Establishing Sector-level Collective Bargaining

An Overview of Gains, Risks, and Preconditions for its Functioning

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Aims and scopes of collective bargaining

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What is collective bargaining?

- A *process* by which *employers* (or their representatives) and *employee representatives* (e.g. trade unions) attempt to reach *agreements* covering *terms and conditions of employment*.

  - *(Quasi)-legal* because generates rules at work
    - Binding – legal contract!
    - It generates 'legislation' at work

- It *has many implications/effects on the economy and society* and (potentially) enables to *regulate markets*, especially labour markets
  - Thus it can also be an *economic policy instrument*

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What is collective bargaining about?

- *'Common' answer:* Wages
- But collective bargaining is *not exclusively about wages* but also about working conditions
  - *Working time* (including hours of work, rest periods, work schedules and flexible work, maternity leave),
  - *Remuneration forms and schemes* (including wage and non-wage benefits and bonuses),
  - *Variable pay systems* (design and implementation)
  - Regulations about *employee participation and involvement*
  - *Financial participation* and *employee ownership*
  - *Innovation and organizational change* regulations
  - *Vocational training* agreements
  - *Health and Safety*
  - Etc.

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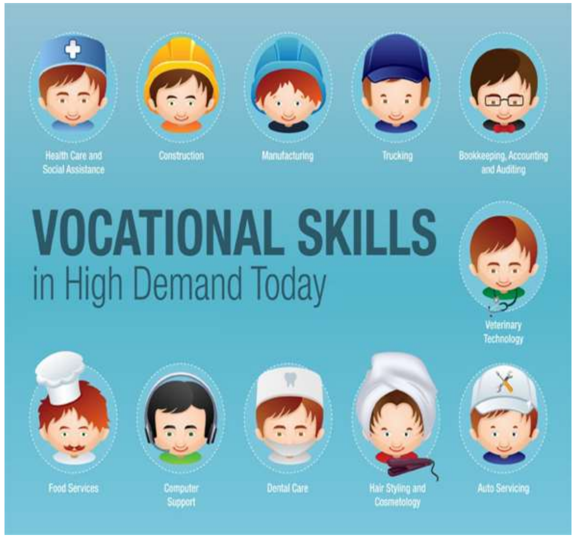
What is collective bargaining about?

- Usually *collective agreements* cover far *more non-wage issues* than wage issues
  - "Costs" for companies of non-wage issues often exceed wage issues!

- Thus, when discussing the effects of collective bargaining one has to keep in mind that the effects are not entirely *based* on wages but upon many issues!



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Why do we need to know more about the effects of collective bargaining?

- *Observable* 'differences in *performance*' between *companies*, countries – and sectors!
    - *Seen* to be '*related*' with *systems of collective bargaining*
- For some countries there is the need for *reforms of collective bargaining systems (structures, regimes)*
    - European Semester (2010), Euro plus pact (2011), Sixpack (2011), Employment Package (2012)
    - *Decentralization*: Bilateral agreements with Troika
    - *Strengthening of sectoral bargaining*: Australia, Chile

- Other countries aim to build up *collective bargaining systems (structures, regimes) as an economic policy instrument (i.e. tool) in order to achieve specific socio-economic goals*
    - Synchronization of policy fields:
        - monetary policy,
        - fiscal policy, and
        - income/wage policy.

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Different collective bargaining systems/different outcomes and effects(?)

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What are the effects of collective bargaining?

… is collective bargaining having ***positive or negative effects****?*

… is collective bargaining a ***good or bad*** *thing?*

- Clear answer to the question

It depends

- *It depends upon*:
  - Which side you are on
    - i.e. who you ask
  - Which indicator you are using
    - i.e. the *outcome* or *performance measure*

  - Which system you are looking at
    - *How collective bargaining is done*
    - The *institutional* system and the processes of collective bargaining

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What is the *'performance' of different collective bargaining systems?*

- **In much of the literature:**
  - Focus exclusively on the *economic effects*!
  - High performance is *defined* (i.e. subsumes) indicators such as in particular:
    - High labour *productivity*
    - High *employment* (low unemployment)
    - High *economic growth* (GDP growth)
    - High *competitiveness*
    - Low *inflation*
    - Etc.

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What are the effects of collective bargaining?

