



International
Labour
Organization

Collective bargaining:

Are there also evidence of positive outcomes in emerging countries?

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Collective bargaining is a fundamental principle and right and is recognized as such by the international community. The Right to Organize and Collective Bargaining Convention (No.98), which dates back so far as 1949, is one of the eight fundamental Conventions of the International Labour Organization (ILO 2017). The purpose of this paper is to investigate the outcomes of collective bargaining on economic performance and social cohesions, and overall development level of a country. The question is what can be learned from the existing comparative literature on collective bargaining in developed and emerging countries.

► What is meant by collective bargaining?

Collective bargaining is the process of negotiating the terms of employment between a single employers or employer organizations and employees. The interests of the employees are commonly presented by representatives of trade unions to which the employees belong.

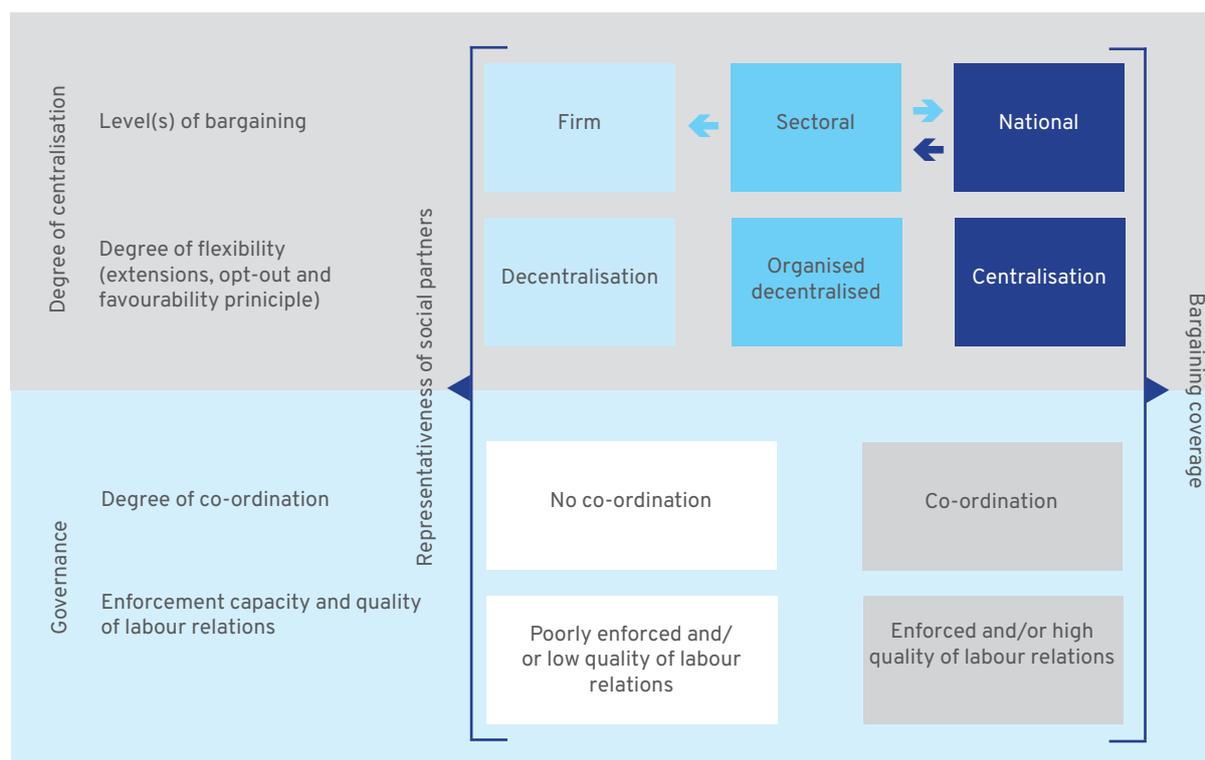
The collective agreements in writing reached by these negotiations are likely to include wage scales, overtime pay, working hours, shift length, work holidays, sick leave, vacation time, health and safety, or grievance mechanisms. In more developed countries with a long tradition of collective bargaining and a high trust between employers and trade unions collective agreements may contain additional items like rights to participate in workplace or company affairs, rights to participate in life long learning, agreements to improve the work organization and to increase the productivity. Collective agreements also include in most cases regulations of behaviours between the negotiating partners like information sharing, procedures for the resolution of disputes or facilities for trade union representatives.

Collective agreements take precedence over individual contracts of employment, while recognizing stipulations in individual contracts that are more favorable to workers (favourability principle). They bind the signatories and those on whose behalf they are concluded. The social partners may agree on opt-out or hardship clauses which allow companies in economic difficulties to deviate temporarily from the agreed standards.

