Collective bargaining and diversity in wage developments

Introduction

The European Union hosts a great variety of collective bargaining systems. Country-specific collective bargaining institutions, in turn, contribute to divergent macroeconomic performance, impacting on employment, prices and income inequality.

In this chapter we address three macroeconomic developments influenced by wage bargaining. First, we investigate to what extent different collective bargaining regimes were able to ensure that wages develop in line with price and productivity increases. We show that this was most effective in systems of so-called 'multi-employer bargaining' (MEB) where collective agreements are legally binding and, at the same time, a legally enforceable peace obligation exists (Traxler et al. 2001).

Secondly, we focus on the effects of particular features of the bargaining system on wage inequality. Here, we provide additional evidence for the link between bargaining coverage and income distribution (e.g. Visser and Checchi 2009; Hayter and Weinberg 2011), showing that in EU member states characterised by high rates of collective bargaining coverage, the degree of income dispersion tends to be smaller. The same countries featured the least dramatic decrease in real wage compensation during the recent crisis.

Finally, we examine trends in the wage share, i.e. in compensation per employee as a percentage of GDP. We find that states characterised by high collective bargaining coverage retained the highest wage share throughout the 2000s, including the 2008-2009 downturn. We thus assert that countries with high bargaining coverage were better equipped to fight income inequality and downward pressures on real earnings; they also managed to provide a more equal distribution of profits between capital and labour. This finding is important with regard to the current crisis in the euro area, which is mainly the result of mounting macroeconomic inequalities. At the same time, ensuring social peace and a socially equitable compensation of workers is a key task for the future.

Topics

Industrial relations regimes in the EU

Figure 4.1 Industrial relations regimes in the EU: an overview

Dimension / Regime	North European	Central-West European	South European (Mediterranean model)	Liberal-West European (Anglo-Saxon model)	Central-East European
Trade union density (2000-2009)	73.1	33.9	23.5	33.2*	19.8
Collective bargaining coverage (2000-2009)	88.4	83.3	74.7	42.1*	36.3
Predominant level of collective bargaining	sector	sector	sector (FR : company)	company	company
Predominance of MEB[a] or SEB[b]	MEB	MEB	MEB	UK, MT: SEB IE, CY: MEB	SEB
Practice to extend collective agreements	no (except FI)	yes**	yes**	no	limited
Statutory minimum wage	no	yes (DE partly)	yes (except IT)	yes	yes
Role of social partners in policy making	institutionalised	institutionalised	Varying; politicised	ad hoc; issue-specific	politicised; social partners weak
Role of state in collective bargaining	limited	limited; strong legalism	state active; clientelistic relations	state strong but its interventions rare	state dominant; strong legalism

*without Cyprus and Malta; ** in Austria and Italy: functional equivalent to extension; [a] 'Multi-employer bargaining'; [b] 'Single-employer bargaining'
Sources: Marginson and Traxler 2005, Visser 2011, and ETUI 2011.

Industrial relations variety in the EU

In the first decade of the 21st century, Europe was home to a plethora of industrial relations systems. Due to the absence of EU harmonisation pressures, country-specific institutions continued to exist, contributing to cross-national variation in terms of the quality of collective interest representation and the degree of social partners' inclusion in the policy-making process.

For analytical purposes, it is nevertheless useful to group the EU's 27 member states into the following five clusters, which can be broadly referred to as industrial relations regimes (cf. European Commission 2009b):

a) North European, including Denmark, Finland and Sweden;
b) Central-West European, including Austria, Belgium, Germany, Luxembourg, the Netherlands and Slovenia;
c) South European, including France, Greece, Italy, Portugal and Spain;
d) Liberal-West European (Anglo-Saxon), including Cyprus, Ireland, Malta and the UK;
e) Central-East European, including Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia.

Industrial relations regimes in the EU

Mind the diversity

Figure 4.1 shows that the five country groupings vary systematically in relation to a number of features. They display different unionisation and collective bargaining coverage rates (for the evolution of these indicators over time by country, see Figures 4.2 and 4.3 in the next sections).

Moreover, the level at which collective bargaining takes place varies, as does the nature of employer involvement: while for the North, South and Central-West European groups the sector remains the main locus of negotiation and employer associations are unions' bargaining partners (i.e. multi-employer bargaining), in the Anglo-Saxon and Central-East European states company-level bargaining between unions and individual employers (i.e. single-employer bargaining) is the norm. The negotiated provisions are, in some cases, later extended by law to those companies that are not members of the signatory employer organisation. In some countries there exist functional equivalents (such as obligatory membership of the main employers' associations in Austria and the constitutional requirement for fair pay in Italy) to such formal extension. In Central-Western Europe – with the exception of Germany where the practice of extending agreements has become less frequent since the early 2000s – and Southern Europe, collective agreements are frequently extended. In the Northern and Anglo-Saxon systems, by contrast, no automatic extensions are permitted, while in the Central-East European EU member states, despite its formal possibility, it is barely used in practice. As will be shown in the next section, the practice of extending collective agreements has a direct impact upon bargaining coverage levels.

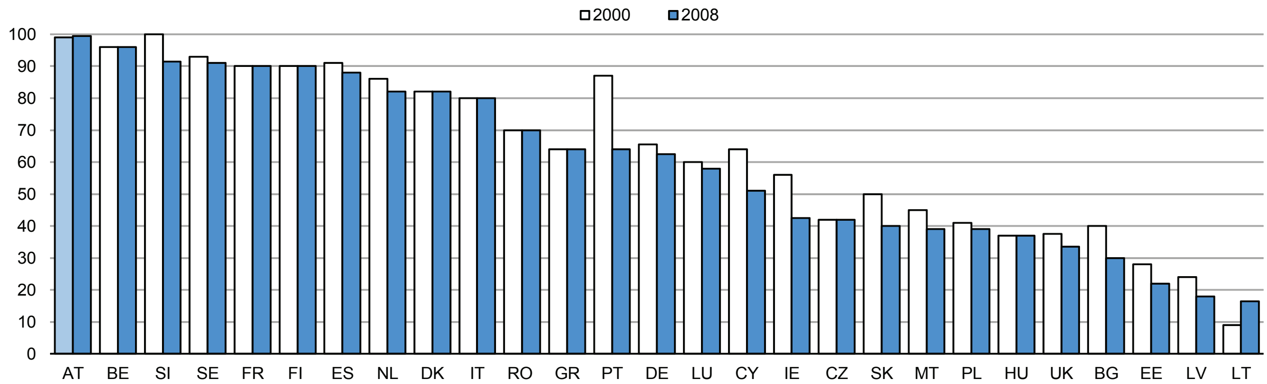
Furthermore, the role played by social partners in policy-making varies across the regimes. In the North and Central-West European corporatist clusters, involvement by trade unions and employer associations' in drafting policy proposals is extensive and their relationships with political actors are highly institutionalised. In Anglo-Saxon countries, while social partners are periodically engaged in socio-economic discussions, their voice is not always reflected in policy outcomes. In Southern Europe, social partners are usually formally involved in public policy-making but their participation in practice depends on individual governments' willingness to include them. Politicisation of the organisations is an additional factor that can stand in the way of effective social partnership in these countries, as is also the case in Central-Eastern Europe where, combined with the overall weakness of organised interest representation, social partners' politicisation seriously limits their influence in the policy-making sphere.

