

**Gerhard Bosch**

# **Minimum wages (MW) and their interaction with collective bargaining (CB)**

Industry All Webseminar

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## **Structure of the presentation**

- 1. Impact of MW and CB on the income distribution.  
What does research show us?**
- 2. Different wage systems in the EU countries**
- 3. Increasing importance of MW's**
- 4. The role of social partners in the uprating of MW's**
- 5. Conclusions**

# 1.1 Impacts of MW on the income distribution – What does international research show?

## Effects of MW:

- Wage compression in the two lowest deciles
- Wage floor - limits downwards pressures on wages
- Sometimes (not always) *positive ripple (trampoline)* effects on higher wages – positive ripple effects only in tight labor markets and with positive interaction with CB
  
- Reduction of the share of low wage earners (2/3 of median wage) only with a high relative value (high Kaitz-Index)
- Disappointing small reduction of poverty – poverty mainly result of short working hours and big households

MW's by itself definitely not sufficient to „ensure a decent living for all workers“\* - links with CB necessary

\* Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on adequate minimum wages in the European Union p.2

## **1.3 Impact of CB on the income distribution – What does international research show?**

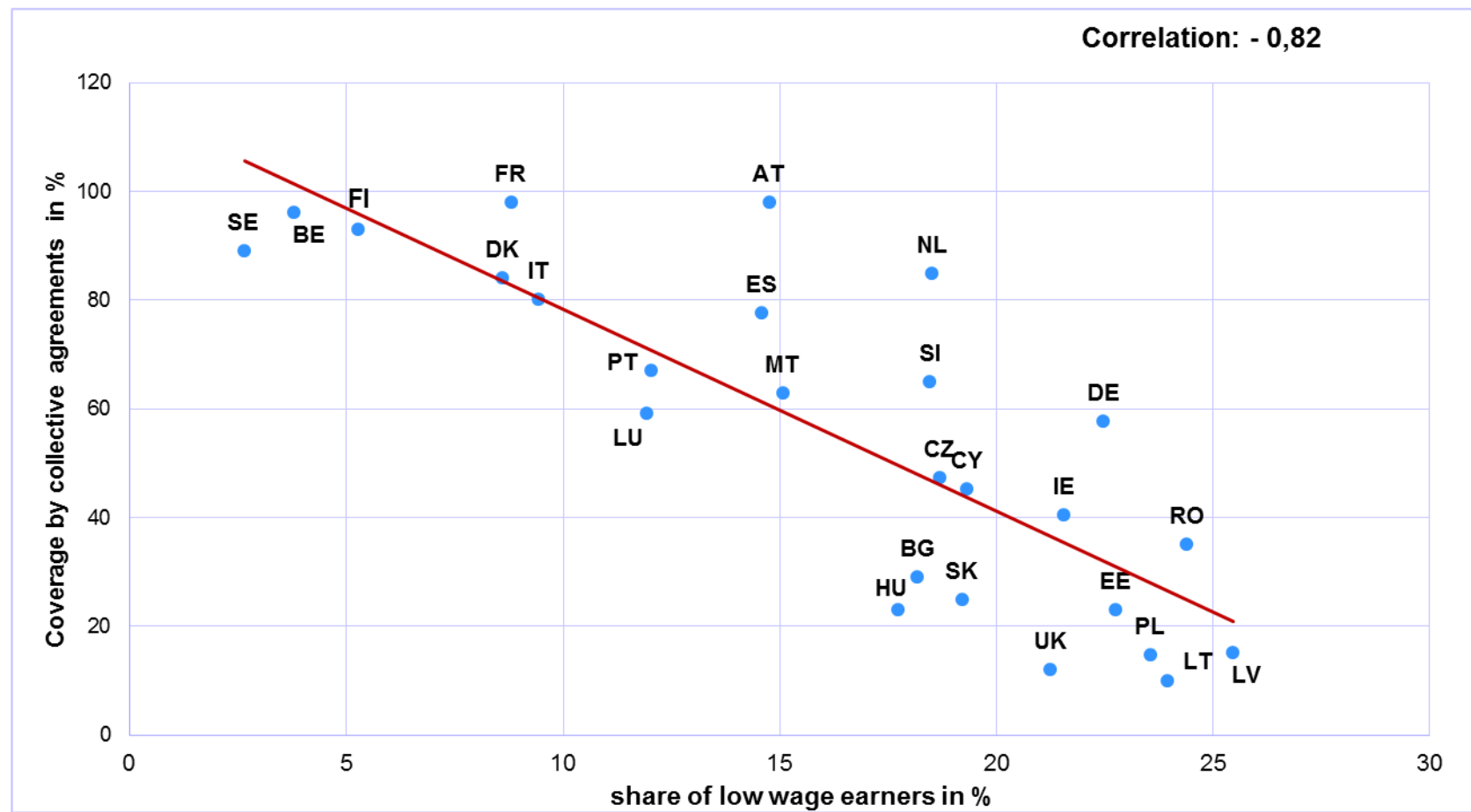
Effects of a high coverage by multi-employer collective agreements (CA) with differentiated wage grids:

- Compression of wages up to the 6-9th decile
- Creation of middle income groups clearly above the MW or the lowest pay grade in the CA
- Strong reduction of share of low wage earners
- Strong reduction of poverty

These positive effects are stronger in countries with high trade union density

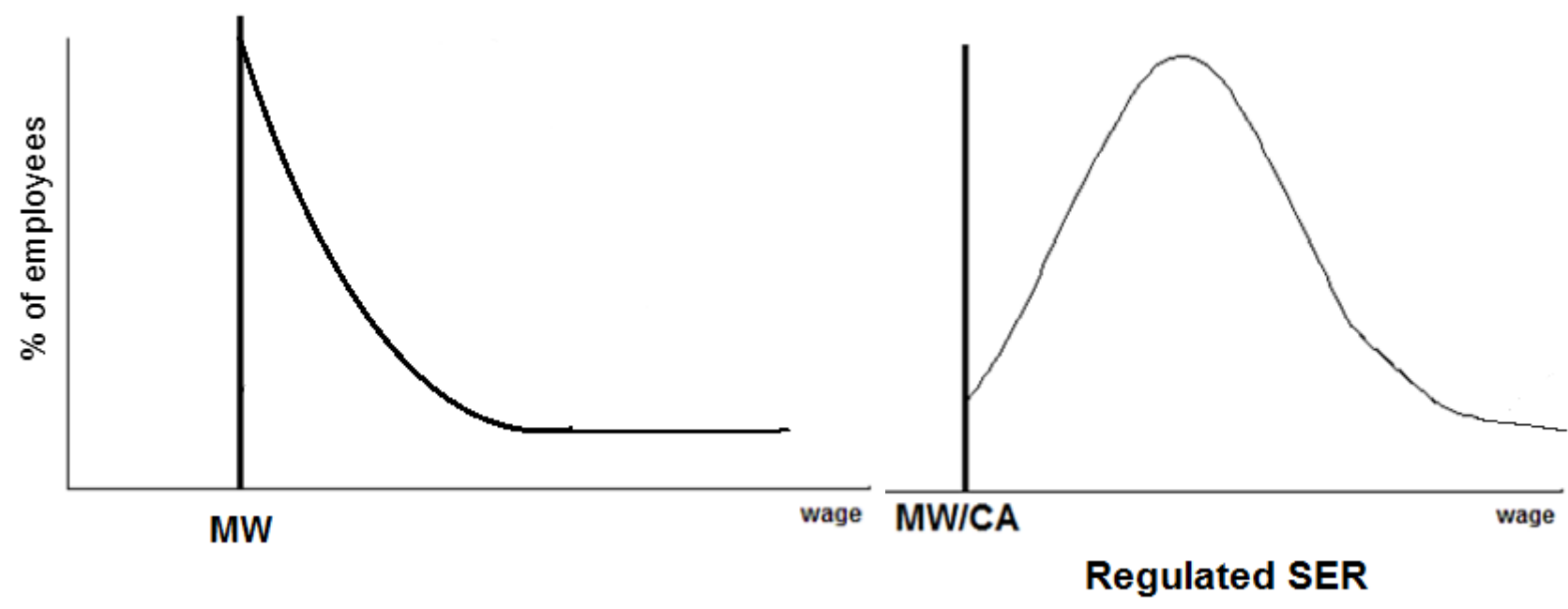
In countries with weaker trade unions MW's (1) protect against downward pressures and (2) supports CB above the level of the MW

