

INTRODUCTORY OVERVIEW

by Daniel Vaughan-Whitehead

A common feature of recent reports on inequality (ILO, OECD, and IMF) is their recognition that inequalities may well emerge from mechanisms in the world of work. This special issue investigates the role of industrial relations and social policies to reduce inequalities.

What industrial relations systems seem to perform better to limit and even reduce inequalities? How can social dialogue and social partners address wage inequality and other types of inequality – in the distribution of working time, access or re-access to jobs, training and career opportunities, and social protection and pensions? Do collective agreements help improve the situation of particular groups of workers, including women or young people, and certain types of work arrangements, such as part-time work, temporary work, or self-employment?

Una caratteristica comune ai rapporti sulla disuguaglianza pubblicati di recente (OIL, OCSE e FMI) è il riconoscimento del fatto che le disuguaglianze possono emergere dai meccanismi propri del mondo del lavoro. La presente sezione monografica analizza il ruolo giocato dalle relazioni industriali e dalle politiche sociali nella riduzione delle disuguaglianze.

Quali sistemi di relazioni industriali risultano funzionare meglio nell'arginare o perfino nel ridurre le disuguaglianze? In che modo il dialogo sociale e le parti sociali affrontano la disuguaglianza salariale e altri tipi di disuguaglianze – nella ripartizione dell'orario di lavoro, nell'accesso o nel reinserimento nel mondo del lavoro, in termini di opportunità di formazione e carriera, e in riferimento ai sistemi di protezione e assistenza sociale? I contratti collettivi contribuiscono a migliorare la situazione di gruppi specifici di lavoratori, inclusi le donne e i giovani, nonché determinate tipologie di rapporti di lavoro, come ad esempio il lavoro a tempo parziale, il lavoro a tempo determinato o il lavoro autonomo?

INTRODUCTION

The reduction of inequalities was recently asserted by the international community (2030 Agenda for Sustainable Development; UN, 2015) and the European organisations as an important policy target. It has also been highlighted that the sources of growing inequality may well emerge from mechanisms in the world of work (ILO, 2014 and 2016b; OECD, 2015). The collection of articles presented in this issue is the outcome of a project carried out by the International Labour Organization (ILO) in cooperation with the

European Commission¹ with the aim of assessing the impact that industrial relations and social dialogue indicators may have on different sources of inequalities in the world of work.

The scope of this work goes beyond pay inequalities to address not only income inequality but also other types of inequality, such as inequality in the distribution (and payment) of working time, access or re-access to jobs, access to training and career opportunities, and access to social protection or to pensions. It also looks at inequalities that may affect particular groups of workers, such as women or young people, or those under certain types of work arrangements, such as part-time workers, temporary workers, and the self-employed. We also took a long-term perspective while reporting the impact of the crisis.

This introduction summarises some lessons from the national studies, also looking at a number of recent collective agreements. This leads to a number of policy considerations, which are also developed in the different contributions to this issue.

1. FIRST LESSON ON LOW PAY

The first lesson concerns the bottom of the wage scale. The erosion of collective bargaining in a number of countries has coincided with the increase in the low-pay segment (composed of those workers paid below two thirds of the median wage), often stimulated by labour market reforms not always adopted with the involvement of social partners, and sometimes adopted despite opposition by the social partners. Income inequality increased rapidly in Germany once the wage-setting system was eroded after the Hartz reforms. The development of so-called ‘mini-jobs’ outside the scope of collective bargaining contributed to increasing the incidence of low pay in Germany to the highest level in the EU and, since there was formerly no minimum wage (until 2015) to put a floor under pay levels, wages plunged to a greater extent than in any other EU Member State.

A similar process has also been witnessed in the Netherlands, where the number of low-paid jobs and also their distance from the average income have increased. This was due to government pressure since the mid-1990s on unions and employers to lower existing wage scales in collective agreements or to introduce new scales much closer to the minimum wage, as a means of enabling the employment integration of worker categories with a weak labour market position.

