend:**

- Predominantly centralised and weakly co-ordinated
- Predominantly centralised and co-ordinated
- Organised decentralised and co-ordinated
- Largely decentralised

**Notes:**

***, **, *: statistically significant at the 1, 5 and 10% levels, respectively. Results are based on OLS regressions including country and year dummies, collective bargaining coverage, log of average years of education, female employment share and institutional variables: (tax wedge, product market regulation, employment protection legislation [both temporary and permanent], ratio of minimum wage to median wage and gross unemployment benefit replacement rate). p.p.: percentage points.

Source: OECD estimates. Details on sources and definitions can be found in Chapter 3 of the Employment Outlook 2018.
Reasons for positive employment effects of high coverage by CA’s

- Wages taken out of competition: supports high-road business models - business models based on wage cutting not an option
- Institutional stability of CA and employment protection supports acceptance of innovation by unions and employees
- Reduction of bureaucracy and transaction costs – self-regulation instead of state intervention
- Development of internal flexibility: functional flexibility by higher investments in skills / numerical flexibility by wtime-flexibility
- Cooperation of employers and unions on all levels supports innovation and skill development (example VET in Germany)
High coverage by CA’s based on different combinations of labor standards

Support of the state needed for institutional stability of CB in labor markets with fragmented firms and high shares of precarious workers

„Shadow of the law“ over all wage setting systems - two kinds of standards (Sengenberger 1994):

• **Protective standards**: state directly establishes employment conditions like MW’s.

• **Participative standards**: enabling social partners to negotiate employment conditions autonomously through the Ghent system, consultation or codetermination rights and resources (time and money).
## Statutory protective and participative labour standards in seven national wage setting systems

<table>
<thead>
<tr>
<th>Statutory standards</th>
<th>Germany</th>
<th>Sweden</th>
<th>UK</th>
<th>France</th>
<th>Belgium</th>
<th>Greece</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>- protective</td>
<td>X</td>
<td>-</td>
<td>X</td>
<td>XXX</td>
<td>XXX</td>
<td>X</td>
<td>XXX</td>
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<tr>
<td>- participative</td>
<td>XX</td>
<td>XXX</td>
<td>-</td>
<td>X</td>
<td>XXX</td>
<td>-</td>
<td>X</td>
</tr>
<tr>
<td>Trade union density (2013 – 2016)</td>
<td>18%</td>
<td>67%</td>
<td>25%</td>
<td>8%</td>
<td>54%</td>
<td>21%</td>
<td>14%</td>
</tr>
<tr>
<td>Rate of coverage by CA’s (employees) (2013 – 2016)</td>
<td>56%</td>
<td>90%</td>
<td>26%</td>
<td>99%</td>
<td>96%</td>
<td>40%</td>
<td>73%</td>
</tr>
<tr>
<td>Share of low wage employees (&gt;2/3 of median wage) 2014</td>
<td>22.5%</td>
<td>2.6%</td>
<td>21.3%</td>
<td>8.8%</td>
<td>3.8%</td>
<td>n.a.</td>
<td>14.7</td>
</tr>
</tbody>
</table>

Statutory standards: - none, X weak, XX moderate, XXX strong

Source: EuroStat. OECD, own compilation
Instruments to strengthen the coverage by CA’s (I)

1. Improving *participative standards*
   - Creation or strengthening employee representation (works councils or trade union delegates), improving their resources and codetermination rights
   - Board representation with information and codetermination rights / nomination of human ressource director
   - Union administration of social insurances (unemployment assurances = Gent system or pension systems)
   - Chambers with mandatory membership for employers and employees
   - Disposable laws: Derogation only possible by CA’s
Instruments to strengthen the coverage by CA’s (II)

2. Improving *protective* standards

- Minimum wages: Higher levels (60% Kaitz index), MW II for skilled worker’s
- Extension of CA’s: today mostly too strict conditionality (like 50% coverage) might prevent extension, criteria of „public interest“ needed for low wage industries
- Arbitration: Sectoral committees with equal representation of social partners and an arbitrator negotiate an CA which is extended (*example Uruguay increase of coverage by CA’s from 15 to 95%) (UK Manifesto for labour law)
- Prevailing wage laws in public procurement: *broad* literature with diff-in-diff calculations on positive effects in US construction industry
Conclusions

• Declining coverage by CA’s = increase of income inequality
• Demanding only higher MW’s = acceptance of inequality
• Stable middle income classes only with high coverage by CA’s
• Precarisation of employment and fragmentation of companies make organizing and rebuilding of multi-employer CB more difficult than in the past
• Stronger state intervention needed

Strengthening of multi-employer CA’s = top priority in the fight against inequality of market incomes