

The planned obsolescence of Social Europe:

How weakening collective bargaining is fuelling inequality in Europe

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*This UNI Europa research report illustrates the close association between **collective bargaining** on the one hand, and **inequality** on the other. The policy driven decline in collective bargaining coverage can be held partially responsible for the observed increase in inequality in many EU countries. If the European Union is serious about its social ambitions, it should adopt a policy of planned relevance regarding collective bargaining instead of continuing a policy of planned obsolescence.*

1 Introduction

Some printers stop working after you've printed a certain number of pages. That's not because the printer is broken, but because the producer planned for it to break, so you'd have to buy a new one. This practice is called 'planned obsolescence', the strategy used by some manufacturers ensure that their product has a short endurance.

Similarly, the European social model as a whole and, more specifically, its **collective bargaining** has been targeted by pre-conceived policy interventions with the intention of dumping it. Collective bargaining with its insurance of a solidaristic form of wage setting, has been under attack, fundamentally weakened, replaced by a unilateral or individually negotiated wage setting.

This **planned obsolescence of the European social model** nevertheless has serious consequences in terms of societal **inequality**. As wages and working conditions are less frequently set through collective agreements, the wage share declines and inequality rises.

This UNI Europa research report presents **unique data** on how collective bargaining coverage and inequality are intrinsically related and evolve over time.

If the European Union wants to "reinvigorate our European social model" ([Porto Summit](#)) it is to reorient its policy of planned obsolescence towards one of planned relevance and take decisive steps towards a strengthening of collective bargaining in Europe.

2 Collective bargaining: an established solution for inequality

The relation between collective bargaining coverage and inequality has been intensively studied. In 2014, the ILO Global Wage Report identified collective bargaining as one of the main institutions “*for addressing inequality in general and wage inequality in particular*” (ILO, 2015, p. 59). Various other studies have gone in the same direction (OECD, 2019; Van Klaveren & Gregory, 2019), focusing often on the particular effect of the coverage of collective agreements, its degree of centralization or coordination.

But how does collective bargaining influence inequalities? This happens mainly through four mechanisms:

1. Collective bargaining ensures a bigger slice of the cake for workers.
2. Collective bargaining ensures more wage equality between workers in companies.
3. Collective bargaining ensures more wage equality between workers in the same professional categories.
4. Collective bargaining discourages undercutting and low wage strategies.

The first mechanism is the most well-known. As workers band together to bargain collectively with the employer around wages and working conditions instead of individually, they strengthen their position and can get a **better deal** (Dorigatti & Pedersini, 2021). While workers are individually replaceable, collectively they are indispensable to the functioning of the company, the sector and the economy at large. Research has thus shown that collective bargaining is associated with lower shares of low-paid employment and that, vice versa, a undoing of collective bargaining leads to a rise in low-paid jobs (Benassi & Vlandas, 2021).

The second mechanism is at play between the workers in companies. During the collective bargaining rounds, trade unions aim to negotiate similar wages for similar workers. Through the establishment of wage grids, the individual negotiation between worker and employer is limited: employers have to respect at least the collectively established minima. This means that workers with little individual negotiation power will get higher wages, leading to **less inequality in firms** and sectors (Dorigatti & Pedersini, 2021). There is equal evidence that the establishment of wage grids through collective bargaining also means that workers with very high individual bargaining power will end up with relatively less high wages (Leonardi et

al., 2015). All of this results in a compressed wage distribution in a company or sector, and therefore in reduced inequality.

Third, collective bargaining (and mostly coordinated sectoral bargaining) ensures equal pay for equal work by establishing wage grids for occupations in whole **sectors**. This means that individual wages are not (only) dependent the company circumstances and the individual bargaining power of the employee, but on pre-defined objective criteria related to the function of the employee and the competence level.

Fourth, collective bargaining and mostly sectoral collective **bargaining discourages undercutting strategies** of employers where employers try to gain a competitive advantage by reducing wages. By establishing sectoral minimum standards, wages are taken out of competition and employers are incentivised to gain a competitive advantage through higher quality, more efficient production etc. This, in turn, leads to higher wages in labour intensive industries and reduced inequality.