Conversely, in Sweden, a centralised and coordinated collective bargaining system and a still compressed wage structure have prevented the development of low-paid/low-skilled jobs, but instead have boosted policies favouring an upgrading of skills and have led to the lowest wage dispersion among the member countries of the Organisation for Economic Co-operation and Development (OECD) (followed by Finland and Denmark). Similarly, multi-level bargaining with also extension mechanisms placed Belgium as the country with the lowest share of low-paid workers and among the top-three best performers on wage equality.

¹ The project consists of a comparative analysis of all EU countries and national chapters on the following countries: Belgium, Estonia, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, the Netherlands, Slovenia, Spain, Sweden, and the United Kingdom. The results are presented in details in D. Vaughan-Whitehead (ed.), *Reducing Inequalities in Europe – How Industrial Relations and Labour Policies Can Close the Gap*, Edward Elgar-ILO, Cheltenham (UK)-Northampton (USA)-Geneva, forthcoming (2018).

Also to be noted in a number of European countries is the increased proportion of part-time jobs – including those with a very low number of working hours – among the low-paid ones, something that may also be explained by weak collective bargaining coverage for this category of workers.

2. SECOND LESSON ON THE MINIMUM WAGE

A second lesson from the country stories in this volume is that the minimum wage – which is the result of social dialogue in most EU countries – clearly contributes to limiting wage inequality (since it makes it possible to increase starting wages at the end of the wage scale, thus reducing the pay difference with the top), but only if combined with collective bargaining (which brings with it additional negotiations levels to build more floors).

The minimum wage in the United Kingdom, for instance, has contributed to limiting the rise in low pay, but this is not enough considering that there are no additional bargaining rounds. Similarly, the progressive adjustment and increases of the minimum wage negotiated by the social partners in the Baltic States have helped raise wages at the bottom of the wage distribution, but have not led to much spillover effect due to low collective bargaining. By contrast, the minimum wage in Ireland has helped reduce inequalities because it has intervened within the framework of a stronger social dialogue framework (at national level) that has limited fragmentation in terms of work contracts and pay conditions. In Belgium, low pay scales in some industries can be, thanks to additional sectoral collective bargaining, 20% to 30% higher than the nationwide minimum wage.

The minimum wage introduced in January 2015 in Germany has also made it possible to address the difficulties to conclude collective agreements in a number of sectors and regions, and has acted as a floor to further promote collective bargaining. It is revealing that the minimum wage act was part of a legislative package entitled ‘Act on the Strengthening of Free Collective Bargaining’ (*Gesetz zur Stärkung der Tarifautonomie*), which, besides introducing the minimum wage, is also intended to expand collective agreement coverage. In fact, derogations from the minimum wage are possible through collective agreements that are declared generally binding.

3. THIRD LESSON ON WAGE DISPERSION

Taking the minimum wage as the wage floor makes it possible, first, to avoid too low wages, while building collective bargaining on it allows wage evolution in terms of a consistent and negotiated wage grid that prevents too high wage differentials. This consistency is strengthened by multi-level bargaining, with wage bargaining at national and/or sectoral level, complemented by wage bargaining at firm level. This effect on wage dispersion is the third lesson from this comparative work.

The Spanish system of collective agreements for instance, based on higher-than-firm-level bargaining, until the crisis had a compressing effect on wage dispersion, contributing to lower levels of wage inequality (Canal Domínguez *et al.*, 2016). Similarly in Sweden, collectively agreed high wage floors, combined with wage agreements at sectoral and enterprise level, have favoured a relatively compressed wage structure that has prevailed,

