FINAL REPORT

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

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With support from the European Union (Grant agreement VS/2014/0538).
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1. Introduction

Inequality has once again been under the spotlight of academic analysis and policy making in recent years. This has, to a significant extent, been linked to the economic crisis and the questions it has raised concerning the interrelationships between a variety of factors including growth, sustainability, welfare and labour markets. Inequality is now increasingly recognized as a factor with negative effects which are not only social but also economic. 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).

Historically, industrial relations factors such as the strength of trade unions 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 debate, most attention appears to be paid to the effects of welfare provisions, education and fiscal policy on inequality, while industrial relations and wages play a surprisingly and undeservedly minor role. This is unfortunate since industrial relations, as will be demonstrated below, do indeed play a key role in shaping inequality. The recent debate regarding inequality has very much been fuelled by a number of academic analyses, most prominently that carried out by Thomas Piketty (2014) who shows the importance of inequality in understanding economic and social development. He argues that the traditional issue of income inequality together with that of wealth inequality are of major importance. He argues that over the last few years wealth has been concentrating as a result of rates of return on capital which are higher than the rates of economic growth, and this has in turn lead to an increase in inequality. Wealth and income inequality have then lead to social and economic instability, undermining sustainable economic development and social cohesion.

Wilkinson and Pickett (2009) claim that growing income inequality has negative effects on a wide range of social and health indicators. They also argue that serious inequality played a major role in the financial crashes of 1929 and 2008, as it leaves the rich with too much money to speculate with and the poor with too little money to pay off their loans and mortgages. In addition, they point to the key role of work and labour markets in creating inequality. “It is there that value is created and divided between the various gradations of employees. It is there that the inequities which necessitate redistribution are set up (Wilkinson and Pickett 2009: 249-250).” According to the authors these inequities then increase as the membership and bargaining power of trade unions decline. Similarly, Tony Atkinson (2015) underlines the importance of capital and labour markets in bringing about inequality. He identifies the strength and collective bargaining coverage of trade unions among the key explanatory factors for inequality and argues that their decline in recent decades provides part of the explanation as to why inequality has increased. He then outlines a series of options for reducing inequality. Stiglitz (2012)
follows the same line by arguing that increased inequality has a political cause and that organized labour and collective bargaining have traditionally been factors contributing to a reduction in inequality.

Furthermore, the ILO has recently been focusing on inequality and wages (ILO 2014), arguing that “…high levels of inequality can adversely affect well-being and social cohesion as well as reducing medium- and long-term economic growth.” “High and rising income inequality can become an obstacle to ‘equality of opportunity’ and lead to less social mobility. With high inequality, economic advantage is more likely to be inherited than earned (Corak, 2013). This can discourage individual effort as well as damage perceptions of fairness in society and also adversely affect social outcomes and social cohesion.” It underlines “…the adverse effects of inequality on health and education, on political and economic stability, and on the social consensus required for well-functioning societies. Inequality has also been highlighted as a factor increasing risk of crisis, and as one of the possible causes of the 2008 financial crisis in the United States. ... By redistributing income from poorer to richer households, growing inequality may have exerted downward pressure on aggregate demand (as richer households have a lower propensity to consume their income than poorer households) and encouraged many families to borrow beyond their means to try to maintain their consumption levels.” It also outlines a number of policy options for the reduction of inequality including minimum wage regulation and collective bargaining: “Collective bargaining is another labour market institution that has long been recognized as a key instrument for addressing inequality in general and wage inequality in particular. The extent to which collective bargaining can compress overall wage inequality depends on the proportion of workers covered by collective agreements and on the position of these workers in the wage distribution.”

Quite unexpectedly, these academics have, over the last few years, received support from a number of studies conducted by the IMF and the OECD. Both organizations have become increasingly interested in inequality issues and have managed, at least in some of their work, to abandon some of their rigid traditional views. In the past they saw inequality simply as a consequence of globalization, technological change and education differences, and viewed labour market institutions in general, and unions and collective bargaining in particular, as being merely market disturbing. However, the IMF’s Berg and Ostry (2011) have shown that longer spells of economic growth are closely linked to greater equality in the distribution of income, highlighting the destructive effects of inequality on sustainable growth.

Their colleagues, Jaumotte and Osorio Buitron (2015), focus on the relationships between inequality and labour market institutions. They note that de-unionization leads to an increase in inequality because it is closely associated with a rise in top incomes. It weakens trade unions’ bargaining power and their influence on corporate decisions, limits their influence on public policy and reduces the importance of equality-oriented social values. They also argue, however, that the effects are not the same in all countries, stating

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1 As we will see below, however, these findings do not necessarily mean that the IMF or the OECD have adjusted their policy recommendations accordingly.
that in southern Europe strong unions have lead to greater inequality as a result of union power bringing about higher levels of unemployment and a loss of competitiveness. A number of OECD publications also point in this direction. A major OECD report (OECD 2011) argues that declining union power, lower bargaining coverage and bargaining decentralization all lead to greater wage inequality (although the relationship with income inequality is less direct and less clear). Denk (2015), also from the OECD, notes the negative correlation between the labour share income of the top 1% and the coverage of collective bargaining. Where larger sections of the workforce are covered by collective agreements, inequality is lower as the top earners are able to increase their work-based income to a lesser degree.

Thus an extensive body of literature shows the negative social and economic consequences of inequality and argues that inequality starts in the labour market, with wages being such a significant part of income. The role of industrial relations factors in shaping (in)equality and therefore both economic growth and social cohesion is also clearly highlighted. It is implied that high collective bargaining coverage and strong trade unions are positively associated with equality, social cohesion and sustainable economic growth. One of the mechanisms at work here is the way in which collective bargaining lifts wage floors and sets limits on wage dispersion (Visser and Checchi 2009; Hayter 2015), a mechanism that from a macro perspective is stronger the greater the coverage of collective agreements. Another possible mechanism is represented by the limits which union power and collective bargaining coverage, in combination with legislation regarding minimum wages, set on the growth of income and wealth at the top of the distribution, and on low paid jobs (ILO 2014). Thirdly, strong trade unions and widespread collective bargaining indicate a more social national attitude towards equality. These viewpoints, implicitly or explicitly, argue that inequality is not an inevitable result of natural laws but has been created by political actors and can therefore be undone. They also underline the role of industrial relations and in particular of collective bargaining in this respect. The importance of this role can also be illustrated with some comparative data. Figure 1 shows that there is a strong negative association between wage inequality, expressed by the percentage of workers receiving a low wage, and the coverage of collective bargaining. Indeed, collective agreements foster wage equality. This is significant for inequality since wages make up the major share of income for most households.
Figure 1. Bargaining coverage and % low wage ($r = -0.836$)

Note: X-axis refers to the percentage of employees with a wage less than 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*

Figure 2 shows a negative association between income inequality and the coverage of collective bargaining. This relationship is weaker than that between wage inequality and collective bargaining coverage which is understandable since income inequality also includes many other income components which are not regulated by collective agreements. It is nevertheless still quite substantial.
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

It is necessary to better understand how this relationship between industrial relations and collective bargaining works. Most of the above-mentioned authors underline the importance of collective bargaining and trade unions in strengthening growth and equality, but they do so often only in passing or based on one or two very general indicators in a regression analysis. Similarly, the two graphs shown above indicate that collective bargaining is of great significance for wage and income inequality but they do not show how this is so.

A deeper understanding is also necessary in order to better inform policy makers. Indeed, although much academic research suggests that strong industrial relations and extensive bargaining coverage are important factors in reducing inequality and therefore in fostering sustainable growth, policy makers often act in the opposite direction. Since 2008 the EU, the ECB, the IMF (not in its research but in its policy-making capacity) and a number of national governments have been taking the exact opposite position. Most noteworthy here is the position of the EU. Until recently it was a key supporter of social dialogue and autonomous collective bargaining. It repeatedly stressed their contribution to democracy, good governance, economic efficiency, innovation and social cohesion (European Commission 2002, 2004). In doing so it aimed to strengthen the social side of European integration.

However, since the start of the crisis, as Keune (2015: 447) notes, “… the position of the EU has changed dramatically. Its traditional discourse is increasingly being trumped by a counter-discourse originating largely in DG Economic and Financial Affairs, as well as in the European Central Bank (ECB). It pictures collective labour relations, and in particular
trade unions, as obstacles to market coordination and hence to economic and employment growth. As argued in, for example, DG Economic and Financial Affair’s 2012 Labour Market Developments Report (European Commission 2012: 104), the coverage of collective agreements should be decreased, collective bargaining should be decentralised, minimum wages should be reduced and the wage-setting power of trade unions should be diminished.”