Last, but not least, the degree of state involvement in collective bargaining differs considerably across the clusters. Instances of actual state intervention are rare in Northern, Anglo-Saxon and Central-Western Europe, although in the latter region there exist detailed legal provisions governing collective bargaining processes. In Southern Europe, clientelistic links with social partners enable the state to influence collective bargaining outcomes indirectly. In Central-East European countries, meanwhile, tripartite negotiations are dominated by the government; given the limited extent of bargaining at other levels, law continues to be the main instrument regulating employment relations in this region.

In the next sections, we will analyse developments over time in areas relevant to trade union activity, focusing on both countries and country groups. We will also demonstrate that the five industrial relations clusters feature different dynamics in terms of wage development and that they score differently on a number of inequality indicators.

Industrial relations regimes in the EU

Figure 4.2 Collective bargaining coverage rates in the EU27 (%)



Sources: European Commission (2011h); Visser (2011).

Stable bargaining coverage, but decentralisation looms large

A closer look at collective bargaining coverage in Europe, as depicted in Figure 4.2 above, reveals that, between 2000 and 2009, the share of employees covered by collective agreements remained relatively stable. This was true especially for North European countries, which, despite the lack of legal mechanisms to extend collective agreements, managed to maintain high coverage rates thanks to high trade union (and employer) density rates (compare Figure 4.3). Likewise, bargaining coverage is high in the states forming the Central-West and South European clusters, where statutory extension mechanisms or their functional equivalents are in place. In the latter group, Portugal alone has witnessed a sharp decrease in collective bargaining coverage, in the wake of legislation, passed in 2004, that restricted the duration of collective agreements; the collective deals struck since then have covered a considerably smaller share of the country's workforce (European Commission 2011h). Finally, states from the Central-West and Central-East European clusters exhibited stable or slightly declining coverage rates. The only exception among the new EU member states was Lithuania, where coverage rates have increased, but nonetheless remained the lowest in the EU 27.

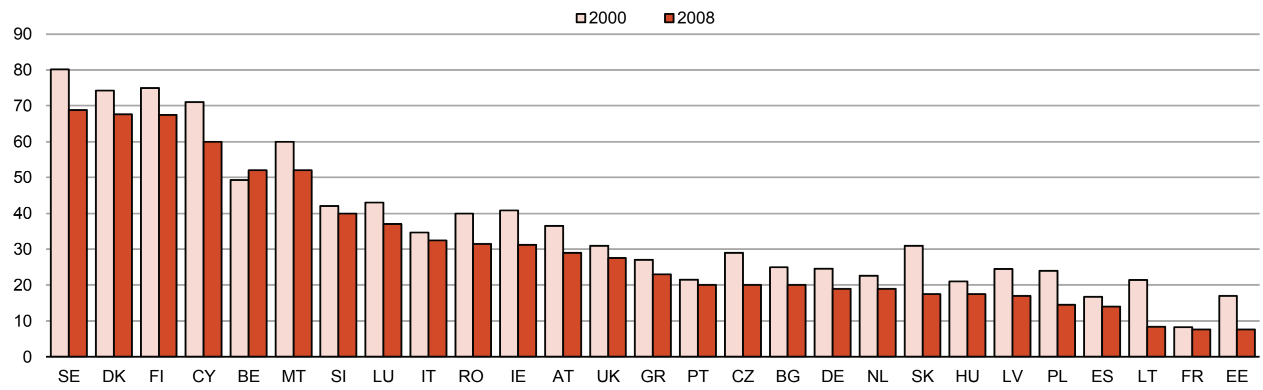
Stable coverage rates notwithstanding the economic crisis of 2008-2009 strengthened the tendency towards collective bargaining decentralisation. In Finland, for instance, no central agreement was in force between 2009 and most of 2011, whereas a number of sectoral deals allowed for wage deviations at companies that faced economic difficulties. Ireland, similarly, saw the breakdown of central collective bargaining talks in 2009, followed by pay freezes in the public sector and voluntary guidelines for the 2010 wage bargaining round in the private sector.

Collective bargaining decentralisation is detrimental to bargaining coverage in countries featuring single-employer bargaining structures. In Slovakia for instance, where bargaining coverage was remarkably high in 2000, the continuous shift towards company-level wage settlements was accompanied by a decrease in coverage.

High levels of bargaining coverage are key in reducing income inequality, as is demonstrated in section 4.11 of the present chapter.

Industrial relations regimes in the EU

Figure 4.3 Net union density in the EU27 (%)



Sources: European Commission (2011h); Visser (2011).