# 1.4 Strong link between coverage by CB and inequality: Rate of coverage by collective agreements and share of low-wage work in the EU (2014)

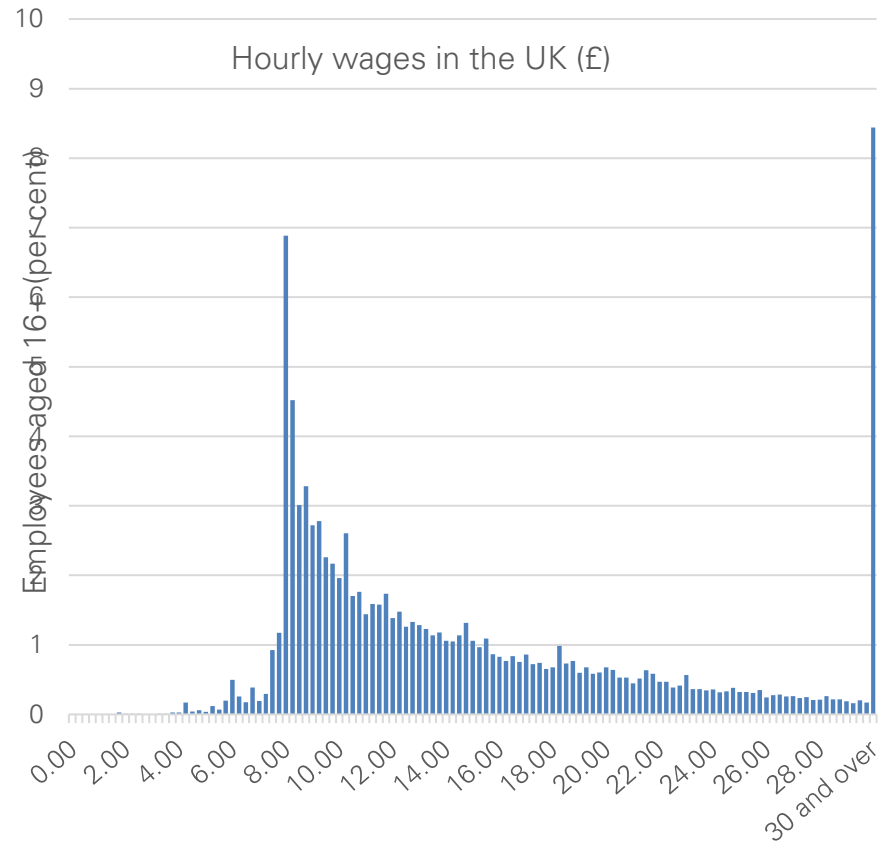
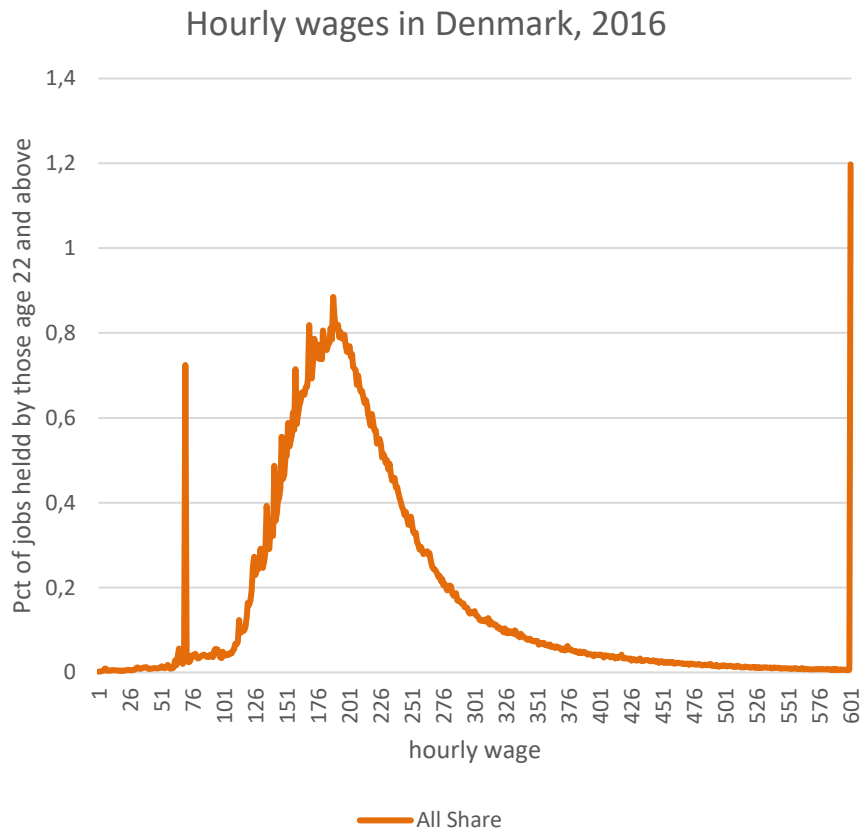


Source: Visser 2015, Eurostat, own calculations

# 1.5 Wage distribution in a liberal market economy with MW and in coordinated market economy with high coverage by collective agreements