This change of heart was expressed, among others, in the 2011 Euro Plus Pact, signed by the heads of state of the euro zone countries and six other EU member states. This pact proposed a series of measures designed to strengthen competitiveness, increase employment and foster financial stability, including the abandonment of wage indexation mechanisms, wage moderation in the public sector, and the decentralization of collective bargaining. In addition, the EU countries that requested financial support from the so-called Troika (the EU, the ECB and the International Monetary Fund) have had to make serious changes to their systems of industrial relations. Countries including Greece, Portugal, Ireland and Spain have had to introduce harsh reforms aimed at decentralization and a lower coverage of collective bargaining, the reduction of minimum wages and/or less union influence. These reforms enable company-level agreements to deviate downwards from multi-employer (often sectoral) agreements and have already resulted in a dramatic decline in the number of workers covered by collective agreements in these countries (Keune 2015).

In this way, the EU’s changing position undermines the autonomy and power of employers’ organisations and trade unions and fosters the decentralization and declining coverage of collective bargaining, actively undermining collective bargaining in general and multi-employer bargaining in particular. By doing so, it fosters increasing inequality and the destruction of governance mechanisms that have proven their worth both prior to and during the crisis (Keune 2015). The EU has been joined in this quest by the ECB and the IMF, though the latter has presented a compelling analysis contradicting this view.

The same can of course also be observed in a number of national governments. The governments of the Troika countries, Greece, Portugal, Ireland and Spain, negotiate their agreements with the Troika and, being in a very weak bargaining position, they accept and execute the Troika’s demands. Furthermore, a number of other, non-Troika, countries, including France, Lithuania and Hungary, have in recent years introduced reforms weakening collective bargaining and the position of trade unions in bargaining processes (Visser 2016).

Academic research can clearly contribute more to unravelling and explaining exactly how the relationship between collective bargaining, industrial relations and inequality works and how changes in industrial relations or in the regulation of industrial relations may have an impact on inequality and therefore on social wellbeing and economic growth. This report aims to contribute to this debate by focusing on the way in which industrial relations actors and institutions affect wage (in)equality and how their role has changed over the last few years. We not only address this question on the macro-level but also consider inequality between and within the various sectors of the economy.

In order to analyse these points we selected five countries with different systems of industrial relations: Germany, the UK, Slovakia, Italy and the Netherlands. The four
countries cover all the traditional varieties of capitalism groups and their relative changes during time: two coordinated market economies (Germany and the Netherlands); one liberal market economy (UK); one mixed-market economy (Italy) (Molina, Rhodes 2007); one dependent market economy (Slovakia) (Nölke, Vliegenthart, 2009). As can be seen in Table 1, they differ substantially in terms of their collective bargaining coverage and coordination, and union and employer density. We maintain that these national differences also lead to differences in wage inequality at the macro level, where we expect higher scores for these four indicators to be associated with lower inequality. We also expect to see higher wage inequality in countries where these indicators have been declining over time. We include an analysis of the factors that form the basis of wage levels, including legal regulations, stipulations in collective agreements, age and experience, etc. We also discuss the way in which industrial relations actors shape inequality by analyzing the strategies of unions and employers, and their successes and failures.

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

<table>
<thead>
<tr>
<th></th>
<th>Collective bargaining coverage</th>
<th>Collective bargaining coordination (1-5 scale)</th>
<th>Union density</th>
<th>Employer density</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>57.6</td>
<td>4</td>
<td>17.1</td>
<td>58.0</td>
</tr>
<tr>
<td>Italy</td>
<td>80.0</td>
<td>3</td>
<td>37.3</td>
<td>56.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>84.8</td>
<td>4</td>
<td>18.0</td>
<td>85.0</td>
</tr>
<tr>
<td>Slovakia</td>
<td>24.9</td>
<td>3</td>
<td>13.3</td>
<td>30.5</td>
</tr>
<tr>
<td>UK</td>
<td>29.5</td>
<td>1</td>
<td>25.7</td>
<td>35.0</td>
</tr>
</tbody>
</table>

*Source: ICTWSS*

For each country we also discuss wage inequality in four sectors: banking, education, retail and the metal industry. We compare wage inequality in these four sectors and will discuss to what extent these differences can be linked to differences in collective bargaining and union and employers power, expressed among others in density. We will also compare the sectors across countries to see if the same sectors are more alike across countries or if they are more alike within countries (Bechter et al 2012). The analysis is based on five national studies that used national statistics, document analysis (collective agreements mainly) and extensive semi-structured interviews with representatives of national and sectoral trade unions and employers’ organizations, as well as with HR managers.

The structure of the report is as follows. In section 2 we discuss wage inequality and collective bargaining, first at the national level and then at the sectoral level. In section 3
we focus on the strategies of industrial relations actors. Both sections provide a paragraph with a cross-national overview and a paragraph with more in depth analysis of national cases. Section 4 provides conclusion.
2. Wage (in)equalities and collective bargaining in Germany, Italy, the Netherlands, Slovakia and the UK

2.1. Cross-national overview

All the countries analyzed show an increase in wage inequality over time, a trend which can be generally attributed to both wage increases at the top end of the income structure and shrinking wage dynamics in the middle and lower groups of the distribution. Slovakia stands out as the country with the most stable situation and shows signs of convergence, whilst the UK is amongst the most unequal member states with regard to top/bottom wage differentials. Developments in wage inequalities in recent years show that the effects of the economic downturn have been varied: in some cases the crisis has contributed to a slight reduction in an existing vertical gap (in Germany, Italy and the Netherlands), whereas in other cases it has contributed to an increase in wage inequalities, though this has been marginal (Slovakia). What has clearly emerged from the country analysis is that the crisis may have had an equalizing effect, but not a redistributive one, since this was mainly driven by the falling of wages at the top end of the income structure. Moreover, there is a consensus that the ‘equalizing effect’ of the crisis is illusory, and it will neither invert nor stabilize the trend of growing wage inequalities in societies: there are signs that the top earners in the private sectors are once again disproportionally increasing their earnings.

Table 2. Trends in wage inequality in Germany, Italy, the Netherlands, Slovakia, the UK (1990-2015)

<table>
<thead>
<tr>
<th>Country</th>
<th>Trend in wage inequality</th>
<th>Intensity</th>
<th>Short-term effect of the crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>Increasing</td>
<td>High</td>
<td>Equalising</td>
</tr>
<tr>
<td>Italy</td>
<td>Increasing</td>
<td>Medium</td>
<td>Equalising</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Increasing</td>
<td>Medium</td>
<td>Equalising</td>
</tr>
<tr>
<td>Slovakia</td>
<td>Stable</td>
<td>-</td>
<td>Increasing</td>
</tr>
<tr>
<td>TUK</td>
<td>Increasing</td>
<td>High</td>
<td>Neutral</td>
</tr>
</tbody>
</table>

Source: NEWIN-Negotiating Wage (In)equality

Among the factors influencing wage inequalities within societies is geography, and this is indeed a major issue in the largest countries analyzed: Germany (east-west), Italy (north-
south) and the UK (London ‘ripple out’ effect). The geographic factor is generally due to the different characteristics of the industries and types of production across territories which result in differences in collective bargaining, HR practices and therefore in working conditions and wages. Gender is another key factor in explaining wage inequalities, although its significance varies greatly across countries: its import is greater in Slovakia and Germany but less relevant elsewhere (e.g. Italy and the Netherlands). The role of collective bargaining in this respect is apparently neutral as collective agreements cover the entire workforce irrespective of gender. However, certain working conditions, such as working time arrangements, or trade-union presence in the workplace, can affect the gender pay gap either directly or indirectly through the promotion of positive actions. Differences also exist according to age and seniority, which are two important elements of wage inequality in the Netherlands and Slovakia, though relatively less so in Germany and Italy. In this case, two-tier wage structures in contractual job classification or in the legal minimum wage are direct sources of inequality (see the case of Netherlands). Education stands out as a key determinant in wage inequalities in Slovakian and Italian society, while trade-union membership and collective bargaining coverage appear to have the greatest influence on the wage gap in Germany and the UK. The type of employment contract, such as the so-called ‘mini jobs’ in Germany, posted-workers or the widespread use of bogus self-employment (e.g. in the Netherlands), as well as the vertical disintegration of production (e.g. in Italy and Germany) are also important factors in wage inequalities within societies and they also contribute to explaining the reduced coverage of collective bargaining (e.g. in Germany).

