



# Wage (in)equalities and collective bargaining in Germany, Italy, Netherlands, Slovakia and the UK

Paolo Tomassetti

ADAPT Research Fellow



# Background

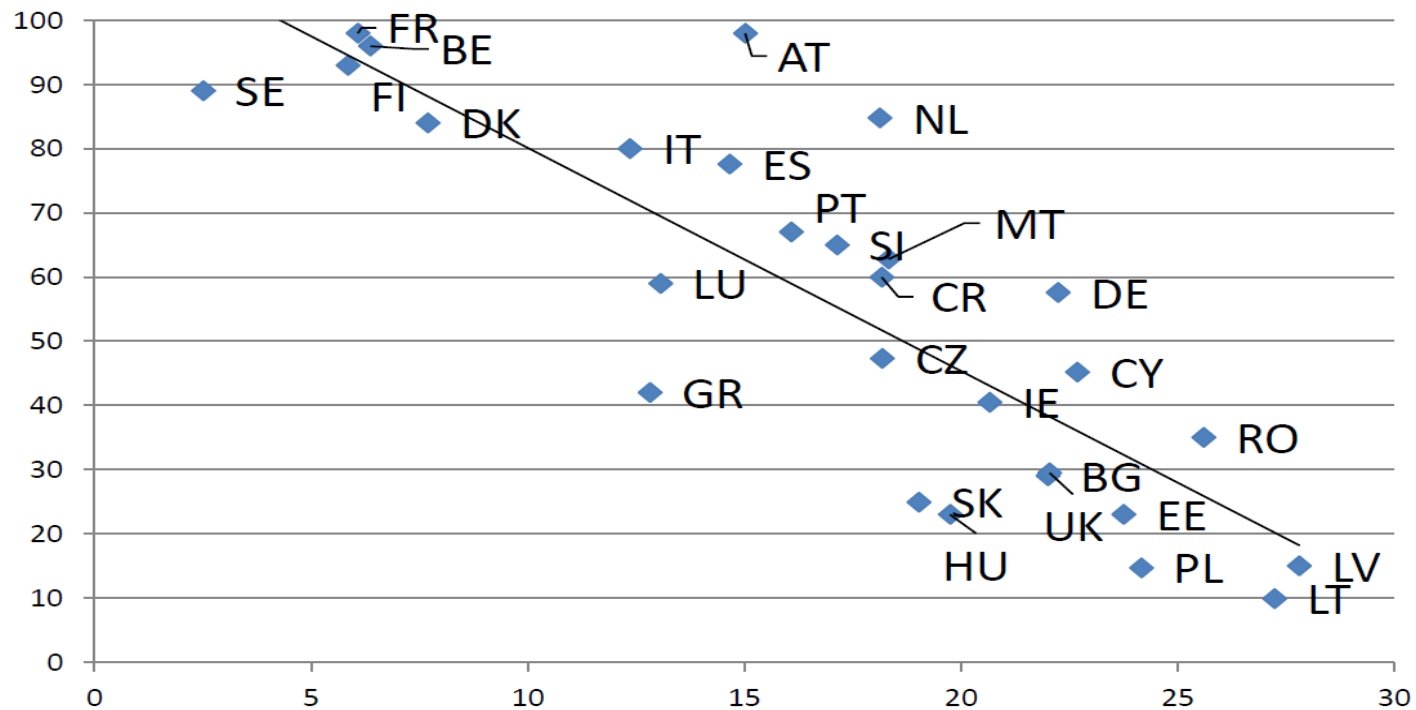
- Inequality is on the rise (Berg and Ostry 2011; OECD 2011)
- Inequality is now recognized more and more as a factor with not only negative social but also economic effects (Wilkinson and Pickett 2009; Piketty 2014; Atkinson 2015)
- Its relevance is likely to increase even more in the years ahead as a consequence of the impact of Industry 4.0 and the digital evolution of the economy on labour markets and societies (Blasi et al 2013; Etui 2016)

