

## Shrinking collective bargaining coverage, increasing income inequality: A comparison of five EU countries

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**Abstract.** *Wage-setting institutions can play a crucial part in containing the socio-economically destabilizing growth of income inequality. Using an analytical framework that distinguishes between protective and participative standards, the author examines their respective effects on the incidence of low-paid employment and income inequality under the wage-setting systems of Belgium, France, Germany, Sweden and the United Kingdom. His comparative focus on the interplay of statutory minimum wages and collective wage bargaining shows that while the latter is more effective than the former at reducing inequality, both require state intervention, with particular emphasis on participative standards to counter the erosion of industrial relations institutions.*

In the years following the Second World War, income inequality in most developed countries was significantly reduced by strong trade unions and high rates of coverage by collective agreement. In 1957, even in the United States, where coverage in 2011 was only 13 per cent (Visser, 2015), John Dunlop could still assume that “collective bargaining must be taken as the normal case” (Dunlop, 1957, p. 125). In recent decades, however, job quality has deteriorated considerably in many countries as a result of widening income inequality, the increase in low-wage work and the constant fear of loss of income, even among well-paid workers.

Earlier research has shown that structural changes, such as the decreasing demand for low-skilled workers and the growth of the service sector, and external shocks – such as the deregulation of product markets, the privatization of public services or the freedom to provide services in other countries with a company’s own work force – are “filtered” through national wage systems, thereby producing different outcomes in different countries. The higher

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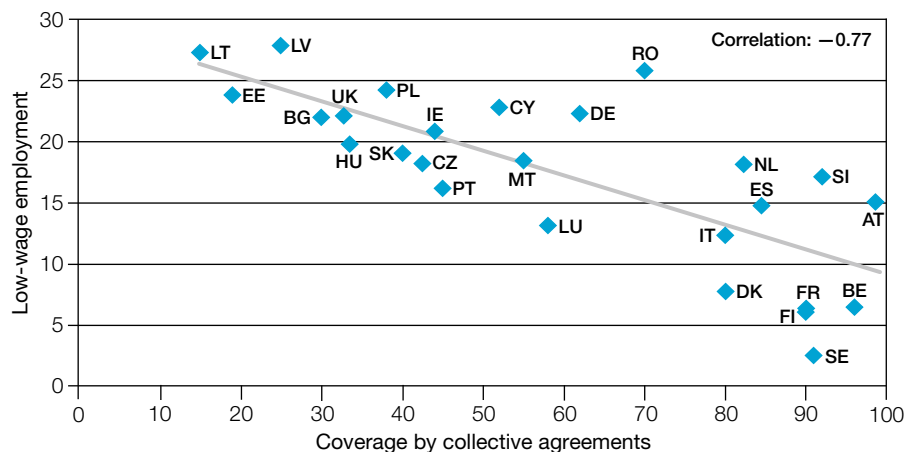
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incidence of low wages can be almost fully explained by the weakening of these institutions (Bosch, Mayhew and Gautié, 2010; Salverda and Mayhew, 2009). We also know that a high rate of coverage by collective agreement reduces the share of low-wage workers to a much greater extent than do minimum wages. In the European Union (EU) the correlation coefficient between the rate of coverage and the share of low-wage workers in 2008–10 was  $-0.77$  (figure 1), while it is only 0.34 for minimum wages (Bosch and Weinkopf, 2013; Grimshaw, Bosch and Rubery, 2014).

This is hardly surprising, since the pay scales negotiated by collective bargaining are generally higher than the minimum wage and extend into the intermediate or even higher pay brackets, well above the minimum wage. They set not only lower limits but also norms for fair pay which ensure that skills, additional responsibilities and, in particular, difficult working conditions and unsocial hours attract extra remuneration. The more inclusive the collective agreements are, the greater their influence on income distribution. Conversely, decentralized bargaining at company level may even support the growth of dualistic labour markets, especially since bargaining only takes place in big companies. National or industry-wide collective agreements are significantly more inclusive than company agreements because the standards they set are extended to employees with weak bargaining power, particularly those working in small firms. Minimum wages, on the other hand, are generally set below the low-wage threshold (two-thirds of the median wage) and therefore compress wages only in the lower deciles of the income dis-

