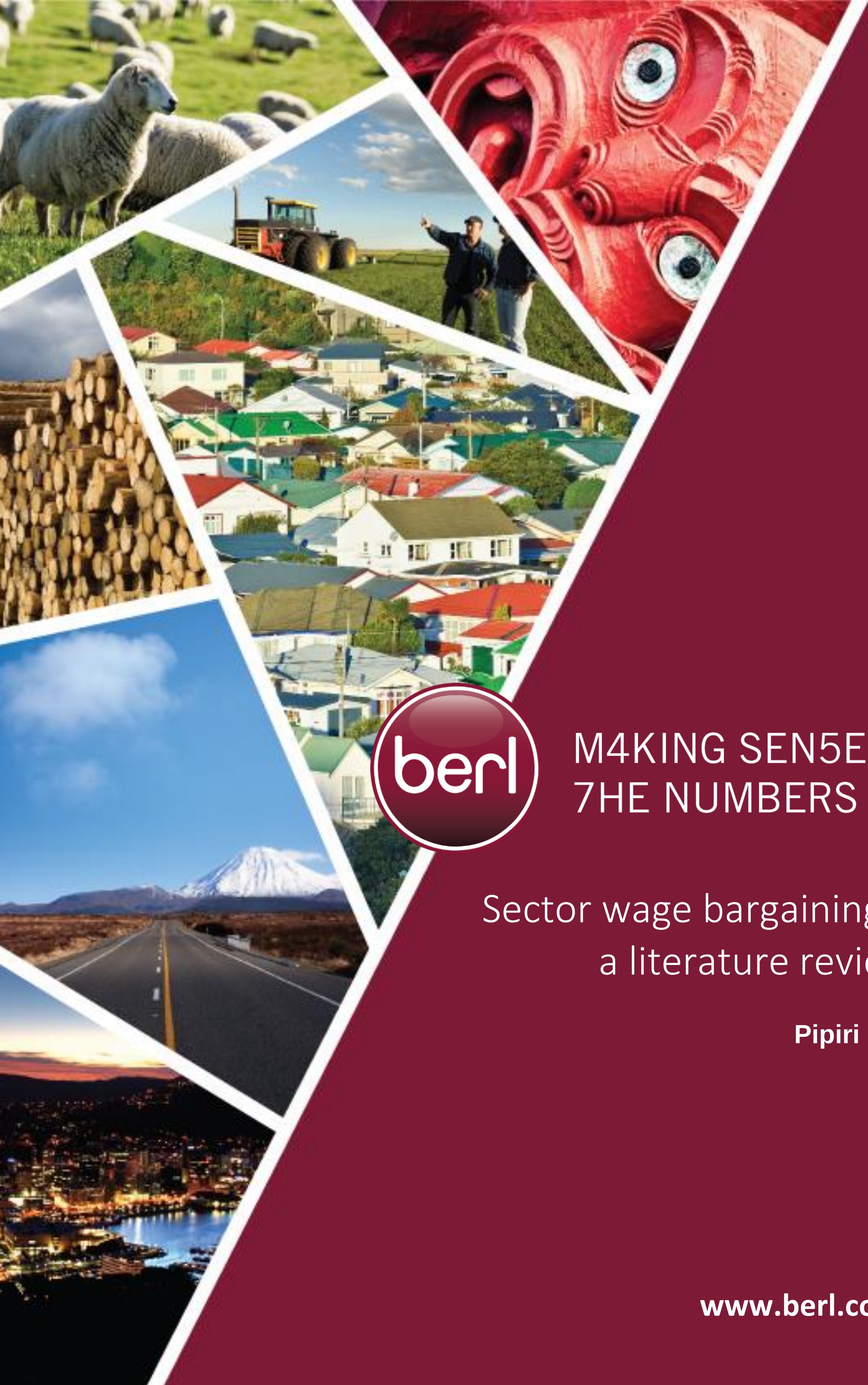

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Sector wage bargaining – a literature review

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Making sense of the numbers

Sector wage bargaining holds no fears for New Zealanders.

Notably, the OECD reversed its former (1990s) critical position. In 2006 the OECD conceded that evidence is equivocal about the relative merits of sector and enterprise collective bargaining models. The OECD concludes that, under conditions of efficient coordination, inclusive bargaining models can perform as good as the exclusive, decentralised systems.

Indeed, the latest view from the OECD, published in December 2018, goes further and argues there are better labour market outcomes from a system of *organised* decentralisation – comprising sector wage agreements providing a broad framework for firm-level bargaining of detailed provisions.

There is no consistent relationship evident between union activity and productivity. Relative economic benefits of individual contracts over collective contracts is also inconclusive. However, there is clear evidence that a growing gap between productivity and wage increases is associated with the erosion of collective bargaining.

In terms of functions, it is pertinent to consider the role of collective bargaining in setting employment conditions beyond wages. The OECD notes that collective bargaining also plays an important role in setting conditions relating to job security, working time regulation, quality of working environment, and provision and access to training.

Consequently, collective sector bargaining can be seen to provide a governance mechanism that effectively regulates the power and competitiveness between workers and employers. This has potential advantages for individual workers as well as small firms that have limited capacity or capability to invest in such negotiation structures. In addition, there is little evidence to suggest a loss of productivity from sector wage bargaining, there is a potential to shift investment focus towards non-labour elements of the productivity story. By limiting competition on wages and working conditions, a focus (and investment) on quality and innovation-based economic activities may be fostered.

In addition, collective sector bargaining potentially provides wider society with merits that individual contract bargaining does not. Benefits, depending on social and political priorities of the day, can arise for example for

- national policy objectives (e.g. employment health and safety)
- social pacts such as equal pay for equal work
- inclusiveness objectives
- an appropriate allocation of productivity gains to labour.

collective sector bargaining potentially provides wider society with merits that individual contract bargaining does not

OECD 2018 view

The latest (2018) OECD Job Strategy titled *Good Jobs for All in a Changing World of Work* signals a further strengthening of their view of a positive role for government, wage-setting institutions and social dialogue in achieving improved labour market outcomes. The interaction with macro-economic conditions, minimum wages and labour taxes is also noted.

collective bargaining and social dialogue play a potentially central role for most if not all aspects of labour market performance
2018 OECD Jobs Strategy

Interestingly, the OECD points specifically to the potentially central role for collective bargaining and social dialogue in delivering positive labour market performances. Additionally, the OECD notes that labour market performance includes wage and non-wage working conditions, employment and unemployment, as well as inequality and productivity outcomes.

The prominence of inequality and the distribution of gains is clear in the latest OECD view, with the integration of the new Jobs Strategy into the OECD Inclusive Growth Initiative. That initiative explicitly points to the need for inclusive markets to recognise the need for "well-functioning markets *as well as* additional measures to ensure that everybody can participate fully in society" (emphasis added).

> *organised decentralisation … tends to deliver good employment performance, better productivity outcomes and higher wages …. other forms of decentralisation that simply replace sector- with firm-level bargaining tend to be associated with somewhat poorer labour market outcomes*
>
> *2018 OECD Jobs Strategy*

Consequently, in the *Promoting fair wages and labour taxes* chapter of its latest Strategy, the OECD point to the role of wage-setting institutions to support a broad sharing of productivity gains.

The OECD now favours sector wage bargaining over firm level decentralised bargaining as providing better labour market outcomes. The OECD prefers the term *organised* decentralisation (original emphasis), and implicitly sees this approach as a means to extract the positive elements from both systems – collective bargaining and decentralised wage setting. In particular, it (organised decentralisation) acts to neutralise the 'race to the bottom' feature of an unfettered decentralised system.

In this context, the OECD is now more than comfortable with the role of sector wage bargaining (or sector-level agreements) as setting a broad framework for working conditions, within which firm-level bargaining can negotiate the more detailed provisions. This framework provides sufficient flexibility for productivity growth while enabling a broad sharing of gains.

Decline in collective sector wage bargaining

Recent history has seen a decline in collective wage bargaining (and sectoral wage bargaining) that was driven by political preferences and the desire to permanently opt out of agreements for workplace relations in the face of temporary recession. That is the prerogative of the electorate. Systems of collective bargaining allow this opting out in extreme conditions (such as the 2008 Great Recession).

Apart from political will, there is no reason for temporary events to determine long-run workplace conditions. The OECD says there is no evidential basis for this change.

We conclude that changes to collective wage bargaining are subject to political, rather than economic bases. This appears to be the view of the OECD.

Researchers have observed severe detriments arising from the decline of collective bargaining, including increases in wage inequality, lessening of labour share of productivity gains and a lessening of social dialogue.

Frameworks

Collective sector wage bargaining is concerned with the level of bargaining, being at the sector or industry level. It is also influenced by the degree of flexibility in agreements. Such flexibility can enable considerable variation between individual firm level agreements within a sector level framework. Further, there is the scope for opting out of certain provisions, together with opening clauses that provide a contingency to temporarily suspend the agreements in cases of hardship, such as for recessions. In addition, the degree of coordination between the various levels of actors and the capacity to enforce agreements, also influence collective bargaining at the sector level.