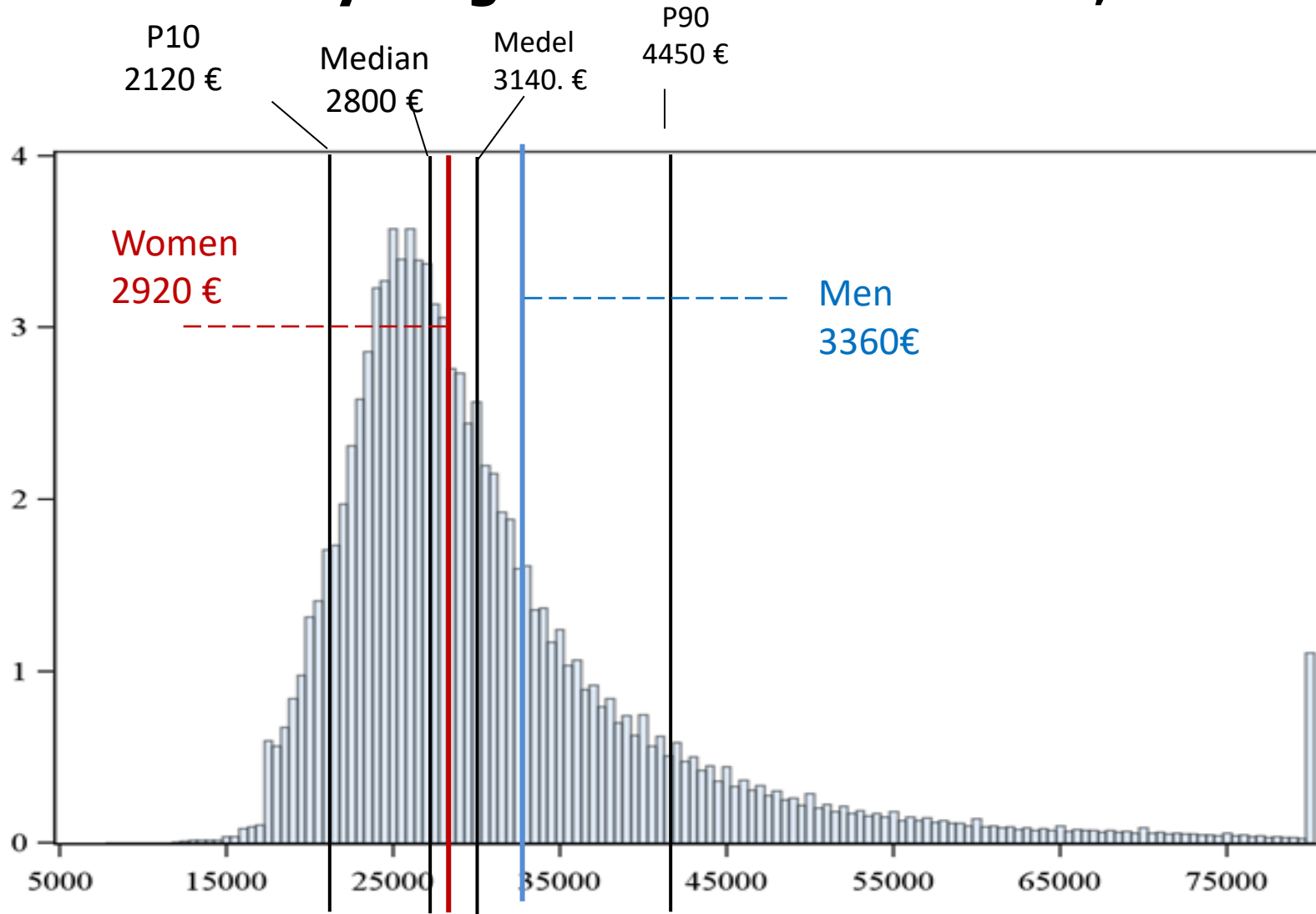


# 1.6 Two real cases: DK 2016 and UK 2018



Source: Low Pay Commission 2019

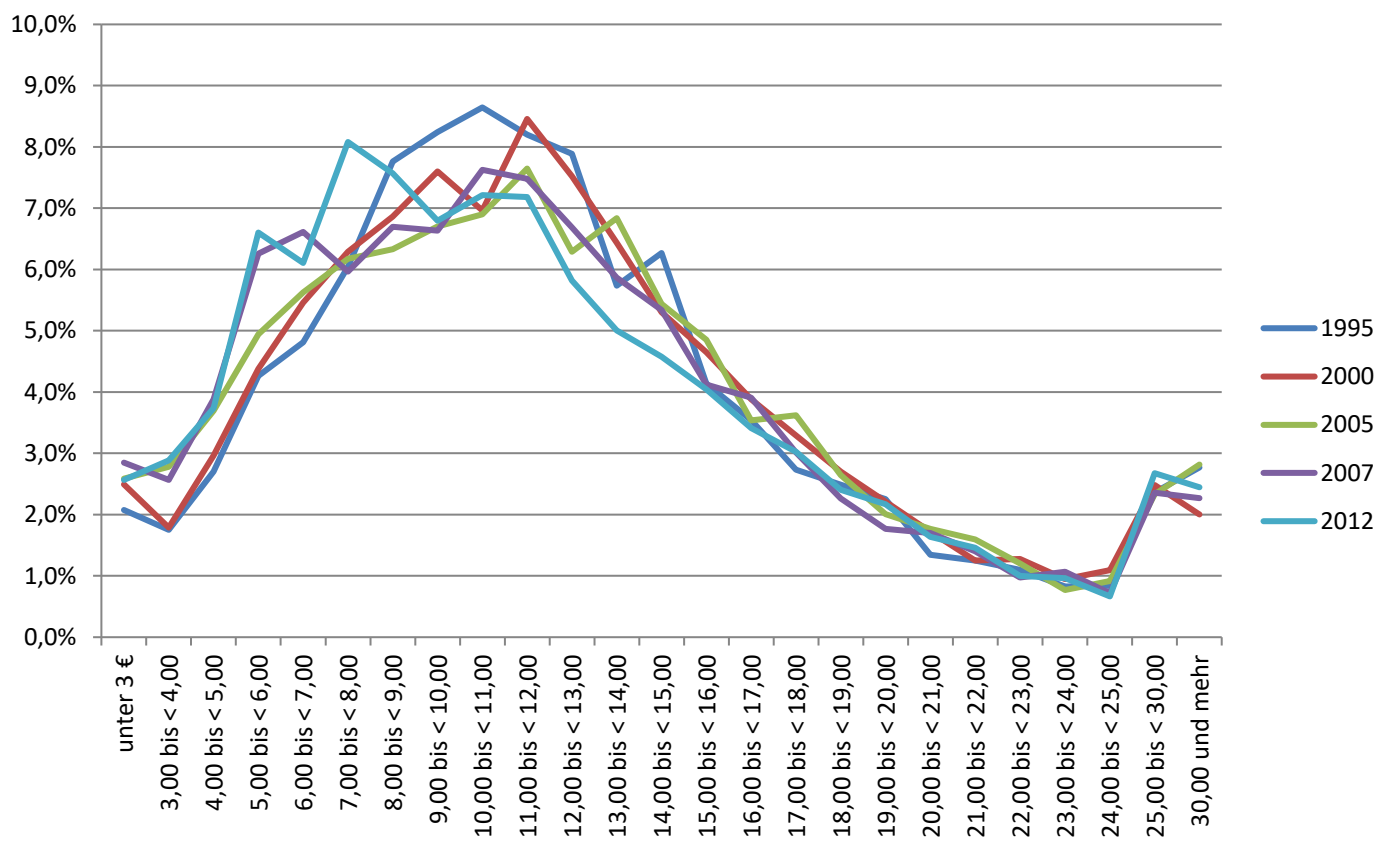
# 1.7 Monthly Wage Distribution Sweden, 2013



Källa: Medlingsinstitutet (from Dominique Anxo)



# 1.8 Increase of low wages: Distribution of hourly pay, Germany, adjusted for inflation (base = 1995)

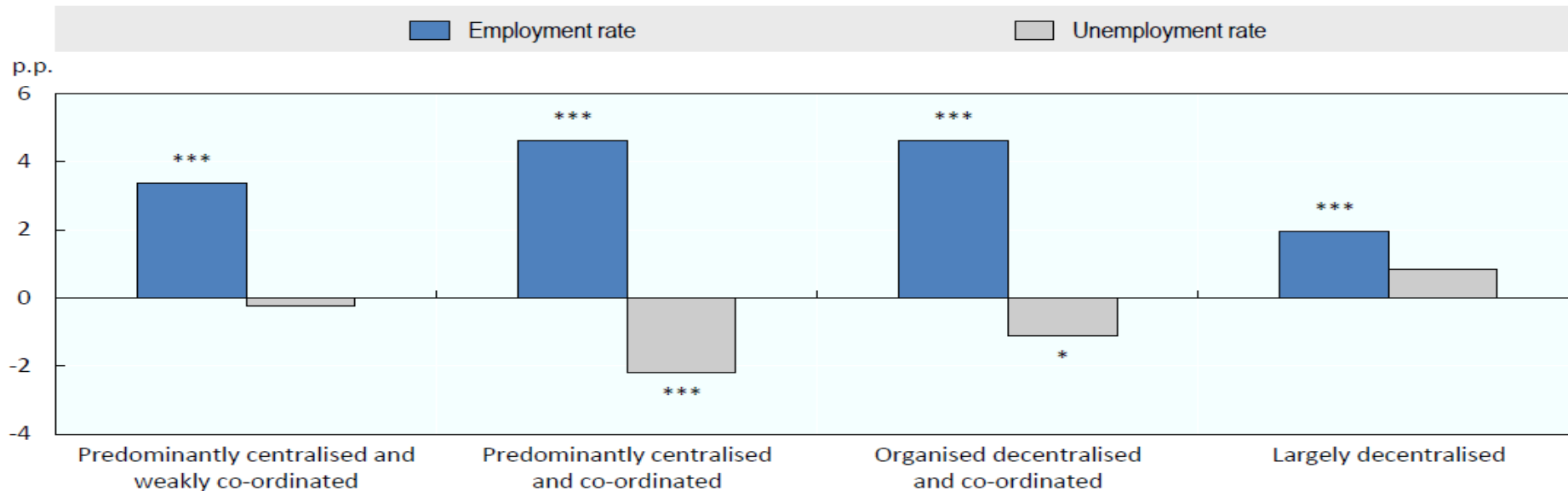


Source: SOEP 2012, own calculations

## 1.9 A shift of paradigm at least in research, not yet in politics! *OECD and IMF showed positive employment effects of coordinated CB*