Table 3. Main factors influencing wage inequalities in Germany, Italy, the Netherlands, Slovakia, and the UK

<table>
<thead>
<tr>
<th>Country</th>
<th>Main factor 1</th>
<th>Main factor 2</th>
<th>Main factor 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>Types of contracts</td>
<td>Gender</td>
<td>Geography</td>
</tr>
<tr>
<td>Italy</td>
<td>Geography</td>
<td>Education</td>
<td>Age</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Age</td>
<td>Migration</td>
<td>Types of contracts</td>
</tr>
<tr>
<td>Slovakia</td>
<td>Education</td>
<td>Age</td>
<td>Gender</td>
</tr>
<tr>
<td>UK</td>
<td>Geography</td>
<td>Education</td>
<td></td>
</tr>
</tbody>
</table>

(Source: NEWIN-Negotiating Wage (In)equality

Turning to the sectoral analysis of wage (in)equalities, in all the countries analyzed the sectors with a highly-skilled workforce and capital-intensive activities are those which pay the most. Conversely, low-paid sectors tend to be associated with labour-intensive activities and low-skill occupational structures. This is because jobs and tasks in these sectors require comparatively fewer skills and qualifications, but also because in labour-
intensive industries there is more pressure to contain labour costs which represent a sizeable component of the total costs of production, affecting competitiveness more than in capital-intensive sectors. Banking is the sector with the highest wages, although pay levels at the top end of the sectoral income structure broadly influence the average. Retail stands out as the sector with the lowest wage levels in all the countries examined, while education is a relatively well-paid sector in the Netherlands, but less so elsewhere. Wage coordination policies (Netherlands), measures aimed at containing labour costs in order to prevent increases in inflation (Italy), or 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 either no longer exist or show signs of erosion: sectoral differences are consequently widening in all the countries observed.

Table 4. Sectoral wage (in)equalities in Germany, Italy, the Netherlands, Slovakia, the UK

<table>
<thead>
<tr>
<th>Country</th>
<th>Sector paying more</th>
<th>Sector paying less</th>
<th>Most equal</th>
<th>Most unequal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>Banking</td>
<td>Retail</td>
<td>Education/Banking</td>
<td>Retail</td>
</tr>
<tr>
<td>Italy</td>
<td>Banking</td>
<td>Retail</td>
<td>Education</td>
<td>Banking/Retail</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Banking</td>
<td>Retail</td>
<td>Education</td>
<td>Banking/Retail</td>
</tr>
<tr>
<td>Slovakia</td>
<td>Banking</td>
<td>Retail</td>
<td>Education</td>
<td>Banking/Retail</td>
</tr>
<tr>
<td>UK</td>
<td>Banking</td>
<td>Retail</td>
<td>Education</td>
<td>Banking</td>
</tr>
</tbody>
</table>

Source: NEWIN-Negotiating Wage (In)equality

Due to its compressed wage structure and expenditure limitations imposed by public finances, education stands out as the most equal sector in all the countries analyzed with the exception of Germany. On the other hand, banking is the sector where the gap between top and bottom levels of wage distribution is most pronounced in all the countries, apart from Germany. However, wage inequality in this sector is greatly influenced by the pay levels at the top end of the income structure; otherwise, retail would result as being the most unequal sector in all the countries examined, except for the UK where wage distribution is relatively compressed.
Table 4. Sectoral wage (in)equalities in Germany, Italy, the Netherlands, Slovakia, the UK

<table>
<thead>
<tr>
<th>Equal</th>
<th></th>
<th>Unequal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education (DE, IT, SK, UK)</td>
<td>Education (NE)</td>
<td>Metal (DE)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Metal (IT, NE, SK, UK)</td>
</tr>
<tr>
<td>Retail (UK)</td>
<td></td>
<td>Metal</td>
</tr>
<tr>
<td>Retail (DE, IT, NE, SK)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Low pay | Hi pay

Source: NEWIN-Negotiating Wage (In)equality

The efficacy of collective bargaining in controlling labour costs and wage dispersion decreases the higher the level of job qualification. In other words, the equalizing role of collective bargaining is significant in relation to the remuneration of blue- and white-collar workers, while it loses its relevance when it comes to middle-level managers and executives for whom individual bargaining plays a major role. This is clear from the analysis of wage drift in all the countries and sectors, where the gap between agreed wages in collective bargaining and actual wages increases as the level of job classification rises. The most relevant wage differentials concerning the majority of factors examined (gender; age and seniority; 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.

Table 5. Prevalent sources of wage regulation in Germany, Italy, the Netherlands, Slovakia and the UK

<table>
<thead>
<tr>
<th></th>
<th>Low-skilled employees</th>
<th>High-skilled employees</th>
<th>Middle-Managers</th>
<th>Executives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>1. Collective bargaining</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Law</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Individual bargaining</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Collective bargaining</td>
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<td></td>
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<tr>
<td></td>
<td>2. Individual bargaining</td>
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<td></td>
<td>1. Individual bargaining</td>
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<td></td>
<td>2. Collective bargaining</td>
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<tr>
<td></td>
<td>1. Individual bargaining</td>
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<tr>
<td>Italy</td>
<td>1. Collective bargaining</td>
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<tr>
<td></td>
<td>2. Individual bargaining</td>
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<tr>
<td></td>
<td>1. Collective bargaining</td>
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<tr>
<td></td>
<td>2. Individual bargaining</td>
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<td></td>
<td>1. Individual bargaining</td>
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<td>2. Collective bargaining</td>
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<td></td>
<td>1. Individual bargaining</td>
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<tr>
<td></td>
<td>2. Collective bargaining</td>
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</tr>
</tbody>
</table>
The national and sectoral analyses show that the role of collective bargaining in fostering wage (in)equality depends on both the coverage and contents of collective agreements: in general, a high coverage of collective bargaining tends to be associated with higher wage equality, though the contents of collective agreements can also be a source of inequality when they determine divisions in the workforce they cover. Nonetheless, if it is true that collective bargaining does not always have a positive effect on wage inequalities, it is also true that uncoordinated forms of single-employer bargaining or unilateral HRM policies are likely to lead to higher levels of inequality. There is a general consensus that collective bargaining’s capacity to redress wage inequalities depends on the power of the actors involved in coordination.

Wage increases deriving from sectoral collective bargaining renewals have little effect on inequality as they reflect the existing relative differences in wage groups except when the various groups are covered by different collective agreements (e.g. in Italy executives are covered by different collective agreements in each sector) or when 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, which are supposed to create age-based divisions, exist in all sectoral collective agreements in Italy, while in Germany and the Netherlands they have been replaced by experience-based pay devices. 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 a decentralized level, wage increases generally take the form of profit sharing and performance-related pay: these pay-setting mechanisms tend to be associated with wage inequalities (covered/not covered), although sectoral collective agreements can regulate them in such a way as to equalize their effects (e.g. in Germany...
and the Netherlands). Derogation clauses allowing downward pay variations are forbidden in Italy and the Netherlands, while in Germany they only exist in the metalworking industry. In Slovakia and the UK sectoral wage bargaining only takes place in the public sector where derogation clauses on wages do not exist, although in the UK schools can switch to the status of academies which do not have to follow nationally agreed bargaining arrangements.

2.2. National peculiarities

Germany

The German report shows an increase in wage inequality mainly determined by the growth of the low-wage sector combined with pay rises at the upper level of the wage structure. Over the last 20 years the highest wages have increased much more rapidly than lower wages: in the period from 1995 to 2014, the two upper quintiles of the wage structure showed an increase of nearly 38% and 33% respectively compared to only a little over 20% in the two lower quintiles. The relatively weaker performance of the upper quintile compared to the fourth is linked to income losses incurred during the financial crisis. Atypical work has proven to be an important driving force behind the growth of the low-wage sector in Germany. Wage inequality between high and low wages is accompanied by wage inequality between men and women and between workers in the west and the east of the country. The wage level of women is considerably lower than that of men in all quintiles, and the higher the quintile the bigger the difference. The same can be said of wage inequality between workers in the west and the east of the country. As in the case of gender, here by far the biggest wage gap exists in the upper quintile of the wage distribution. Country analysis puts this variation down to the differences in plant and employment structure between East and West Germany: the headquarters of the largest companies and the R&D centres in which workers with higher wage levels are employed are mainly located in the west of the country. Finally, a wage gap can also be observed between employees who are members of a union and those employees who are not. The German report shows that union members are more advantaged when it comes to wages the lower the wage quintile is. The erosion of power and the coverage of union membership and collective bargaining have prompted debate regarding the introduction of a legal minimum wage which is supported by the general confederation of German trade unions.

With regard to wage differentials between industries, the manufacturing sector, traditionally the stronghold of trade unions, stands out as that which pays the most, while wage levels are lower in private service industries with the exception of the banking sector, which used to pay wages comparable to those of the manufacturing industry. The extent of inter-industry wage differentiation for a long time remained at a stable level thanks to the logic of pattern bargaining. However, in the last decade the logic of pattern bargaining has been eroded and wage growth between the sectors has started to diverge.
Only the collective bargaining agreements of the manufacturing industries have been able to exploit the cost-neutral margin of distribution thanks to union strength and the positive economic performances of the industries. Public and private services are, however, lagging far behind. In addition, an important driver of wage differentials across industries has been the systematic abandonment of the Federal Government policy of declaring sector-level collective agreements generally binding. Today, bargaining outcomes tend to reflect differences in organizational power and the relative weakness of service sector unions much more directly than in the past. In this sense, the German report clearly states that weakness in coordination has a lot to do with the weakness of the actors in coordination. In general, wage bargaining coordination has been eroded: it only works in some industries and for a diminishing share of employees, and the interaction between coordinated and uncoordinated areas actually undermines the former in favour of the latter.