Current state

Bargaining coverage of the workforce is reliant on public policy and the willingness of employers to negotiate. Given these are supportive, the centralisation of bargaining, such as at the sector level is challenged by

i) the forces of globalisation

ii) the changing organisational nature of firms

iii) increases in business volatility.

Coordination of bargaining is prevalent in cases of high union coverage and high unionisation. International practice (in high income countries) is about evenly split between multi-employer bargaining and single employer bargaining.

Sector specificity

The rationale for sector-based collective agreements stems from product market differences for different industries, as well as differences in occupational types; training management within an industry; and the treatment of special types of workers such as apprentices and youth.

Economic impacts

Evidence over 20 years indicates that, the impact on a nation's economic performance of collective sector wage bargaining is no better or worse than that from individual contract negotiations

Collective sector wage bargaining provides a governance mechanism that effectively regulates the power and competitiveness between workers and employers, due in large part to the countervailing power of unions.

Collective sector wage bargaining does achieve a wage mark up. At the same time there is no conclusive evidence for the impact of this on the productivity of firms. However, it is believed to foster conditions for firms in the economy, that are conducive to sustainable productivity growth, such as by excluding wage setting from the levers available for increasing productivity.

There is clear evidence that increases in the disparity between productivity increases and wage increases are associated with the erosion of collective bargaining. In the case of New Zealand, this disparity in the 1990s is attributed in large part to the introduction of the Employment Contracts Act (1991).

Evidence over 20 years indicates that under the right conditions, the impact on a nation's economic performance (narrowly defined and, in particular, excluding distributional considerations) of collective sector wage bargaining is no better or worse than that from individual contract negotiations.

Contents

1 Purpose

This report is a literature review of selected reports to present the main views in the literature on the merits of collective sector wage bargaining. The reports reviewed were prepared by leading authors and organisations concerned with workplace research.

The New Zealand Council of Trade Unions *Te Kauae Kaimah* (CTU) requires a report from BERL that assesses industry (or "sector") bargaining on the basis of its potential benefits to New Zealand workers, New Zealand businesses, and the New Zealand economy.

Following the literature review, we provide a summary of key points including an assessment of the general effect of industry bargaining on

- wage growth/wage paths
- labour and capital productivity
- social wellbeing/inequality
- domestic economic growth

1.1 Addendum – OECD latest perspective

The body of this report was completed in the final months of 2018. However, the latest *OECD Jobs Strategy* published in December 2018 contained updated and refined perspectives from the OECD on the labour market. Entitled the *Good Jobs for All in a Changing World of Work*, stresses the importance of inclusiveness and that

… the fruits of growth are broadly shared.

… The new OECD Jobs Strategy is more comprehensive in scope and forward looking in outlook than previous OECD Jobs Strategies, putting a well-functioning labour market at the centre stage of inclusive growth.

… The main message of the new OECD Jobs Strategy is that while policies to support flexibility in product and labour markets are needed for growth, they are not sufficient to simultaneously deliver good outcomes in terms of job quantity, job quality and inclusiveness. This also requires policies and institutions to promote job quality and inclusiveness, which are often more effective when supported by the social partners.

… [the OECD Jobs Strategy] is based on new evidence that shows that countries with policies and institutions that promote job quality, job quantity and greater inclusiveness perform better than countries where the focus of policy is predominantly on enhancing (or preserving) market flexibility. In other words, it is necessary to combine policies that encourage economic growth with policies and work practices agreed by the social partners that foster inclusiveness and protect workers.

Our report has incorporated some of the messages accordingly, but given the significance of this refinement of OECD perspectives we have reviewed its comments on wage setting in a separate section – see section 3.

2 Collective sector wage bargaining

In this chapter, we

- present a definition of collective sector wage bargaining
- outline the case that the decline in collective wage bargaining has been driven by political change, rather than economic rationale by reference to the work of Visser (2016)
- present two clear detriments for workers, firms and the economy from this trend
- summarise the findings.

2.1 Definition

Collective bargaining[1] is the process of negotiation between a trade union (or several) on the one hand and an employer (or several) on the other to try to agree the terms and conditions for the workers concerned.

Collective bargaining can take place at the level of the workplace, or the enterprise (which may be several workplaces) or it might be in respect of several employers in a district.

When collective bargaining takes place for an entire industry nationally, covering all the workers and all the employers in it, it is referred to as collective sector wage bargaining.

2.2 Decline of collective bargaining

2.2.1 Prevalent in Western Europe and the USA from the 1930s

Visser (2016) reports that collective bargaining was widely prevalent in industrialised economies since the 1930s, but took a downturn after the Great Recession (following the global financial crisis of 2008). This observation is significant, because as we shall see below, collective bargaining systems have the potential to allow relaxation of bargaining conditions (so called "opening clauses"). Hence recession of itself does not necessarily justify permanent termination of collective bargaining. Visser explains:

Collective bargaining and many of its underpinning laws and institutions are the product of major crises, not least the Great Depression of the 1930s, which became the inspiration for multi-employer bargaining and the rules that for half a century and longer ensured wide-ranging coverage of wage agreements. In the United States these were the founding years of industrial unions organizing across firms in mass production industries. In post-war Western Europe multi-employer bargaining at national and sectoral levels became the cornerstone not only of wage setting but also of labour market regulation more generally. After 1989 the labour laws in post-communist Europe made explicitly room for multi-employer bargaining. Although collective bargaining changed in many ways both in content and structure, the multi-employer nature of bargaining remained remarkably stable, at least in continental Western Europe and until the Great Recession.

2.2.2 Impact of the Great Recession

During the Great Recession, many industrialised nations were reliant on external finance organisations, who preferred a certain formula for industrial relations that weakened support for collective bargaining. Importantly, such support has never been restored. Visser notes:

The recommendations of the Euro-Plus Pact of March 2011, the supervisory mechanism in the 'Six Pack' of regulations on economic governance adopted by the European Council in October 2011, and the Memoranda of

[1] http://www.ier.org.uk/blog/ier-fact-news-what-sectoral-collective-bargaining

Understanding between the troika of European and international institutions (the European Central Bank, the European Commission and the International Monetary Fund) and national governments in countries receiving financial assistance, goes invariably in the direction of reforms that weaken multi-employer bargaining and coordination across bargaining units. This is the exact opposite of the lessons and policies with which the industrialised democracies had tried to defeat the economic and political misery and upheavals of the 1930s and 1940s.

2.2.3 Evidence supporting significant changes inconclusive

Visser questions the veracity of the evidence for such termination of support for collective bargaining. These doubts are also held by the OECD (below).

Undoubtedly, labour markets changed in these eighty years - more technology, education, women, and probably also more rights and democracy in the workplace, as well as fiercer international competition on a global scale and intensely restless financial movements and interests - but one wonders how strong the evidence against multi-employer bargaining is that the destruction of its supporting institutions is currently taken for granted by so many governments.

2.2.4 Rapid decline in collective wage bargaining underpinned by political choice

Visser makes the point that, with evidence lacking, the decline in collective wage bargaining was a political choice. Such political change is clearly evidenced by the rapid change upon change of government in the United Kingdom, New Zealand and other nations.

In the 1980s the United Kingdom had been the first and only European country with a government determined to end the prevailing system of multi-employer bargaining. Its approach had been preceded in the USA and found followers in New Zealand and Australia, but none in Europe.

2.2.5 OECD favoured less collective sectoral wage bargaining in 1990s

In the 1990s, the OECD advocated a lesser emphasis on collective bargaining in workplace relations frameworks.

In the 1990s as part of its 'Jobs Strategy', the OECD advised its members to "refocus collective bargaining at sectoral level to framework agreements, in order to give firms more leeway to adjust wages to local conditions; introduce opening clauses for local bargaining parties to renegotiate sector agreements; (and) phase out administrative extension" (OECD 1994). These are the policies advocated, with more coercion, by the international institutions (IMF, EU, ECB) as part of their financial assistance programs during the current recession and sovereign debt crisis.

2.2.6 OECD reversed its position during mid-2000s

By 2006, in a reversal of its former position, the OECD conceded that evidence is equivocal about the relative merits of sectoral and enterprise collective bargaining models

Ten or fifteen years ago the OECD's advice had no takers (OECD 1999) and in a follow up analysis in 2004 the organization admitted that the evidence had probably not been as straightforward and convincing as had been presented in the 1994 study (OECD 2004). In addition to "persistent doubts concerning the efficacy of the policy recommendations" (OECD 2004:132), the organization conceded that the general trends of rising wage inequality and persistence of low pay had made governments wary of instituting reforms that tend to make such trends worse (ibid.). The OECD also noted that the power of governments in this policy domain is often limited, not only because of union opposition, but also because wage-setting institutions "are deeply embedded in the social and *economic fabric" of member states (ibid.). Apparently, it needs a severe crisis and much international pressure to disembed wage bargaining institutions.*

In its final evaluation of the Jobs Strategy, the OECD concluded that under conditions of efficient coordination inclusive bargaining models (based on wide-ranging coverage, achieved with some form of centralised or coordinated bargaining, the help of administrative extension, and/or high rates of unionisation) can perform as good as the exclusive, decentralised systems it had initially recommended (OECD 2006).