# Background

- Historically, industrial relations factors like trade union strength and the coverage and coordination of collective bargaining have played a crucial role in containing and reducing inequality (Wilkinson and Pickett 2014; Stiglitz 2012)
- However, in the present inequality debate most attention seems to be given to the effects of welfare provisions, education and fiscal policy on inequality, while industrial relations and wages play only a surprisingly and undeservedly minor role

# Background

Figure 1: Bargaining coverage and % low wage ( $r = -0.836$ )

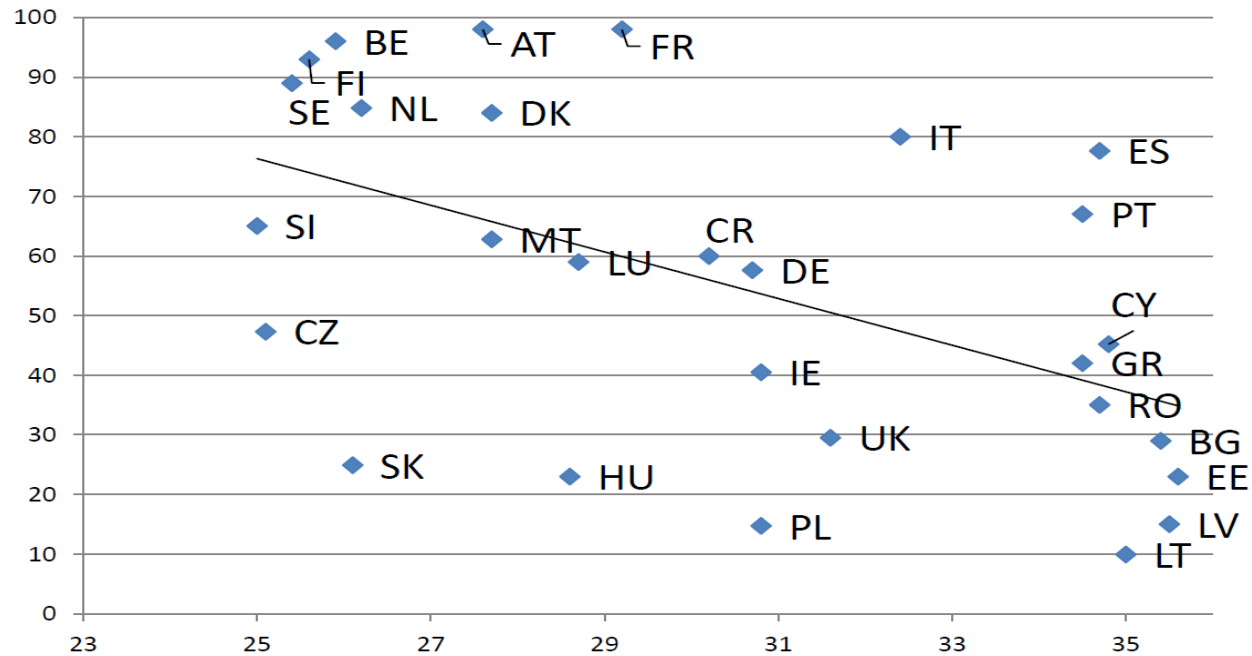


Note: X-axis refers to the percentage of employees with a wage below two-thirds of the mean wage. Y-axis refers to collective bargaining coverage, i.e. the percentage of employees covered by any type of collective agreement.

Source: Eurostat, ICTWSS

# Background

Figure 2: Bargaining coverage - Gini ( $r = -0.523$ )



Note: x-axis refers to income inequality expressed by the Gini coefficient. Y-axis refers to collective bargaining coverage, i.e. the percentage of employees covered by any type of collective agreement.