In Germany, the lowest ratio of the highest and the lowest wage groups is that of teachers due to their compressed wage structure. Leaving them aside, among the industries compared the lowest ratio can be found in the banking sector and the highest in the retail sector. This data shows that the retail industry is characterized by the highest agreed wage inequality among the sectors. Actual wages show a similar picture: the ratio between the lower and the upper level of the wage structure among the three industries is highest in the retail sector, followed by metalworking and banking. However, the differences are not very pronounced, and all the industries are below the inequality level of the economy as a whole.

According to the German report, the negative wage drift and the weakness of real wages in the first half-decade of the 2000s can be explained by three developments: the decline of collective bargaining coverage; wage cuts at company level designed to realign labour costs to sectoral collective agreements; the use of opening clauses for derogations from collective bargaining agreements. An important factor in explaining the positive wage drift seen after the crisis is profit sharing: the spread and level of profit sharing wages increases according to the qualifications and occupational status of the employees and therefore deepens wage differentials between employees.

Wage increases in all sectors are defined as a percentage of the former salary and have no effect on wage equality because the relative differences between the wage groups remain the same. Collective bargaining coverage is exceptionally high in public school teaching and therefore fosters equality by setting an encompassing standard. Collective bargaining is also widely diffused in the banking industry, although the outsourcing of back-office activities is undermining its positive effects. In the metalworking industry collective bargaining coverage has been to certain extent eroded, and this is even truer in the retail sector. Opening clauses allowing for higher wages exist in all the industries apart from public services (teaching). Opening clauses governing derogations do not exist in retail, banking and teaching, and derogations are rarely negotiated. In the metalworking sector, however, opening clauses do exist and derogations are rather frequent. Variable pay in the form of profit sharing generally increases wage inequality as it creates wage differences between successful and less successful firms or between different forms of regulating profit sharing with respect to profit indicators or the share of wages. Collective
bargaining agreements temper these effects by creating common regulations; however, in the sample analyzed they either do not exist as in the case of the metalworking sector, or they are not relevant to organizational practices like in the banking sector. Only in teaching is there neither a regulation nor a practice. This is also true with respect to variable pay in the form of performance-based pay so that wages are not differentiated further within the sector. Nor in the retail industry are performance-based wages regulated in collective agreements, although they may exist at a plant level and may increase wage inequalities between workers and plants. In the banking industry, the rules of collective agreements regarding this wage component are rarely implemented, despite many plant level agreements being in place. In the metalworking industry performance-based wages are part of the collective bargaining agreements and are implemented at plant level in a highly regulated way so that their effect on wage equality is positive.

Italy

Between 1990 and the onset of the economic crisis the Gini coefficient of gross-annual salaries of workers aged 25-54 in Italy gradually but constantly increased. The annual growth rate of the real wages of the different deciles of the population between 2000 and 2007 was negative for the first decile (-0.2%) and positive for the last decile (0.8%). The economic and financial crisis appears to have reduced the wage gap separating the first and the last deciles of the Italian population by condemning both segments to a decrease of -1.3% and -1.6% respectively over the period 2007-2014, with a negative average annual growth of -0.9%.

Wage gaps in Italian society are mainly related to geography due to the different characteristics of the productive structure in different areas of the country and to the fragmented diffusion of decentralized bargaining. Although southern regions are those most affected by the pay gap, there are also considerable differences within geographical areas: the northeast regions, for instance, have always been characterized by wages lower than the national average. Education is also an important determinant of wage inequalities in the country. In 2010 the gross hourly earnings of workers with a high level of education (€26.2) was almost double that of employees with only primary education (€11.6). The gender pay gap in the country seems to be a rather limited phenomenon: in 2014 women’s wages were lower than men’s by only 7% compared to a European average of approximately 16.4%. However, this is due to the scant participation of women in the labour market in general, coupled with the fact that mainly educated women work. Differences can also be observed between age groups. The major age-based wage differences (less than 29 and over 50 years) are found in the banking sector, while in the other sectors age-based wage differentials up to the upper deciles are not significant.

In Italy, wage inequalities between sectors can mainly be attributed to the polarization of the labour market which consists in the high concentration of skilled workers in certain sectors and the concentration of workers with low skills and few qualifications in others. Competitive pressure on labour costs also explains the gap between labour-intensive economic activities (paid relatively little) and capital-intensive economic activities (paid
relatively well). Indeed, the banking sector is the sector which pays the most, together with capital-intensive industries (e.g. the chemical industry; the energy sector). Diversely, the less profitable and remunerative sectors of the Italian economy are services, construction, and agriculture. Significant differences are also found between large categories of economic industries: in manufacturing the gross hourly wage for activities related to pharmaceutical production is double that of workers in the textile industry; yet the most significant wage disparities are recorded in the service sector where the gross remuneration for the operators of credit companies is almost triple that of employees in the hotel and catering business.

Considering the 2014 contractual wage differences (nominal) between Italian blue-collar workers and middle-managers, the widest gap can be seen in the retail sector (a difference in pay of €1,485.42 with a manager earning almost 100% more than a blue-collar worker) and in the credit sector (a pay difference of €1,684.31 with a manager earning 81% more than a blue-collar worker). On the other hand, assessing the differences in pay between blue-collar workers and executives (i.e. CEOs and top managers), the automotive and retail sectors turn out to be the least equal: executives in both industries earn, on average, over 200% more than blue-collar workers. In terms of actual wages (gross), among the analyzed sectors banking has the greatest vertical wage differences, while wages in the education sector show the fewest differences between the lower and upper groups. In terms of wage drift across categories of workers in different sectors, education has the least significant gap for middle managers and managers. Regarding blue- and white-collar workers, the wage drift is lowest in retail. Middle managers have the highest wage drift in the automotive sector, while the banking sector presents the highest wage drift among executives.

In Italy, wage inequality is primarily linked to the fragmented coverage of decentralized bargaining, but also to the contents of collective agreements. With reference to sectoral bargaining, ‘pirate’ contracts signed by non-representative ‘yellow’ associations (unions and employers) are a major issue in the country, especially in the retail sector. By resorting to forms of contractual dumping, these agreements give rise to considerable intercompany pay differences and undermine the coordination ability of the most representative trade unions and employers’ associations. The role of decentralized bargaining is as controversial as it is contradictory, both in relation to intercompany wage differentials and wage differences between workers at the same firms. In the first case, the limited diffusion of decentralized bargaining in small Italian companies produces the paradox of having low levels of income distribution and more standardized working conditions and remuneration. Moreover, given the poor development of firm-level collective bargaining, especially in SMEs, the Italian multi-employer bargaining system has led to a decrease in the labour income share by reducing the incentives for social partners to accelerate labour productivity. In some cases, company-level bargaining determines a peculiar form of dualism in the labour market: frequently results-based bonuses do not apply to apprentices; the measures set down in the contract designed to limit labour costs (e.g. entry-level salary, pay freezes, the repeal of certain pay-related provisions) only apply to new staff who are usually classified as low-grade and medium-grade staff in the job classification system. Conversely, the diffusion of standardized
results-based bonuses contributes to limiting wage dispersion, both among companies and within the same firm. Notwithstanding this, it must be stressed that the contractual system has fared well due to significant collective bargaining coverage. In all four of the sectors examined, collective bargaining at sectoral level still performs a governing role in the labour market – essentially through an inclusive and egalitarian approach – at least among the low- and middle-ranked groups of the working population.

In all four sectors collective wage increases are established as a percentage of previous wage levels. If the parametric scales of each collective agreement do not change (and normally they do not), wage differences resulting from collective wage increases remain equal between job classification levels. Seniority pay schemes are widespread in all the analyzed industries, and they foster inequalities both within organisations and groups of workers. Opening-clauses allowing for higher wages exist in all four industries: in the public sector (school) their use is subjected to tight rules. On the other hand, it is not possible to lower the wage levels established in sectoral collective agreements. Profit-sharing plans are widespread in the banking sector and in some companies in the retail sector. Few companies in the metalworking industry negotiate this kind of pay system. Gain-sharing plans are widespread in the retail and banking sectors. There are no gain-sharing or profit-sharing plans in the school sector. In general, both gain-sharing and profit-sharing plans have a neutral impact on equality within organisations, since in Italy they generally apply to the entire workforce (sometimes with differences related to job levels, thus reflecting inequalities stemming from the job classification system), and they have a negative impact between groups of workers (those covered or not covered). A small percentage of firm-level agreements include skill-based pay schemes for blue- and white-collars in the metalworking industry and in the banking sector. In the school sector individual performance-related pay is also common for blue- and white-collar workers, yet it is managed unilaterally according to certain principles set down by law. These plans are supposed to have a negative impact on equality within organisations and between groups of workers, although collective agreements contribute to standardizing their regulation.

