Wage (In)Equality and Wage Setting – Challenges for Slovakia

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Labour market institutions (LMIs) such as collective bargaining play an important role in wage formation and efforts to decrease inequality. This study aims to uncover the process of inequality formation or elimination through the established institutional channels as well as through approaches, strategies and actions of key labour market actors, including employers, trade unions and government representatives in Slovakia.

Being one of the recent EU member states from the postsocialist region of Central and Eastern Europe (CEE), Slovakia is as an open, export-led economy with a high share of foreign direct investments (FDI). Economic growth through openness and FDI has been accompanied by several labour market reforms aiming at liberalization and employment flexibilization. Nevertheless, there persists a relatively high degree of wage bargaining coordination when compared to other CEE countries (except Slovenia).

According to the typology on capitalist diversity in the CEE region, Slovakia belongs together with Czechia, Hungary and Poland to embedded neoliberal economies. The hallmark of embedded neoliberal countries is a combination of pro-business policies with welfare policies, where the direct role of the state is gradually decreasing while maintaining responsibility for citizen well being (Bohle and Greskovits 2012: 148-150, 217-218).

The combination of economic success based on liberalization, persistence of coordinated bargaining, and relatively low levels of inequality make Slovakia an interesting case for addressing how inequalities are constructed and what is the role of industrial relations actors and wage setting institutions, including collective bargaining, in this process.

Structural changes in the economy since the 1989 regime change strongly affected the labour market developments. The employment rate exceeded 60% only by mid 2000s and peaked at 65.1% in 2012, leaving Slovakia among countries with lowest participation rates in the EU.[1] Employment is mostly concentrated in industry,

[1] Eurostat employment database (LFS adjusted series), annual averages from employment rate 20-64 years.

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wholesale and retail services and in construction.[2] During the 2000s, Slovakia saw rapid growth in self-employment and bogus self-employment together with temporary employment forms, agency work or small forms of employment (work agreements). Whereas these new employment forms allowed for greater labour market flexibility and inclusion of vulnerable groups in the labour market, this trend significantly affected job quality, wage levels and trends in inequality. In some sectors, e.g., construction and retail, such employment forms make up a significant share of overall employment.

Slovakia possesses a coordinated mechanism of wage setting institutions, which play a key role in shaping wage inequalities. We distinguish between three levels at which wage setting takes place: the national level (statutory minimum wage), the sectoral or multi-employment level (higher-level collective agreements), and the establishment level (company-level agreements and individual wage setting). These wage-setting institutions have a twofold effect. First, institutions help mitigating wage inequality through the system of minimum wages and collective agreements. Second, these mechanisms facilitate wage inequalities because channelling the divergent interests of social partners (trade unions and employers) and the government. Recent years show that labour market dualization derived also from wage inequality in some sectors, e.g. the automotive sector, was reinforced by higher-level collective agreements negotiated between the sectoral trade union and employers' association (Kahancová 2013).

The most important national-level object of study with effect on wage inequality is the annual tripartite negotiation on minimum wage increases. Besides national-level developments, the study covers five sectoral cases. Each sector has a developed and functioning structure of social dialogue and collective bargaining, in which wage formation and wage growth play a crucial role. The interests of actors, mainly trade unions, evolve around wage increases within these sectors. Wages thus form the center of the sectoral discourse among the social partners.

In the *metal sector*, the study focuses on the automotive industry, which is the most important sector of the Slovak economy. Employees in the industry are covered via establishment-level and sector-level collective agreements. Performance pay and individual bonuses, next to a high share of agency work, may be the most important sources of wage inequality. In the *retail sector*, flexible employment forms are widespread and inequalities are channeled not only by employment forms but also through the distribution of working time, overtime payments and the weakness of sector-wide bargaining institutions. While the retail sector saw a divide in employers' interests between foreign and domestic retail networks, the *banking sector* is completely

[2] Statistical Office of the Slovak Republic (ŠÚSR, 2012).

dominated by multinational companies. A sectoral collective agreement exists in banking, and we expect inequalities to be channeled through internal flexibility (individual bonuses, working time, career perspectives, etc.) rather than a flexible hiring and firing policy and collectively negotiated wages. Finally, in the *education* sector, wages are regulated via public sector tariffs. After three years of wage freeze responding to the post-crisis austerity, trade unions in education organized a strike and gained wage increases. Wages in education are systematically on the bottom of the wage distribution in Slovakia and in international comparisons. While the government aims to tackle this problem (and related to that a high fluctuation with repercussions on the quality of education) through annual wage rises for teachers, there is an ongoing tension between trade unions and the government regarding the approved percentages of wage growth.

Within each sector, company-level case studies are planned. Subject to permission of access to company-level data and interview respondents, the selected case studies include Volkswagen (metal/automotive), Billa – Rewe Group (retail) and Všeobecná úverová banka - Gruppo Intesa (banking).

Data for this study are collected from several sources. First, authors have participated in a number of research projects on industrial relations, wage inequality and sectoral bargaining in Slovakia. Earlier studies will serve as an important source of evidence. Second, evidence will be collected from available domestic sources, including statistical evidence, media sources, collective agreements, press releases, minutes from tripartite meetings, and other documents highlighting the developments in wage setting, formation of inequality and social partner approaches to these. Finally, the authors will conduct face-to-face interviews with key informants in each sector and at the national level, covering both employers' and employees' representatives.