Source: Eurostat, ICTWSS

# Unit of analysis



***Metal***



***Bank***



***Retail***



***Education***

# Unit of analysis

Tab. 1 – Industrial relations indicators, Germany, Italy, the Netherlands, Slovakia and the UK (most recent year)

	Collective bargaining coverage	Collective bargaining coordination (1-5 scale)	Union density	Employer density	Varieties of capitalism
Germany	57.6	4	17.1	58.0	CME
Italy	80.0	3	37.3	56.0	MME
The Netherlands	84.8	4	18.0	85.0	CME
Slovakia	24.9	3	13.3	30.5	DME
The UK	29.5	1	25.7	35.0	LME

Source: ICTWSS

# Unit of analysis



***Metal***

Mid-skilled  
Labour intensive



***Bank***

High-skilled  
Mixed Capital-Labour  
intensive



***Retail***

Low-skilled  
Labour intensive



***Education***

Mid-skilled  
Labour intensive



# Dimensions of wage (in)equality

## Vertical dimension



Top vs. bottom

## *Circular dimension*

- Combination of vertical and horizontal dimensions of wage (in)equalities

## Horizontal dimension



- Between sectors
- Within sectors and society: “equal pay for equal work”

# Trends in wage inequality (1990-2015)

Flag size = Intensity



*Increasing*



*Increasing*



*Increasing*



*Stability*



*Increasing*

**Vertical dimension**

# Short-term effect of the crisis on wage inequality (2008-2014)



*Equalising*



*Equalising*



*Equalising*



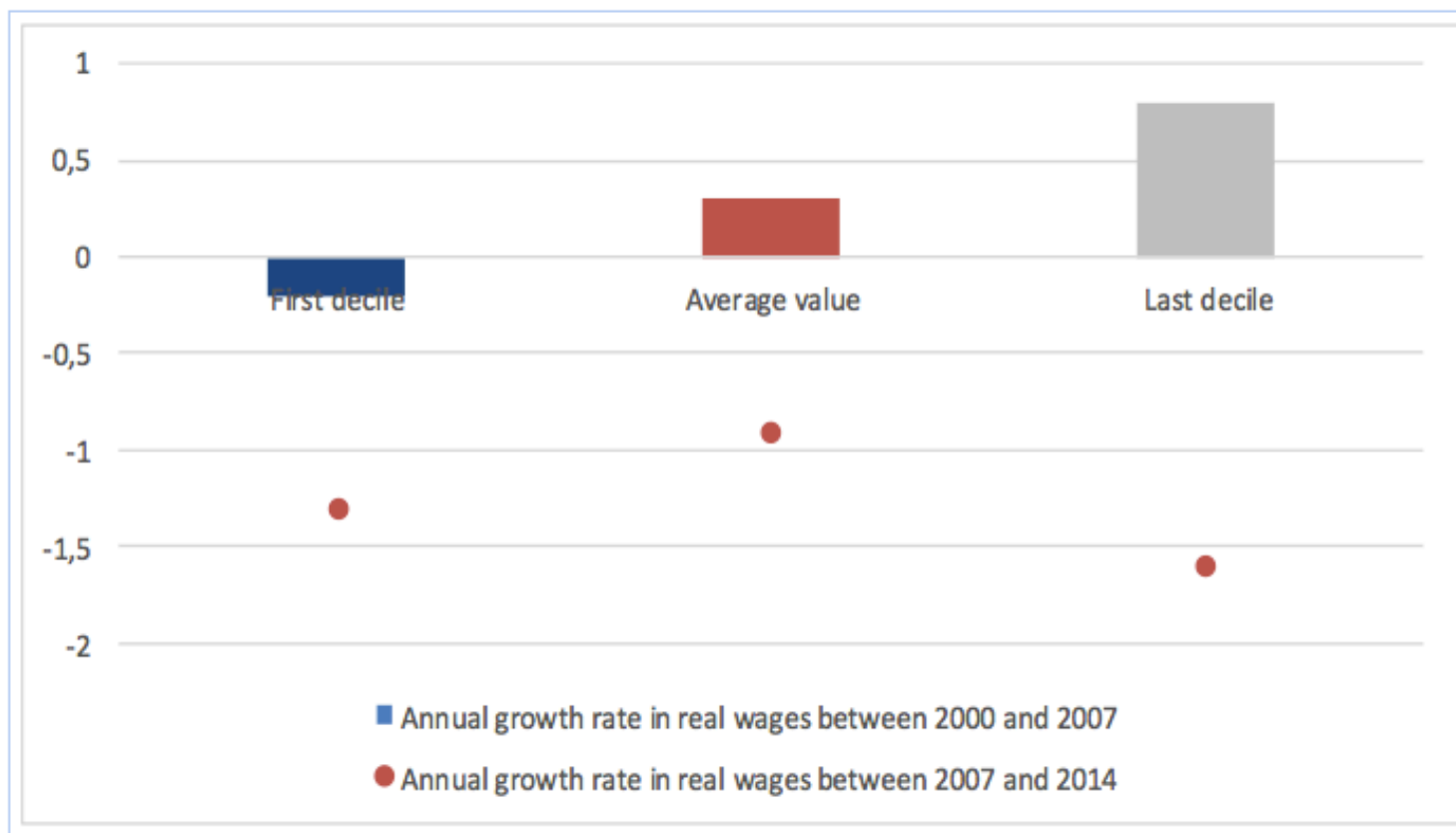
*Increasing*



*Neutral*

**Vertical dimension**

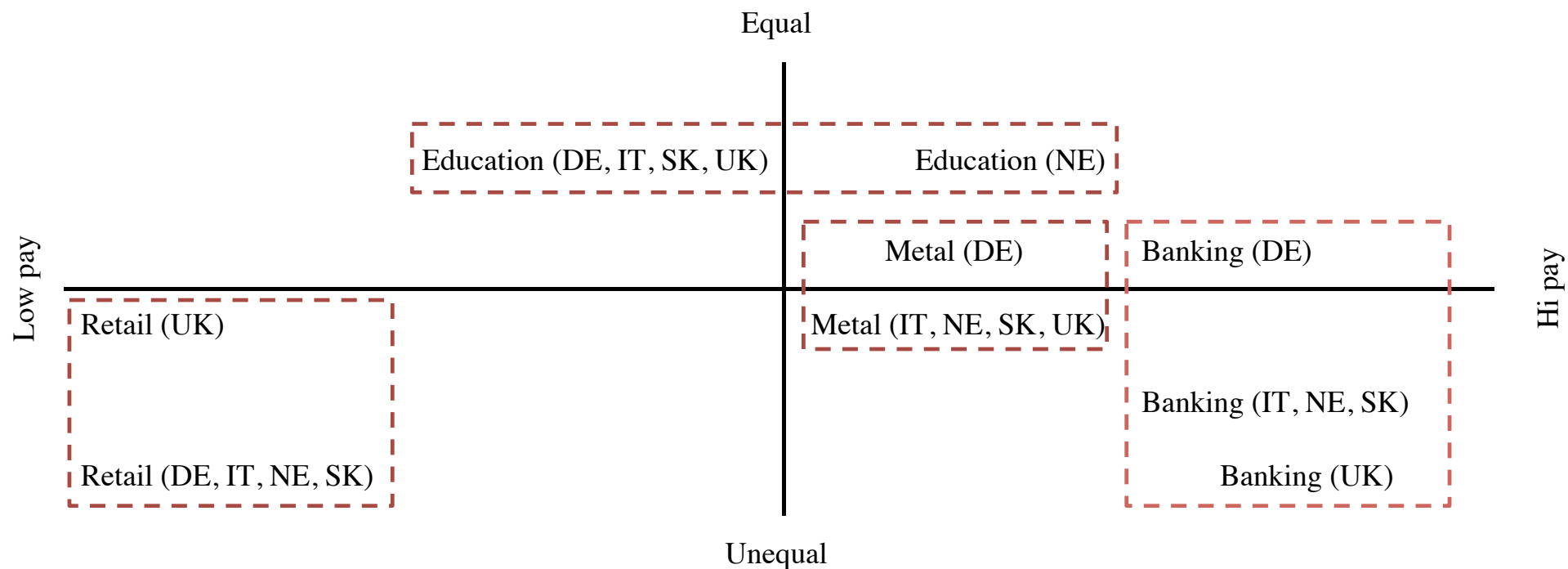
**Graph 3.** Annual growth rate of real wages of the different deciles of the population between 2000 and 2007 and between 2007 and 2014