The Netherlands

Since 1984, the Gini coefficient for the wages of full-time workers has been increasing in the Netherlands. This increase was rapid until 1992 and then slowed until it more or less stabilized in the late 2000s. Stagnating wages at the bottom and greater wage growth at the top of the distribution are seen as the causes of growing wage inequality in the country. Over the 2006-2013 period, vertical wage differences increased in absolute terms, although the absolute average wage of the highest decile of the population slightly declined due to the particularly substantial decreases to top salaries in the early years of the crisis.

A key driver of wage inequality in Dutch society is age due to the existence of youth minimum wages. Minimum wages for people less than 23 years old are below the so-called adult minimum wage, starting at 30% of the adult minimum wage for 15 year olds and then gradually increasing. Posted and migrant workers stand out as groups associated
with lower wage levels in the country. Another division in the labour market is represented by bogus self-employment which is a rapidly growing phenomenon in the Netherlands. This group of workers should be covered by collective agreements, but in reality is not.

In the Netherlands, the de facto wage is clearly highest in the banking sector with the exception of the first decile, where the education sector pays more. The higher the decile, the more banking outperforms the other sectors. Education is the second best paying sector, except for the first decile (best) and the tenth decile (third). The metal industry is the third sector in all deciles except the tenth (second). The large retail sector is far behind the other three sectors and the average pay in the first four deciles is below €8.5 per hour and in the first seven deciles below €15 per hour. This gap is in part explained by competitive pressures on labour costs along with the relative weakness of trade unions in labour-intensive and low-skilled sectors, such as large retail, where business strategies and collective bargaining policies are oriented towards the containment of labour costs.

In the Netherlands, education is the most equal sector whether the extremes of the income structure are included in the measurement or not. The reason is that this sector has the flattest wage structure, and all wage groups are directly covered by the sector’s collective agreement. On the other hand, the most unequal sector is the large retail sector in spite of the low wages it pays. Banking has almost the same unequal differences at both extremes of the wage structure. Regarding the developments of wage (in)equalities in the period 2006-2013, the ratio between mid-high and mid-low levels of the income distribution remained more or less stable over the seven year period for the country as a whole and for the four sectors, while the ratio between the extremes of the wage structure declined by 2.00 for the whole country and by 3.99 for the banking sector. A significant decrease of 1.01 was also registered in the retail sector, here being primarily motivated by an increase in the average gross hourly wage in the first decile of 23% compared to 11% in the tenth decile.

Collective bargaining coverage is relatively high and has been stable over time in the Netherlands. However, the number of self-employed people who are not covered by collective agreements is rising rapidly thus increasing the level of inequality in the labour market, though a large part of this group of workers (i.e. the bogus self-employed) should be paid the same as salaried workers. A second indication of the declining influence of collective bargaining on wage setting is the growing gap between collectively agreed wages and the wages effectively paid. This does not automatically lead to greater inequality but is likely to contribute to it between sectors, within sectors and within companies.

In the Dutch metalworking, banking and supermarket sectors, wage increases are only based on a uniform percentage of real wages. Such a mechanism has a neutral effect on inequality, although it does lead to an increase in the absolute differences. Only in the education sector do collective agreements directly contribute to wage equality by giving the lowest paid a higher percentage increase or by giving them wage increases in absolute amounts. On the other hand, two-tier wage structures for young people in collective agreements contribute to augmenting inequality. This is the case in the metalworking industry and most significantly for the collective agreement covering supermarkets where
young people make up the most numerous part of the workforce. Collective bargaining in the banking sector is characterized by fragmentation. Alternatively to sectoral agreements, which normally cover SMEs, single-employer bargaining is widespread in big banks and leads to greater differences across companies. The collective agreements in the two education sectors foster wage equality to a considerable extent due to their detailed regulations which all schools must follow without any possibility of deviation. On the other hand, both the agreements in the metalworking industry and in the supermarket sector provide minimum standards that allow for higher wages at the company- and individual worker-levels. Decreasing wage flexibility is forbidden in all the sectors. The relatively low range of the salary-tables in the collective agreement in the metalworking sector fosters a shift towards inequality (at least between companies). All sector agreements regulate some periodical wage increases through the principal of experience in the job. There is no direct link to wage inequality because of the application of this payment principle among both low and high paid workers. Remarkably, no substantial rules exist regarding profit-sharing in the collective agreements in any of the four sectors. In the metalworking industry and in the supermarket sector there are no substantial rules for performance-related pay either. The collective agreements in the primary and secondary education sectors give the formal option of ‘15% wage-differentials’, though in practice this option is almost never used. All sectors in the Netherlands are covered by the national agreement between trade unions and the employment agency sector: employment agency workers have the right to earn the same as the workers that are directly employed by the company.

Slovakia

The Slovakian national report shows that the level of inequality in the country has been rather stable over-time. Prior to 2008, inequalities had been decreasing, mostly thanks to pay rises in the lower part of the distribution. The economic crisis interrupted this trend because of the stagnation or even shrinking of wages of the low-income groups in some industries. Following the crisis the creation of new high-skilled and paid jobs has been the greatest contributor to greater wage inequalities. Overall, wage distribution measured as the ratio between top and bottom pay levels in the wage structure confirms the trend of stagnation and even the convergence of wage inequalities. Especially after the crisis when employment decreased, in most cases in the higher deciles, wages also temporarily decreased.

While during the communist regime age and seniority explained most of the wage differences in Slovakia, in the post-socialism era education is the greatest determinant of income differences, particularly in the commerce and manufacturing sectors. On average, people who are highly qualified earn 2.79 times more than people with lower secondary or a second level of basic education, while in wholesale and retail the difference is almost twice as big (5.85). In the manufacturing sector this difference amounts to 3.54, meaning that those workers in manufacturing who are highly qualified are ensured a wage which is 3.54 times greater than that of their less well-qualified colleagues. Slovakia is one of the EU countries with the highest gender pay gaps, with differences ranging from 22% to
24%. The highest differences (around 30%) exist in male dominated sectors such as finance, information and communication and manufacturing. On the other hand, the education sector shows the lowest gender pay gap (13%).

Sectoral wage distribution in Slovakia shows different patterns in the period 2005-2015. Nominal wages were constantly rising in the automotive industry, whereas they significantly dropped in the retail sector during the crisis. A drop in the nominal wages in upper level of the distribution was also reported in the banking sector, while education, where wage increases are coordinated with the government, has experienced a constant increase in wages over the last few years as a consequence of trade-union campaigns and worker strikes, although they are reported to be amongst the lowest, along with those of the low-skilled and labour-intensive sectors such as retail.

In Slovakia the highest wage differences measured as a ratio of the top and the first decile of the income structure are in the banking sector with a ratio below six before crisis and slightly below five after the crisis. Banking is the only sector which has experienced a decrease in wage differences in the last 10 years. Retail has actually experienced the opposite trend; after 2012 the wage ratio of the top and bottom deciles increased. In the automotive sector wage differences have stagnated. The average wage for those in the bottom decile in 2015 was €517 while those in the top decile earned on average €2,050. The education sector is highly regulated and dependent on public finances. Wages in this sector are regulated by the government which specifies wage tariffs for the whole public sector. Wage differences are therefore modest but with a tendency to increase.

The Slovakian report highlights the difficulty in establishing whether the existence of sectoral collective agreements increases or decreases the level of inequality between and within sectors. It may be the nature of the sector and the level of pre-existing equality/inequality which influences the type of collective agreement concluded in that sector (e.g. a more equalizing collective agreement). Most of the time sectoral collective agreements lack any reference to payment principles, and only two sectoral agreements offer specific wage scales (metalworking and education). In summary, the role of sectoral collective bargaining in mitigating wage inequalities is rather controversial, most of the time limited or often with no impact at all. Wage increases and income redistribution thus remain uncoordinated in company-level collective bargaining and in individual employee-employer relationships.

Sectoral collective agreements in retail stipulate neither wage increases nor the minimum wage that would be above the statutory minimum wage. The exception is the sectoral collective agreement valid for COOP Jednota, where wage increases are set at the level of the rate of inflation. On the other hand, the metalworking sector stipulates minimum wage tariffs for the sector, and includes increases. Moreover, wages usually increase by a fixed amount which prevents differences in wages from augmenting. The sectoral collective agreement for the banking sector sets the minimum wage at €500 which is higher than the statutory minimum wage of €405. However, wage increases defined in the sectoral collective agreement are usually very low, defined as a percentage for the whole sector, and this might partially contribute to the rise in wage inequalities. In education, wage setting is specific since it is regulated by the government and constrained by the
public budget. The sectoral collective agreement for the public sector stipulates a 4% increase of wages for all employees.