- “... the erosion of labour market institutions in the advanced economies is associated with an increase of income inequality” (Jaumotte/ Buitron 2015: 27, International Monetary Fund).

Difference in percentage points with respect to fully decentralised systems



Note: \*\*\*, \*\*, \*: statistically significant at the 1, 5 and 10% levels, respectively. Results are based on OLS regressions including country and year dummies, collective bargaining coverage, log of average years of education, female employment share and institutional variables: (tax wedge, product market regulation, employment protection legislation (both temporary and permanent), ratio of minimum wage to median wage and gross unemployment benefit replacement rate). p.p.: percentage points.

Source: OECD estimates. Details on sources and definitions can be found in Chapter 3 of the Employment Outlook 2018.

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## 2.1 High coverage by CA's based on different combinations of labor standards

Support of the state needed for institutional stability of CB in labor markets with fragmented firms and high shares of precarious workers

*„Shadow of the law“ over all wage setting systems - two kinds of standards (Sengenberger 1994):*

- *Protective standards:* state directly establishes employment conditions like MW's.
- *Participative standards:* enabling social partners to negotiate employment conditions autonomously through the Ghent system, consultation or codetermination rights and resources (time and money)

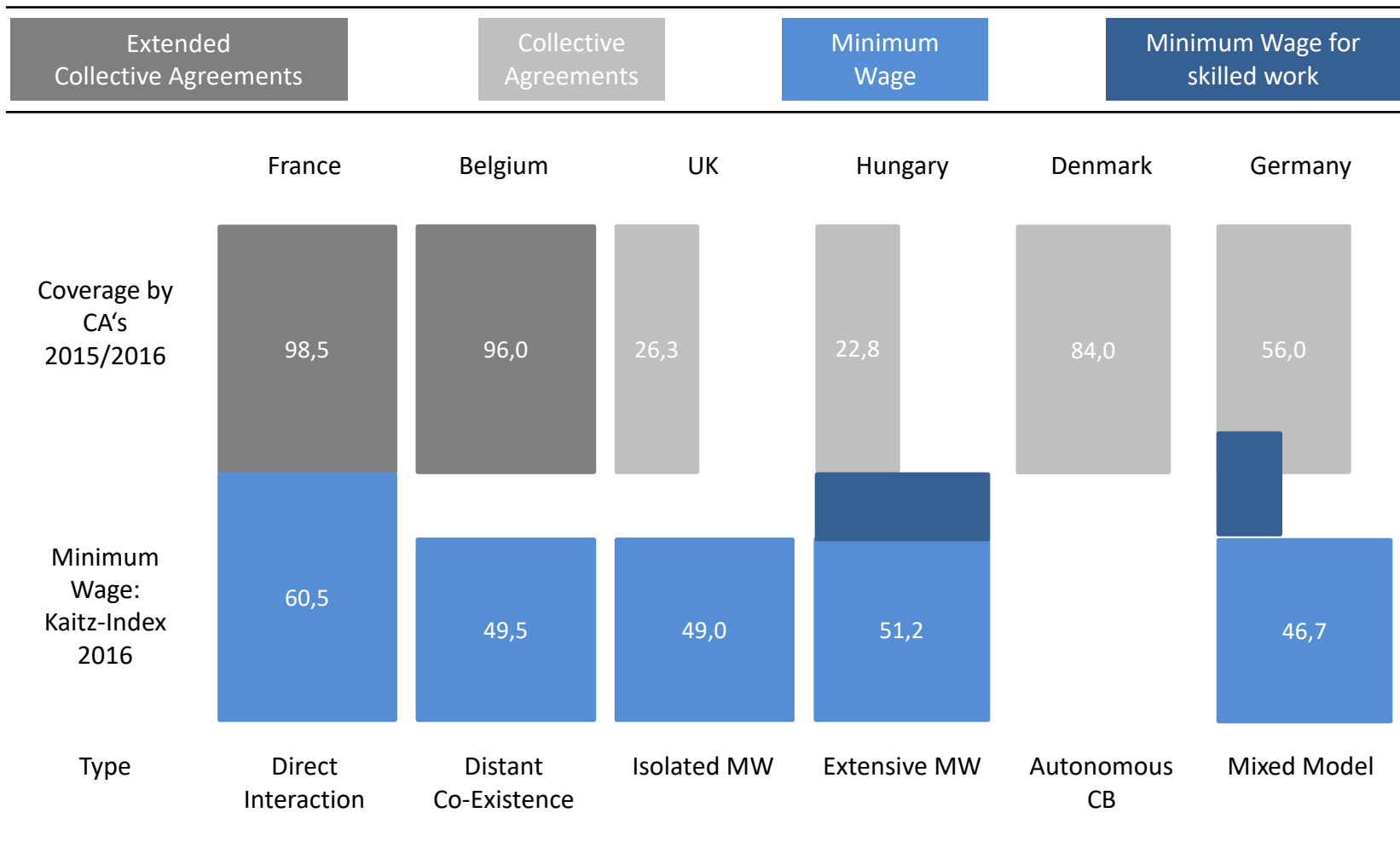
## 2.2 Statutory protective and participative labour standards in seven national wage setting systems

	Germany	Sweden	UK	France	Belgium	Greece	Spain
<b>Statutory standards</b>							
- protective	X	-	X	XXX	XXX	X	XXX
- participative	XX	XXX	-	X	XXX	-	X
<b>Trade union density (2013 – 2016)</b>	<b>18%</b>	<b>67%</b>	<b>25%</b>	<b>8%</b>	<b>54%</b>	<b>21%</b>	<b>14%</b>
<b>Rate of coverage by CA's (employees) (2013 – 2016)</b>	<b>56%</b>	<b>90%</b>	<b>26%</b>	<b>99%</b>	<b>96%</b>	<b>40%</b>	<b>73%</b>
<b>Share of low wage employees (&gt;2/3 of median wage) 2014</b>	<b>22.5%</b>	<b>2.6%</b>	<b>21.3%</b>	<b>8.8%</b>	<b>3,8%</b>	<b>n.a.</b>	<b>14.7</b>