As discussed in section 3, the latest (2018) OECD Jobs Strategy sees collective bargaining playing a role in helping an inclusive labour market with benefits shared more broadly. In particular

… *Wage-setting institutions can help avoid that the proceeds of productive labour disproportionately go to capital.*

Indeed, the latest Jobs Strategy comprises a conceptual framework to *"enhance inclusive growth and well-being"* with pillars of

- More and better jobs
- Labour market inclusiveness
- Resilience and adaptability

This sees a positive role for wage-setting and labour market institutions including collective bargaining.

2.2.7 Trend away since GFC

Visser sees the Great Recession as a step change that intensified the trend away from collective sector wage bargaining.

The Great Recession and its aftermath intensified rather than changed developments in wage bargaining institutions, like decreasing bargaining coverage, lower unionization levels, and decentralisation of wage bargaining. The regulatory changes, concentrated in Southern and Eastern Europe, contributed to what appears to be a convergent global trend to "restoring market control by making the basis for organised interests smaller and more exclusive" (Goldthorpe 1984: 330), a trend in which European wage bargaining institutions become more similar to what is the norm outside Europe.

2.2.8 External financial institutions pressure to favour enterprise-based bargaining

Visser notes that political change was likely influenced by expedience to adhere to policy formulae of external finance institutions.

In one aspect - state intervention and the conspicuous absence of social pacts – the Great Recession appears to present a political break with developments since the 1990s, however. The European Commission's most recent report on Industrial Relations in Europe (EC 2015) notes that as regards state intervention in wage setting, there is no overall common trend across EU Member States. Whereas before the crisis there were signs of less direct state intervention both inside and outside Europe, during the Recession governments in Europe have become more involved in wage-setting. Again, this is especially true for EU Member States receiving external financial support, such as Romania, Greece, Portugal and Spain, where government interventions have reduced the scope for collective bargaining and pushed disorganised decentralisation. In Italy, under pressure of the European Central Bank, the government tried to force change upon employers and unions, and in Belgium and Luxembourg, over the issue of indexation, governments were under pressure of the European Commission, though in Belgium and Italy the unions were less easily pushed aside. But generally in these and other countries where the rules on minimum wage setting, extension, treatment of expired agreements, enterprise agreements, hierarchy of bargaining levels, union recognition and opening clauses have been changed, "government imposition was a more *prevalent institutional source of change than negotiation between employers and trade unions for a larger number of changes" (Marginson and Welz 2014).*

2.3 The case of New Zealand

Visser observes that the Employment Contracts Act (1991) led to a great decline in collective sector wage agreements. Sudden termination of regulations and institutions supportive of collective sector wage bargaining was a political decision, that does not appear to have been based on evidential grounds.

New Zealand and Australia are instructive cases for studying the effects of the withdrawal of government and employer support for multi-employer bargaining. Traxler, Blaschke, and Kittel (2000) call New Zealand "the only case of a purely discretionary fall in bargaining coverage. Awards, extension provisions, and unions' monopoly on bargaining rights were repealed with the passage of the 1991 legislation" The 1991 Employment Contracts Act removed the employer's duty to bargain with trade unions, gave equal weight to non-union agents and made individual employment contracting the primary base from employment (Harbridge, 1993). "the ECA destroyed socially determined wages by limiting the arbitration courts jurisdiction to the interpretation of employment contracts, eliminating unions in sectors where workers were least able to organise themselves, eliminating automatic transmission of wage increases through general wage orders and clauses on relative wages, and allowing employers to avoid collective bargaining entirely….After 1991 unions representing workers with weak labour market positions – like those in agriculture, construction, retail, wholesale, accommodation, and restaurants – simply collapsed…Multi-employer contracts fell from 77 percent to 20 percent of all contracts, and individual contracts and wage scales became common even in the public sector."(Schwarz 2000). "Prior to the 1990s, the enterprise bargains affected 25 percent of all workers, in contrast to 40 percent by industry (Schwarz, 2000). By 2000 multi-employer bargaining coverage had decreased from 61 percent in1990 to 25 percent in 1997 and 18 percent in 2010.

Institutional destruction is often irreversible, examples of creating collective institutions in the labour market, perhaps without their original faults, are unknown to me. The incoming Labour government of New Zealand passed a new Industrial Relations Act in 2000, which gave some support to unions and collective bargaining, but this has not brought back multi-employer bargaining or institutionalised union representation in the workplace.

2.4 Detriments from trend in collective wage bargaining

Visser reports that there have been detriments arising from the decline of collective bargaining and we note two here. Firstly, there has been an associated decline in social dialogue between governments, trade unions and employers' associations. Secondly, wage inequalities have grown. Lack of dialogue creates information asymmetry (different certainties and doubts) of actors and this translates into wage setting. The big question is whether this is the desired outcome by both employers and employees. The reliance on award systems discussed below suggests that this is not the desired outcome.

2.4.1 Decline in social dialogue

This stands in contrast to the trend towards more social dialogue and search for concerted policies in the years prior to the Great Recession, both inside and outside Europe (Fraile and Baccaro 2010; Avdagić et al. 2011). Social pacts, defined as policy contracts between governments, trade unions and employers' associations over wage, labour market and welfare policies, had been rediscovered in the 1990s as instruments to gain the support of unions for wage moderation and reforms in wage setting, for instance in preparation of a common monetary policy and currency (Pochet and Fajertag 2000). Considering cases as different as Slovenia, Poland, South Korea and Chile, Fraile and Baccaro (2010) find support for the hypothesis that these pacts, while not changing the (neo-liberal) direction of change moderated its pace, provided compensation for those groups and interests that were *losing due to changes and thus made reform more politically sustainable. During the Great Recession wage setting reform pacts are conspicuous by their absence and international pressure appears to have substituted for the search for domestic consensus.*

This conclusion is supported by the finding that in the countries hit hardest during the recession and with the largest number of regulatory changes, wage bargaining coordination has more or less disappeared.

2.4.2 Wage inequalities

This shrinkage of collective representation and bargaining is the expression of, and a contribution to, the observed rise in inequalities in the labour market and in society (Jaumotte and Buitron 2015).

The GFC has sharpened the divide between a smaller group of countries with more cohesive and coordinated industrial relations and wage bargaining institutions, and lower inequality levels, and a larger group of countries where 'markets make policies', wage bargaining institutions are divisive and uncoordinated, and income inequality levels are higher.

2.5 Summary

Recent history has seen a decline in collective wage bargaining (and sectoral wage bargaining) that was driven by political preferences and the desire to permanently opt out of agreements for workplace relations in the face of temporary recession. That is the prerogative of the electorate. Systems of collective bargaining allow this opting out in extreme conditions (such as the Great Recession).

Apart from political will, there is no reason for temporary events to determine long-run workplace conditions. The OECD says there is no evidential basis for this change.

We conclude that changes to collective wage bargaining are subject to political, rather than economic bases. This appears to be the view of the OECD.

Researchers have observed severe detriments arising from the decline of collective bargaining, including increases in wage inequality, lessening of labour share of productivity gains and a lessening of social dialogue.

3 Wage setting – the 2018 OECD view

The 2018 OECD view sets the tone for a revisiting of the objective of wage setting, collective bargaining, and indeed the labour market itself. Set within the context of the growing gap between productivity gains and real returns to labour and its own Inclusive Growth Initiative motivated by

… persistently high inequalities of income, wealth and well-being and the slowdown in productivity growth are undermining social mobility, holding back progress in living standards and threatening political stability.

The OECD's Inclusive Growth Initiative rests on the following four pillars:

- shared prosperity
- inclusive markets
- equality of opportunities
- inclusive growth governance.

In terms of the topic of this note, most relevant is the inclusive markets pillar. In particular, the observation that the importance of well-functioning markets and that inclusive markets require more than flexibility. While flexibility is recognised as necessary to achieve good economic and labour market performance, there is a need for supporting public policies to promote more and better jobs *for all*.

From that stepping stone, it is informative that Part II of the 2018 Jobs Strategy is headlined *More and better jobs*. Within this Part is Chapter 8 entitled *Promoting fair wages and labour taxes*. In this Chapter the OECD notes that while it sees productivity growth as critical for rising living standards, there is no guarantee that productivity growth translates into higher wages and better conditions for workers. Consequently, there is a positive role for government, wage-setting institutions, social dialogue and the interaction with minimum wages and labour taxes. Interestingly, the OECD points specifically to the role of collective bargaining.

… collective bargaining and social dialogue play a potentially central role for most, if not all, aspects of labour market performance.