The UK

Wage inequality in the UK has increased rapidly over the past few decades: the UK is now amongst the most unequal EU member states with regard to wage inequality. The country analysis shows that the gap between top and bottom levels of pay has increased since the 1970s due to dramatic pay rises at the top end of the income structure and shrinking wages in the middle and at the bottom of the distribution. The share of the national income that goes to the top 1% of the wage distribution has more than doubled since 1979 when it was approximately 6% to around 14.5% today.

Wage inequality in the UK is highly variable across the country. The national report explains that this is largely accounted for by the dominance of London and the financial services industry within the UK labour market. This effect ‘ripples out’ from London as those with greater wealth relocate further outside the city. Three major factors which exacerbate the geographical unevenness of the distribution of wage inequality are the rise of the ‘knowledge economy’, the changing geography of skills, and public sector cuts. Specifically, the dominance of London in creating high skill, high wage jobs, has acted as a further attraction for key sectors.

With regard to low pay, the arts, accommodation, food services and wholesale/retail sectors stand out as being particularly low paid sectors in the UK. The three sectors with the highest levels of top pay are banking and finance, information and communication and professional services. The banking sector is one of the best paying sectors in the UK labour market with wages significantly higher than average. Manufacturing in general – and highly skilled manufacturing in particular – is a relatively well paid industry. Sectoral differences are largely explained by differences in labour market composition and in different competitive pressures across sectors: high-skilled and capital-intensive activities tend to pay more than low-skilled and labour-intensive activities.

Although retail is a low paying sector, it is a comparatively egalitarian one in the UK: wage distribution here is relatively compressed and relatively low-paid throughout. On the other hand, notwithstanding its having a very high level of wages in general, the banking sector is very unequal: those in the lowest decile of wages receive only 19% of the wages of those in the highest decile of the income structure. In short, this is a highly unequal, but generally well-paid sector. Considering inequality between sectors, high technology manufacturing sees less inequality compared to low paying sectors, partly due to unionization. This leads to higher average wages and a compression of these scales. Education as a whole is broadly in line with the wider pattern of wage distribution across all employees.

The country analysis makes it clear that managerial unilateralism in wage determination is the dominant mechanism for wage setting across the UK labour market. The Labour Force Survey shows that only 29% of the total workforce is covered by collective bargaining, dropping to around 16% in the private sector. At the same time, the ability of unions to conclude sectoral agreements has reduced as a consequence of liberal reforms.
during the nineteen-eighties: since then company-level bargaining has been the norm outside the public sector. Within the public sector, collective wage determination is typically for occupational groups and is a mixture of collective bargaining and independent pay review bodies that recommend pay rates and rises for some groups in some sectors. In short, according to the UK report, the dominant experience of pay determination is a ‘take it or leave it’ approach where organizations determine pay scales and processes based on the particular conditions in which they find themselves.

Turning to the analysis of sectoral developments, collective agreements in UK supermarkets have had to deal with the uprating of the statutory minimum wage for over-25s. Where these have been negotiated (as compared to supermarkets without trade union representation where they have largely been imposed) wage rates for other workers have had to retain some level of differential while also accounting for the fact that this is a low-margin sector. Many employers have also integrated the new rate for over-25s and institutionalized lower rates for younger workers. This has lead to an increase in inequality between age groups. Some of the agreements that have recently been concluded in the banking sector have had the effect of successfully negotiating better wages for the very lowest paid in the sector. This has largely been achieved in the context of a great deal of public and political attention being paid to the high levels of profitability of banking organisations, including most (but not all) consumer banks. By contrast, the increased use of individual pay deals for at least some aspects of remuneration packages inevitably tends to create greater wage dispersion. In the education sector, at an aggregate level, we see the most consistent trends towards increasing wage inequality. This is mainly driven by the policy of encouraging schools to become more independent of local government control by becoming academies. Given that academies do not have to follow nationally agreed bargaining arrangements, some increasing wage inequality is already visible and social partners believe this is likely to increase in the future. In the manufacturing sector, collective bargaining takes place at company level, and competitive pressures influence its dynamics, including the effects on wage inequality.
3. Views and strategies of social partners on wage (in)equalities

3.1. Cross-national overview

When interviewed, social partners generally recognize wage (in)equality as an issue of considerable importance. Trade unions believe wage inequality to be on the rise. Nonetheless, the problem is rarely expressed as an explicit concern and it is rarely tackled as such, directly and in a holistic way. Moreover, collective bargaining is regarded as just one of the determinants of wage (in)equalities between and within societies and sectors: the interviewees attribute a major role to state policies and market forces in this respect, but rarely express an explicit awareness of the fact that this also has a cause-effect relationship with their reduced power in coordinating labour markets through collective bargaining.

The positions of the parties on both sides tend to reflect their different views on wages in general: employers frame the issue in terms of costs, productivity and competitiveness; workers’ representatives are more concerned with solidarity, fairness and justice. However, several points of contact also emerge within the debate on wage (in)equalities, and the distance between the parties is not always unbridgeable. In some cases (Italy and the Netherlands for instance), they are clear to distinguish between the multiple dimensions of wage inequalities, differences and discrimination, with the last being condemned by both employers and trade-union representatives.

When it comes to vertical wage gaps, the main concern of social partners is linked to the top and bottom ends of the income structure, i.e. to the existing differences between the dynamic of the salaries of low paid workers, and the ‘ultra-pay’ of top managers and executives. Trade unions’ policies are mainly aimed at increasing the wages of low-paid workers: this is pursued directly in collective bargaining renewals, but also indirectly through campaigns aimed at regulating and/or increasing the legal minimum wage (e.g. in Germany and the Netherlands respectively). Unsurprisingly, in Italy the governmental perspective of regulating a legal minimum wage is not supported by trade unions as they are afraid that this would reduce their autonomy and bargaining power. On the other hand, employers’ views and strategies regarding wages at the bottom end of the labour market vary across countries and sectors: in some cases employers do not appear to feel responsible for this issue (e.g. Slovakia); in other cases they seek to downsize this portion of salaries, especially in labour-intensive industries such as retail (e.g. Germany); in others they acknowledge that low wages might hinder labour productivity (e.g. the UK).

As far as executive pay is concerned, some employers’ representatives agree that a paradox emerges when companies’ policies for reducing labour costs only affect blue- and white-collar workers (e.g. the UK). However, employers generally believe that executive pay should be managed by objectives, thus linked to individual, business or wider societal-related performances, and not subject to external restrictions; in some
cases it has been argued that ultra-pay can lead to a risk-oriented managerial attitude which is not always good for the company and the stakeholders. On the unions’ side some campaigns have been organized in favour of a law to limit executive pay, but it does not seem to be a priority on union’s agendas. In the banking sector in Italy trade unions negotiated a solidarity tool for devolving a share of managerial staff’s wages to a fund aimed at supporting the entrance of young people in the labour market.

‘Equal pay for equal work’ stands out as the main policy domain of trade unions. This translates into policies aimed at standardizing pay conditions in different contexts (e.g. geographical areas and companies) and reducing the differences between categories of workers (e.g. temporary agency workers or posted workers in Germany and the Netherlands). Since it reflects different economic and industrial relations conditions, cross-sectoral wage inequality is generally an issue of minor concern for social partners, although trade unions in Italy and Germany are actively trying to limit the consequences of tertiariization of production through collective bargaining measures. Trade unions’ strategies aimed at controlling and limiting the use of derogation clauses or ensuring the equal treatment of temporary agency workers have been reported to be successful in Germany (in the metalworking industry). While social partners in Italy recognize the gender pay gap as a problem of common concern in the past and believe that they jointly contribute to its mitigation, in Slovakia the gender dimension of wage inequality emerges as a key concern for trade unions and employers also admit its relevance. When it comes to pay flexibility, in contexts where union pluralism exists (e.g. Italy), some trade unionists are open to pay differentiation associated with merit, productivity, quality of work, skills etc. In general, however, wage uniformity is the main policy paradigm for trade unionists (e.g. the Netherlands and Slovakia). On the other hand, wage flexibility is the employers’ mantra, although in certain cases some recognize that a less standardized wage structure could to problems managing human resources on the shop floor (e.g. the Netherlands).