**Statutory standards: - none, X weak, XX moderate, XXX strong**

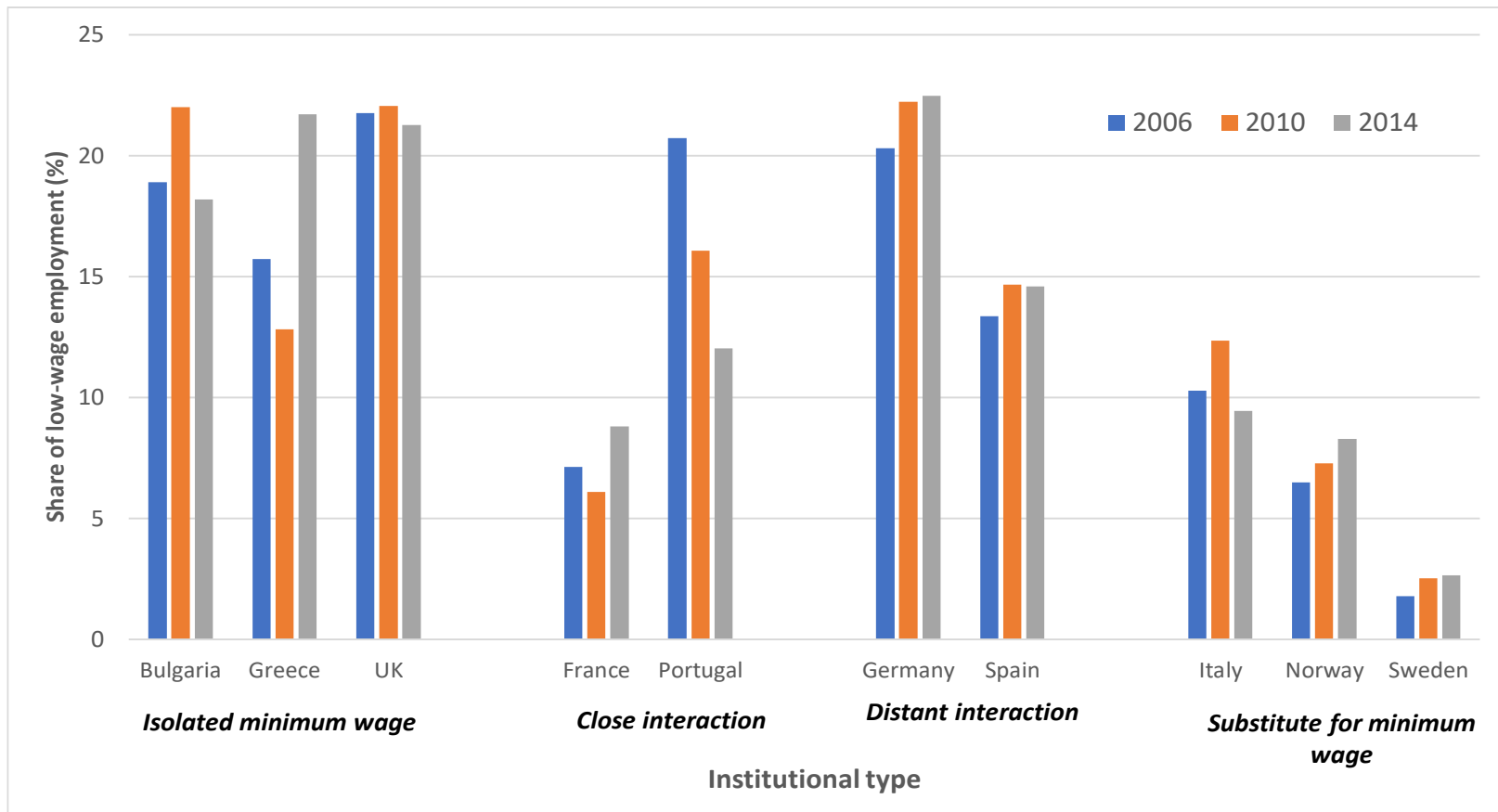
**Source:** Bosch / Lehndorff (2017): Autonomous bargaining in the shadow of the law: from an enabling towards a disabling state? In: Grimshaw, Damian / Fagan, Colette / Hebson, Gail / Tavora, Isabel (eds.): Making work more equal. A new labour market segmentation approach. Manchester: Manchester University Press, pp. 35-51

## 2.3 Links between MW and in 6 EU countries



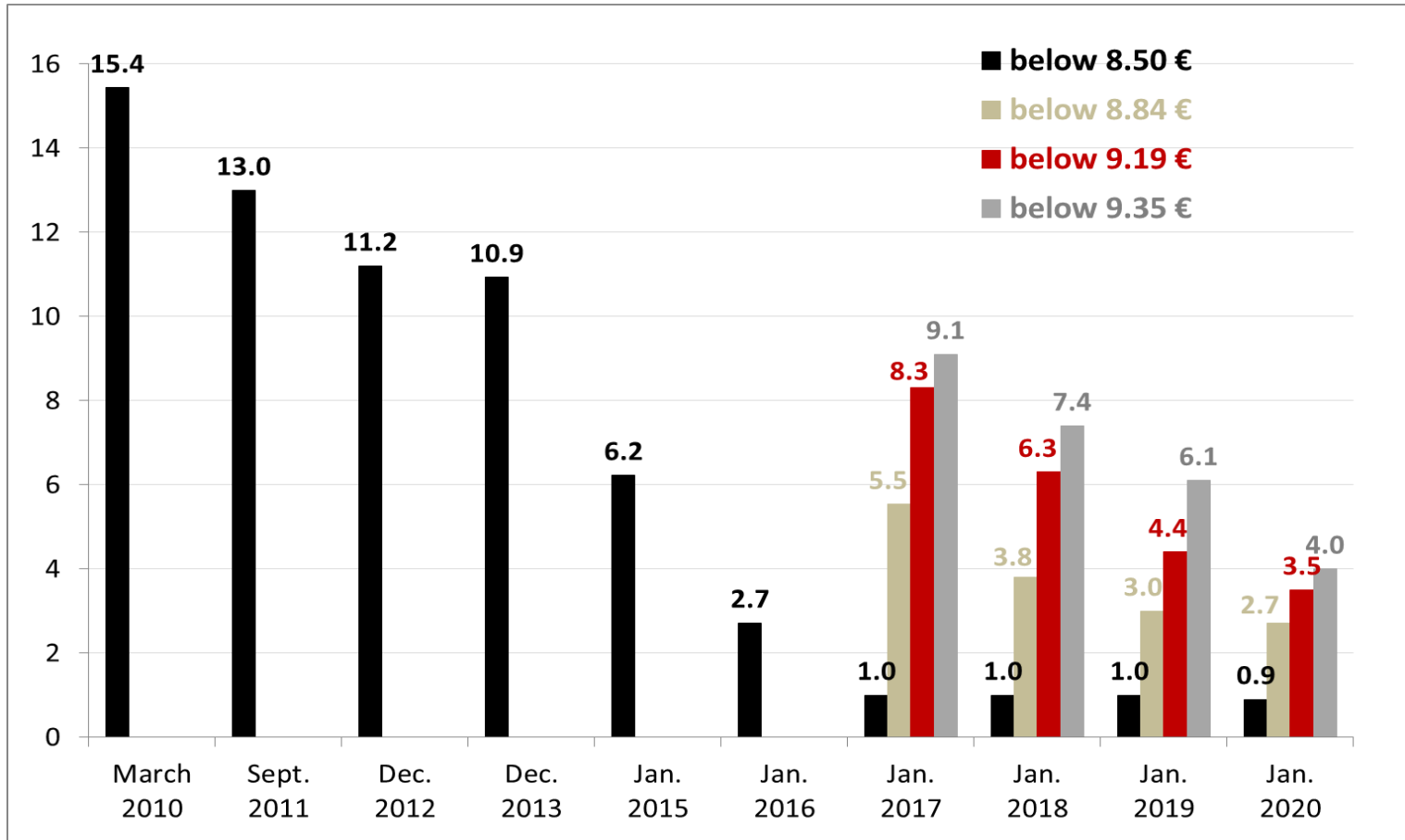
Source: Bosch G. (2021), Industrial relations and inequality in the EU, in: Fischer G., Strauss R. (eds.), Europe's income. wealth and inequality, OUP