Across-the-board fall in union density rate

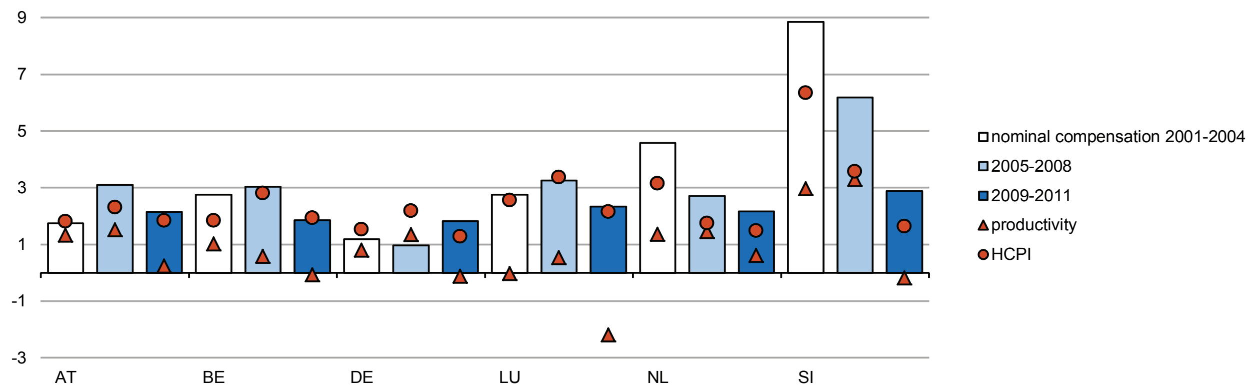
A striking tendency in European industrial relations is the falling rate of trade union density. The changing structure of European economies, in particular the declining importance of manufacturing (regarded as the traditional 'labour bastion') alongside the growth of service sectors and fixed-term and temporary forms of employment (see Chapter 2), have been partially responsible for this trend. Sluggish progress in the organising of service employees and young workers, a growing feeling of powerlessness among workers, and, in some cases, their dissatisfaction with union strategies, have further contributed to the pessimistic outcome: as shown in Figure 4.3, between 2000 and 2008, the share of unionised employees fell in nearly all EU member states.

Looking at particular country clusters, it is to be observed that even countries with strong and encompassing labour movements, such as the Northern European states, witnessed substantial falls in trade union membership rates. Should this trend prove sustained, the resulting decline in the unions' associational power could undermine the legitimacy of the current interest intermediation systems, thereby imperilling the Nordic countries' high bargaining coverage rates. In the Central-West European grouping, Belgium alone managed to retain – and even slightly increase – its union density rate, a development attributable, in all likelihood, to the Belgian unions' involvement in the administration of unemployment insurance (Vandaele 2009). In some countries, such as Spain or Italy, absolute increases in the number of unionised workers did not keep pace with employment growth, resulting in the overall decline of union density rates (European Commission 2011h).

The most dramatic outflow of union members, however, took place in Central-East European countries. In the case of Slovakia and Lithuania, unionisation rates fell by as much as 13 and 13.5 percentage points respectively. In the 2000s, the decline was mainly due to the dynamic growth of the largely non-unionised private sector, dominated on the one hand by large multinational companies and, on the other, by domestically-owned small- and medium-sized enterprises. Despite positive tendencies such as union depoliticisation and a surge in organising efforts, the region's labour organisations have remained on the defensive.

Wage growth and macroeconomic developments

Figure 4.4 Nominal compensation, labour productivity and HCPI, Central-western Europe (2001-04, 2005-08, 2009-11)



Note: annual %-change, averaged over periods 2001-04, 2005-08, 2009-11.
Data source: AMECO (2011).

Central-Western Europe: wage moderation in good and bad times

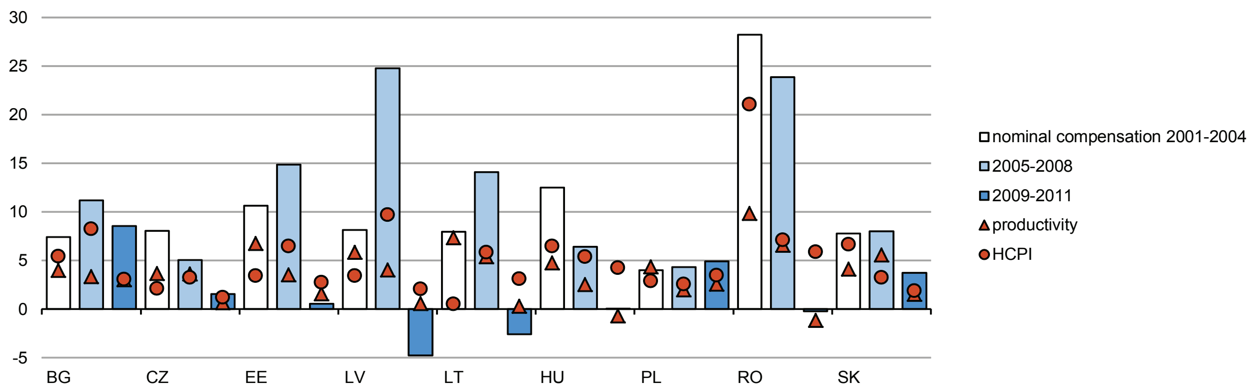
Figure 4.4 indicates the growth of nominal compensation (per employee, total economy), prices (measured as the harmonised consumer price index – HPCI) and productivity (measured as GDP at 2005 market prices per person employed), averaged over 4-year (or 3-year) periods, in countries conforming to the Central-West European model of industrial relations. In these states, unions' ability to control wage developments at the company level is comparatively high, due to the strong presence of trade unions in works councils.

The data shows that wage moderation was the main trend observed over the 2000s in most of Central-Western Europe. Nominal wages grew slightly above the rate of inflation over the entire period (2001-2011) in Austria and Luxembourg. In Belgium, nominal compensation, on the average, fell slightly below price increases in the recent years of the current economic downturn. In the Netherlands growth of nominal compensation exceeded price increases, albeit to a lesser extent than in the years preceding and during the crisis. In Germany, wage restraint was most pronounced over the entire period, and was one of the main causes of divergence in unit labour costs in the Eurozone (see chapter 2); strikingly, even during the period of economic boom before the current recession, nominal wages fell markedly below price increases, amounting to no more than an average of 1 per cent, while in the other countries nominal compensation grew by around 3 per cent over the same period.

As seen in Figure 4.4, Slovenia represents a striking case in terms of wage dynamics. The highly dynamic growth in nominal compensation resembles that in Central-East European countries; average annual growth of nominal compensation in the first half of the 2000s was around 9 per cent, and above 6 per cent in the years before the economic downturn. Even between 2009 and 2011, when the global economic crisis hit, nominal wages continued to increase more than prices (i.e. by around 3 per cent on average per year). In other words, workers in Slovenia were participating in productivity growth to a greater extent than in the other countries of this cluster. This might be due to the comparatively dynamic pattern of wage growth that rather resembles the developments in the CEE countries.