Source: OECD (2016)

**E.g.: Italy**

Tab. 3 – Sectoral wage (in)equalities in Germany, Italy, the Netherlands, Slovakia, the UK



Source: NEWIN-Negotiating Wage (In)equality

**Vertical dimension**

Tab. 3 – Sectoral wage (in)equalities in Germany, Italy, the Netherlands, Slovakia, the UK

	Sector paying more	Sector paying less	Most equal	Most unequal
Germany	Banking	Retail	Education/Banking	Retail
Italy	Banking	Retail	Education	Banking/Retail
The Netherlands	Banking	Retail	Education	Banking/Retail
Slovakia	Banking	Retail	Education	Banking/Retail
The UK	Banking	Retail	Education	Banking

Source: NEWIN-Negotiating Wage (In)equality

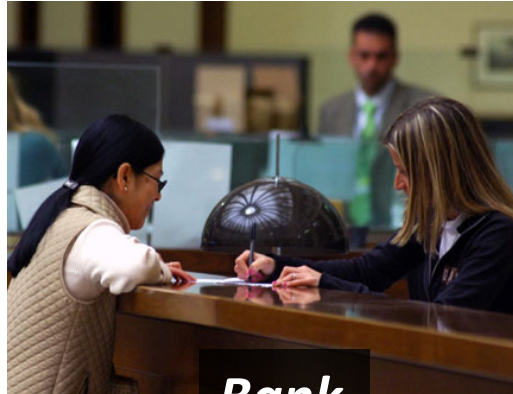
**Circular dimension**

**What does explain cross-country similarities  
and differences between sectors?**

# Market forces and state intervention play a major role



**Metal**



**Bank**



**Retail**



**Education**

- Sectors with higher skilled workforce and capital-intensive activities are those paying relatively more
- High margins and profits explain the higher extent of wage structures (e.g. Banking)

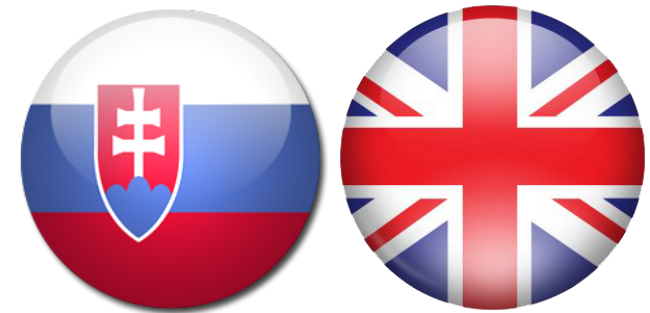
- Low paid sectors tend to be associated with labour-intensive activities and low-skill occupational structures
- Expenditure limitations imposed by public finances explain the higher compression of wage structures (e.g. Education)



**Any role for collective bargaining towards  
cross-sectoral wage inequality?**



- **Wage coordination policies** (Netherlands), in some cases aimed at **containing labour cost to prevent inflation increases** (Italy), or elsewhere the logic of **pattern bargaining** (Germany) have in the past proven to be effective in containing wage dispersion across sectors
- However, these forms of coordination don't exist anymore (IT, NE) or show signs of erosion (DE)