Further, labour market performance includes wage and non-wage working conditions, employment and unemployment, as well as inequality and productivity outcomes.

Additionally, the OECD particularly finds that, coordinated [bargaining] systems help deliver both better employment and unemployment outcomes than fully decentralised systems like New Zealand. This finding allows for a "*more granular characterisation of national collective bargaining systems*". In other words, national collective bargaining systems can still incorporate differing degrees of coverage, and levels of bargaining, as well as wage coordination and degrees of flexibility for firms. Furthermore

… coordinated systems are associated with lower unemployment for vulnerable groups, including youth and low-skilled workers as well as women.

Although not explicit, the OECD draws a difference between *centralised* and *coordinated*. Centralised systems reduce flexibility and have potential negative impacts on productivity growth. Coordinated systems, reduces wage dispersion and average wage differences between sectors. On balance, the OECD indicates that research favours sector- over firm-level bargaining in terms of achieving better labour market outcomes. Consequently, the OECD concludes:

*…**organised** decentralisation which allows sector-level agreements to 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 decentralisation that simply replace*

sector- with firm-level bargaining tend to be associated with somewhat poorer labour market outcomes. (original emphasis).

Adding the qualifier 'organised' to the description of decentralised wage negotiation appears to be an attempt to neutralise the 'race to the bottom' tendency of an unfettered decentralised system. Alternatively, it is an effort to extract the 'best' out of both systems – enabling firm-level flexibility within a sector-wide framework while also allowing for macro-economic conditions. As the quote indicates, the 'organised' dimension arises from the ability of sector wage negotiations to set a 'floor' (or broad framework) for conditions, but allows differences between firms to be settled in details in the fine print.

4 Frameworks for collective agreements

The context for collective sector wage bargaining is set within a framework of collective bargaining generally. This framework contains a number of building blocks. The text in this chapter on frameworks is drawn from the summary of the OECD (2017).

The OECD used detailed information collected through new OECD policy questionnaires that were addressed to Labour Ministries and social partners. This provides a detailed picture of collective bargaining systems by unpacking them into their different building blocks.

The OECD finds that different systems can achieve similar outcomes, while formally similar systems can lead to very different outcomes depending on the specific ways the system works in practice.

4.1 The functions of collective bargaining

The OECD says the following about the functions of collective bargaining:

Collective bargaining and, more generally workers' voice (the collective expressions of workers' interests with no proper bargaining prerogatives), aim at ensuring adequate conditions of employment (protective function), a fair share of the benefits of training, technology and productive growth (inclusive function) and social peace (conflict management function).

Collective bargaining is also a key tool of market control, i.e. reining wage competition between companies or, on the opposite, limiting the so-called "monopsony power" of firms which in some cases may profit from a lack of bargaining power of workers.

While often considered mainly as a wage setting institution, collective bargaining also plays an important role for setting other conditions of employment such as job security, working time regulation, quality of the working environment, provision and access to training, etc.

4.2 The main building blocks of collective bargaining

The OECD distinguishes types of collective agreements in terms of two main groups.

i) Degree of centralisation

ii) Governance

Centralisation depends on two characteristics.

i) Level of bargaining: firm; sectoral; national

ii) Degree of flexibility: extensions; opt-out and favourability principle.

Governance depends on two characteristics.

i) Degree of coordination: no coordination; coordination

ii) Enforcement capacity and quality of labour relations: poorly enforced (enforced) and/or low (high) quality of labour relations

In this review we are concerned with collective sectoral bargaining, but the wider framework is important because it also influences collective sectoral wage bargaining,

The OECD observes:

Characterising collective bargaining systems according to the (predominant) level at which collective agreements are negotiated (firm level, sector/branch level and the national/cross-sectoral level) and the degree of coordination within and between social partners as the sole variables of interest is not sufficient to reflect the granularity of the different systems, especially among those where bargaining predominantly takes place at sectoral level.

In this context, the OECD says that the following are relevant considerations.

- The representativeness of trade unions and employer organisations, as well as the share of workers covered by collective agreements, are key (but not the only ones) indicators of the strength of social partners and the scope of the bargaining systems.
- The rules and the spread of administrative extensions beyond the signatory parties are also examined as being critical devices for assessing more accurately the reach of collective agreements.
- The actual degree of centralisation or decentralisation which hinges also on the rules governing the hierarchy between the different levels and the possibility for firms to derogate or to opt-out in case of economic difficulties from higher level agreements or from their own agreement. In particular, systems based on sector level and national/cross-sectoral level bargaining can be centralised when they leave no or little room to modify the terms of agreements to lower level agreements; or they can be decentralised but in an organised way when firm-level agreements have a significant role in determining the terms of employment but they are subject to specific conditions set either by law or social partners themselves.
- The presence and degree of different forms of coordination within and between social partners is also very important for capturing whether more decentralised systems produce totally independent and atomised negotiations or if they ensure some synchronisation of different bargaining units when setting their strategy and targets.
- The enforcement capacity and the quality of labour relations, in particular the level of trust between social partners, the degree of enforcement of the terms set in collective agreements and the ability of employer organisations and trade unions to control the behaviour of their constituency at lower levels can make the difference between formally similar systems.

4.2.1 The actors

Trade union density has been declining steadily in most OECD and accession countries over the last three decades.

The OECD observes:

….only Iceland, Belgium and Spain have experienced a (very) small increase in trade union density since 1985 and Italy in the recent years. Technological and organisational changes, the decline of the manufacturing and public sectors, but also the increasing spread of flexible forms of contracts and policy reforms in several countries are among the main drivers behind this marked decline of trade union density in almost all OECD and accession countries.

Trade union density varies considerably across workforce groups. On average across OECD countries, public administrations workers are those most likely to be unionised …. but only represent 13% of total union members. Those working in the good-producing sector (mining, manufacturing, constructions and energy and electricity supply) and in social and personal services (including education and health) respectively represent 25 percent and 35 percent of total union members.

Only 7 percent of employees in small firms belong to a union on average across OECD countries, as union members tend to work in large and medium firms. Women and men show little difference in terms of their likelihood to be union members when employed.

Youth only represent 7 percent of total union members in the OECD area, and are the age group least likely to unionise in all countries. Union members tend to be medium or high skilled (around 40 percent of total union members in each group). Finally, union members in all OECD have overwhelmingly a permanent contract, with only 9 percent of them having a temporary contract.

Employers, business and employer organisations are the other key actors of collective bargaining, but much less is known about their membership and representativeness across OECD and accession countries. Differences across OECD countries in employer organisation density mirror partly those in trade union density even if not perfectly (the correlation between trade union density and employer organisation density is 0.55.

4.3 Level of centralisation

Since the late 1980s, several reforms promoted the decentralisation of collective bargaining in many OECD countries, i.e. gave more space to negotiations at the level of the company, the establishment or the workplace.

Decentralisation typically occurred in two ways: either directly through a replacement of national/sectoral agreements by enterprise agreements, or through a process of articulation/devolution within the national/sectoral agreements (Visser, 2016a and 2016b) allowing firm-level agreements to negotiate wage and working conditions within a general framework negotiated at higher level.

4.3.1 Flexibility

Articulation

Decentralisation can occur through articulation.

… It is where national or sectoral agreements define the broad framework but leave large scope for bargaining at the firm/establishment level (notably in Scandinavian countries or the Netherlands): sectors can either set minimum or standard terms of employment which employers can complement or deviate from at firm level; or allow workers and employers to choose "à la carte" and trade-off, if they want, wages against working conditions.

Opt-out clauses and the favourability principle

A second form of organised decentralisation is the one where national or sector agreements allow and define the conditions for deviations at lower levels via the so-called opening or opt-out clauses (Germany is probably the most notable example). However in other countries, formal regulatory changes in the bargaining structure have not resulted in a real shift of power to the firm level but rather in two-tier bargaining structures (Boeri, 2014).

Favourability principle

A critical element which defines the hierarchy between bargaining levels and the difference among systems is the existence of the so-called "favourability principle" which states that lower-level agreements can only improve the standards set in higher level agreements

In most continental European countries (e.g. Austria, Belgium, Germany, Italy, etc.), the favourability principle has traditionally applied and in practice continues to be the rule In the Scandinavian countries, Hungary, Korea, Latvia and the Netherlands, it is left to the negotiating parties which are then free to set lower standards if necessary.

Further, it is likely that union strength and social norms play a role in the outcomes of such arrangements.

4.3.2 Derogations and opt out clauses

A second key element which can differentiate countries with the same predominant level of agreement is the use of deviations practices.

In most European countries agreements at firm level can deviate from the terms set in the collective agreements. Deviations from higher level agreements can be distinguished in general opening clauses and temporary opt-out clauses (also called hardship clauses, or inability-to-pay clauses). General opening clauses allow firm-level agreements to deviate from the minima or the standards set in higher level agreements (for instance to decrease collectively-agreed wage floors, increase working time or change work organisation).