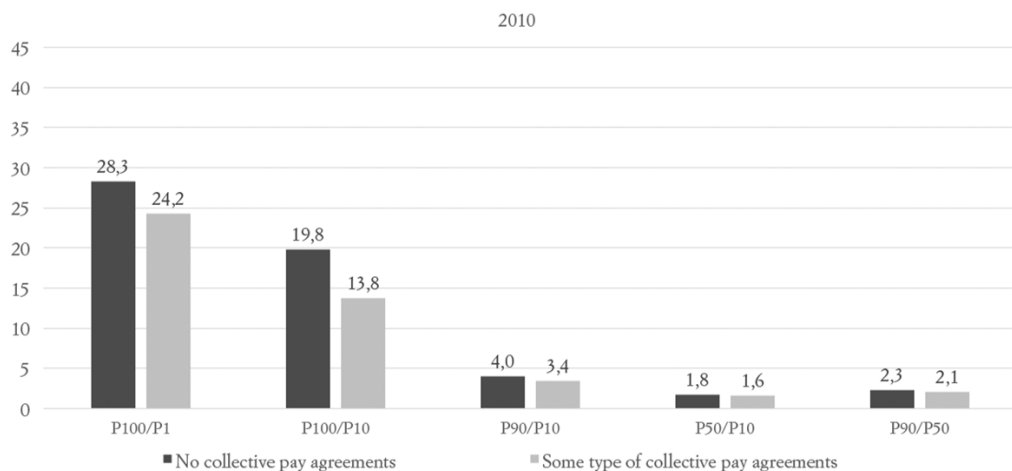
despite decentralisation of wage fixing in recent years, which has brought more wage differentiation.

Belgium is a good example where multi-level bargaining starts with inter-professional agreements followed by negotiations in joint committees or sub-committees in individual sectors that then lead to firm-level agreements, a process that led to 90% collective bargaining coverage and placed Belgium as one of the very few countries where wage disparity did not increase.

While multi-level bargaining – moreover within a coordinated system – would help in reducing wage disparity, this might change if the hierarchy between the different levels is modified. In particular, the fact that there are more and more derogations or deviation clauses that allow deviation from general rules – as witnessed recently in Spain, but also Italy, the Netherlands and other countries – means that the coordination effect might be disrupted in terms of effects on, for instance, wage disparities.

We tried to provide some statistical verification of this relationship between social dialogue and inequalities by using data representative of wage employees in Europe – the Structure of Earnings Survey (SES). Although latest data dated to 2010 since we could not obtain 2014 data yet, this survey led to very interesting results.

Figure 1. Collective agreements and inequalities, 16 selected EU countries, 2010



Source: SES.

We started by exploring trends in wage inequality using the ratio of various percentiles, so that we used real gross hourly wages at the 1st, 10th, 50th, 90th and 100th centiles and estimated several ratios (P100/P1, P100/P10, P90/P10, P50/P10, and P90/P50).

The estimates show that wage inequality is lower if there is some form of collective pay agreement. Figure 1 confirms that the wage distribution is clearly more compressed

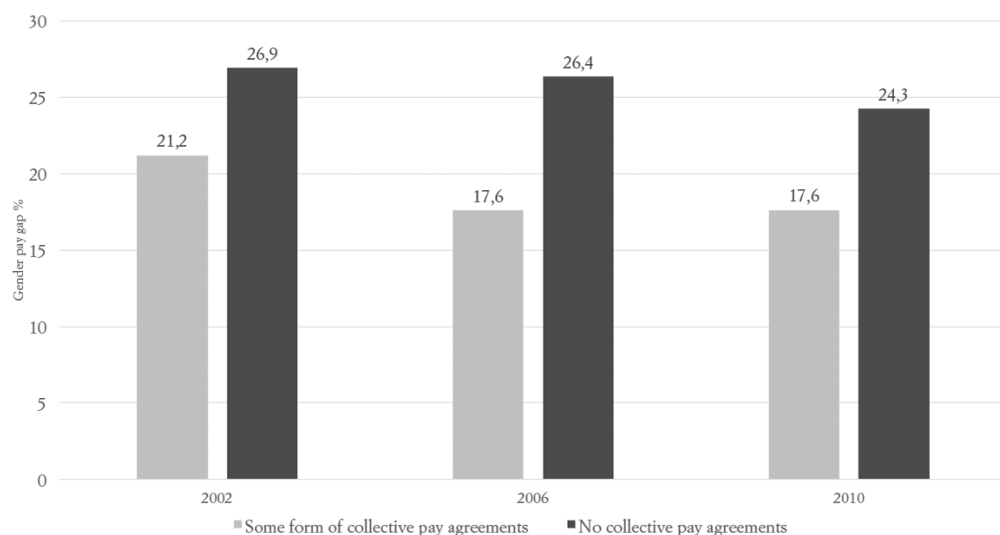
in enterprises with a collective pay agreement, since all ratios estimated were found to be always larger among enterprises without collective pay agreement.