- Wage coordination policies don't exist at all

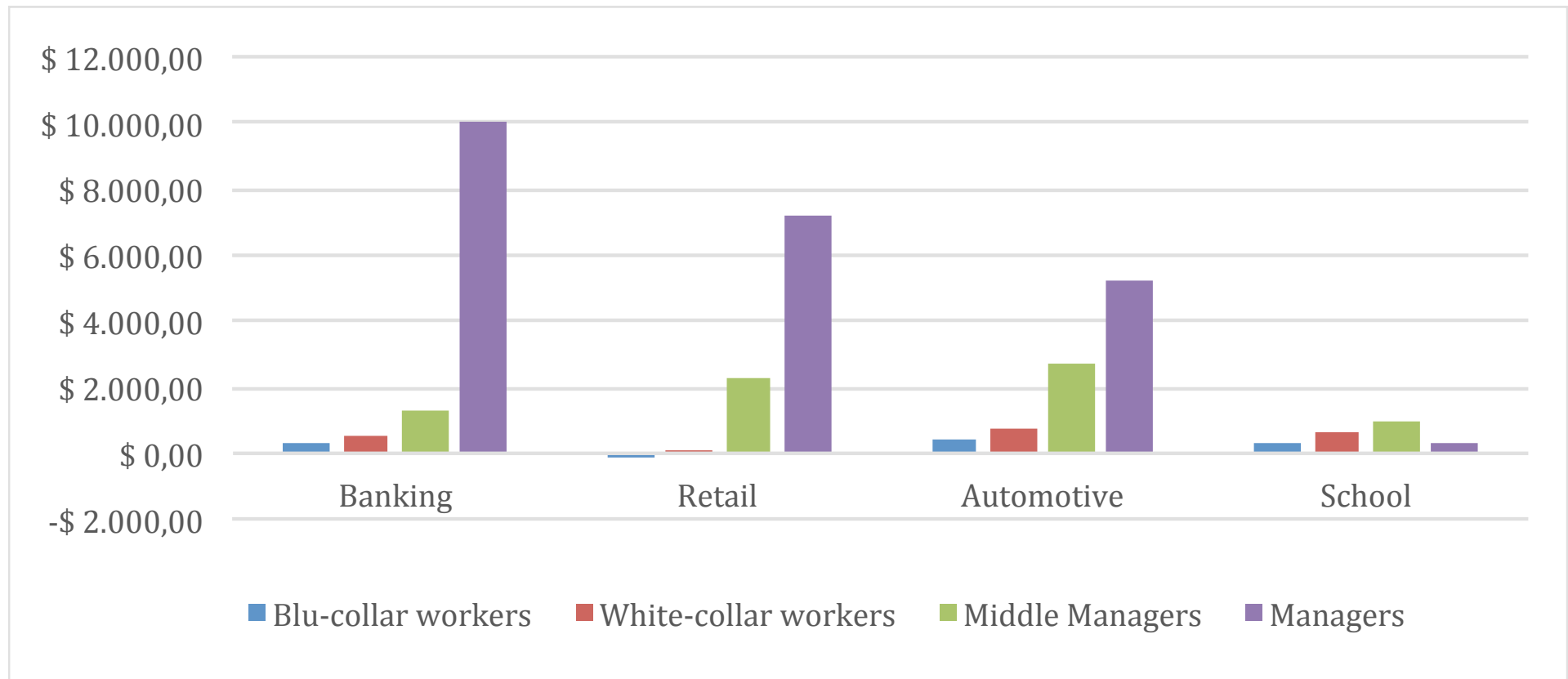
**Horizontal dimension**

# Any role for collective bargaining?

- The ability of collective bargaining to control labour cost and wage dispersion decreases the higher the level of job qualification is
- The equalizing role of collective bargaining is relevant in relation to the remuneration of blue- and white-collar workers, while it loses its grip when it comes to middle-managers and executives, for here individual bargaining plays a major role
- This is clear from the analysis of wage drift in all the countries and sectors, where the distance between agreed wages in collective bargaining and actual wages increases with the increase of the level of job classification

**Horizontal dimension**

## E.g.: Monthly wage drift in Italy (2014)



**Less collective bargaining = more inequality?**

# YES

The most relevant wage differentials concerning most of the cleavages examined (i.e. Gender; age; geographical area; types of contract; top-bottom; education) are observed **in contexts where collective bargaining gives way to unilateralism and individual bargaining**, including HRM practices such as MBOs, individual bonuses etc.