Why working in McDonalds is not all that bad, if you're in Denmark

McDonalds does not have the reputation of a great employer. Yet McDonalds workers in Denmark are relatively well off compared to their US colleagues. They receive decent pay, several weeks of paid leave and sick pay, conditions their US colleagues can only dream of. The explanation for this is sectoral collective bargaining, and solidarity actions. When [McDonalds](#) came to Denmark the fast-food company tried to operate outside of the system by avoiding the existing (yet not generally binding) sectoral collective agreement. After several years of trying to push the company to adhere to the system, the unions realised that there was no other option than to call a sympathy strike: dockworkers refused to unload containers for McDonalds, construction workers stopped the construction of McDonalds buildings, printers and advertisers declined to put the logo on cups or publish any related adds and no trucks were delivering any food or beer. Added to this, a large-scale boycott was declared. After some time, McDonalds admitted that it would now follow the sectoral collective agreement. As a result, McDonalds employees in Denmark are comparatively well paid, have good sick pay conditions and enjoy 6 weeks of paid leave (Bruenig, 2021).

Two further remarks are essential. First of all, the magnitude of the effect depends on the coverage and coordination in the collective bargaining systems. In countries with coordinated single-employer bargaining or sectoral bargaining, the prescribed effects are expected to be larger. Additionally, collective bargaining also affects inequality in other ways by, for

example, limiting the use of temporary work or indirectly by strengthening unions who push for general redistributive policies.

Second, and more importantly, while collective bargaining is arguably linked to inequality, inequality is affected by many more factors than collective bargaining alone. There are a number of factors that play a role here: unionization, social policy characteristics, structure of the economy (sectors), labour market structure and societal acceptance of wealth inequalities.

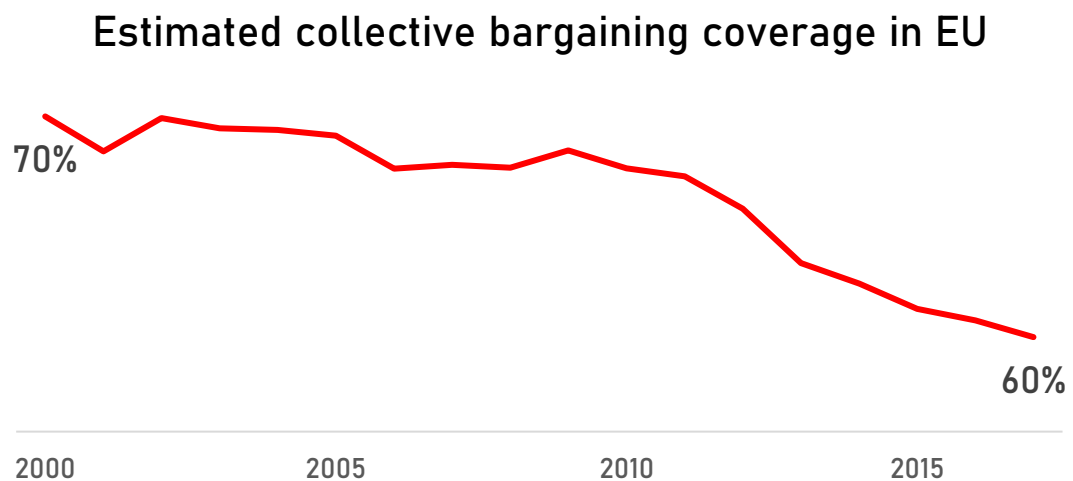
3 Collective bargaining: weakened through policy

While the equality reduction effect of collective bargaining is largely established, policy interventions in the last decades in Europe focused on weakening, rather than strengthening collective bargaining (Keune, 2015; Müller et al., 2019):