Collective bargaining may take place at the level of the workplace, the enterprise, the firm (which may be several workplaces) or within a multi-employer setting at industry, regional or centralized inter-professional (national) level (Figure 1). If collective bargaining takes place at different levels the adequate coordination between these levels is a key challenge. The effectiveness of collective bargaining may be determined by the degree of coordination of collective bargaining. The representativeness of trade unions and employer organisations, measured as the share of workers (firms) who are members of trade unions (employer organisations), as well as the share of workers covered by collective agreements, are key indicators of the strength of social partners and the scope of the bargaining systems.

The emergence of different national legal frameworks defining what and how collective bargaining is to be operationalized depend on the preferences of the social partners, but crucial is also the legal and institutional context which is set by the government. The state can actively support collective bargaining by, for example, defining it clearly in Law, providing an effective arbitration mechanism for the settlement of conflicts, by extending the agreement to all companies of an industry (Hayter/Visser 2018), or by the enforcement of minimum standards.

Figure 1: The building blocks of collective bargaining



Source: OECD 2019: 28

► The outcomes of collective bargaining

Measuring the impact of collective bargaining is not easy since it is “very hard to isolate the contribution of these labour standards from other determinants of economic performance in cross-country studies and partly due the fact that it is hard to measure differences in labour standards across time and space [...] important complementarities exist between key aspects of the bargaining system. Therefore, the impact of individual aspects such as trade union density (the number of trade union members who are employees as a percentage of the total number of employees) or centralization of bargaining cannot be assessed in isolation. It is the package of institutions that matters.” (Aidt/Tzannatos 2002: 4-5). It is important to add that such complementarities also exist between labour institutions and the growth strategies of a country. The positive outcomes of collective bargaining are likely to be better in a dynamic and innovative economic environment than in a stagnant economy.

The research differentiates between micro-outcomes for individual companies and workers and macro-economic outcomes at the national level. Macro-economic outcomes can only be found in countries with a high coverage by collective agreements. In such countries multi-employer bargaining is dominating. Decentralized bargaining in only a few companies usually does not have significant aggregate effects. Collective bargaining can “only contribute to labour market inclusiveness and have a significant macroeconomic effect if it covers a large share of workers and companies” (OECD 2019: 107). This is an important lesson for emerging countries such as Myanmar.

Micro-economic outcomes

The studies on micro-economic effects (Aidt/Tzannatos 2002) show the following results:

- Workers covered by an agreement on average get a wage mark-up over their non-covered counterparts. This applies to developed as well as to emerging countries.
- The wage mark-up tends to be higher in the private industry than in the public sector.
- If the companies work in highly competitive product market, the wage mark-up is lower than in less competitive product markets since market pressures set stricter limits for wage increases.
- The wage mark-up depends on the inclusiveness of the agreements and may differ by gender, race or employment status.
- Covered workers receive more training by companies than non-covered workers which increases efficiency.
- The turnover of covered workers is lower than of non-covered workers which reduces training and recruitment costs of the companies and may improve the product quality.
- The micro-economic effects on the productivity of the company are empirically indeterminate. Positive effects are found for example in Malaysia, while in the United States of America the effects vary by industry.

Overall one can conclude that the results on the positive wage-mark-up and the reduction of turnover are very robust while the micro-economic impact of productivity is context-specific. To understand these indeterminate outcomes on productivity it helps to remember that most studies on micro-economic effects are carried out in countries with decentralized collective bargaining where there is a low coverage by agreements. In these countries collective bargaining is often not stable and the competition between covered and non-covered companies is fierce. Positive productivity effects are more likely to be found in countries with institutional stability, a high coverage by collective agreements and collective action by the employers like joint training centers. This means that productivity increases are the outcomes of a long-term trustful cooperation between the social partners and that short-term productivity effects may be the exception.