Wage growth and macroeconomic developments

Figure 4.5 Nominal compensation, labour productivity and HCPI, Central-eastern Europe (2001-04, 2005-08, 2009-11)



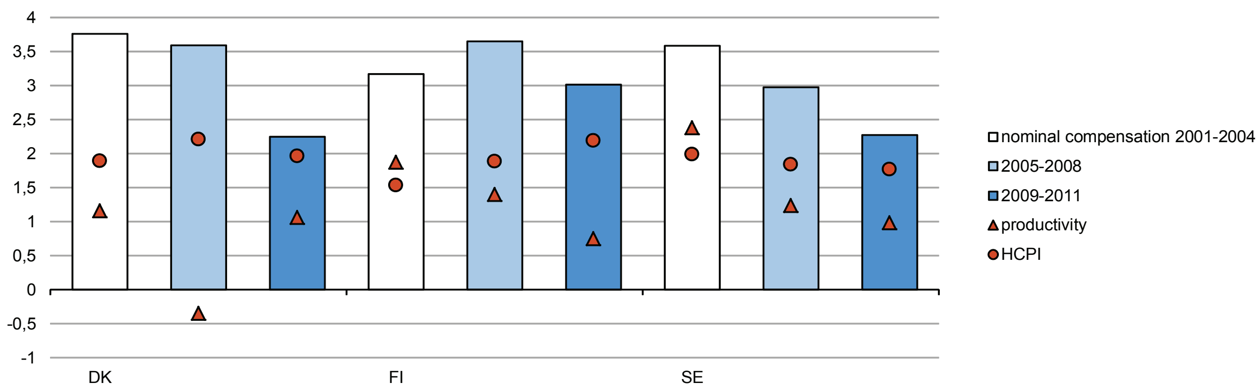
Note: annual %-change, averaged over periods 2001-04, 2005-08, 2009-11.
Data source: AMECO (2011).

Central-Eastern Europe: volatile wages and falling purchasing power during crisis

Figure 4.5 shows striking variation in the development of nominal wages, prices and productivity in the Central-East European EU member states. Throughout most of the 2000s, nominal wages, on the average, grew moderately and in line with the averaged annual inflation rate in Poland, and to a lesser extent in the Czech Republic and Slovakia. In Poland nominal compensation grew most moderately, that is, by below 5 per cent, on the average, over the entire period, while the inflation rate remained between 3 and 4 per cent, on average. However, the country was not directly hit by the global crisis, with GDP growth remaining positive in the years 2009 to 2011 (see Chapter 1). This development contrasts with the situation in Romania, Latvia, Estonia and Lithuania, where nominal compensation largely outgrew price increases in the first half of the 2000s and in the boom years before the crisis hit. In Romania and Latvia nominal wages grew by 25 per cent on average between 2005 and 2008, while inflation was around 7 and 10 per cent respectively. Similarly, in Estonia and Lithuania nominal wages increased by 15 per cent while prices, on the average, grew by 5 and 7 per cent, respectively, in the same period. Thus, highly dynamic wage growth in these decentralised and weakly coordinated bargaining systems contributed to the build-up of bubbles in housing and financial markets. During the years of economic crisis, however, marked downward adjustment of nominal wages was observed; in Latvia nominal wages shrunk by 5 per cent, on the average, between 2009 and 2011, while inflation was around 2 per cent. In Romania wages stagnated during the recession while inflation was above 5 per cent. In all these countries this signified severe losses in the real purchasing power of workers. In Hungary nominal wage growth was more dynamic in the first half of the 2000s, and more moderate in the years before the recession. Recently, the continuation of nominal wage restraint with inflation at around 5 per cent resulted in considerable losses in purchasing power. In Bulgaria, a rather different picture emerges, in that growth of nominal wages was in line with price developments, on the average, from 2001 to 2008; the recession has indeed not yet impacted upon wages that continued to grow dynamically (i.e. by above 8 per cent, on the average), and clearly exceeded the average rate of inflation of about 3 per cent.

Wage growth and macroeconomic developments

Figure 4.6 Nominal compensation, labour productivity and HCPI, Northern Europe (2001-04, 2005-08, 2009-11)



Note: annual %-change, averaged over periods 2001-04, 2005-08, 2009-11.
Data source: AMECO (2011).

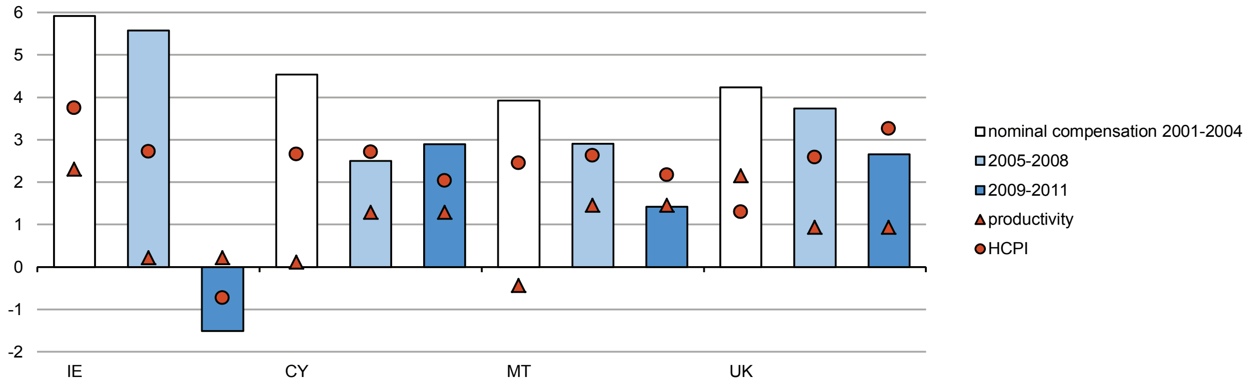
Northern Europe: positive wage drift and wage growth despite recession

In the Nordic EU member states nominal wage growth was more dynamic than in the Central-West European countries (Figure 4.6). In Denmark and Sweden wages are settled according to a two-tier system with basic wage increases set at the industry level (or multi-sectoral level, such as manufacturing), while effective pay is negotiated at company level. With local unions that are exclusively entitled to negotiate with management, and traditionally strong trade unions (see Figure 4.3), positive wage drift is a typical feature of collective bargaining systems in Northern Europe. In all three Nordic countries, nominal wages grew by between 3 and 4 per cent, on the average, in the period between 2001 and 2008, far above the price increases of around 2 per cent. In Denmark, remarkably, nominal compensation grew by around 3.5 per cent, on the average, in the years 2005 to 2008, during a period when average productivity growth was actually negative.