Figure 1. Bargaining coverage (2008/09) and shares of low-wage employment (2010), percentages



Note: AT: Austria; BE: Belgium; BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; DE: Germany; DK: Denmark; EE: Estonia; ES: Spain; FI: Finland; FR: France; HU: Hungary; IE: Ireland; IT: Italy; LT: Lithuania; LU: Luxembourg; LV: Latvia; MT: Malta; NL: Netherlands; PL: Poland; PT: Portugal; RO: Romania; SE: Sweden; SI: Slovenia; SK: Slovakia; UK: United Kingdom.

Source: Author's calculations based on Visser (2015) for coverage, and Bezzina (2012) for shares of low-wage employment.

tribution. Such distributional effects can be observed across a wide range of countries. Indeed, in their survey of 49 studies on collective agreements and wage inequality in both developed and developing countries in recent decades, Hayter and Weinberg (2011) show that collective agreements reduce wage inequality in the economy as a whole.

Certainly, it would be desirable for the trade unions to be in a self-sustained position to increase the rate of unionization through active organizing to the point where their own autonomous bargaining strength would enable them to bring employers back to the negotiating table and thereby increase the rate of coverage by collective agreement. At present, however, this prospect seems highly unlikely. Furthermore, completely autonomous bargaining systems without state support are very vulnerable. Periods of trade union weakness – e.g. when rapid structural change and job losses undermine the bastions of trade union power – can be exploited by firms intent on revoking collective agreements and setting wages unilaterally. The United Kingdom, where private sector bargaining coverage was once very high, is a case in point.

The conclusion I draw is that, although trade union organizing is important and should not be neglected, income inequality cannot be reduced without additional support from the State. Such support can of course take a number of very different forms and is by no means confined to direct interventions in the wage-setting process by means of minimum wages or by declaring collective agreements generally binding, as will be explained in greater detail below.

## The role of protective and participative labour standards in wage setting

The distinction Sengenberger (1994) made between protective and participative standards can help us to understand more clearly the different kinds of state influence over wage setting and other labour standards. Protective standards, such as minimum wages or maximum hours, directly establish norms governing employment conditions. Participative standards confer consultation or codetermination rights on employees or their representatives and organizations, protecting them from discrimination when they seek to exercise those rights and/or providing them with the necessary resources (time and money). By establishing participative standards, the State can, as it were, enable others to influence working and employment conditions in its stead.<sup>1</sup>

Table 1 shows considerable differences between five EU Member States in the mix of these standards. In the two wage systems traditionally described as autonomous – those of Germany (before 2007) and Sweden – the State does not intervene directly in the wage-setting process with protective standards. Rather, the weaker segment of the labour market is strengthened by means

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<sup>1</sup> Sengenberger also identifies “promotional standards”, which increase the options open to individual workers. They include family-friendly working times, employee rights to further training and the option of using certain wage components for specific purposes, such as old-age insurance.

Table 1. Statutory protective and participative labour standards in five national wage-setting systems

	Germany	Sweden	United Kingdom	France	Belgium
Statutory standards					
— protective	(X)*	—	X	XXX	XXX
— participative	XX	XXX	—	X	XXX
Trade union density**	18	70	26	8	50
Collective bargaining coverage (employees)**	62	88	29	98	96
Share of low wage workers (>2/3 of median wage), 2010**	22.2	2.5	22.1	6.1	6.4

Note: State-imposed standards: — = none, X = weak, XX = moderate, XXX = strong. \* From 2007, with the introduction of industry minimum wages, and 2015, with the statutory national minimum wage. Unfortunately, the ETUI does not give a reference year for bargaining coverage or trade union density. \*\* Percentages.  
Source: Author's compilation based on ETUI (2015); Bezzina (2012).

of strong co-determination rights at the establishment and company levels. Sweden is one of the strongest autonomous systems, since the State has in this case also placed the administration of the unemployment insurance funds in the hands of the trade unions. The various funds cover largely the same territories as the unions' organizing areas, which facilitates member recruitment (Lind, 2007). As a result, trade union density in Sweden was 67.7 per cent in 2011 (Visser, 2015). The parties to collective bargaining are able to conclude autonomous industry-level collective agreements that set effective wage floors at between 50 and 70 per cent of the average wage (Eldring and Alsos, 2012, p. 78), which is higher than the statutory minimum wages in most European countries. The proportion of low-wage workers in Sweden is therefore lower than in any other European country, at 2.5 per cent in 2012.