- Firstly, **cross-industrial collective bargaining** has largely disappeared or has been transformed into consultation in countries like Slovakia, Slovenia, Greece, Ireland and Romania. In some cases this was a direct result of legislative changes (Müller et al., 2019).
- Second, policy interventions facilitated or caused a general trend towards the **decentralization** (whether organised or not) of collective bargaining, shifting a part of the regulatory capacity from the industrial to the company level.
- Third, policy changes regarding the **role and place of trade unions** have further contributed to a decline in collective bargaining. Examples of such interventions are the tightening of representativity criteria for trade unions in Romania (Trif & Paolucci, 2019) and the opening up of (limited) negotiation rights for non-union actors in various countries (Müller et al., 2019).
- Fourth, **organizational support** for trade unions through their institutional embeddedness in, for example, the administration of unemployment benefits, has declined in some countries again contributing to a decline in trade union density and hence collective bargaining.
- Fifth, changes to the **right to strike** through restrictive regulation or strict social peace clauses undermine the bargaining power and position of trade unions and hence decrease its appeal.
- Last but not least, especially in those countries that were highly impacted by the 2008 crisis, political and **discursive opposition** towards collective bargaining was fierce.

All of this has contributed to a steady decrease in collective bargaining coverage which has been illustrated in several studies (e.g. Eurofound, 2020; Müller et al., 2019).

A recent estimate based on available European employment and collective bargaining coverage data (Figure 1) shows that between 2000 and 2017, collective bargaining coverage shrunk by **10 percentage points**. But what does this mean for workers? How are they affected? In short, workers are worse off. Had the collective bargaining coverage remained at the levels of 2000, a staggering **27 million** more workers in the EU would now be better off, benefiting from and protected by a collective agreement.



Data: ICTWSS for Collective bargaining coverage, Eurostat (LFSI_EMP) for employment in countries

Figure 1 - Estimated collective bargaining coverage in the EU (2000-2017)

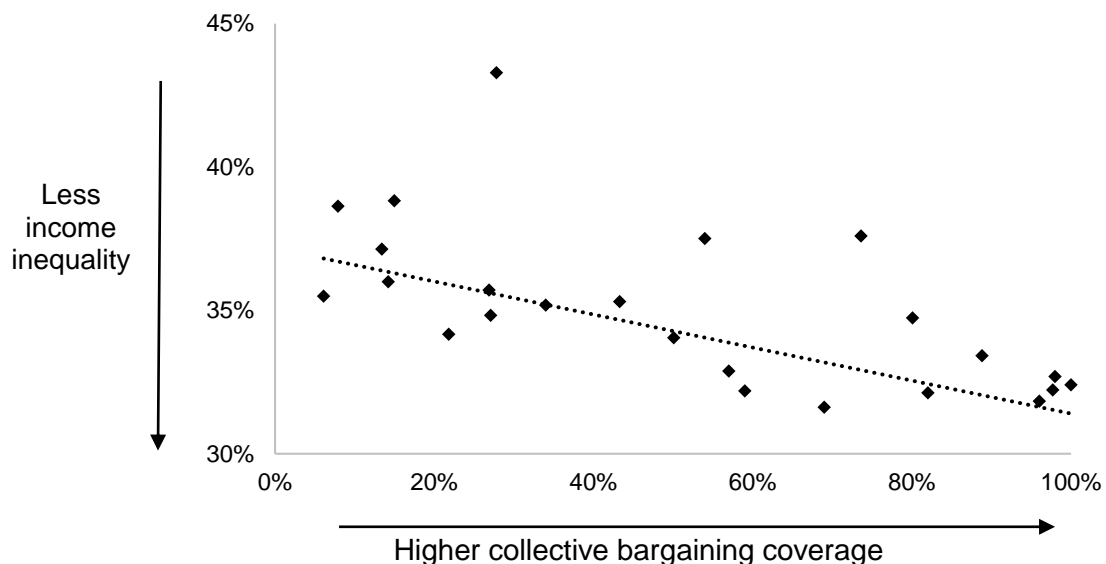
4 New data on collective bargaining and inequality: a strong association

In this research report, the relation between collective bargaining coverage and inequality is inspected. This is done through the unique combination of two datasets. On the one hand, the **OECD/AIAS ICTWSS database** (OECD/AIAS, 2021) is used for data on the collective bargaining coverage. This dataset contains rich information drawn from several sources on the number of employees covered by collective agreements in a specific year. In what follows, the AdjCov variable is used to measure the number of employees covered by a collective agreement as a proportion of all employees who are not legally excluded from the right to bargain. While

the dataset contains many datapoints for various years, quite often gaps exist in the data for some years. For the following graphs, this missing data was imputed.