During the recession, the adjustment of nominal compensation to declines in GDP and increasing unemployment was comparably moderate in all Nordic EU states. Wage growth in Denmark and Sweden remained, on the average, above 2 per cent in the years 2009 to 2011, slightly in excess of price increases. In Finland nominal compensation grew by 3 per cent, on the average, largely exceeding average price increases (of above 2 per cent) between 2009 and 2011, while productivity growth was lower (0.8 per year, on the average) than in the other two Scandinavian EU countries.

Wage growth and macroeconomic developments

Figure 4.7 Nominal compensation, labour productivity and HCPI, Liberal-Western (Anglo-Saxon) Europe (2001-04, 2005-08, 2009-11)



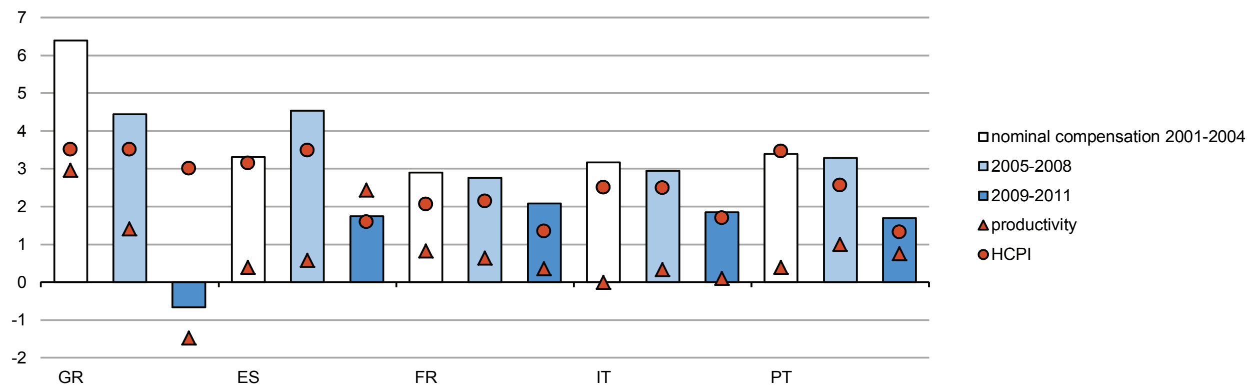
Note: annual %-change, averaged over periods 2001-04, 2005-08, 2009-11.
Data source: AMECO (2011).

Liberal-Western Europe: wage increases stalled by the downturn

Uncoordinated bargaining, as in the case of the UK, and weakly coordinated bargaining in Ireland, Cyprus and Malta, was less effective in bringing nominal wage growth into line with price and productivity developments. In the UK, for instance, nominal wages grew dynamically by above 4 per cent, on the average, in the first half of 2000s, while inflation remained moderate, albeit increasing steadily over time; nominal wages grew, however, to a lesser extent in the years immediately preceding the crisis than compared with the years before and have increased at more moderate levels during the recent years of recession, while price developments have actually accelerated. In Cyprus the relatively stable development of inflation and the constant increase in productivity was not mirrored in nominal wage growth over the entire period. Ireland stood out with regard to strong wage dynamics; nominal compensation grew by almost 6 per cent, on the average, and largely above price increases between 2001 and 2008. Subsequently, however, the Irish economy was hit by a deep and protracted recession (see Figure 1.1 in Chapter 1) that brought marked downward adjustment of nominal wages. Nominal compensation, on the average, shrunk to a larger extent (i.e. – 1.5 per cent) than prices (- 0.7 per cent) between 2009 and 2011. Likewise, in both Malta and the UK, wage restraint during the economic crisis resulted in real income losses for workers. Only in Cyprus was positive real wage growth maintained over the years of recession. However, the outlook for economic development in this country is rather subdued due to the possibility of spill-over effects from Greece that is in the grip of a deep crisis.

Wage growth and macroeconomic developments

Figure 4.8 Nominal compensation, labour productivity and HCPI, Southern Europe (2001-04, 2005-08, 2009-11)



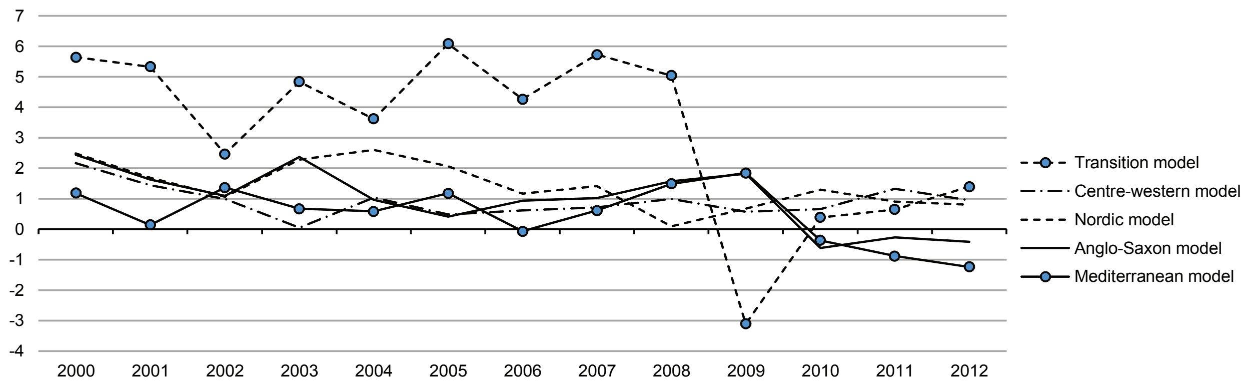
Note: annual %-change, averaged over periods 2001-04, 2005-08, 2009-11.
Data source: AMECO (2011).

Southern Europe: wages growing in line with productivity and inflation, ups and downs in Greece

Greece stands out among the Southern EU countries in having experienced very dynamic nominal wage growth in the first half of the 2000s, (i.e. above 6 per cent per year on the average; Figure 4.8), while prices increased by around 3.5 per cent. Wage growth moderated during the years before the economic crisis hit and – in response to the steep economic downturn in the debt-ridden country – nominal compensation shrunk (by 0.7 per cent on the average) between 2009 and 2011. Inflation remained at comparatively high levels (i.e. 3 per cent), resulting in a pronounced drop in workers' real purchasing power. In Spain, with the exception of the pre-crisis years, nominal wages developed in line with inflation. During the years of recession, however, nominal wage growth fell behind labour productivity growth, which actually increased due to soaring unemployment. In Italy, France and Portugal nominal compensation grew largely in line with price increases while productivity grew at moderate rates over the entire period of observation. In Spain nominal compensation developed most dynamically in the three years before the economic crisis broke out. During the economic downturn, growth in nominal wages in Southern Europe was – except in Greece – moderate, i.e. around 2 per cent, on the average.