The main threat to the system's stability comes from political and legal meddling with the unions' power resources. In 2006, the conservative Swedish Government made membership of the unemployment insurance funds and of the trade unions considerably more expensive by reducing the extent to which contributions to the funds and union dues could be offset against tax and by making the level of contributions dependent on the unemployment rate in each industry. After these new regulations were introduced, Sweden's trade union density fell by 6 per cent in 2007 and 2008 alone (Kjellberg, 2009, p. 502).

Germany used to be one of the weak autonomous systems. Even in the heyday of trade union strength, in 1978, no more than 35.5 per cent of employees were trade union members (Visser, 2015). In other words, the German system was particularly dependent on the willingness of companies to become members of employers' associations. Until Germany's reunification, when most companies belonged to an employers' association, the rate of coverage by collective agreement was around 85 per cent (*ibid.*), several times higher than trade union density. After reunification, however, high levels of unemployment

and the deregulation of product and labour markets gave companies in industries characterized by low trade union density and few elected works councils an opportunity to change their strategy. They left the employers' associations or, in the case of newly founded companies, simply did not join any. Moreover, the so-called Hartz legislation of 2003 was aimed at expanding the low-wage segment of the labour market. By reducing unemployment benefits for the long-term unemployed to the lower level of welfare benefits, and by resetting the "reasonableness" criteria conditioning entitlement, the Hartz reforms stepped up pressure on the unemployed to accept employment paid as much as 30 per cent less than the local going rate. Deregulation of temporary agency work and of so-called mini-jobs<sup>2</sup> made it possible to replace employees on standard contracts with workers hired on precarious contracts.

Collective bargaining coverage fell to 61 per cent in 2010 (*ibid.*), leading to the emergence of a large low-wage segment. However, the existence of strong works councils in key industries prevented the complete collapse of industry-wide bargaining in the private sector, as happened in the United Kingdom. In important parts of the economy, the old autonomous collective bargaining system was still functioning, while in others employers set wages unilaterally. Since the low-wage segment, through its outsourcing strategies, was also having an increasingly strong knock-on effect on those segments of the labour market that continued to be regulated by collective agreement, in 2006 trade unions in the manufacturing sector joined the service-sector unions in calling for the introduction of a minimum wage. The introduction of industry-wide minimum wages (in 2007) and then a statutory national minimum wage (in 2015) marked the transition from an autonomous to a hybrid system featuring direct state intervention in the wage-setting process. Exerting considerable influence over the form of the statutory minimum wage agreed by the Social Democratic Party (SPD) in its coalition talks at the end of 2013, the trade unions sought to ensure that the transition to the hybrid system would be as "path-dependent" as possible. And they succeeded: the parties to collective bargaining have greater influence over the minimum wage than do their counterparts in France or the United Kingdom, for example. By the end of 2016, they will be able to negotiate derogations from the minimum wage by concluding industry-wide collective agreements. The only voting members of the new minimum wage commission – which, from 2017, will recommend increases in the minimum wage every two years – will be the representatives of the workers and employers. Its academic members will have only an advisory role. The criteria for any proposed increases are to be collectively agreed

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<sup>2</sup> These are jobs carrying a maximum monthly wage of 450 euros. Those holding such jobs are exempt from tax and other deductions. Employers are required to make a flat-rate 30 per cent contribution. Under European and German legislation, the holders of mini-jobs are entitled to the same pay as other employees performing the same work and also to paid holidays, including statutory holidays, and paid sick leave. In practice, however, they mostly do not receive paid holidays and rapid sick leave and are therefore much cheaper to employ than socially insured part-timers (Weinkopf, 2014).