Opening clauses – and particularly, temporary hardship clauses – are often referred to as "safety valve" to avoid the "one-size-fits-all" sector-level agreements, notably to adapt to local or specific permanent conditions, or to respond swiftly to an unexpected shock and keep high the support for wide-reaching collective bargaining systems.

Small firms, which may be those most in need of some derogations from the terms set by collective agreements they have not negotiated, most often are not able to make use of derogations and opt-out clauses because they lack the capacity and/or worker representation.

4.4 Governance

4.4.1 Coordination

The term governance is often associated with control. More appropriately it is about development of outcomes. The OECD develops this theme for collective sector wage bargaining:

Bargaining coordination can be defined as integration or synchronization of pay policies of distinct bargaining units. See Visser (2013, p 23) and Visser (2016, p58).

It includes the possibilities discussed in the following paragraphs which can be top-down, as the "major players" definition suggests, or more collectively determined.

Coordination can happen between bargaining units at different levels (for instance when sector- or firm-level agreements follow the guidelines fixed by peak-level organisations or by a social pact) or between units at the same level (for instance when some sectors or companies follow the standards set in another sector/company).

At one extreme, coordination is strongest when it is based on strict statutory controls (this is called state-imposed coordination, and it occurs via indexation rules, binding minimum wages and/or rules for maximum uprates).

At the other extreme, coordination can also take the form of inter- or intra-associational guidelines where peak level organisations either set some norms or define an intra-associational objective that should be followed when bargaining at lower levels.

4.4.2 Enforcement of agreements and quality of labour relations

There are no comparable indicators on the level of enforcement across countries. However, the capacity of enforcement of each system – sometimes also referred to as "governability" (see Traxler, 2003; and OECD, 2004) – is likely to be related to the functioning of collective bargaining, historical developments and overall trust among social partners. The "enforceability" of agreements can also be fostered by regulating industrial actions with "peace clauses" ruling that unions which have signed an agreement, and their members, cannot lawfully strike on issues regulated in the agreement).

Mediation and arbitration procedures can also play a significant role in smoothing conflicts and helping finding an agreement within the framework of collective bargaining and therefore contribute to strengthen the overall governability of the system.

The trust that citizens have in unions also varies considerably across countries (data on trust in employer organisations are not available) and is correlated with the national level of trust in institutions more generally.

The level of cooperation and trust is the result of decades of history and is deeply rooted into broader societal and cultural factors.

Collective bargaining takes place in many forms and can occur between trade unions and an individual firm (single-employer bargaining) or between union federations and employer associations (multi-employer bargaining).

In most OECD and accession countries more than one form of worker representation can be found, often depending on the firm's size.

….in some OECD countries workers can also be represented on company boards. As such, board level worker representation is not collective bargaining, but it nevertheless can contribute to increase workers' voice, strengthen their bargaining power and potentially enhance cooperative attitudes by allowing workers to engage in the strategic choices of the company.

4.5 Summary

In summary we conclude that collective sector wage bargaining is concerned with the level of bargaining, being at the sector or industry level. It is also influenced by the degree of flexibility in agreements. Such flexibility can enable considerable variation between individual firm level agreements within a sector level framework. Further, there is the scope for opting out of certain provisions, together with opening clauses that provide a contingency to temporarily suspend the agreements in cases of hardship, such as for recessions. In addition, the degree of coordination between the various levels of actors and the capacity to enforce agreements, also influence collective bargaining at the sector level.

5 Current state of collective wage bargaining

This chapter presents selected evidence of Visser (2013) to describe the current state of collective bargaining, internationally, from a survey of national institutions. The evidence is derived from:

a thoroughly revised, expanded and updated version of the ICTWSS Database (Visser, 2013) organised in a county/year format..(that). includes data from 30 countries and allows, for most countries and variables, the construction of time series covering half a century (1960-2011).

Visser's essay is organised in three main sections

1) bargaining coverage
2) bargaining structure
3) bargaining coordination.

5.1 Bargaining coverage

Visser finds that internationally, bargaining coverage of the workforce is generally supported by the following conditions

1) Sectoral wage bargaining arrangements, and
2) EITHER
    - High level of employer organisation
    - Frequent extension of collective agreements to non-union members

    OR

    - High level of unionisation.

With the decline in unionism, public policy supporting employer organisation and extension of collective sector wage bargains, appears to be the only route to increasing collective sector wage bargaining.

Visser observes that:

there are two sets of conditions that lead to high bargaining coverage, of say 70 percent or more of all employed wage earners.

The first set, common in continental Western Europe, is based on the combination of three institutional variables: sector (or national) bargaining; a high level of employer organisation; and a frequent, though not necessarily "automatic" use of administrative extension of agreements. The three variables cannot be considered independent of each other…

..The second trajectory is much less common and found only in Northern Europe. Here the basis for a high coverage is sector (or national) bargaining; and a high level of unionisation.

The first trajectory is dependent on continuing state support; the second trajectory on the ability of unions to maintain high levels of membership and support.

….Crucial for both trajectories is the willingness of employers to continue negotiating agreements together at the sectoral or even cross-sectoral level. …..High coverage levels will continue to depend on public policy, at least a non-reversal of past policies of open or tacit support for collective bargaining. Where a political break with the past did take place, coverage has decreased dramatically, as in the examples of the U.K., New Zealand and Australia have shown. Recent events in countries like Ireland, Portugal and Greece depending on international

financial assistance show that public policy support for collective bargaining is not at all self evident, and may be reversed into open discouragement, and severe narrowing of extension.

5.2 Bargaining structure

Visser observes that:

….there are some major and persistent differences in the organisation of bargaining, especially in the choice of bargaining levels (enterprise, sector, national) and the practice of single- or multi-tiered bargaining. Assembling 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 decentralisation of collective bargaining, a process that began in the 1980s, was in some cases reversed, but grew more intense after 2000 and during the (recession following the GFC).

Visser explains that there are three main factors that explain this decline:

1) globalisation leading to capital and labour mobility

… due to increased international competition (both on the side of capital and labour, the latter through "cheap labour" migration), the ability of sector or industry agreements to create a level playing field and prevent low wage competition has greatly diminished

2) changes in the organisational nature of the firm that takes its operations outside sector agreements and reduced their relevance

changes in the organisational operation of the firm and management of labour (diversification of the firm's activities, non-wage aspects of human resource management, increased role for social policy above state guaranteed level) have decreased the relative advantages of sector agreements and have created a mismatch between the sector agreement and the firm's activities.

3) increased international competition and increased financial and business volatility require rapid market adjustments, more easily negotiated at the enterprise level than at the sector level

…international competition and increased financial and business volatility have increased the importance of rapid readjustments to changing market conditions. Such readjustments appear easier to negotiate, and more readily imposed, at the enterprise than at the sector level. Firm-level agreements enveloped within sector agreements, under a peace clause and without a strict hierarchy of favourability, may be, from the employers' view, the best of two worlds. Unions tend to be caught between their principles and their members who, working in the larger firms, will do much to keep their jobs and the employment protection that comes with them.

5.3 Bargaining coordination

At higher levels of unionisation and bargaining coverage, governments, employers' associations and union federations appear to invest more in the coordination of wage bargaining than in countries with limited bargaining coverage and weak union representation and power. High levels of coordination can be obtained through different mechanisms – social pacts, associated controls and agreements, trend setting or state action – and typically some of these mechanisms combine.

In fourteen of the 30 countries in this sample, multi-employer bargaining at the sectoral (or higher) level is dominant; in twelve countries single employer bargaining at the company or plant level prevails. This division is rather stable. There are four cases of radical transformation: the United Kingdom, New Zealand, Australia and France. In the U.K. and New Zealand multi-employer bargaining more or less disappeared, in Australia it was relegated a much diminished role, in France it was transformed due to the much increased role of enterprise consultations and bargaining promoted by successive French governments after 1981.

5.4 Summary

Bargaining coverage of the workforce is reliant on public policy and the willingness of employers to negotiate. Given these are supportive, the centralisation of bargaining, such as at the sector level is challenged by

i) the forces of globalisation

ii) the changing organisational nature of firms

iii) increases in business volatility.

Coordination of bargaining is prevalent in cases of high union coverage and high unionisation.

International practice (in high-income countries) is about evenly split between multi-employer bargaining and single employer bargaining.

Visser notes that the OECD provides a classification of nations according to their levels of centralisation and coordination that demonstrates a quality of industry level bargaining present in most nations.

- Decentralization and little or no coordination : US, UK, Canada, New Zealand, Korea and Eastern Europe countries
- Combination of industry and company/plant level with little or no pattern-setting : France, Australia and Slovak Republic
- Industry-level predominant and with irregular pattern-setting and moderate coordination : Spain and Sweden
- Industry-level predominant with informal coordination or organized by the government : Germany and Netherlands
- Predominantly industry with recurrent central-level agreements and informal coordination : Ireland and Portugal
- Central level (mostly) and strong coordination, by union confederations or the government : Finland and Norway

6 Sector specificity important for collective agreements

In this chapter, we refer to the survey-based research of the Australian Fair Work Commission by Wright and Buchanan (2013) which shows how reliance of wage bargaining on Awards in Australia is sector-specific. An award is an enforceable document containing minimum terms and conditions of employment in addition to any legislated minimum terms. In general, an award applies to employees in a particular industry or occupation and is used as the benchmark for assessing enterprise agreements before approval. The Fair Work Commission in Australia has responsibility for making and varying awards in the national workplace relations system.