**More collective bargaining = less inequality?**

# Not always... but...

- The contents of collective agreements **can be a source of inequality** when they determine cleavages in the workforce they cover
- Nonetheless, uncoordinated forms of single-employer bargaining or unilateral HRM policies are likely to lead to higher levels of inequality
- In general, there is consensus that the capacity of collective bargaining to redress wage inequalities depends on the power of the actors of coordination



# Sources of wage (in)equality in collective bargaining

## *Wage increases in NCLAs*

- Neutral effect on inequalities, as they reflect the existing relative differences in wage groups
- Unless the wage groups are covered by different collective agreements (e.g. in Italy executives are covered by different collective agreements in all the sectors) or they are treated separately (e.g. blue- and white-collars in the German retail sector, or the lowest paid workers in the Dutch education sector)

## *Seniority-based pay schemes*

- Create age cleavages
- Exist in all NCLAs in Italy, while in Germany and the Netherlands they have been replaced by experience-based pay mechanisms

# Sources of wage (in)equality in collective bargaining

## *Opening clauses allowing for higher wages*

- Exist in all the analyzed sectors and countries
- However, collective bargaining in the school sector, and in the public sector as a whole, has less room to generate upward differences due to its high degree of regulation and financial restrictions
- At decentralised level, wage rises generally take the form of profit-sharing and performance related pay: this pay setting mechanisms tend to be associated to wage inequalities (covered/not covered), although sectoral collective agreements can regulate them in a way to equalise their effects (e.g. Germany and the Netherlands)

# Sources of wage (in)equality in collective bargaining

## *Derogation clauses*

- Forbidden in Italy and in the Netherlands, while in Germany they exist in the metalworking industry only
- In Slovakia and the UK sectoral wage bargaining takes place only in the public sector, where derogation clauses on wages don't exist
- In the UK it has been reported that schools can switch to the status of academies, which do not have to follow nationally agreed bargaining arrangements

# Sources of wage (in)equality in collective bargaining

## *Two-tier wage structures*

- Entry-level salaries (e.g. Banking sector in Italy and some company level collective agreements)
- Different minimum wages for young people (e.g. Dutch retail sector)
- Retrenchment measures in company level collective bargaining affecting only the newly employed workers (e.g. Italy)

# **Views and strategies of social partners on wage (in)equality**

# General perception of the problem

- Wage (in)equality is recognised as an **issue of considerable importance**
- **The problem is rarely expressed as an explicit concern** and it is rarely tackled as such, directly and in a holistic way
- Collective bargaining is regarded as just one of the determinants of wage (in)equalities between and within societies and sectors: the interviewees attribute to State policies and market forces a major role in this respect

# The positions

- Generally **polarised**
- They tend to reflect different views on wage in general:
  - Employers frame the issue in terms of costs, productivity and competitiveness
  - Workers representatives are more concerned with solidarity, fairness and justice
- In Italy and the Netherlands social partners are clear to **distinguish between the multiple dimensions of wage inequalities**, differences and discrimination, with the latter being condemned by both parties

# Strategies to redress horizontal differences

- **“Equal pay for equal work”** stands out as the main policy domain of trade unions
  - Policies aimed at **standardising pay conditions** in different contexts (e.g. geographical areas and companies) and within sectors (in the Netherlands, for instance, the abolishment of flexible bonus-system in the banking sector was compensated with higher fixed salaries)
  - Policies to **reduce the differences between categories of workers** (e.g. temporary agency workers or posted workers in Germany and the Netherlands)



# Strategies to redress vertical differences

- In the banking sector in Italy trade unions negotiated a **solidarity instrument** to devolve a share of wage of managerial staff to a fund aimed at supporting the entrance of young people in the labour market
- In Germany, trade unions are vocal to **include the high-skilled workforce into the sectoral collective agreements for banks**, and to **increase wages of low-skilled workers in the retail sector**

**THANK YOU!**

tomassettpaolo@gmail.com