In several countries social partners are trying to modernize the contents and structure of collective bargaining at all levels. There is a general pressure towards greater flexibility, but there are exceptions: in the Netherlands, for instance, the abolishment of the flexible bonus-system in the banking sector was compensated with higher fixed salaries. In Germany, trade unions are vocal about including the high-skilled workforce in the sectoral collective agreements for banks, and about increasing the wages of low-skilled workers in the retail sector. In the UK there is a consensus among social partners that the company or organization continues to be the appropriate level at which to determine pay rates. Similarly, both employers and trade unions in Italy are pushing for the qualitative and quantitative development of decentralized bargaining, although their views diverge when it comes to establishing whether company-level agreements should be complementary or alternative to NCLAs.
3.2. National peculiarities

Germany

The debate on wage inequality in Germany has evolved in parallel with the neoliberal labour market reforms promoted since the early-1990s. The trend towards liberalization and decentralization runs in parallel to the weakening of both trade unions and employers’ associations as well as their ability to coordinate and guarantee a more egalitarian labour market. According to the country report, social partners have more recently showed signs of resilience and renewal. Trade unions, in particular, have been successful in finding ways of controlling derogation at company level, as well as in experimenting new forms of organization adapted from American and British unions, such as social campaigning or working with professional organizers. The third strategy has been the campaign for the introduction of a statutory minimum wage. This was initiated first by Verdi and the hotel and restaurant industry union NGG because the low-wage sector boomed in their organizational domains. Due to the manufacturing unions’ initial scepticism towards the campaign, it was taken up later on by the umbrella association of the industry unions, the German Trade Union federation DGB. The campaign has proven to be very successful in influencing public opinion and creating a new attitude towards wage injustices. This is the reason why it was taken up by the social democratic party in the 2013 electoral campaign.

At sectoral level, unions and employers’ association assess the general trends and factors to explain wage inequality differently. In banking, for employers the trend of increasing inequality is not induced by collective bargaining agreements, but is an expression of companies’ needs to reduce costs and reshape business. On the other hand, besides modernizing the wage groups, the union wants to shift the wage groups upwards and include at least the lower ranks of the AT-employees in these groups, i.e. those highly skilled employees paid more than the collectively agreed rates who are not paid in accordance with the rates laid down in the relevant collective agreement. The sectoral study reports that at the other end of the wage structure unions seem to have accepted the process of outsourcing non-banking activities as well as back-office activities such as payment transactions to subsidiary companies or external providers: they try to cope with the consequences by negotiating company collective bargaining agreements.

In the education sector, unions are critical of the fact that there are no collectively agreed remuneration regulations for non-civil servant and civil servant teachers between the Länder and have been trying to achieve a collectively agreed grouping for non-civil servant teachers.

The metalworking industry is the sector that has been under the most pressure in the last two decades, but it is also the one where social partners have showed clear signs of resilience and modernization. So far, both trade unions and employers’ associations have managed to regulate developments like derogations and the increasing use of temporary agency work, implementing measures favouring flexibility while at the same time keeping up industry-wide standards. The introduction of formally regulated opening clauses in sectoral collective agreements, for example, has increased the transparency of
derogations and was the prerequisite for improved control and restricted practice. A best practice here is the 2011 IG Metal campaign named ‘equal pay for equal work’, which was aimed at demanding that temp agency workers be paid the same as core workers in the same sector. The campaign was very successful firstly in mobilizing public support, secondly in organizing temp agency workers for the union and thirdly in agreeing industry wage premiums for temp agency workers on the level of the lower wage groups of the collective agreements. This took place in 2012, and in the same year the chemical industry followed with a similar agreement.

In retail, the attention of social partners is focused on the modernization of the wage structure of sectoral collective agreements. On the one hand, employers push towards wage inequality by downgrading big groups of employees like cashiers and storage fillers. The union, on the other hand, wants to keep the wages of these groups as high as possible because they are the strongholds of union power within the companies. However, the sectoral study reports that both actors are too weak for a compromise, so they have learned to live with the outdated agreements. The union can say that the agreement is good for the employees because it makes wage compression for the lower skilled employees a priority, and the employers can circumvent the regulations by opting out or by outsourcing.

Italy

The interviewed employers and trade-union representatives in Italy immediately expressed their willingness to distinguish between two different aspects of wage inequality. On the one hand, there is pay differentiation, which is generally considered not only appropriate, but also essential when founded on objective parameters relevant to skills and professional roles, responsibilities and job performance, in order to provide incentives for individual workers. On the other hand, there is wage discrimination, which refers to unequal pay for two different employees doing the same type of work with the same performance levels. Both the employers and trade-unions representatives are keen to condemn the latter form of wage inequality.

Within the political-trade union debate, cross-sectoral wage differentials have traditionally been of little importance. Social partners regard the wage polarization between high-skilled sectors (high wages) and low-skilled sectors (low wages) as a physiological effect of wage dynamics. The multi-employer bargaining system was, indeed, intentionally constructed on a sectoral basis in order to enhance the specificity of the different productive sectors faced with various logistical organizations as well as with different market curves.

The extensive coverage of national sectoral collective bargaining (NCLA) has never brought the question of a legal minimum wage to the centre of the political-trade union debate. Only in the last two years in the wake of the reforms adopted in Germany, has the Renzi government repeatedly proposed legislative action on the subject. This solution, stated not only by the interviewees, but more generally the in the union debate, will not only be ineffective in reducing inequality, but could actually have a negative impact on sectoral bargaining, which would see its role diminish in importance. This measure, in
other words, is seen by the union as an attempt to dismantle NCLA in favour of the decentralization of wage bargaining. Both employers’ associations and trade unions push towards a coordinated model of decentralized collective bargaining that does not undermine NCLA. However, their aims diverge: employers seek to bring labour costs more in line with productivity developments and performance; trade unions see company-level bargaining as a direct channel of redistribution. Although national cross-industry collective agreements set a coordinated multi-employer bargaining structure, many of those interviewed recognize that company-level agreements sometimes violate the rules of coordination, thus generating inequality. According to the employers’ representatives and to some of the sectoral (more moderate) trade unionists, the ‘equal pay for equal work’ principle has, over the years, generated a flattening of professionalism around the minimum wages set by NCLA; the containment of wage gaps has occurred at the expense of merit. Among the majority of social partners interviewed, it is widely believed that more qualitative factors such as technical knowledge, acquired through education, training, and so-called soft skills mainly relating to professional experience, should influence the determination of wages. The belief that the worker’s wage has to be related exclusively to his/her seniority and professional level appears to belong to another era: these parameters are nevertheless still taken into account in wage dynamics within the NCLA and social partners seem to be far from reaching a compromise to revise them. Among the interviewed representatives there was little concern regarding the vertical wage gap that separates the different professional roles. The majority of respondents from the employers’ side were reticent about the idea of imposing maximum limits on wages, stressing instead the importance of linking executives’ pay to the objectives and corporate surplus value obtained. The view changes when it comes to top managers: the trade-union representatives in the metalworking sector showed some interest in this topic by welcoming a provision that might set an upper limit to top managers’ remuneration; in the banking sector, for example, various trade-union campaigns have been promoted in favour of a law to put a ceiling on the remuneration of CEOs. In this regard, the banking sector in Italy stands out as a best practice since the last renewal of the NCLA invited managerial staff to contribute 4% of their fixed salary to the F.O.C. (the National Employment Fund, set up in 2012 in order to create fruitful and stable employment by supporting the permanent employment of young people), to demonstrate solidarity between generations. Since the end of World War II the issue of gender differentials has monopolized the debate about income inequality in Italy. Social partners in general, and unions in particular, have indirectly influenced this issue by promoting laws and contractual policies to favour the work-life balance and promote positive actions, thus fostering better employment opportunities for women. Data analysis shows that these policies have been particularly effective, especially in reducing the gender pay gap of blue-collar and white-collar workers. However, there is also a consensus that the low gender pay gap in Italy is mostly determined by the scant participation of women in the labour market.
A major concern for trade unions is wage differences resulting from various forms of vertical disintegration and the outsourcing of production. This subject is very important to CGIL, CISL and UIL, whose primary goals are: the application of the main collective agreement to outsourced activities; social clauses in subcontracting agreements requiring the new subcontractor to hire all the workers of the former subcontractor; the recognition of working seniority to employees in transition from one subcontractor to another; the unification of works councils between subcontractors and outsourcing companies; joint liability for outsourcing companies.

The Netherlands

In the Netherlands, the position of social partners on the different aspects of wage inequality seems generally polarized, although there are certain indications of convergence. According to the FNV, the national trade-union confederation, inequality is increasing and undermining solidarity. In general terms, they see a push for the individualization of pay as if everybody were able to negotiate for themselves. They are also concerned with the commoditization of labour, by employment agencies for example, which is not always very human, and try to include in collective agreements stipulations which outline the conditions necessary for using the various types of external flexibility. Unions are clear that the best way to increase wages, especially for those receiving the lowest wages, is to increase the share of permanent contracts. The metalworking trade union FNV developed a ‘conversion tool’ in which local trade unionists can compare all kinds of remuneration among flexible workers (such as temporary agency workers and contract workers) and workers with permanent employment contracts. This allows the correct implementation of the provision of the sectoral collective agreement according to which the total of all remunerations for atypical workers – including pension rights – cannot be less than 90% of those on permanent contracts.