For our purpose of understanding the sector relevance of collective wage bargaining, this research demonstrates that collective bargaining agreements have important commonalities at the sector level in terms of

- organisations
- workers
- business characteristics
- business cycles.

Observing these commonalities in collective wage bargaining enable the framework conditions (outlined above) to be effective. This supports the case for collective wage bargaining at the sector level.

We then note the benefits of sector-based agreements for employers and firms and conclude by observing that firm specificity can be important for particular reasons and can be accommodated with framework conditions noted above, within a collective sector arrangement.

6.1 Award relevance

The research by Wright and Buchanan (2013) shows the dominance of Award conditions in non-public sector industries.

The research determined that 25 percent of non-public sector organisations were award-reliant. Award reliance was found to be high among larger organisations. While it was estimated that 25 percent of organisations were award-reliant, more than half of all non-public sector organisations (52 percent) reported using awards in some way to set pay or guide pay decisions for at least one of the employees in their organisation, i.e. award-based.

Survey respondents from non-public sector award-reliant organisations were asked why their organisation sets pay rates at exactly the applicable rate specified in the award. The most common responses were that award rates were appropriate or fair remuneration (27 percent), award rates were affordable (21 percent), organisations did not want to pay higher than the award rate (18 percent), ease/simplicity or uncertainty about how much to pay above the award rate (15 percent) and that it was common practice in the industry or sector to pay at award rates (12 percent).

6.2 Sector characteristics

In the research by Wright and Buchanan (2013), all non-public sector award-reliant organisations were asked whether their award-reliant employees shared certain characteristics or employment arrangements.

More than one-fifth (21 percent) of non-public sector award-reliant organisations reported they paid award rates to employees in particular occupational groups. In addition, apprentices (15 percent) and casuals (13 percent) were commonly cited as typical categories of award-reliant employees. Around 10 percent of respondents said that there were no typical categories of award-reliant employees in their organisations.

Paying award rates to particular occupation groups and casuals were most commonly cited as the typical categories of award-reliant employees in nine of the 18 industries.

The industries with the highest proportion of respondents noting that they typically paid casuals at award rates were: Wholesale trade (38 percent); Manufacturing (29 percent); Public administration and safety (28 percent); and Arts and recreation services (28 percent).

The most commonly cited reason for paying award rates in the Construction industry was to pay apprentices, with two-fifths (40 percent) of all award-reliant organisations in this industry citing this as one of the reasons for paying award rates. Paying award rates to apprentices was also prevalent among award-reliant organisations in five other industries: Other services (38 percent); Financial and insurance services (28 percent); Electricity, gas, water and waste management (26 percent); Manufacturing (25 percent) and Mining (21 percent).

The employment of juniors was one of the most commonly cited reasons to pay award rates by organisations in Financial and insurance services (30 percent); Information media and telecommunications (28 percent); and Professional, scientific and technical services (18 percent).

One of the most commonly cited reasons for paying award rates in the Financial and insurance services industry (26 percent) was to pay employees at particular skill levels or with certain experience. This reason was also cited by a relatively high proportion of award-reliant organisations in Wholesale trade (20 percent); Information media and telecommunications (16 percent); and Professional, scientific and technical services (15 percent).

6.3 Importance to employers and unions

Brown (2001) describes the importance of collective sector bargaining to employers and unions. Collective sector wage agreements offer

- clarity for employers on productivity drivers in product markets
- improved management of worker training that is industry relevant
- lower vulnerability to workers and firms from isolated wage negotiations.

The most critical question facing employers is whether they should bargain as a united group, with an industry-wide agreement, or whether they should bargain independently, concluding agreements that are exclusive to some or all of their own employees. The attraction of industry-wide bargaining arrangements comes from their potential to encompass whole product markets at regional or national level. From the early days of collective bargaining both unions and employers have appreciated the chance this offers to pass on some of the cost of wage rises in price rises, traditionally referred to as 'taking wages out of competition'.

For unions, industry-wide bargaining has the attraction of establishing the notion of the 'rate for the job' and of encouraging the identification of their members with their wider occupational and labour market collective interests beyond the individual firm. It avoids some of the vulnerability of a workforce that bargains with its firm in isolation.

For employers, besides the protection against being picked off by unions separately, there are additional benefits that have strong productivity implications. These are, first, that industry-wide agreements tend to reduce the influence of the union within the workplace and thus limit union impact upon detailed job control. Second, industry-wide agreements, with their accompanying standardization of job descriptions, make easier the industry-wide management of training which helps deal with the problem of 'free-riding' employers who do not train.

6.4 Flexibility for firm specificity

We note that firm-specific features can be accommodated in sector agreements, using flexibility in framework conditions as discussed above. As Martins (2014) observes, the combination of minimum pay levels and other working conditions that follows from a collective agreement, namely in terms of rent sharing may not be appropriate for all firms and workers in a sector. In particular, smaller or new firms may target different segments of the product market, which imply different optimal settings in terms of working conditions, especially in a context of globalisation and technological change.

6.5 Summary

In summary, the rationale for sector-based collective agreements stems from product market differences for different industries, as well as differences in occupational types; training management within an industry; and the treatment of special types of workers such as apprentices and youth.

7 Micro and macroeconomic impacts

This chapter discusses the ways by which the governance mechanisms of collective wage bargaining can effectively regulate the power and competitiveness between workers and employers, due in large part to the countervailing power of unions.

We discuss the result that while evidence shows collective sector wage bargaining does achieve a wage mark up, there is no conclusive evidence for the impact of it on the productivity of firms. There is, however, an indirect effect.

There is clear evidence that increases in the disparity between productivity increases and wage increases are associated with the erosion of collective bargaining. In the case of New Zealand, the fall in wage levels in the 1990s is attributed in large part to the introduction of the Employment Contracts Act (1991).

We restate the OECD finding that evidence for a favourable macroeconomic impact of wage bargaining is equivocal between collective sector models and individual models.

7.1 Remedy labour market failure

7.1.1 Countervailing power of unions as remedy to asymmetry

Aidt and Tzannatos (2002) observe that the existence of unions arises from the asymmetry in contracting between individual workers and employers, the concern for basic workers' rights, and the different perceptions about the merits of employment relations governed by individual contracts or collective agreements. They argue that unions, through collective bargaining can remedy this asymmetry in bargaining power between employers and workers.

Relevant to our present concern with collective wage bargaining, the authors contrast a unionized labour market to one characterized by the atomistic, perfectly competitive structure that ensures that individual workers choose whether or not to work by comparing the given perfectly competitive wage with the marginal utility of nonmarket activity.

They observe that without unionisation, the labour market, by itself may not resemble an underlying perfectly competitive situation. Instead, they suggest, it may expose market imperfections on the labour demand side in the form of monopsony, that is, a situation in which there is only one buyer of the relevant labour services. Hence, they conclude, policy decisions whose central objective is the "return" to a perfectly competitive labour market (with all its well-known potential benefits) can succeed only if they are accompanied by policies designed to free up the demand side of the market.

Indeed, they suggest that the presence of unions in such circumstances may offer a second-best alternative to free competition. In this case, the countervailing influence of unions may result in a set of outcomes closer to the competitive equilibrium than those that would result from competition on the supply side of the labour market and monopsony on the demand side.

7.1.2 Unions can mitigate lack of supply competition

The authors argue that the presence of unions may also mitigate the power of insiders - for example, workers with specific skills or those protected by high turnover costs to raise wages above the competitive level. Coupled with the empowerment (or "voice") given to workers, these benefits from checking labour supply, lead the authors to conclude that that theoretical reasoning does not allow them to reach unambiguous conclusions about the net benefits (or cost) of unions. They say that whether collective bargaining contributes to the achievement of desirable economic outcomes or it prevents the market from doing its job is, at the end of the day, an empirical question.

This accords with the view of the OECD (above) on the comparison of centralised and decentralised bargaining frameworks.

7.2 A wage mark-up

Aidt and Tzannatos (2002) describe how certain factors in the design of the collective bargaining framework may influence the size of the wage markup achieved. The authors consider evidence from the United States and the United Kingdom, as well as from other industrial countries and some developing countries.

For developed and undeveloped nations, collective bargaining by unions generally achieves wage mark-ups for members covered by collective agreements as well as non-members by extension.

According to the authors, these results are very robust.