An example:

The *effects* of collective bargaining on *increases in labour productivity*

- *Is it of different importance for different sides?*
    - Productivity increases are of mutual interest, i.e. in the interest of both sides
- *Is it an important indicator?*
    - Productivity is important for companies, employees, governments (… often an explicit policy goal)
- *Is the system of collective bargaining important?*

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***Empirical analysis**: testing the **effect of different collective bargaining systems** on **company productivity** – Microeconomic/microeconometric study*

- **(Main) Data source: European Company Survey (ECS) by Eurofound (2015)**
- *Matched employer/employee dataset* on HR and ER issues in all current 28 EU member states,
  - Covers also Former Yugoslav Republic of Macedonia, Iceland, Montenegro and Turkey – not used in the analysis
- *Sample size*: 22,008 companies
- **Other data sources:** AMECO, European Commission, Eurostat, Eurofound
- Company level analysis preferable (necessary nowadays) because of "hybridization of national collective bargaining systems"
  - E.g. companies "opt out and in"; sometimes there is a higher level agreement and then not, etc.

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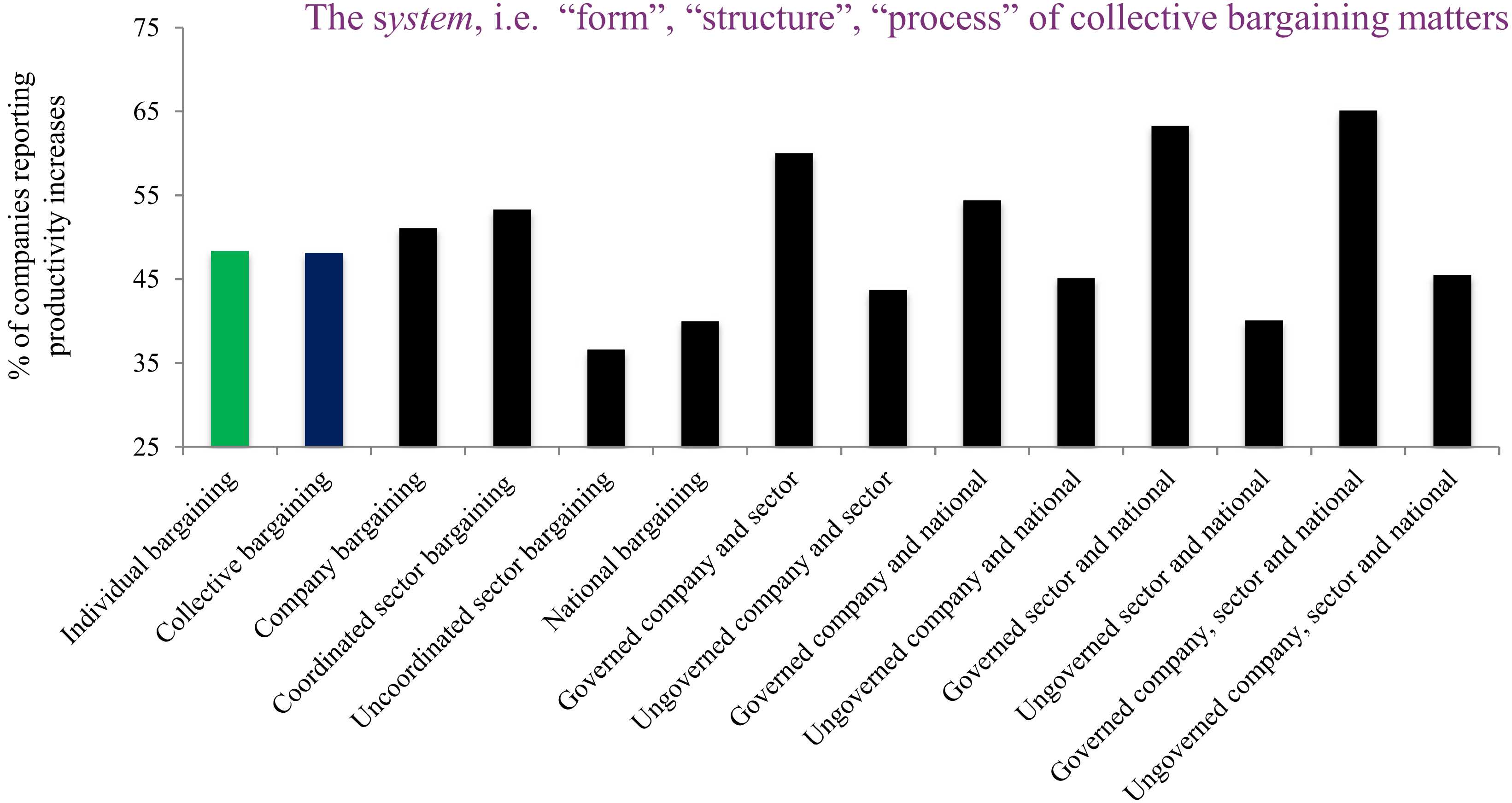
Are different systems of collective bargaining having different effects?

- *Individual bargaining vs. collective bargaining*

The *system*, i.e. “form”, “structure”, “process” of collective bargaining matters a lot!