4. FOURTH LESSON ON UNDER-REPRESENTED GROUPS

Another lesson is that collective bargaining, through its effect of boosting wages at the bottom end of the wage scale, is helping those categories of workers who are generally under-represented there, such as women (Borbély, 2015), but also other categories of workers, such as migrants. National and sectoral agreements in particular make it possible to extend standards to employees with weaker bargaining power, particularly those working in small firms.

According to the statistical analysis presented on Spain, firms with more women not only have lower wages, but also higher wage inequality; a similar process is observed in firms with a high proportion of temporary and part-time jobs. Firm-level agreements (without upper-level bargaining) are also found to be associated with higher wage disparity and also a wider gender pay gap. Collective agreements – especially at higher levels – by fixing the same rules for all represent a way of avoiding discrimination (Pillinger *et al.*, 2016).

Figure 2. Gender pay gap and collective pay agreements, 2002-2010



Source: SES.

Figure 2 shows the estimates of the impact of a collective agreement on the gender pay gap based on the weighted average of the 16 countries from the SES dataset.

The results confirm that the gender pay gap among employees that benefit from collective pay agreements is smaller than in enterprises without collective pay agreements. While both groups display a considerable gap in wages between men and women, the decline in the gap has been greater among those enterprises with collective agreements than those without. And in 2010 the gender pay gap among employees without collective pay agreements was about 40% higher than the gender pay gap among wage employees in enterprises that had some form of collective pay agreement.

This is confirmed by national stories. Wherever present in the Baltics, collective agreements have had an impact at the bottom of the scale, with also an identified effect on the gender pay gap. In Ireland, wage inequality fell for Irish men between 1994 and 2001, and for women between 1997 and 2001, the latter in particular being partly attributed to the introduction of the minimum wage in 2000 within a social dialogue framework (see also McGuinness *et al.*, 2009).

Problems of youth inequality were also investigated. In the Netherlands, enterprises have developed student low-pay schemes that somehow escape from the influence of collective bargaining. Similarly in Slovenia, companies in the retail trade, especially supermarkets, have built their business model on the use of young workers at very low levels of pay and with minimum working hours and also little use of social dialogue. In Spain, firms with a higher percentage of young employees (under 30 years of age) that were also found to rarely have a collective agreement have experienced more wage inequality.

In Italy, the crisis seems to have led to a substantial worsening of the quality of existing jobs, pay levels, and inequalities across socio-economic groups, which has mainly affected young people and low-skilled workers (Simonazzi, 2015). These are found to have not only the lowest performance in terms of employment and unemployment rates, but also the worst outcomes with respect to job quality, with lower earnings but also considerably higher labour market insecurity and higher job strain. They are often confined on temporary contracts and are less covered by collective bargaining. The interest of young workers in trade unions and social dialogue is also very limited.

Collective bargaining can thus help cover also vulnerable groups. For instance, a multi-employer agreement at sectoral or national level can cover more workers since it can be extended to all employers, including those outside the employers' organisations that negotiated the agreement. Moreover, if they know that an agreement may be extended and become binding, both employers' associations and trade unions will be more engaged in discussions. By contrast, single-employer bargaining at enterprise level may often cover only a limited number of workers, and some groups of workers – for instance, those on non-standard contracts – may not be included. In this sense, multi-employer bargaining is more inclusive and helps limit inequalities between categories of workers.

In Spain, firms with a higher proportion of employees with temporary contracts were found also to feature higher wage inequality, which indicates that there should be more collective bargaining to cover this type of employees.

5. FIFTH LESSON ON THE DISTRIBUTION OF WORKING TIME

By fixing a set of standards, collective agreements might also help improve equality of working time, in terms of number of working hours, access to overtime, and also payment of working hours. This is another conclusion of this comparative work.

Massive use of zero-hour contracts in the United Kingdom shows how intimately working hours may be related to low pay. Insufficient working hours for part-time workers might also represent a source of inequality, as shown in the Netherlands and other countries.

SES provides information so that for each employee we know how many hours they worked per week, how many of these were contractual hours, and how many were overtime work. The survey also identifies whether the worker is classified as a full-time or a part-time one at the enterprise where they work. Table 1 disaggregates the information to compare the two groups according to the type of collective pay agreement.