- Union members and other workers covered by collective agreements in industrial as well as in developing countries do, on average, get a wage markup over their nonunionized (or uncovered) counterparts.
- The markup is somewhat larger in the United States (15 percent) than in most other industrial countries (5 to 10 percent). In developing and middle-income countries, the markup can be higher or lower.
- Unions compress the wage distribution. In particular, the wage differentials between skilled and unskilled workers and the private return to education are reduced when unions are present.
- One, albeit incomplete, way to assess the adverse effects of unions is to evaluate the welfare loss that the wage markup creates through the misallocation of resources in the whole economy. In general, these effects have been found to be small and of comparable magnitude to the deadweight loss arising from monopolies in product markets-no more than 0.2 to 0.5 percent of gross domestic product (GDP).
- The size of the wage markup depends on a variety of worker and workplace characteristics. These include the following: gender; race; public or private sector; economic environment.
- The size of the wage markup also depends on the specific aspects of how collective bargaining is organized, and from the evidence it is possible to identify particular aspects of industrial relations that add to the markup.
    - Industries with high overall union density tend to have a higher wage markup.
    - Although in some countries, such as Malaysia and the United States, industry-level collective bargaining is associated with a higher markup than firm-level bargaining, this is not so in other countries. For example, recent studies from the United Kingdom fail to find a difference.
    - Multiunionism at the firm level (when different unions compete to recruit or organize the same workers) does not lead to a higher markup per se. However, evidence from the United Kingdom shows that the markup is high in multiunion firms that negotiate separately with each union.
    - Pre-entry closed shops (union membership is a prerequisite to obtain employment) but not post-entry closed shops (union membership is required after hiring) are associated with an additional wage markup. Again, this evidence comes from the United Kingdom only.

7.3 Firm productivity and collective bargaining

7.3.1 General findings

Peetz (2012) observes that the general consensus of researchers who have reviewed the literature over the past twenty years is that there is no consistent relationship evident between unions and productivity. The impact depends on circumstances specific to each case.

Peetz reports that New Zealand workplace researchers (Gilson and Wagar, 1997) reported that they could find no 'significant or reliable relationship between organisations pursuing individual contracts and their exhaustive measures of firm performance'. This helps to explain why the Employment Contracts Act (1991), often perceived at the time as unlocking productivity gains, was associated with no higher growth in labour productivity than occurred in Australia over the same period.

A British study found that firms that derecognised unions and pursued individualisation 'did not gain any flexibility advantage over those that retained collective bargaining' (Brown et al. 1998).

A study of 'excellent workplaces' by researchers from the University of New South Wales found that whether employee representation was collective, or whether individual arrangements were in place, had no impact on whether workplaces could achieve excellent performance (Hull and Read 2003).

7.3.2 Enhancing sustainable firm productivity

Keune (2015) also reports that evidence for the relative economic benefits for firms from collective over individual contracts is inconclusive:

The microeconomic consequences of collective bargaining are context-specific, and although unions in both industrial and developing countries are successful in securing a wage markup for their members and other workers covered by collective agreements, no general conclusions about the net costs (or benefits) of unions can be reached. Depending on the economic, institutional, and political environment in which unions and employers interact, collective bargaining as opposed to individual contracting can contribute negatively or positively to the economic performance of firms and to the well-being of workers.

Notwithstanding the above inconclusive results, the productivity of firms in the economy can be fostered by collective bargaining. According to Streeck (1997) cited by Keune (2015):

One quality of multi-employer bargaining is that, by setting common (minimum) standards for a particular sector or region, it takes elements of wages and working conditions out of competition. By limiting competition on wages and working conditions, multi-employer bargaining avoids the risks associated with a downward spiral of competition in labour standards: unsafe working conditions, volatile and low earnings, excessive working hours and job insecurity, particularly for vulnerable groups of workers. In this sense, multi-employer bargaining also acts as a 'beneficial constraint' (Streeck 1997), fostering investment in human resources and a focus on quality and innovation-based economic activities, with potential positive effects on competitiveness and growth at both the micro and macro levels.

Brown et al (2001) also note this ability of collective sector bargaining to foster productivity of firms, where:

the attraction of industrywide bargaining arrangements comes from their potential to encompass whole product markets at regional or national level. From the early days of collective bargaining both unions and employers have appreciated the chance this offers to pass on some of the cost of wage rises in price rises, traditionally referred to as 'taking wages out of competition'. For unions, industrywide bargaining has the attraction of establishing the notion of the 'rate for the job' and of encouraging the identification of their members with their wider occupational and labour market collective interests beyond the individual firm. It avoids some of the vulnerability *of a workforce that bargains with its firm in isolation. For employers, besides the protection against being picked off by unions separately, there are additional benefits that have strong productivity implications. These are, first, that industry-wide agreements tend to reduce the influence of the union within the workplace and thus limit union impact upon detailed job control. Second, industry-wide agreements, with their accompanying standardization of job descriptions, make easier the industry-wide management of training which helps deal with the problem of 'freeriding' employers who do not train.*

Keune (2015) observes that collective sector wage bargaining can provide conditions that are conducive for productivity improvements. In his view:

multi-employer bargaining helps to promote industrial peace and to avoid multiple efforts and conflicts at company level related to the setting of wages and working conditions. It allows management and workers at company level to focus on producing goods and services and raising productivity in an environment of social peace and stability.

Keune (citing Marginson et al (2014)) also takes a wider view of productivity and says that multi-employer bargaining has the capacity to address negative externalities generated by the market. Externalities are effects generated by market processes but which are not incorporated within the resulting market transactions, such as environmental damage.

This is a key argument for coordination of bargaining – it can take into account its impact on the macroeconomic context, which firm level bargaining has no ability to do.

7.4 Industrial relations and productivity

While there is no conclusive evidence for the effect of collective sector wage bargaining on productivity, there is evidence for a decline in the labour share of productivity gains over time. Cooper and Mishell (2015) associate this with the erosion of collective bargaining power of unions.

One key factor in the divergence between pay and productivity is the widespread erosion of collective bargaining that has diminished the wages of both union and non-union workers.

The authors demonstrate this by showing that the productivity–pay gap grew most in those states of the United States, where collective bargaining coverage declined the most.

After 1973, productivity grew strongly, especially after 1995, while the typical worker's compensation was relatively stagnant. Specifically, productivity grew 74.4 percent since 1973, while the hourly compensation of a typical worker grew just 9.2 percent. This divergence between pay and productivity growth has meant that workers are not fully benefiting from productivity improvements.

…..A key factor undermining pay growth for middle-wage workers over the last few decades has been the erosion of collective bargaining. When unions are able to set strong pay standards in particular occupations or industries through collective bargaining, the employers in those settings also raise the wages and benefits of nonunion workers toward the standards set through collective bargaining. Thus, the weakening of the collective bargaining system has had an adverse impact on the compensation of both union and nonunion workers. The erosion of collective bargaining has had a greater impact on men than on women, and on non–college educated workers than on college graduates—reflecting the groups who were more likely to be covered by a union contract in the late 1970s.

….Specifically, the 10 states that had the least erosion of collective bargaining saw their inflation-adjusted median hourly compensation grow by 23.1 percent from 1979 to 2012, far faster than the 5.2 percent growth of the 10 states suffering the largest erosion of collective bargaining—a gap of 17.9 percentage points in compensation growth.

In New Zealand, the recent Productivity Commission paper on the Labour Income Share acknowledges that wage growth has fallen behind productivity growth.[2]

Parham and Robert (2004) argue that in the 1990s, the downward movement in labour income share or real unit labour costs is largely attributable to the introduction of the Employment Contracts Act (1991).

It appears that labour market frameworks have had important influence on the performance of the New Zealand and Australian economies. The NZ changes affect the way 1990s labour productivity growth should be viewed in that country.

Three issues needed to be tackled in both countries after average real wages had moved ahead of average labour productivity growth, under centralised systems of wage negotiation, and had raised the relative cost of employing labour. There needed to be

- *a correction to the labour income share (or real unit labour costs)*
- *a system for aligning wage movements with productivity growth*
- *a mechanism for (re)allocating labour efficiently in an environment of more liberal markets.*

The process was more gradual in Australia, with a real wage correction engineered through the centralised system in the second half of the 1980s. Wage alignment and efficient allocation came later as, progressively, labour markets became more flexible and bargaining became more decentralised from the late 1980s and firms increased their employment of labour after the shakeout during the early-1990s recession. In New Zealand, the changes were concentrated over 1992 to 1996 with the introduction of the Employment Contracts Act.

7.5 Macroeconomic performance

According to Aidt and Tzannatos (2002) of the World Bank, comparative studies reveal little systematic difference in economic performance between countries regarding wage bargaining practices:

The macroeconomic impact of collective bargaining is hard to disentangle from other determinants of economic performance. While the available evidence from comparative studies of the OECD countries is fragile, two general features should be emphasized. First, the impact of collective bargaining on various aspects of macroeconomic performance depends on the economic, legal, and political environment in which collective bargaining takes place and can vary over time. Second, important complementarities exist between key aspects of the bargaining system. Therefore, the impact of individual aspects such as union density or centralization of bargaining cannot be assessed in isolation. It is the package of institutions that matters.