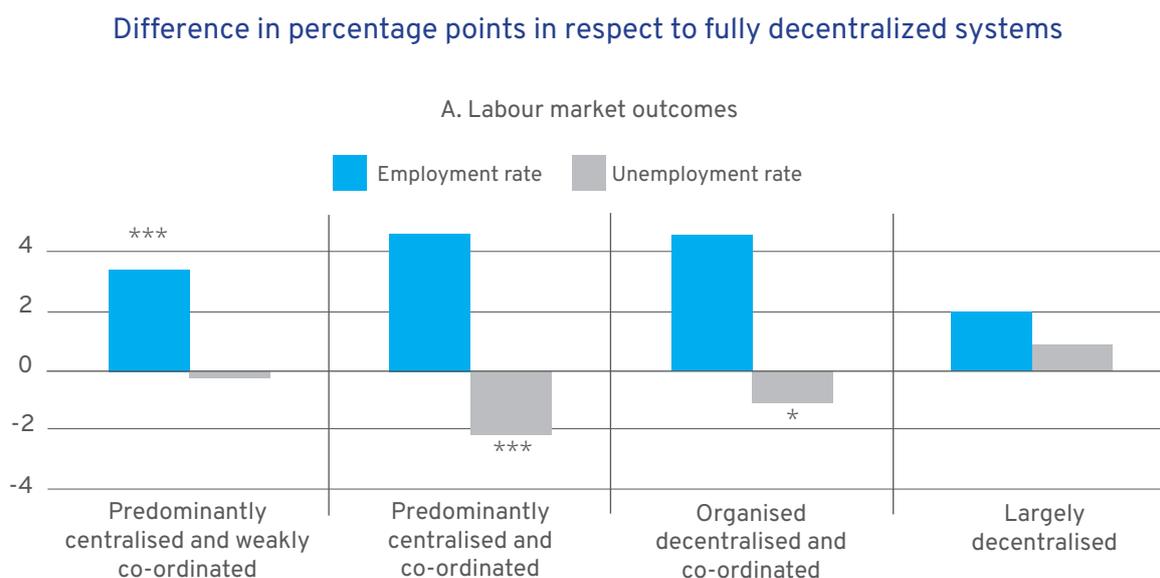
The reduction of strikes and the social peace during the duration of the collective agreements is one of the main motivations of companies to enter into collective bargaining in developed and in emerging countries. This is especially the case in markets where the loss of production due to industrial conflicts cannot be caught up after the conflict like in the apparel sector with its short fashion seasons (Bhardwaj/Fairhurst 2009; Saltmarsh 2019).

Macro-economic outcomes

The studies on the macro-economic effects are based on cross-country studies comparing the different systems of collective agreements and their outcomes. The main results of these studies (Braakmann and Brandl 2016; Eurofound 2015; Hayter and Weinberg 2011; ILO 2016b; Jaumotte and Buitron 2015; OECD 2018 and 2019; Ostry and Berg 2014; Traxler, Blaschke and Kittel 2001) can be summarized as follows:

- All relevant studies on the impact of collective bargaining on wage dispersion demonstrate that wage inequality is lower in countries with multi-employer bargaining and high-level minimum wages. For example, a study of the International Monetary Fund (IMF) on the impact of different wage-setting procedures found that “the erosion of labour market institutions in the advanced economies is associated with an increase of income inequality” (Jaumotte and Buitron 2015: 27).
- The reduction of inequality improves the quality of working conditions without hampering economic growth. Another study of the IMF argues that “lower net inequality is robustly correlated with faster and more durable growth, for a given level of redistribution. And [...] redistribution [...] appears generally benign in terms of its impact on growth” (Ostry and Berg 2014: 38).
- Figure 2 shows that co-ordinated bargaining systems are linked with significantly higher employment rates and lower unemployment (including for low-skilled workers, women and young people) than fully decentralized systems where bargaining takes place only at firm level or the terms of employment are unilaterally set by the employers without any bargaining (OECD 2018 and 2019).
- Less clear are the effects on productivity. Centralized bargaining systems can be linked with lower productivity growth if the agreements do not allow for flexibility at company level (like the flexible distribution of working hours over the years or the product cycle). The OECD concludes that organized decentralization in which sectoral agreements set broad framework conditions but leaves detailed provisions to firm-level negotiations “[...] tends to deliver good employment performance, better productivity outcomes and higher wages for covered workers. By contrast, other forms of decentralization that simply replace sectoral with firm-level bargaining without co-ordination within and across sectors tend to be associated with somewhat poorer labour market outcomes” (OECD 2019: 106).
- Crucial for the positive macro-economic outcomes on inflation and unemployment of collective bargaining is institutional stability. The stability of the institutional framework of collective bargaining provides the necessary basis for trust among bargaining actors and reduces uncertainty. Institutional change and instability are associated with significant costs like high turnover of the work force or reduced efficiency, and have, at least temporarily, negative effects on economic outcomes (Brandl/Ipsen 2017 and 2019).

Figure 2: Collective bargaining systems and employment outcomes



***, * statistically significant at the 1 or 10% level respectively

Source: OECD 2018: 84

Highly sophisticated studies on the social and economic outcomes of different collective bargaining systems measure the statistical relationship between different variables but they often cannot explain sufficiently the reasons for the positive outcomes of collective bargaining and the better outcomes for coordinated wage systems. Country and industry case studies on industrial relations which look in more detail in the content of the agreement and the role and the relationship of the social partners have opened this “black box” and help us to understand these often context specific reasons.