Table 1 shows that there is great similarity in terms of hours worked per week between full-time workers: on average, they work about 38 to 39 hours per week. Where we find more discrepancy is among part-time workers. In enterprises with collective pay agreements, the average number of hours worked part time is about 21 per week, while this declines to 18 hours among enterprises without a collective pay agreement.

Table 1. Average hours worked by type of collective agreements

	All employees		Full-time employees		Part-time employees		Percentage of part-time wage employees
	Average hours worked per week	% of which are overtime	Average hours worked per week	% of which are overtime	Average hours worked per week	% of which are overtime	
Some form of collective pay agreement	35.1	2.9%	38.2	2.8%	21.4	3.0%	18.7%
No collective pay agreement	35.3	2.3%	39.2	2.2%	18.5	2.9%	21.2%

Source: SES.

6. SIXTH LESSON ON THE IMPACT ON HOUSEHOLDS' INCOME INEQUALITIES

A sixth lesson was about the correlation between industrial relations and inequality in terms of disposable household income. Household income is of course influenced by wages from individual earners in the household – in which collective bargaining plays a role. In fact, wage inequality was found to explain a very important part of income inequality (ILO, 2016b).

Disposable household income is also very much influenced by tax policy and social security. The social partners in a number of EU countries – for instance in France and Belgium – also manage social protection, a role that they may further increase along with the progressive withdrawal of the State in a number of countries from its function of providing social security and benefits, particularly pensions. The social partners through their participation in tripartite councils can also influence the distribution process. Social dialogue and industrial relations can thus play a role in disposable household income through different levers, directly through collective bargaining that influences wages, or

indirectly through their influence on major reforms currently ongoing in many countries, for instance, with regard to the labour market, social security, pensions, and taxes. This aspect is further investigated in other articles in this issue.

7. SEVENTH LESSON ON THE IMPORTANT ROLE OF THE STATE

Another main lesson of the group of experts was that the role of the State has generally remained very important and in some cases determinant. First to set the rules and also promote collective bargaining and social dialogue (for instance, to sign or renew tripartite pacts or agreements), and second because the State often decides to develop mechanisms in order to extend some agreements, also to cover workers not initially included in the bargaining agreement. This was the case in countries with inter-sectoral (Belgium and Ireland) and sectoral wage bargaining (Austria, France, Germany, Spain, and parts of Belgium), a process that made it possible to maintain high collective bargaining coverage in a number of countries. In other cases, the government also played a major role in developing some mechanisms, such as wage indexation (in Italy in the 1980s, in Greece in the early 1980s, and in Belgium until now). The State also remains the initiator of most labour market reforms, but also social protection, pensions, and training reforms. In France, although social dialogue has accompanied flexibility at least to a certain extent, the initiative for reforms came almost entirely from the State. A good example of coordination with the social partners is given by Sweden, where following the agreements during the crisis and follow-up tripartite talks initiated by the government in 2011, a new law was decided on short-time working in December 2013, which subsidises the short-time working system in case of a severe economic recession while further encouraging collective bargaining.

Social dialogue at national level also cannot be maintained without strong support from the State, to keep it alive, to foster it, and also to use it when major reforms must be decided and implemented. The examples of Ireland and Greece here confirm that, however strong tripartite bodies might be, they will lose influence if the State is not directly supporting them.

As shown by Greece, the decision to remove extension mechanisms, the suspension of the 'favourability clause' (given the prevalence of higher-level agreements), and the greater difficulties introduced for the renewal of collective agreements, combined with the unilateral decision to cut the minimum wage (traditionally established bilaterally by the social partners), clearly resulted in a rapid reduction in the number and coverage of collective agreements. The number of sectoral or occupational agreements fell from 101 in 2009 to 23 in 2015, while collective bargaining coverage was reduced from 83% in 2008 to 40% in 2013 (a mere 10% in the private sector). This not only led in the countries concerned to increased inequalities (Karamessini and Giakoumatos, 2015; Vaughan-Whitehead, 2015) but also to a number of social and economic implications (Keune, 2015; Visser, 2016).