The narrative on equal pay for equal work has been translated into the goal of decent jobs for all with poor flexibility as an exception. Trade unions focus on the bottom of the labour market where the quality of jobs is particularly poor. According to the FNV, the youth minimum wage is used too extensively and has become a business model, especially in supermarkets. On the other hand, employers in retail tend to frame this issue in the context of a societal problem and reject trade unions’ demands to increase wages in the sector.

According to the Dutch report, another key concern of unions is the growing number of self-employed workers and posted workers. Trade unions argue that the self-employed get tax advantages but cannot use them for education or insurance; these advantages instead flow to the employers who employ them for low fees. The EU borders are open but there are no guarantees for equal pay for equal work. Trade unions are adamant that posted workers and migrant workers should get the same pay and additional payments for holiday, pension, etc.

Employers’ representatives, however, are more concerned with wage-related costs, which include flexibility, free time, additional payments for seniority, etc. According to VNO-
NCW, the main political employers’ organization, the wage structure should be more flexible and more focused on the performance of workers in terms of productivity and quality, and less on the basis of being present, getting older or acquiring more seniority. This position is also reported by employers’ associations at sectoral level: in the metalworking industry, for instance, the FME argues that uniformity implies fewer opportunities for company-level HR policies on other payment principles, such as profit sharing, individual performance-related pay and wage cuts in periods when firms are faced with difficult conditions. In the eyes of the union, employers are too focused on lowering costs rather than on quality and productivity. On the other hand, the FNV observes that linking (part of) wages to performance creates problems in labour relations in companies; it leads to lots of questions regarding HRM policy and therefore many employers are reluctant to do so. It is better to have equal wages for equal work and those that perform better can have better career paths and get the best paying tasks, while binding workers to the organization can better stimulate their productivity. The union is also clear that bad performance is (also) the responsibility of the organization, not (only) of the worker. In the banking sector, for instance, the system of bonuses (of a maximum of 15%) based on individual performances, valid for all workers covered by the collective agreement, has been terminated because managers did not differentiate between their employees, and because long-term worker motivation cannot be fostered by providing additional bonuses. The abolishment of the bonus-system in the collective agreement has been compensated for by higher fixed salaries based on the traditional payment principles of job-level and experience.

With regard to the wage gap between the top and bottom ends of the income structure, VNO-NCW argues that top incomes should be decided within companies or organizations by the board of companies and other stakeholders. They should not be subject to legal limits or regulations. The FNV policy is that the differences between the top and the bottom should be reduced and that the bottom should be raised. For top wages, the FNV has a rule of thumb that the highest earner in a company cannot earn more than 20 times the wage of the lowest earner. It also favours limits to dismissal premiums for the highest earners. However, these goals are hard to realise in collective agreements: although the FNV, for example, proposes to include higher paid workers in the job classification system of the collective agreement, in most cases these workers are paid by the foreign based headquarters according to the performances of a group operating worldwide.

**Slovakia**

Addressing wage inequalities in Slovakia is not at top of the social partners’ agenda. Both trade unions and employers’ representatives generally believe that this issue can be easily addressed within the debate about the minimum wage and the general debate on low wages in the country. Employees rarely approach trade unions at the company level with issues related to wage inequalities, with the exception of a few very competitive sectors, such as finance and banking. The only concern for social partners seems to be the gender pay gap.
Social dialogue at the national level is focused on the minimum wage and the issue of inequality is not one which the tripartite body addresses at its meetings. While trade unions strongly support a single national minimum wage, employers make the case for regionally diversified minimum wages based on the average wage in the particular region. In the view of trade unions, this would only deepen wage inequalities at the national level and make poor regions poorer.

The biggest confederation of trade unions, KOZ SR, identifies three main areas regarding wage inequalities at the national level. Reducing the gender pay gap is the priority of the confederation, which has created special committees for equal opportunities. Secondly, KOZ SR is concerned with regional wage inequality and has a firm stand on equal pay throughout country. KOZ SR also opposes proposals for regional minimum wages and supports the single national statutory minimum wage. A third issue is sectoral differences in wages. In addition, KOZ SR also argues that wage inequalities may be intensified through the use of flexible, precarious forms of employment, where every contract poses a risk of wages being lower than those in a standard, full-time contract.

The main employers’ federation, the National Union of Employers (RUZ SR) on the other hand, focuses its activities on improving the business environment in Slovakia. Wage inequalities, in their view, should be addressed by the state and trade unions. Nevertheless, employers do acknowledge the existence of two main problems: the gender pay gap and regional wage inequalities. While in employers’ eyes the gender pay gap is slowly closing, regional inequalities are somewhat natural and reflect competitiveness in business and the economy. According to the country analysis, employers’ attitudes in Slovakia can therefore be characterized as responsive, addressing the issue of wage inequality on an individual basis and as a response to trade unions’ solicitations.

Turning to sectoral peculiarities, the debate on wage inequalities in banking focuses on the vertical gap between executives and employees. Trade unions criticize the fact that even though banks report an increase in their profits, this has not been translated into pay rises for their employees. While employers advocate lower fixed wages and greater flexibility, trade unions want a higher fixed wage to provide security for the employee and a lower flexible wage component that is in their view not always paid, or not paid in accordance with real performance.

In the education sector trade unions do not consider wage inequalities to be an issue since wages are ‘strictly set’ by the law, thus leading to uniformity across the country. Moreover, in their view, age- and experienced-based bonuses and/or additional professional training make the remuneration process of teachers considerably more transparent than in other sectors of the economy.

Social partners do not consider wage inequality to be a major issue in the retail sector either. Since wage increases are not defined in the sectoral collective agreement, trade unions try to propose wage increases at the company level. However, in many companies, trade unions are not represented at all.
Trade unions in the UK show considerable concern for the lowest paid in their sectors and occupational groups. Nonetheless, this is rarely expressed as an explicit concern about wage (in)equality. While the unions have strongly supported the introduction of a higher rate of National Living Wage (NLW), combined with the stated objective to uprate it rapidly over the next four years, individual employers and employer organizations generally regard the NLW proposals as problematic. According to the country analysis, this is because of the relatively swift introduction of the new mechanisms as well as the pace at which uprating is likely to happen. However, even the Chartered Institute for Personnel and Development has highlighted potential productivity issues related to wages with the particular concern that wage stagnation may in part explain the low productivity levels in the UK economy.

At the top end of the wage distribution, both unions and employers’ representative organizations are concerned with the wages of the very highest percentile of earners. According to the Institute of Directors, ultra-high pay is a threat to business objectives and there is a clear case for a robust scrutiny of reward packages for senior executives. Their broad position is that this should be done via stronger remuneration committees and that high pay is justified only where the performance of both the individual and the organization warrant it. The Confederation of British Industry has expressed little concern about very high wages in organizations that are performing well, but are concerned with those organizations that pay bonuses and high wages when the organization is not performing well. Unions are less vocal about issues of high pay: their concerns relate more to the mechanisms used to determine pay rates for their membership. Generally, unions in both the banking and education sectors have been extremely cautious about the introduction and implementation of individual pay – usually through performance measurement – but this has become common in both sectors. A particularly common response is that wage differences should be agreed on the basis of differences in skill and responsibility. A very small number of participants recognized that skill is itself a social construct that can be gendered and discriminatory.

Probably unsurprisingly within the UK context, most social partners from both sides see the company or organization as the appropriate level at which to determine pay rates. The exception is in education where there is a strong view that the possibility for certain types of institutions to opt-out of collective agreements is problematic and both sides expressed a preference for retaining existing arrangements.

Amongst individual trade unions, effort has been made to reduce wage inequality based on the specific issues faced by members in different sectors. For example, USDAW, the Union of Shop, Distributive and Allied Workers, has campaigned for equal hourly rates for workers in the supermarket retail sector regardless of the age of the worker. This campaign has had a certain amount of success, with some supermarkets paying the national living wage, following its introduction, to all workers, despite the application of the NLW only being compulsory for those aged 25 and over.

Trade unions have been active supporters of various campaigns such as the establishment of the lobbying organization, the High Pay Commission, and the TUC has been vocal...
about linking executive pay to questions about fairness and wider societal problems. There is, however, little evidence in the sectors that we have studied that high pay features strongly in how unions think about wage determination and the pay claims they make. Specific concerns relate to the risk of systematically disadvantaging certain groups – notably women. Nonetheless, unions in both sectors have managed to reach collective agreements about the general principles of operating favourable measures.
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