Important factors behind the empirical association of coordinated systems and their positive outcomes on economic performance are the following ones:

- Coordination help the social partners to take into account the macroeconomic effects of their agreements so that these are set in line with the business-cycle situation and do not undermine the external competitiveness.
- Industry-wide collective agreements create a levelled playing field for companies. The competition between companies is directed from wage reductions to improvements of the work organization and the quality of the products or services. This helps to extend the scope and the time horizon of collective bargaining and supports negotiations on issues like skill improvement, innovation or productivity growth.
- Companies can invest in skills and retain experienced employees by paying decent wages without being undercut by competitors who are not covered by a collective agreement.
- By taking into accounts the needs of employees and employers in the various industries, collective agreements create accepted social norms and establish social peace by institutionalizing the conflict between capital and labour.

- Collective bargaining with its differentiated wage scale helps to create middle income classes. This will increase domestic demand and promote economic growth (Vaughan-Whitehead 2016).

► Are there also positive outcomes for emerging countries like in Myanmar?

Despite their significance in global markets, there are only a few studies on the outcomes of collective bargaining in emerging countries (Barry and Wilkinson, 2011). One view holds that collective bargaining may have improve economic efficiency and growth in developed countries with their high shares of high quality products and services. In emerging countries, however, with their labour-intensive production, on which these economies rely, economic growth would be reduced if wages would rise above internationally competitive levels (Herzenberg 1990).

The other view based on recent empirical studies in Asias' emerging countries argues that collective bargaining and economic development are by no means incompatible (Hayter/Lee 2018: 7). As good examples in some countries, like Bangladesh (Saltmarsh 2019), have shown collective agreements can help to:

- Reduce social conflicts and preserve social peace
- Reduce the high turnover in the plants
- Increase investments in training and the flexibility of the workforce
- Create creation of a levelled playing field between the companies.

Research has also shown that good labor relations and social peace attracts foreign investments and helps to replace imports by domestic production (Kuruvilla 1996).

Other outcomes like the creation and stabilization of income for middle groups, which help to keep revenues in the country and increase domestic demand, and joint activities to increase the productivity require some time and may be realized in the medium term. Durable outcomes require a stable institutional environment for collective bargaining and a substantial increase of the coverage by collective agreements like in Uruguay (Box 1) to reach aggregate effects.

Box 1: Extending the scope of collective agreements: The example of Uruguay

Uruguay succeeded to increase the coverage by collective bargaining within the last 15 percent years from less than 20 percent to now 96 percent and is now the country with the lowest income inequality in South America. Until 2005, collective agreements existed only in companies and industries where unions were strong. Now industry-wide bargaining is the dominant level for negotiations. In 2005, the government revitalized the so called “wage-councils” (“Consejos de Salarios”).

The national Super Tripartite Council classifies each economic activity (by industries and regions) and establishes for each one a wage council made up of seven members: 2 from the unions, 2 from de employers and 3 from the government. The scope of bargaining is not restricted to minimum wages as before. The wage councils are free to negotiate minimum wages, wage scales, working hours, working conditions, readjustments etc. for the respective industries or regions.

The negotiations end when 2 of the 3 parties, reach an agreement. In practice, mostly employers and unions come to an agreement. The government is coordinating the negotiations with guidelines to keep the agreements in line with the productivity increases and to avoid inflation. The wage councils usually follow these guidelines.

The government is extending the agreements both by the wage councils and sectoral bipartite, that is, making them applicable to all companies and to all workers in the sector.

Above the industry-wide level each firm can negotiate other collective agreement at firm-level, between a single trade union and the single employer. It is possible for one employer to deviate from the sectorial agreement with the authorization of the entire wage council which is difficult to get.

Source: Mazzuchi/González 2018

► Conclusions

The World Bank concluded in its comprehensive study firstly that the alternative to collective bargaining is not the perfect competition but more likely imperfections on the labour demand side in the form of unbalanced employer power, market failure like high turnover or underinvestment in training, and social distortions (Aidt/Tzannatos 2001: 6). Secondly it underlined that “developing labour standards needs to go hand in hand with building institutional capacity and trust between workers, employers, and the government” (Aidt/Tzannatos 2001: ix) to reach the best outcomes. Of course, in countries with a weak tradition of collective bargaining, like in Myanmar, trust between social partners have to be build up and the positive outcomes of collective bargaining can materialize only step by step as it is also the case with economic growth policy. The clear evidence of recent international research on the positive outcomes of collective bargaining should encourage Myanmar to encourage the social partners to negotiate collective agreements and to develop a supportive legal framework for trustful industrial relations.

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