The important role of the State explains why this comparative work extended the impact on inequalities beyond just collective bargaining and social dialogue to cover industrial relations more generally, also involving the State and not only workers' and employers' representatives.

8. POLICY CONSIDERATIONS

The comparative work provided in this issue, and on which this introduction has presented some of the key conclusions, helps explain the correlation between, on the one hand, collective agreements and, more generally, industrial relations and, on the other, inequalities, not only pay inequality but also inequality in terms of working time distribution and in the probability of having certain forms of work contract. First, collective agreements – especially at the higher level according to national studies – were found to play a role in curbing pay inequalities. Countries with high social dialogue institutions, such as Belgium and Sweden, have managed to keep wage inequalities at relatively low levels. The impact of collective bargaining on low pay – especially in combination with the minimum wage – and on wage dispersion – especially when there are multiple levels of negotiation – are some of the mechanisms at work here identified. Second, the presence of a collective agreement was also found to reduce the gender pay gap. An increasing number of collective agreements at different levels promote equal pay for equal work, something that contributes to lower gender inequalities. Third, some of the papers in this issue also show that the proportion of enterprises with all workers holding a permanent contract is higher where there is some sort of social dialogue (with a collective agreement). Fourth, the presence of a collective agreement does not seem to generate a lower or higher proportion of part-time workers, but to ensure, where there are part-timers, that they will receive sufficient working hours. There are also examples of this type of collective agreement in this issue, together with examples of collective agreements that help improve the working conditions of workers under non-standard forms of employment.

At the same time, and despite this positive impact on inequalities, this issue is also presenting some examples of social dialogue dismantling in a number of EU countries, a paradox that requires placing back social dialogue and industrial relations back to the core of the policy agenda. Because inequalities are increasingly found to have an adverse effect on economic growth and also on social cohesion (EC, 2015; IMF, 2015; OECD, 2015), collective bargaining to curb such inequalities represents an important lever that must be maintained and even strengthened. This policy agenda requires the commitment of all actors.

Trade unions have to find new strategies, and this special issue presents some innovative initiatives to tackle emerging trends in the world of work, such as the growth of non-standard forms of employment or the increasing recourse to sub-contracting. Some interesting developments can be observed, with trade unions overcoming some deterioration of the balance between flexibility and security by influencing the bargaining process. For instance in Germany, trade unions were confronted with the introduction of derogation clauses in their collective agreements, but managed nevertheless to increase their influence in sectors with high density rates by involving members in company-level bargaining.

Similarly in Italy, trade unions started to organise in order to be able to provide a necessary framework for a number of non-standard forms of contract. Trade unions are also meeting other challenges, such as extending the coverage of collective bargaining to non-standard forms of employment, or taking part in training programmes or training accounts that would help employees develop lifelong learning, which is particularly important considering that with automation many jobs will disappear and new ones will be created.

Employers could also benefit from an increased use of collective bargaining to influence flexibility-security outcomes in the enterprise and thus to carry out the necessary reforms and introduce the necessary flexibilities without compromising, but rather increasing workers' security (Marginson and Galetto, 2016). Employers might also examine the value added that multi-level bargaining with a combination of higher agreements (at national and sectoral level) and enterprise agreements could offer them in terms of employment, human capital, social climate, and economic growth.

Finally, the role of the State remains central. National social dialogue and collective bargaining institutions need to be strengthened and the State needs to use social dialogue effectively as a policy tool. This is especially important because, in this way, the social partners could contribute to policy reforms on issues such as taxation, insurance, and social protection, which will determine future inequality outcomes.

By contrast, the recent weakening of social dialogue institutions – often with the motive of lowering labour costs and boosting competitiveness – has not necessarily led to the expected effects on economic growth, while they have seriously aggravated inequalities, along with a rapid decline in collective bargaining coverage. The influence of collective bargaining and social dialogue on key aspects of reforms (such as pensions, social security, working time, wages, and subcontracting) and on inequalities should thus give additional motivation to policy makers and social partners to sustain and strengthen rather than to weaken social dialogue and collective bargaining, especially since forthcoming transformations in the world of work will require more and more negotiated outcomes and policy solutions.

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