Wage growth and macroeconomic developments

Figure 4.9 Change (in %) in real compensation, 2000-2011



Note: Simple average of annual %-change by groups of countries.
Source: AMECO (2011).

Diverging real wage developments in the EU

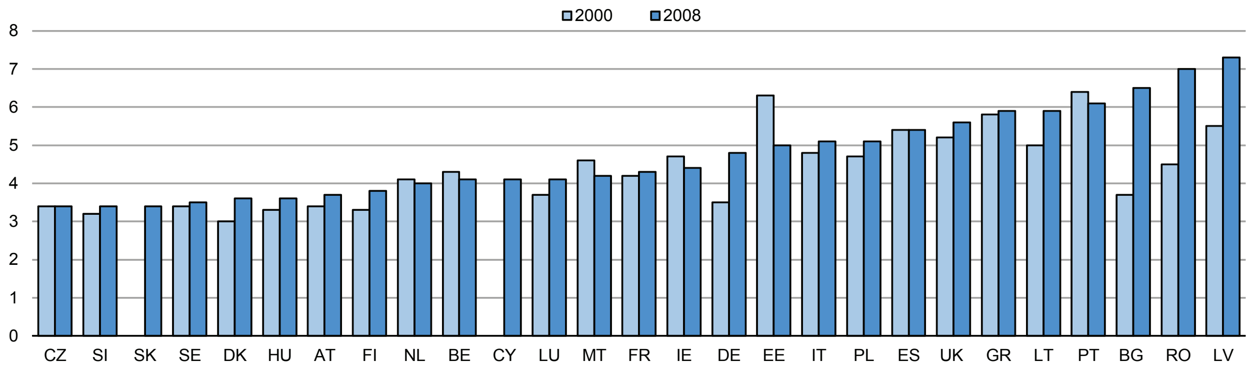
As Figure 4.9 indicates, collective bargaining regimes in the Central-East European countries were less effective than other systems in ensuring sustainable wage growth. Real compensation growth fluctuated between above 2 per cent and as much as 6 per cent per year during the 2000-2008 period. When the economic recession hit new EU member states, real compensation had begun to slump, falling on average by above 3 per cent in 2009 as compared to the previous year. This was the largest decline in real compensation in the EU in comparison with other regions. Real wages, after stagnating in 2010, made a weak recovery in 2011 and are expected to gain a stronger dynamic in 2012.

In the Nordic EU countries, characterized by effectively coordinated two-tier bargaining at the industry and company level, real wage developments were comparably dynamic, with a growth rate of about 2 per cent during the years 2003 to 2005. Real wage growth was more moderate in the years immediately preceding the recession, as compared to the previous period. After a slump in 2008, real compensation has now made a moderate recovery. In the Liberal-West European countries, variation in growth of real wages was higher than in the rest of Western Europe. Real wages grew by between 0.4 per cent (in 2005) and 2 per cent in the period between 2000 and 2009, with a strong upward tendency in the boom years before the crisis. Real compensation declined steeply from 2009 to 2010, and during 2011 and 2012 real wage growth is expected to remain slightly negative. In Southern Europe, real wages grew moderately, i.e. by around 1 per cent on the average, between 2000 and 2007. Subsequently, real wages increased at higher rates (of around 2 per cent) in 2008 and 2009, and declined steeply from 2009 to 2010. According to forecasts, real wages will continue to shrink (by around 1 per cent) through 2011 and during 2012. Central-West European corporatism ensured, on the average and in comparison with other regions in the EU, the most moderate development of real wages in the period from 2001 to 2008. In comparison with the less effectively coordinated multi-employer bargaining systems in Southern Europe, upward and downward movements of real wage growth were more subdued. On the average, growth of real compensation remained positive during the recent years of recession.

Downward adjustment of real wages in the years of the economic recession was most pronounced in Latvia, Romania, Lithuania, Hungary, the Czech Republic and Estonia, where real compensation contracted by between 2 and almost 12 per cent in 2009 (AMECO 2011, data not shown). In Ireland, Spain and Portugal real wage growth remained positive (between around 3 and 4 per cent), despite high and steeply increasing unemployment and, as in the case of Ireland, a marked decline in GDP in the same year. With the continuation of the economic downturn that went along with extensive reductions of public sector employment and pay in some countries, real wages shrunk in Hungary, Greece, Latvia, Lithuania, Romania, Luxembourg (i.e. by between around -4 and -2 per cent) and, to a lesser extent, in Ireland (-1 per cent), while in the Czech Republic, Slovenia, Poland, Bulgaria, Slovakia and Finland real compensation grew by between around 3 and 6 per cent in 2010. Real wages developed – except in debt-ridden Greece where they shrunk by 4 per cent – in a more stable manner in 2011. While real wages declined somewhat in Portugal, Slovakia, the UK, Lithuania, Malta, Spain and Romania, in Bulgaria, Germany, Slovenia and Poland they increased by between 2 and 3 per cent.

Collective bargaining and income distribution

Figure 4.10 Inequality of income distribution (80/20 income quintile share ratio), 2000 and 2008



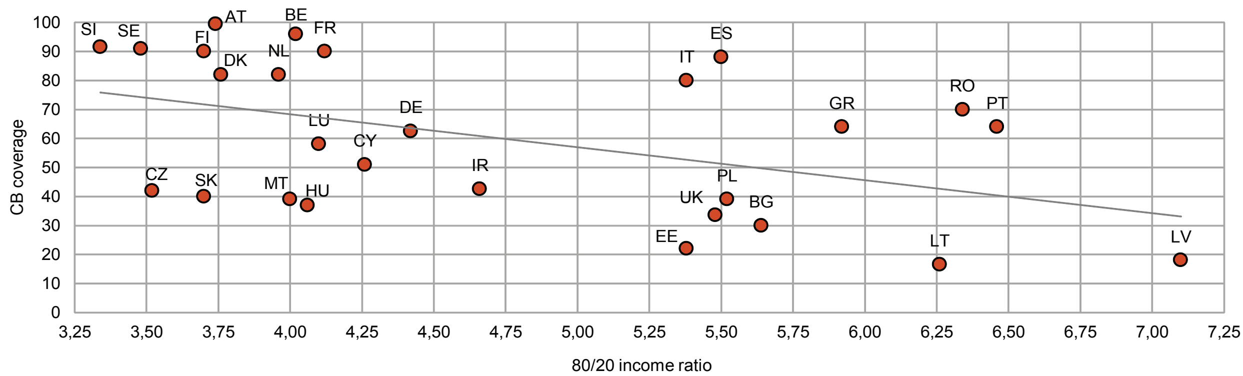
Notes: The income quintile share ratio or the S80/S20 ratio is calculated as the ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (bottom quintile). For CZ, DK, and SE figures refer to 2001; no data is available for CY and SK for 2000 and 2001.
Source: Eurostat (2011g).