## 2.4 Higher shares of low wage earners in countries with an isolated MW



Source: Dingeldey/Grimshaw/Schulten (2021): Concuisions\_ Lessons to be learned, in: Dingeldey/Grimshaw/Schulten (eds.), The interplay between Minimum Wage and Collective Bargaining - Actors and Institutions in different Sectors and Regions of the World, Routledge

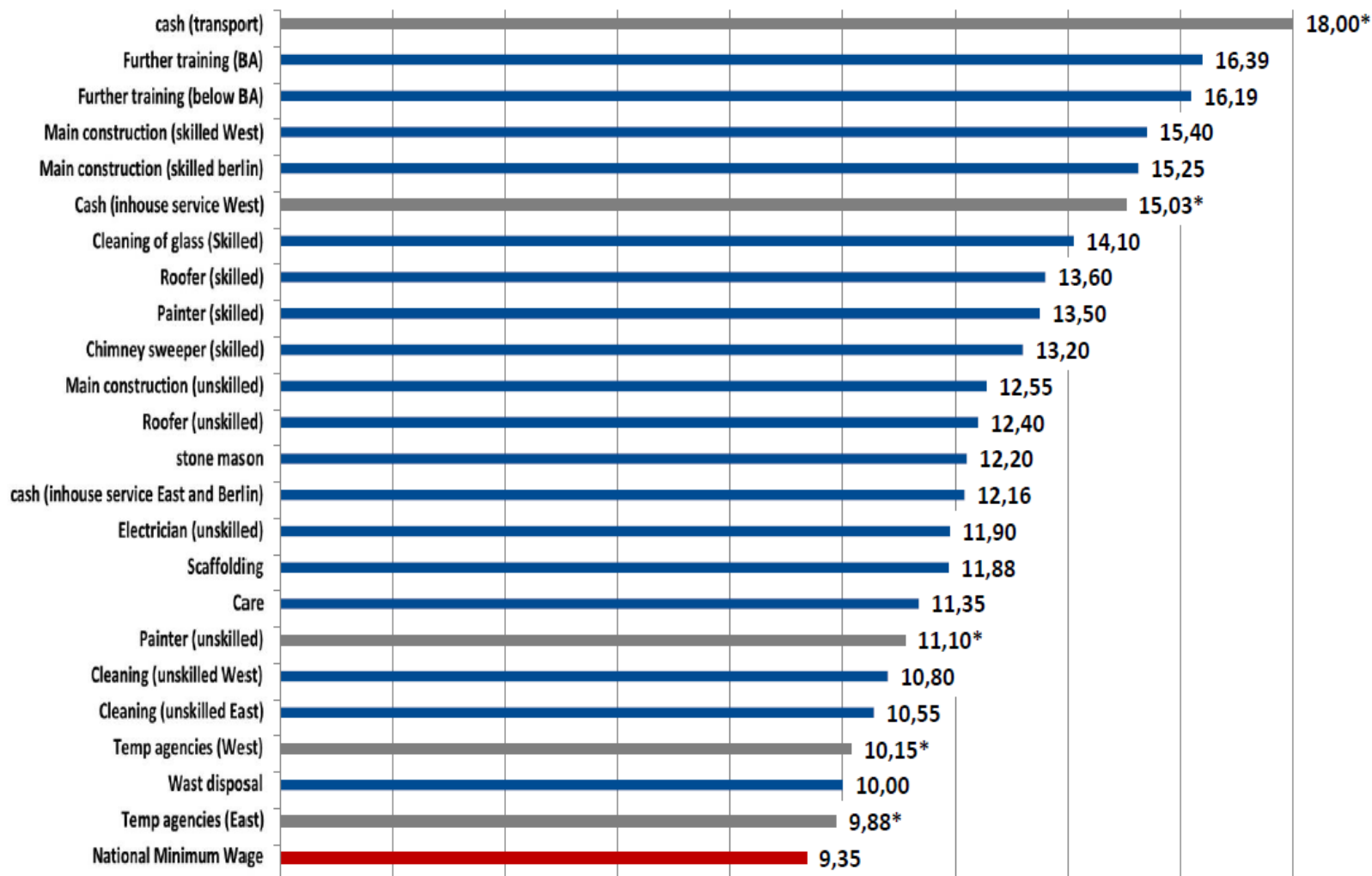
## 2.6 The trampoline effect of the German MW: Wage groups in collective agreements below the threshold of the statutory minimum wage in %



Source: Bosch/Schulten/Weinkopf (2012), The interplay of Minimum Wages and Collective Bargaining in Germany – How and why does it vary across sectors? In: Dingeldey/Grimshaw/Schulten (eds.), The interplay between Minimum Wage and Collective Bargaining - Actors and Institutions in different Sectors and Regions of the World, Routledge



## 2.7 Collectively negotiated Industry specific minimum wages in Germany



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## **3.1 Increasing importance of MW's**

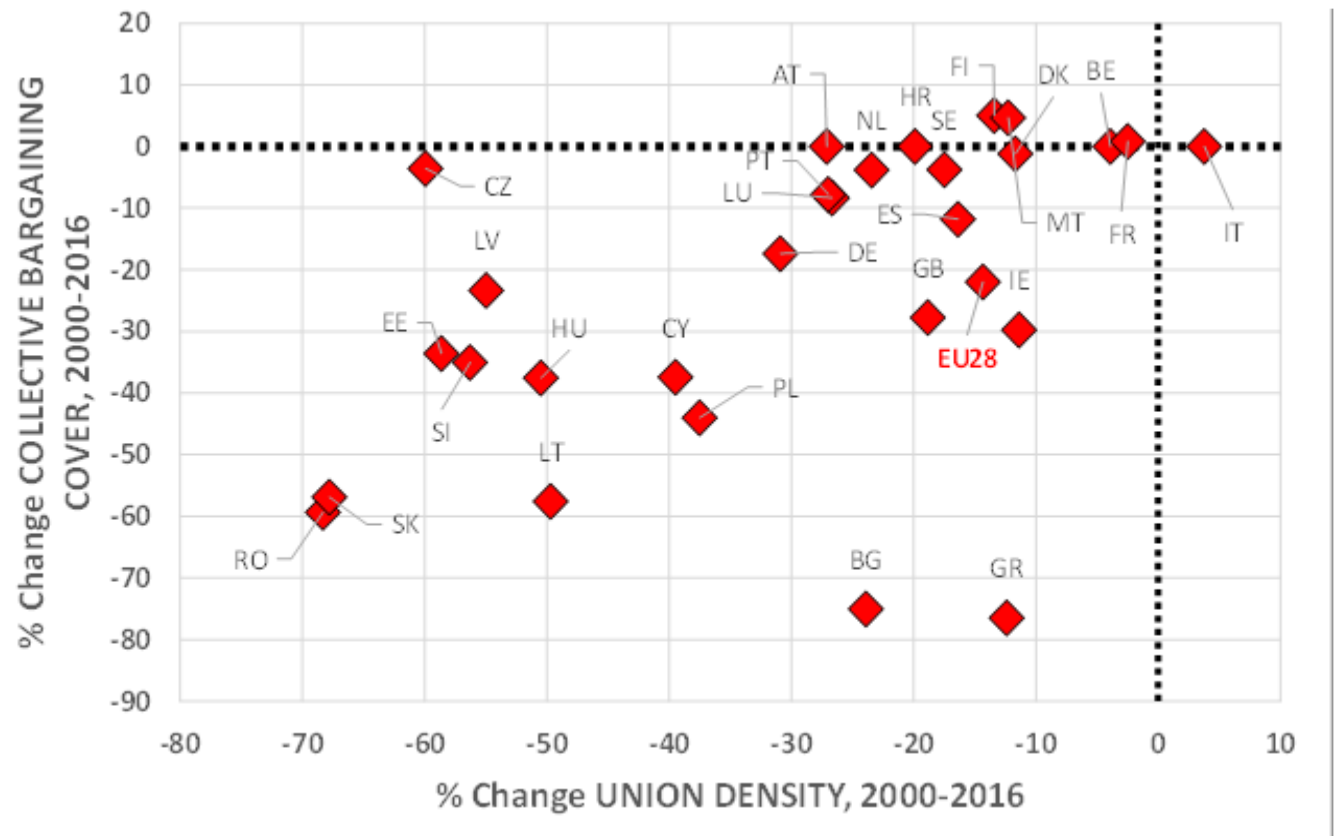
Across Europe high pressures on wages – main reasons