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The interpretation of the results in a nutshell

- *Multi-level (tier, layer) systems perform exceptionally well*!
  - Especially if governed – "top performing systems"
  - Observable, for example, in *Nordic countries*
  - Results show that a *coordinated division of labour between bargaining units*, i.e. different collective bargaining units deal with different tasks and issues on different levels, *can be very effective and fosters productivity of companies!*
    - E.g. this shows that agreeing on *wage increases at sectoral level but on non-wage issues* such as working time, vocational training etc. *at lower levels* is associated with positive effects on company productivity
    - Enables to make use of the *sector cartelization effect* and consideration of *specific company needs*.

Bottom line: *higher level* (i.e. sectoral and national level) *collective agreements* can have *beneficial economic effects*

For employees, employers, and government!

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The effects of higher level collective bargaining for different parties

- **For *employers*:**
  - *Wages and working conditions* can be *taken out of competition*
    - In tight labour markets *unions are not able to play companies against each other*
    - Thus, it fosters a *fairer competition among companies*.
      - E.g. if unions are on strike all companies are equally affected (*no market distortion*)
  - Higher level agreements can *'neutralize'* *<u>workplace</u>* *union activities*
  - It is *cost effective*, i.e. it is *cheaper for employers*
    - Higher level agreements *save time and transaction costs*

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The effects of higher level collective bargaining for different parties

- **For *employees*:**
  - It enables the *implementation of common rules* of working and payment conditions through *standard terms and conditions for all workers*
    - Thus the equality between workers is increased
      - In small/large, old/new, highly unionised/not unionised, etc. companies *conditions are equal*.
  - It helps workers in different companies or different branches (of the same company) not to be played off against each other.
    - Prevents a 'race to the bottom'
  - It is *cost effective*, i.e. it is *cheaper for employees and trade unions*
    - Higher level agreements *save time and transaction costs*

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The effects of higher level collective bargaining for different parties

- **For *governments***:
  - It gives governments an *economic policy instrument*
    - It enables to '*synchronize' wage polices* with other economic policies such as *fiscal and monetary policy*
      - For *demand and supply shocks* (e.g. 1970s *oil shocks* in Austria; '*short time work schemes*' in Germany)
      - Countries with coordinated and higher level bargaining systems tackled the crisis relatively well!
  - Governments have an instrument to increase the *competitiveness (productivity)* of sectors, industries, regions, companies
    - Productive (innovative) companies can be 'protected' from companies which compete on wages!
      - *Shifting competition* among companies *away from wages towards innovation*
      - Idea of the 'Swedish Rhen-Meidner model'

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Different socio-economic effects

- *So far* we *concentrated on the economic effects* of collective bargaining (e.g. on productivity, employment, inflation, competitiveness, etc.)
- The effects on various other measures were investigated. For example
  - on *taxes*,
  - *welfare expenditures*,
  - *company size* (e.g. are large company favoured by collective bargaining?),
  - *industrial structure* (are specific sectors favoured by collective bargaining),
  - *skill and qualification* of employees (is collective bargaining contributing to skill formation?),
  - business cycle and inflation *volatility*,
  - etc.

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Different socio-economic effects

- Nowadays in the *political debate* (e.g. also important to IMF, European Commission) the effect of collective bargaining on

  - ***Inequality*** (in particular in context of collective bargaining):
    - *Wage inequality* (e.g. between workers doing the same job in different companies, sectors, regions; between different jobs including top management and blue-collar workers; etc.)
    - *Gender wage gap* (i.e. between female and male employees)

    - *Clear evidence* that *any* form of *collective bargaining* is associated with *lower inequality*!

  - Furthermore, collective bargaining facilitates encompassing and *wide-ranging conflict settlement* and contributes to *social peace*

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What are the effects of collective bargaining?

*… is collective bargaining having **positive or negative effects**?*

*… is collective bargaining a **good or bad** thing?*

- **Advantages**
  - Regain control by sharing it.
  - Institutionalisation of conflict. Generates employee consent to rules of employment
  - *Generates order* in the workplace and *on the market*!
  - Inhibits conflict over distributional issues by establishing norms of fairness
  - More cost efficient potentially than individual bargaining

- **Disadvantages**
  - Employer surrenders control over regulation of workplace and pay bill
  - Inflexibility. Employers restricted in response to rapid changes in market conditions

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Different economic and socio-economic effects

- **The bottom line:**
  - *Collective bargaining has many effects!*
  - Consequently
    - *any debate* (in academia and in politics) *on the advantages and disadvantages* of collective bargaining also depends upon which effect one is looking at, i.e. it depends on the indicator or measure one uses!
      - i.e. the debate depends on the effect on what!
  - *Aim* of the presentation was to give a *comprehensive* and *multidimensional overview* of the effects of collective bargaining

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Thank you for your attention!

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