Income inequality on the rise

Figure 4.10 presents the extent of inequality in income distribution in the EU in 2000 and 2008, measured by the income quintile share ratio (based on nominal income). The higher the ratio, the larger is the gap between the most (top 20% quintile) and least well-off (bottom 20% quintile). Income inequality was highest in Estonia, Portugal, Greece, Latvia and Spain in 2000 and grew considerably in Bulgaria, Romania, Latvia and Germany between 2000 and 2008. In Estonia and, to a lesser extent, Malta, Ireland, Portugal and Belgium, income inequality somewhat declined as from 2000 while remaining stable in the other EU countries. As a general observation, the income distribution tends to be more equal in the Nordic countries and the corporatist countries of Central-Western Europe, while it is most unequal in the Baltic states, Romania, Bulgaria, the UK, and some of the Southern European countries.

Collective bargaining and income distribution

Figure 4.11 Income inequality and bargaining coverage



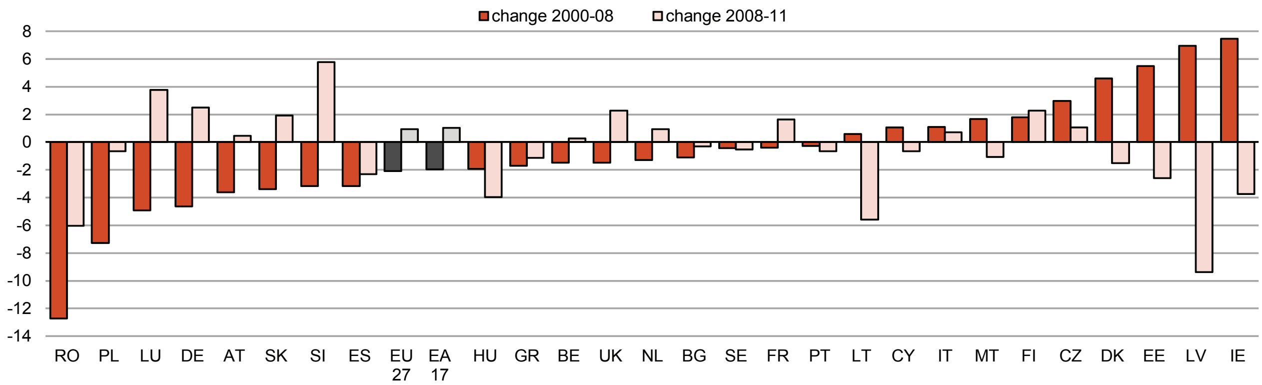
Note: Average 80/20 income ratios 2005-2010 and bargaining coverage rates for 2008.
Sources: Eurostat (2011g); European Commission (2011h).

High bargaining coverage: an important factor for reducing income inequality

The relationship between the inclusiveness (or exclusiveness) of the collective bargaining system, measured by the bargaining coverage rate, and income inequality, measured by the income quintile share ratio, is depicted in Figure 4.11. A clear pattern of countries clustering in four groups emerges. First, the three Nordic EU member states, most of the Central-Western corporatist countries and France are grouped in the top left of the table, with high collective bargaining coverage of around 80 to 100 per cent combined with the lowest income inequality. Then, in the bottom-left corner of Figure 4.11 we find a rather heterogeneous group of countries, including corporatist Germany and Luxembourg, Liberal-Western Ireland, Cyprus and Malta, as well as the Central-East European economies of the Czech Republic, Slovakia and Hungary. This group of countries is characterised by comparatively low bargaining coverage (i.e. between 30 and 60 per cent) and relatively low income inequality. This finding suggests that income inequality is not affected by collective bargaining coverage alone, but depends rather on a multitude of factors, such as tax regulation and social security systems. In the cases of the Czech Republic, Slovakia and Hungary, public welfare benefits are more generous in comparison with those provided by the welfare regimes of the Baltic states, Romania and Bulgaria (see also Chapter 5). The third cluster of countries comprises the Southern European countries (except France) and Romania. In this group the collective bargaining coverage rate is comparatively high, i.e. between 70 and 90 per cent, and income inequality is more pronounced, reflecting the fact that welfare regimes of the Mediterranean type are characterised by segmented, status-oriented provision of benefits. Finally, the fourth group of countries, centred in the bottom-right quarter of Figure 4.11, is made up of Poland, the UK, Bulgaria and the Baltic states, together with Latvia which has the most exclusive bargaining system and the highest income inequality. In this group of countries, bargaining coverage is low, i.e. between 20 and 40 per cent, and welfare regimes provide only limited benefits.

Collective bargaining and income distribution

Figure 4.12 Change (percentage points) in the adjusted wage share (2000-2008, 2008-2011)



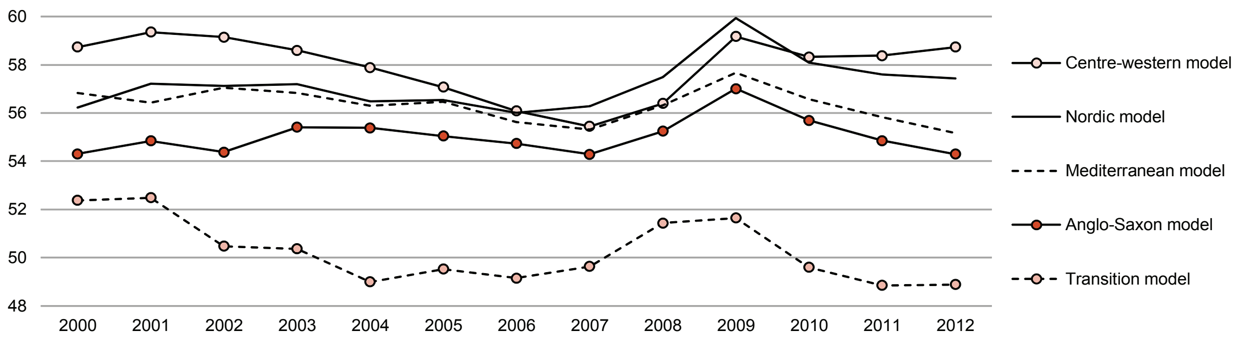
Source: AMECO (2011).