- Fragmentation of companies and outsourcing
- Increasing share of precarious workers with lower (legal or de facto) standards (posted, platform, agency, temporary, bogus self-employed, marginal part-time etc. workers)
- Deregulation of product and labour markets

Pressures on wages higher in exclusive wage systems with a low coverage by CA's and weak trade unions

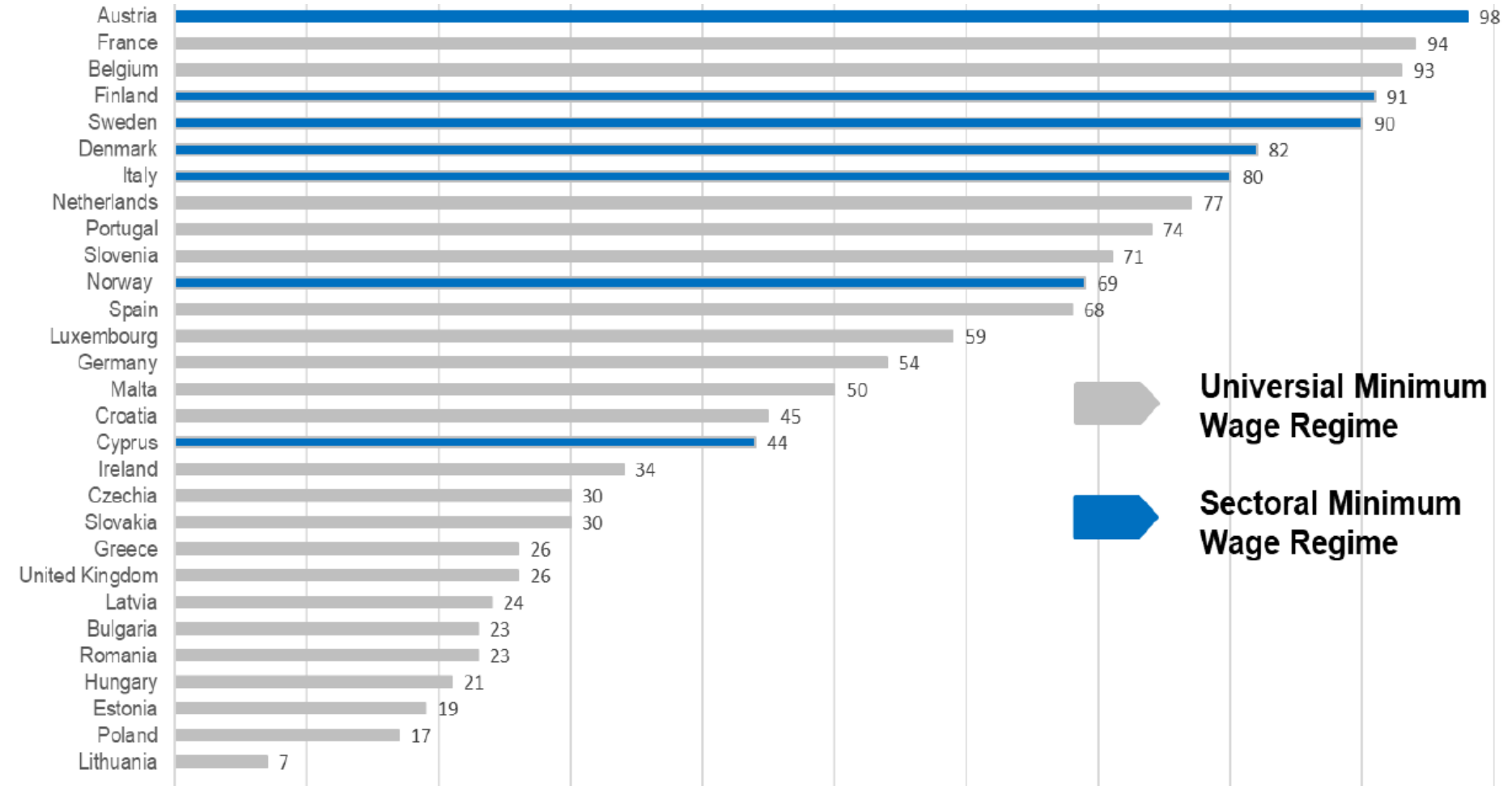
**The more exclusive wages systems are the more neoliberal the agenda of employer's associations**