The data on inequality is sourced from the **World Inequality Database** (2021) which aims to be the most extensive database on historical evolutions in inequality of income and wealth. The variable used is the **'top 10% income shares'** which measures the share of the total income going to the top 10% incomes. The higher this share, the less is the total income available for the '90%' and thus the larger the inequality is.

Figure 2, shows the relation between collective bargaining coverage and inequality for the year 2019. In countries with higher collective bargaining coverage, the share of the income going to the top 10% is relatively smaller. This confirms much of the previous studies showing a clear link between collective bargaining and income inequality.



Source: x-axis adjusted collective bargaining coverage (2019), ICTWWS
y-axis: incomes share of top 10% (2019), WID

Figure 2 - Collective bargaining coverage & inequality

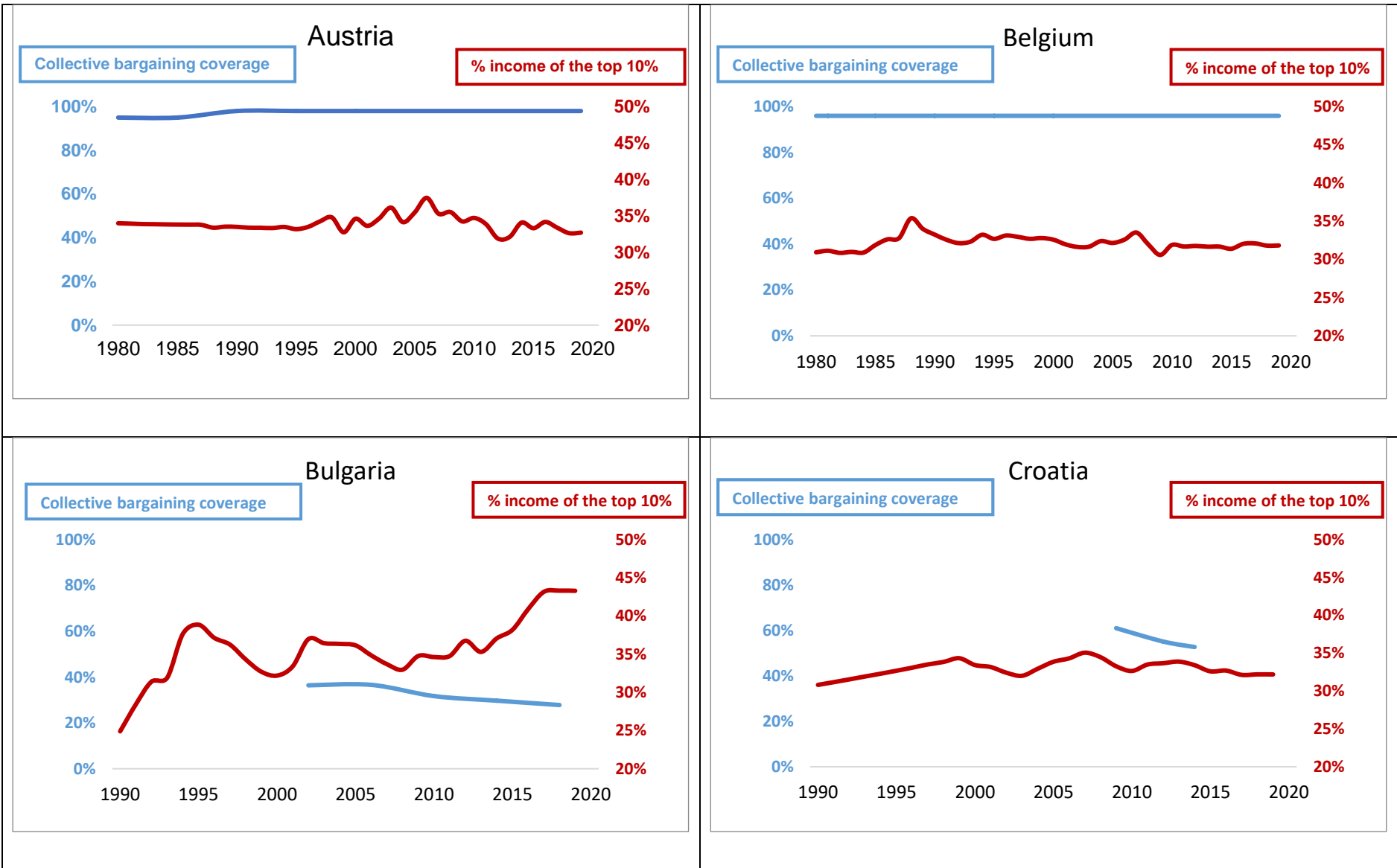
The figures shown on the next pages focus on individual countries and their evolutions regarding collective bargaining and inequality over time. For data availability reasons, some time series run from 1960 to 2019, while others (mostly CEE countries) are restricted to more limited periods.