Consistent with this view, we noted above the OECD's conclusion, after over 12 years assessment of wage bargaining practices, that under the right conditions, collective sector wage bargaining arrangements are similarly effective to collective enterprise based models, in their impact on the economic performance of nations (measured narrowly, i.e. excluding distribution considerations).

7.6 Summary

In summary, collective sector wage bargaining provides a governance mechanism that effectively regulates the imbalance in power and competitiveness between workers and employers, due in large part to the countervailing power of unions.

Collective sector wage bargaining does achieve a wage mark up. At the same time there is no conclusive evidence for the impact of this it on the productivity of firms. However, it is believed to foster conditions for firms in the

[2] https://www.productivity.govt.nz/research-paper/LIS2018.

economy, that are conducive to sustainable productivity growth, such as by excluding wage setting from the levers available for increasing productivity.

There is clear evidence that increases in the disparity between productivity increases and wage increases are associated with the erosion of collective bargaining. In the case of New Zealand, the fall in wage levels in the 1990s is attributed in large part to the introduction of the Employment Contracts Act (1991).

Evidence over 20 years indicates that under the right conditions, the impact on a nation's economic performance of collective sector wage bargaining is no better or worse than that from individual contract negotiations.

8 Public policy impacts of collective agreements

Collective sector wage bargaining can be instrumental in supporting public policy objectives sought by the government, that rely on labour market conditions which are achieved through collective wage bargaining in general. This is particularly so for collective sector wage bargaining when a specific industry is relevant.

Such public policies can potentially include

- fair pay policies
- equal pay policies
- monetary policy objectives for supporting maximum sustainable employment
- living standards framework – wellbeing includes non GDP measures

Collective sector wage bargaining can also support social pacts between actors in society.

8.1 National policy objectives

Collective agreements are instrumental in achieving national policy objectives concerning income, employment, and social security.

Keune (2015) describes the role of collective sector bargaining in supporting public policy objectives:

Multi-employer bargaining is also of interest from a public policy perspective. It allows for coordination between social and economic policy, on one hand, and collective bargaining on the other and can hence be instrumental in achieving national policy objectives concerning income, employment and social security. The government and the two sides of industry can agree on certain income, social security and labour market policies, and multi-employer agreements can be used to implement part of these policies. For example, multi-employer agreements have been key for the implementation of social pacts across the EU by incorporating centrally-agreed wage increases and other measures defined in such pacts (Pochet et al. 2010; Avdagic et al. 2011). They can play a key role in labour market management and in the coordination of economic and social policy. Hence, collective bargaining – and in particular multi-employer collective bargaining– offer a series of governance alternatives that are not available in labour markets where the 'market' is the sole governance mechanism.

8.2 Inclusiveness and social pacts

Collective sector wage bargaining can foster inclusiveness in society, as Kuene observes

Multi-employer collective agreements, possibly supported by extension mechanisms, can foster inclusion and equality by extending bargaining coverage to the weaker groups in the labour market that have little bargaining power.

It can also provide the governance framework for social pacts, as Kuene describes

They can also, possibly in the context of social pacts, moderate wages in favour of employment growth, again with the objective of including weaker groups affected by unemployment.

Multi-employer bargaining systems also offer a conducive institutional context for an equality-oriented, solidaristic wage policy, which has two main aims …

- *equal pay for work of equal value, implying that wages should not depend on individual company circumstances alone but should be standardised in multi-employer collective agreements, while pay rises should be in line with growth of the overall economy, enabling its benefits to be shared between capital and labour in a manner ensuring that all workers participate equally in economic progress*

- *a more egalitarian wage structure, reducing pay differences between higher and lower wage groups and counteracting market forces that result in increased wage differentiation… by compressing the overall wage distribution by propping up wages at the bottom of the wage pyramid.*

Through the common standards they set, multi-employer bargaining systems can be expected to produce much lower wage inequality than systems in which company bargaining dominates or where bargaining plays no important role at all.

8.3 Equality of bargaining power and income share

Kuene describes how collective sector wage bargaining can lead to lesser inequality in bargaining power between workers and employers. This does not necessarily lead to high wage growth, since negotiations can recognise a social pact to restrain such growth.

Collective bargaining can first have an equality effect in terms of the power relations between workers and employers. It can, to some extent, balance the power relations between individual workers and their employers by collectivising the power of workers. Second, it can foster greater equality between workers across companies and sectors. In this way, collective bargaining can be an instrument for social justice and ensure that the rights and needs of both sides are respected and the fruits of progress are shared in a socially just way. This also means that the equality effect of collective bargaining is greater where the coverage of collective agreements is higher, which is in the countries where multiemployer bargaining dominates.

This does not necessarily mean that multiemployer bargaining produces high wage growth. In fact, across Europe, the wage share has decreased in recent decades, marking a gap between productivity improvements and wage growth and a shift in income from labour to capital …. This common trend has occurred, however, as a result of different mechanisms. Within the multiemployer bargaining systems it can be attributed, to a large extent, to wage moderation based on collective agreements and social pacts, which set additional goals in terms of equality, employment or social policy. In the single-employer bargaining systems, with low bargaining coverage, wage moderation stems rather from market mechanisms and the unilateral imposition of wage levels. Another difference is that the organised nature of the multi-employer bargaining systems, in the longer term, are better at limiting the shift of income from labour to capital, which is indeed stronger in single-employer bargaining countries.

8.4 Summary

In summary, collective sector bargaining provides society with merits that individual contract bargaining does not. These arise from the consensus reached following dialogue and negotiation amongst different actors in society. Benefits that can arise are the achievement and support for

- national policy objectives
- social pacts such as equal pay for equal work
- inclusiveness
- equal bargaining power
- increased labour share of productivity gains.

9 Summary and conclusions

Decline in collective sector wage bargaining

Recent history has seen a decline in collective wage bargaining (and sectoral wage bargaining) that was driven by political preferences and the desire to permanently opt out of agreements for workplace relations in the face of temporary recession. That is the prerogative of the electorate. Systems of collective bargaining allow this opting out in extreme conditions (such as the Great Recession).

Apart from political will, there is no reason for temporary events to determine long-run workplace conditions. The OECD says there is no evidential basis for this change.

We conclude that changes to collective wage bargaining are subject to political, rather than economic bases. This appears to be the view of the OECD.

Researchers have observed severe detriments arising from the decline of collective bargaining, including increases in wage inequality, lessening of labour share of productivity gains and a lessening of social dialogue.

Frameworks

Collective sector wage bargaining is concerned with the level of bargaining, being at the sector or industry level. It is also influenced by the degree of flexibility in agreements. Such flexibility can enable considerable variation between individual firm level agreements within a sector level framework. Further, there is the scope for opting out of certain provisions, together with opening clauses that provide a contingency to temporarily suspend the agreements in cases of hardship, such as for recessions. In addition, the degree of coordination between the various levels of actors and the capacity to enforce agreements, also influence collective bargaining at the sector level.

Current state

Bargaining coverage of the workforce is reliant on public policy and the willingness of employers to negotiate. Given these are supportive, the centralisation of bargaining, such as at the sector level is challenged by

i) the forces of globalisation

ii) the changing organisational nature of firms

iii) increases in business volatility.

Coordination of bargaining is prevalent in cases of high union coverage and high unionisation. International practice is about evenly split between multi-employer bargaining and single employer bargaining in high income nations.

Sector specificity

The rationale for sector-based collective agreements stems from product market differences for different industries, as well as differences in occupational types; training management within an industry; and the treatment of special types of workers such as apprentices and youth.

Economic impacts

There is clear evidence that increases in the disparity between productivity increases and wage increases are associated with the erosion of collective bargaining. In the case of New Zealand, the fall in wage levels in the 1990s is attributed in large part to the introduction of the Employment Contracts Act (1991).

Evidence over 20 years indicates that under the right conditions, the impact of collective sector wage bargaining on a nation's economic performance (narrowly defined[3]) is no better or worse than that from individual contract negotiations.

Social wellbeing and inequality

Researchers have observed severe detriments arising from the decline of collective bargaining, including increases in wage inequality, lessening of labour share of productivity gains and a lessening of social dialogue.

Collective sector bargaining provides society with merits that individual contract bargaining does not. These arise from the consensus reached following dialogue and negotiation amongst different actors in society. Benefits that can arise are the achievement and support for

- national policy objectives
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- inclusiveness
- equal bargaining power
- increased labour share of productivity gains

Wage growth and wage paths

Collective sector wage bargaining provides a governance mechanism that effectively regulates the imbalance in power between workers and employers, due in large part to the countervailing power of unions.

Collective sector wage bargaining does achieve a wage mark up. At the same time there is no conclusive evidence for the impact of this it on the productivity of firms. However, it is believed to foster conditions for firms in the economy, that are conducive to sustainable productivity growth, such as by excluding wage setting from the levers available for increasing productivity.

[3] In particular, excluding distribution considerations.

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