In crisis: shrinking wage share in Southern and Central-Eastern Europe

Figure 4.12 shows a country-by-country comparison of the change in the adjusted wage share in the period between 2000 and 2008 and over the years since the global economic recession hit, that is, between 2008 and 2011. Over the 2000s, the wage share shrunk the most in Romania (i.e. by around 12 percentage points), while in Poland and Germany the decline was 7 and 5 percentage points respectively. In Germany, labour market reforms aimed at making labour markets more flexible and, at the same time, reducing unemployment benefits, contributed to the considerable decline in the wage share over the 2000s. Strikingly, in Latvia the wage share grew more than in any other EU country (i.e. by almost 8 percentage points). Marked growth in the wage share was likewise observed in Estonia and Ireland, mostly due to very dynamic growth of nominal compensation (see Figures 4.5 and 4.7). In the period between the onset of the recent economic crisis and 2011, trends in the development of the wage share were largely reversed. In the Baltic countries, Romania and Ireland, Hungary, Spain and Greece, where the recession was particularly deep and protracted and, as in the countries at the periphery of the Eurozone, debt levels became unsustainable, the wage share was declining. This was mostly due to pronounced wage restraint in the private sector and pay cuts and freezes in the public sector in a large number of countries in Central-Eastern and Southern Europe. Slovenia and, to a lesser extent, Luxembourg are distinguished by marked increases in their wage share (i.e. by almost 5 and above 3 percentage points respectively) during the recession years when GDP was contracting. However, as Figure 4.12 underscores, the reversal of the longer-term downwards trend of the adjusted wage share in Europe was merely temporary due to the steep declines in GDP.

Collective bargaining and income distribution

Figure 4.13 Adjusted wage share (2000-2012)



Note: The adjusted wage share is measured as compensation per employee as percentage of GDP at current factor.
Source: AMECO (2011).

Wage share stable only where bargaining coverage is high

As shown by Figure 4.13, the adjusted wage share, measuring compensation per employee (i.e. wages and employers' social contributions) as a percentage of GDP, was highest, on the average, in the Central-Western corporatist economies (i.e. 59 per cent) at the beginning of the 2000s. In both South and North European EU states, the adjusted wage share was, on the average, slightly lower than in Central-Western Europe and reached its lowest levels in the Liberal-West and Central-East European economies (i.e. 54 and 52 per cent, respectively). In Central-Western and Eastern Europe, the wage share fell constantly between 2000 and 2007, dropping, in the latter region, below 50 per cent. This contrasts with developments in the countries featuring Anglo-Saxon industrial relations, as well as with the Southern and Northern EU member states, where the wage share remained rather stable over the same period. During the economic recession, a temporary turn-around was observed, due to rising unemployment among the lower-paid segments of the labour force and steeply declining GDP. However, since 2009, the adjusted wage share has once again begun to fall across all EU countries. Only in the Nordic countries, characterised by highly coordinated and inclusive multi-employer bargaining systems and encompassing welfare regimes, as well as in the Central-West European corporatist economies, has wage share development stabilised since 2010. In Central-East European countries featuring weakly coordinated, decentralised and exclusive bargaining systems and less generous welfare regimes, the wage share has fallen to alarmingly low levels. Similarly, the existence of institutions for employee representation at the workplace tends to dampen the growth of managerial pay and thus reduces income inequality (see Chapter 8).

Conclusions

Strong collective bargaining systems promote income equality

This chapter showed that, since 2000, the five industrial relations country clusters have featured divergent wage developments. In Central-Western Europe, the main trend was wage moderation. Still, wages grew moderately following the introduction of the Euro, and the nominal compensation increased slightly. In the Nordic EU countries, wage growth was more sustained, with nominal compensation developing in line with price and productivity increases. Even during the crisis, wage adjustments were moderate in these countries, compared with other European regions. Importantly, Central-Western and Northern European countries achieved the highest wage share levels among EU member states, even though Central-West European corporatist institutions were less able to prevent the decline of wage shares in comparison with those of the Nordic states. Likewise, the inclusive and encompassing bargaining systems of Northern and Central-Western Europe contributed to lower levels of inequality in income distribution.

In the South European grouping, in Greece (and to some extent Spain) nominal wages outgrew price and productivity developments in the ten years before the downturn. Real wages grew in the 2000s, on the average, but declined more steeply during the recent recession. Wage shares were slightly lower than in Central-Western and Northern Europe in the early the 2000s and have declined at a faster rate since the outbreak of the crisis. Similarly, the degree of income inequality remained very high or became stronger in most of the Southern Europe.

Finally, in the Central-Eastern and Liberal-Western European groups, trends in nominal compensation were disconnected from price and productivity developments. While real wage growth was very dynamic through most of the 2000s, it slumped drastically after 2008. Wage shares in the Central-Eastern and Liberal-Western clusters were slightly lower than in the rest of Europe throughout most of the 2000s. After 2008, the English-speaking countries' wage shares developed largely in line with those in the rest of Western Europe, but in Central-Eastern Europe they declined at a very fast rate. The UK featured the highest levels of income inequality among old EU member states, whereas the Baltics, Romania, Bulgaria and Poland were the most unequal countries not only within Central-Eastern Europe, but also in the EU as a whole.

The divergent wage developments have contributed to differences in unit labour costs between countries (see Chapter 2), and, further, accelerated mounting macroeconomic imbalances that place the future of the Eurozone in peril. Collective bargaining at central or industry level tends to mitigate cyclical movements of wages, while decentralised and ineffectively coordinated bargaining promotes volatile wage developments and thus amplifies economic cycles and divergence in the Eurozone and beyond. In this respect, our findings suggest that, if stable, balanced and socially equitable economic growth is to be ensured, the strengthening of collective bargaining systems is essential. This is true for the effectively coordinated and encompassing bargaining systems of Northern and Central-Western Europe that show current tendencies towards decentralisation, and in some cases, erosion. At the same time, it is even more important, and represents even more of a challenge, to support the creation of higher-level bargaining structures and to improve the articulation between bargaining levels in the fragmented and weakly coordinated Central-Eastern European systems.