wage rises, so that collective bargaining will take precedence over political considerations in determining increases in the minimum wage. Furthermore, the minimum wage provisions are part of a more comprehensive piece of legislation that makes it easier for collective agreements to be declared generally binding and allows higher industry-wide minimum wages to be agreed in all industries. The title of this legislation – Act on the strengthening of free collective bargaining (*Tarifautonomiestärkungsgesetz*) – is intended to make clear the political objective of using the minimum wage as a platform for strengthening free collective bargaining. The hope that an “activating minimum wage” of this kind will actually come into being is not entirely unfounded. Even as the minimum wage was being introduced, collective bargaining got under way in a number of industries (meat processing, hairdressing, agriculture, horticulture and forestry), not least in order to gain more time for adjusting collectively agreed rates, particularly in eastern Germany.

Belgium also has a hybrid system with a combination of high protective and participative standards. The latter are based on co-determination rights at the establishment level and management of the unemployment insurance scheme, a model known as the “Ghent System”. In addition, the bargaining power of the Belgian trade unions is further strengthened by protective standards in the form of a statutory minimum wage and a process for declaring collective agreements in most industries to be generally binding. The dual protection offered by this hybrid system results in a combination of high trade union density (50 per cent) and virtually universal bargaining coverage (96 per cent). In practice, the statutory minimum wage plays a very small role, since the trade unions in most industries are able to negotiate higher wages which, moreover, apply to all employees in each industry because the agreements are declared generally binding. As a result, the share of low-wage workers in Belgium is very low.

Until well into the 1970s, the United Kingdom had an autonomous pay bargaining system, high trade union density and extensive collective bargaining coverage. However, the system enjoyed no state support in the form of participative standards. Unlike in Germany, the unions thus had no legally safeguarded organizational base at the establishment level. Further weakened by the major structural crisis in the manufacturing industry, there was little they could do to counter the employer associations’ withdrawal from collective bargaining during the Thatcher years. In 1993, the abolition of the wages councils, which used to set minimum wages in a number of low-wage industries, shifted the balance of power in wage setting further in favour of the employers. The consequent sharp increase in the incidence of low pay and in-work benefits for low earners prompted the introduction of a statutory minimum wage in 1999. Today, the United Kingdom is one of the countries whose wage-setting systems are unsupported by statutory participative standards and in which the State grants only weak protective rights. However, the share of low earners has remained high because of this “isolated minimum wage” (Grimshaw, Bosch and Rubery, 2014). In the private sector, there simply were no strong negotiating

parties that could have used the minimum wage as a starting point for agreeing higher wages. Instead, in some industries, such as retailing, the minimum wage has actually exerted a downward pull on wages.

In France, by contrast, the State intervenes very strongly in the wage-setting process. Not only does it set a floor on pay through the statutory minimum wage, but it also declares virtually all collective agreements to be generally binding. Furthermore, the participation of trade unions and works councils has been strengthened, although the rights they have been granted are weaker than in Germany or Sweden. Unlike in Belgium, where the unions, with their high membership rates, are able to bring the employers' associations to the table without state intervention, the unions in France are weak, so that pay bargaining is usually triggered only when the State raises the minimum wage. Since the lowest collectively agreed rates in most industries are close to the statutory minimum wage, the frequency of collective bargaining and increases in pay rates are determined largely by increases in the minimum wage. In November 2011, for example, the lowest pay grade in 86 per cent of all collective agreements was at the level of the minimum wage or slightly above (>105 per cent of the minimum), while in 9.2 per cent of collective agreements it was actually below the minimum. One month after the statutory minimum wage was raised, the proportion of collective agreements setting pay rates below the minimum had risen to 49 per cent. This triggered a round of pay bargaining in which most rates were again raised above the minimum wage (DARES, 2012, p. 351). Thus, as a result of the increases in the lowest collectively agreed rates, all of the wage grids, with their percentage differences between the individual pay grades, are shifted upwards.

