Summary for non-specialists
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Wage Bargaining Institutions – from crisis to crisis

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This essay reviews half a century of developments in bargaining coverage, the structure of bargaining, and bargaining coordination respectively in thirty countries, with an emphasis on the last twenty years. Under coverage or the extent of collective bargaining and pay setting, the connection with union density, employer organization, and administrative extension is analysed. In the section on bargaining structure the main issues are decentralisation, multi- or single-employer bargaining, the level at which most bargaining takes place, the organization or articulation of multi-level bargaining, and the existence and use of opening clauses. The discussion of coordination includes an attempt to identify different mechanisms through which wage leadership may be established, varying from state controls to social pacts, and from associational controls to trend- or pattern setting behaviour.

In about half of the countries in this survey the majority or more of all wage earners in employment is covered by one or more collective agreements negotiated between the union(s) and the employer(s). In most countries in this group, all but one (Slovenia) located in Western Europe, coverage rates are above 70 and relatively stable. In the other half collective bargaining covers only the minority of workers, in some causes - most prominently Japan and the U.S. - only one-sixth or less. This group includes the non-European members of the OECD, the UK and Ireland, and all but one of the post-Communist countries of Central and Eastern Europe. The principal institutional feature guaranteeing broad coverage is multi-employer bargaining. This presupposes employer organization and mechanisms for preventing non-organized employers to undercut contractual wages, i.e. administrative extension or, failing that, a strong and solidaristic union organization.

Combining the data on bargaining levels, articulation of bargaining across levels, and the use of opening clauses (and its functional equivalents), there is overwhelming evidence for a converging trend towards decentralization of collective bargaining, a process that began in the 1980s, was in some cases reversed, but grew more intense after 2000 and during the current recession.

Regarding bargaining coordination, not much of a trend was found, but, again, differences across countries are, and have remained, large. At higher levels of unionization and bargaining coverage, governments, employers' associations and union federations appear to invest more in the co-ordination of wage bargaining then in countries with limited bargaining coverage and weak union representation and power. High levels of coordination can be obtained through different mechanisms - social pacts, associational controls and agreements, trend setting or state action - and typically some of these mechanism combine.

Coordination appears to have taken replaced centralisation, especially in countries where bargaining during many decades after 1945 had occurred through national pay rounds. There is an important asymmetry, however: coordination can help to deliver wage restraint but, unlike centralisation, it cannot assure a common improvement for all, or bring relative gains for the weakest groups in the labour market. Coordination is therefore quite compatible with the observed trend in increased earnings inequality, whereas centralisation is not.

Judging by many indicators surveyed in this essay, wage-setting institutions are in a state of turmoil, change or outright crisis. This is particularly true for trade unions but applies no less to the key institution that has been around since the 19th century but became popularized in the 1930s and the reconstruction years after 1945: the nationwide sector agreement. National and industry-level bargaining is still practised in many industries and countries; it explains most of the high levels of coverage. But industry-level agreements have changed, in some cases beyond recognition and they are rapidly loosing the characteristics that were the hallmark of industrial unionism and issued during the previous great recession and years of post-war reconstruction.

In the transformation of the sector agreement and in the much greater role assigned to company and individual bargaining, we observe convergence throughout the sample. During the recent recession and under international pressure, the Southern members of the European Union have joined the trend. The question is whether this common trend toward decentralization and prioritizing of enterprise over sector bargaining will bring the end to all multi-employer bargaining and coordination? Will it also, together with the continued decline in unionization lead to a much narrower and selective coverage of collective bargaining? The shift to company bargaining as the main or more prominent level of pay setting, with or without sectoral rules; the use of opening clauses; union decline and the concentration of union representation in large firms, the public sector and employees in rather stable jobs with employment protection, collective bargaining systems evolve towards a more selective and exclusive representation and redistribution of rewards. This need not be manifested in a contraction of bargaining coverage, although in some cases, Germany most notably, it is.

Besides the issue of how wage setting institutions affect inequality, there is the question how they affect growth. Can the “wage problem” still be defined as how to assure that wage increases are moderate enough to assure adequate profit levels as the basis for current and future investment, yet high enough to sustain levels of demand consistent with growth and full employment? Is it the case that under the rules of decentralised yet coordinated wage setting only the first - moderate wages - can be delivered, but not the second - sustained demand consistent with growth and full employment? Wasn't that asymmetry the fundamental policy design mistake of the previous Great Recession?