### 3.2 Substantial decline of CB in Europe 2000 -2016: Mainly due to a decline in multi-employer CB

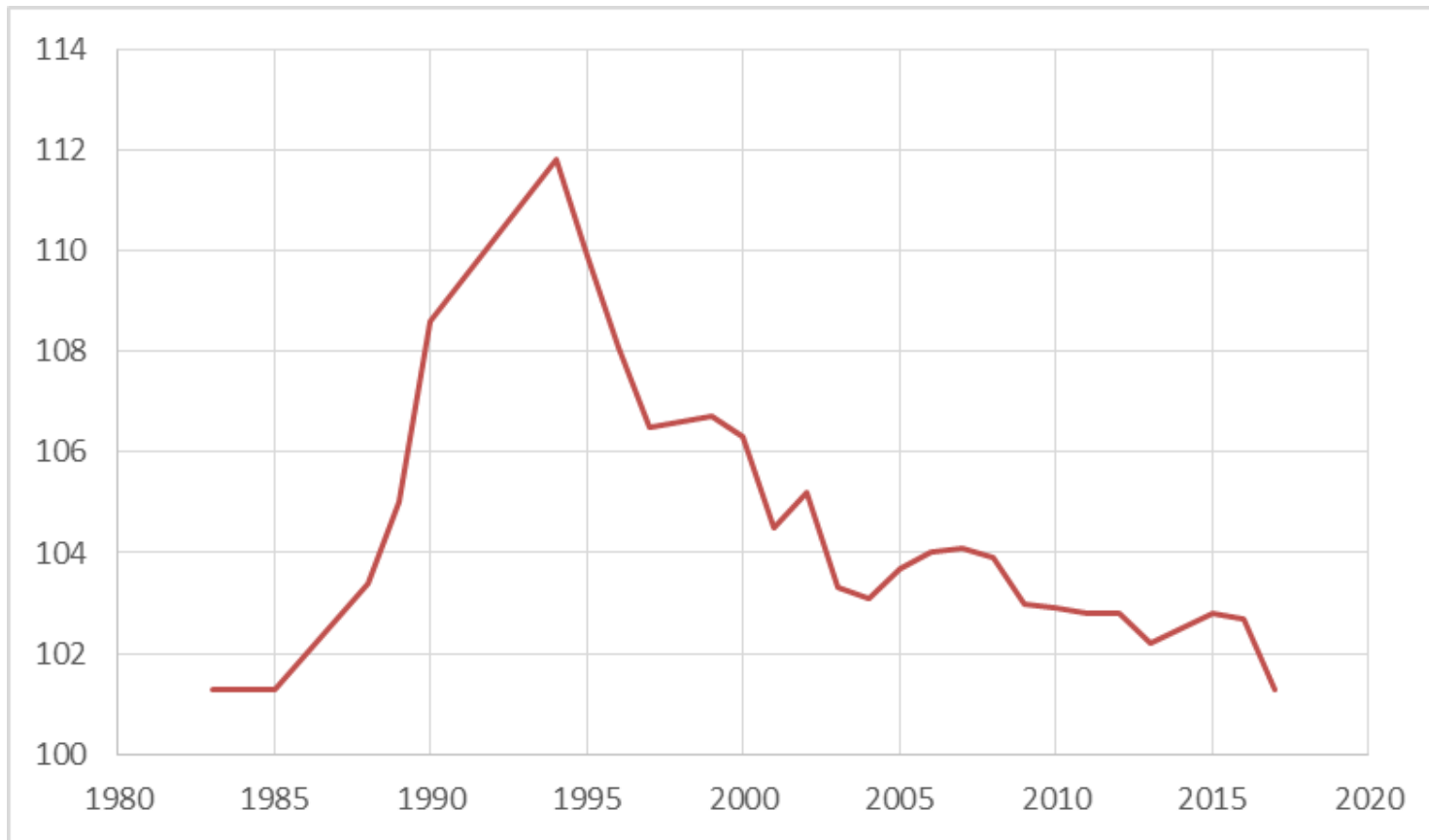


Source: Vaughn-Whitehead: (2019), Reducing Inequalities in Europe

### 3.3 Collective bargaining coverage (in %) and wage regimes in Europe



### 3.4 Netherlands: Average lowest negotiated wage scales as % of minimum wage – Increasing importance of MW



Source: Been/de Beer/ Salverda (2021), Minimum wage and collective bargaining in the Netherlands, In: Dingeldey/Grimshaw/Schulten (eds.), The interplay between Minimum Wage and Collective Bargaining - Actors and Institutions in different Sectors and Regions of the World, Routledge

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## **3. 1 Role of social partners in the uprating of MW**

### **Very different procedures in the uprating of the MW**

- **Consultation with the social partners but decision of the government** (Bulgaria, Croatia, Czechia, Poland, Slovakia, Romania)
- **Social partner or tripartite agreements** (Greece before 2012, Belgium, Germany, Hungary, Latvia)
- **Predetermined formulas** (Belgium, France, Luxembourg, Malta, Estonia)
- **Support of expert committees** (France, Germany, Ireland, UK)



## 3. 2 Uprating of MW's

Fixed formulas	Relative targets		
	No	Yes	
		Minimum threshold	Target level
No	Hungary, Latvia, Slovakia, Spain		
Under debate	Bulgaria		Lithuania (45–50% of average wages)
Finalised, pending implementation		Czechia (not less than 40% of average wages)	
No formulas, but specified factors or variables			
Expert committees with a specific mandate and guidance regarding indicators	Ireland		United Kingdom (60% of median wages)
Referring to broad economic and social indicators, but no fixed algorithm	Greece, Portugal, Romania, Slovenia		Croatia (no specific target, but 'increasing share in wages')
Yes			
Development of other wages	Germany, Netherlands		
Only indexation and adaption to the cost of living	Belgium, Malta		
Development of other wages and inflation	France, Luxembourg <sup>6</sup>		Cyprus (50% of median wages, but frozen rates)
Development of labour productivity or GDP		Estonia (not less than 40% of average wages), Poland (not less than 50% of average wages)	
No statutory minimum wages	Austria, Denmark, Finland, Italy, Norway, Sweden Cyprus: formula and targets for occupational rates exist		

## 5. Conclusions

### MW's important but not the silver bullet

- important baseline for wages and trampoline effects for CB
- but limits for increases (*living wages cannot replace CA's*)
- “one size for all” - no guarantee for fair remuneration of skills, responsibility, hard working conditions .....
- Upratings negotiated by social partners preferable

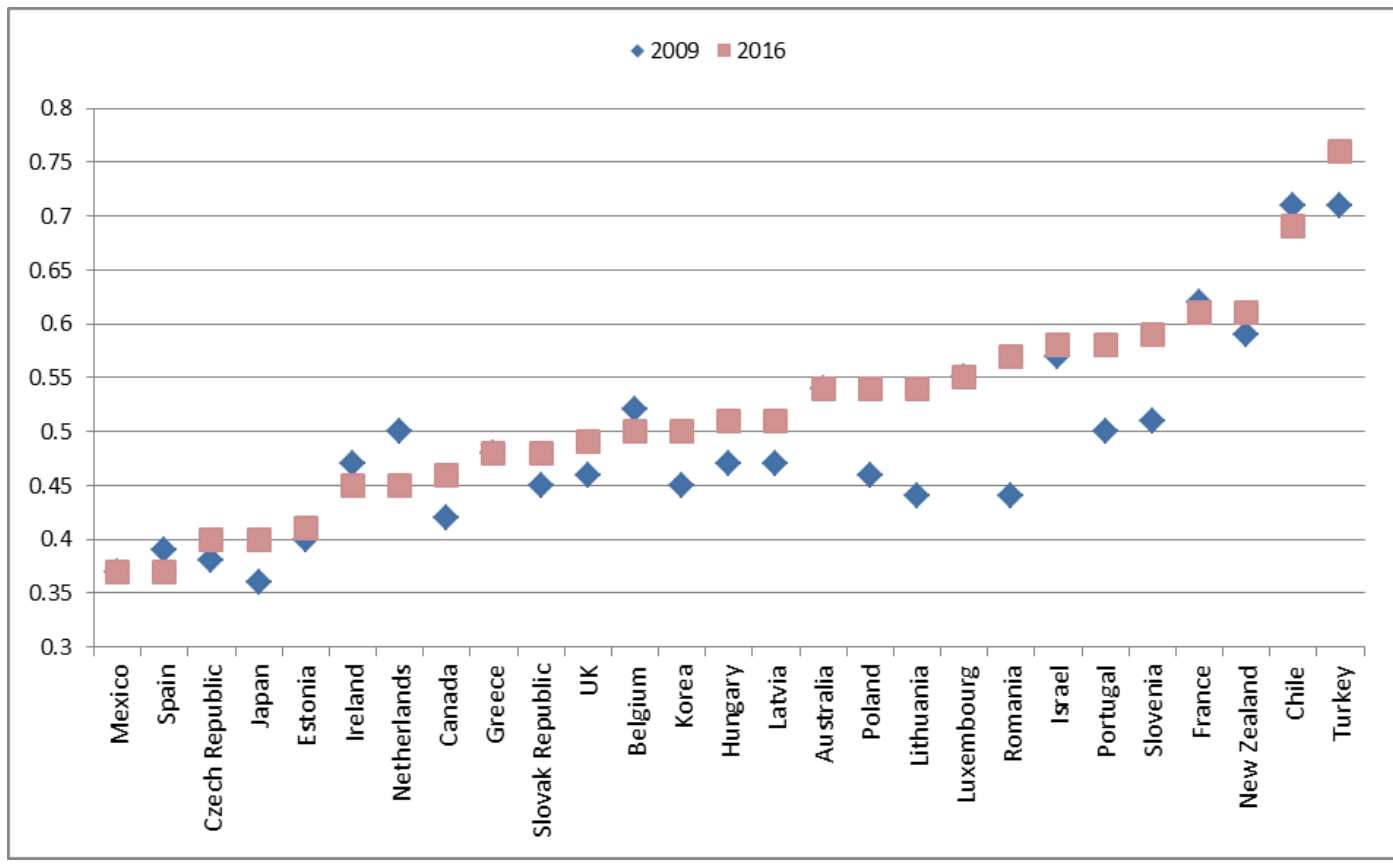
### Only CA's with differentiated pay scales can

- guarantee fair remunerations
- create stable middle incomes classes

Increasing importance of MW's in EU labor markets because of high costs pressures

Links between MW and CA's important

# The bite of the MW: Kaitz index by country



Source: OECD 2018