Since 2013, it has been possible to negotiate changes to wages and working time at the establishment level in the event of competitiveness problems, provided that the minimum wage, statutory working time and industry-level collective agreements are not undercut. Also, employees were for the first time granted the right to have a representative on the board or oversight council of every firm with at least 5,000 employees in France.<sup>3</sup> But while the State thus grants the unions rights to consultation, it has not strengthened their organizational base by introducing the Ghent System, in contrast to the situation in neighbouring Belgium or in Sweden. Only a small number of employees are union members, leaving French unions with little financial power and unable to give adequate support their representatives at the company and establishment levels. Unlike their Swedish counterparts, the French unions are thus very concerned – not without justification – that decentralized bargaining on derogation clauses in collective agreements or labour legislation would inevitably see them losing out.

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<sup>3</sup> See the National Interprofessional Agreement of 11 January 2013 to promote a new economic and social model in support of enterprise competitiveness and security of employment and career paths for employees, available in French at: [direccte.gouv.fr/accord-national-interprofessionnel-du-11-janvier.html](http://direccte.gouv.fr/accord-national-interprofessionnel-du-11-janvier.html) [accessed 27 February 2015].

## Concluding remarks

The distinction between protective and participative standards has proved useful in three ways. First, it shows that the wage-setting systems described in the literature as “autonomous” are actually not so autonomous at all. In reality, the “shadow of the law” hangs over their “autonomous bargaining”. As an “enabling state”, Sweden has acted to compensate for the trade unions’ structural inferiority by establishing strong participative labour standards. This makes it possible to delegate bargaining to the social partners without the State having subsequently to intervene with corrective measures, such as minimum wages, to remedy high shares of low-wage workers. Second, the development of co-determination at the establishment and company levels, which took place mainly in the 1970s–90s, stabilized these systems by establishing statutory rights to participation. Third, it appears that protective and participative standards can be mutually supportive as the Belgian example shows. Statutory rights to participation thus make it easier to set up employee representation bodies in the workplace and to organize workers, which in turn improves the opportunities for free collective bargaining.

Efforts to combat income inequality should not rely solely on direct state intervention in the wage-setting process but should also seek to develop participative standards. However, these will not have any effect in practice unless they have substance and expand the options and resources available to employee representatives. Such substantive participative standards include the statutory rights of co-determination that German works councils and Swedish trade unions enjoy in important decisions on personnel policy (recruitment, redundancies, overtime, outsourcing, etc.), the release of employee representatives from work duties to undertake such activities, rights to paid further training for their work as representatives, and special protection from dismissal. In contrast, the purely formal participation of “powerless” trade unions in social dialogue, which is standard practice at the EU level and in many Member States (Meardi, 2012), serves only to provide political legitimation for governments and has little to do with genuine participation.

The participative and protective labour standards described in the foregoing country examples arose out of social conflicts between capital and labour and reflect the balance of power at a particular point in time. However, the balance of power can change, such that the historic compromises are called into question (Pontusson, 2005, p. 165). In virtually no other area can the balance of power shift as quickly as in the employment system, which is not without consequences for state action. While education and welfare systems, which are largely state-dominated, often exhibit considerable durability and path dependency, the same does not necessarily apply to industrial relations. Here, the balance of power has shifted in favour of employers in recent decades with significant negative effects on job quality as a result of the deregulation of product and labour markets, free trade agreements, the privatization of state activities, the transfer of functions from highly unionized plants to un-



regulated segments of the national or international labour market, economic crises and the rapid growth of new service industries with lower trade union density. The change has often taken place gradually as the various influencing factors accumulated, slowly eroding labour standards. At the same time, many States have become increasingly unable to rely on social partners with the capacity to act, so that paradoxically, in the age of liberalization, “the state also rises” (Levy, 2006). Differences in job quality between different countries can be explained in terms of “the relative organizational capacity of employers and labour and the way this was mediated through the state” (Gallie, 2007, p. 87). The revitalization of old institutions and the creation of new ones like the minimum wage in Germany, always require favourable political power relations (Korpi, 1983).

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