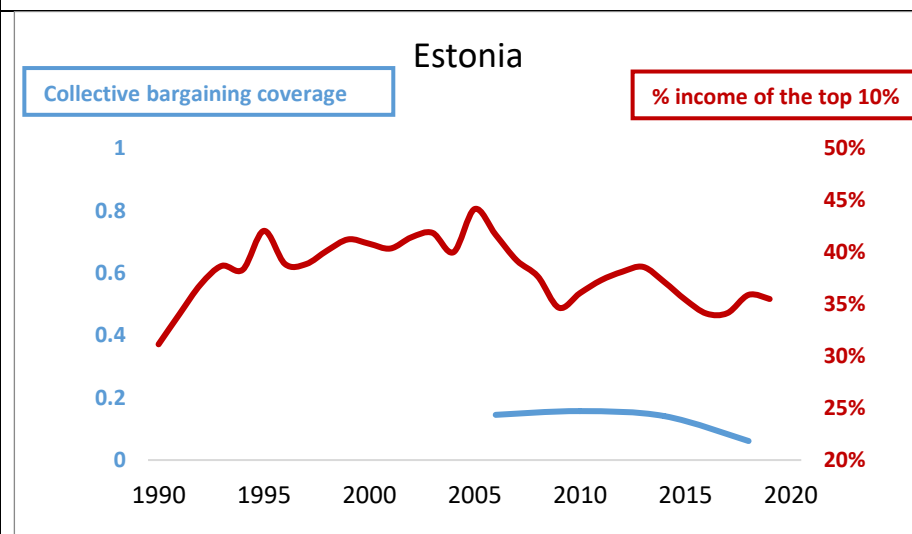
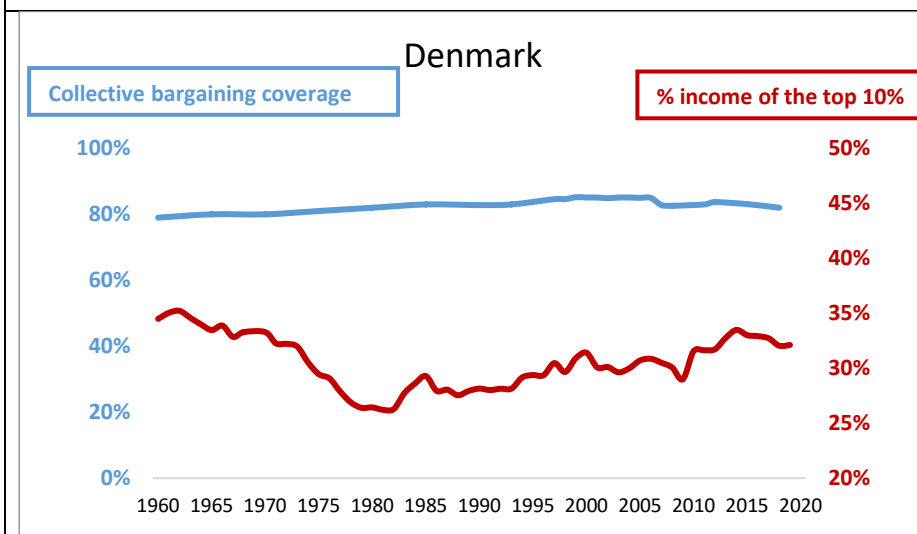
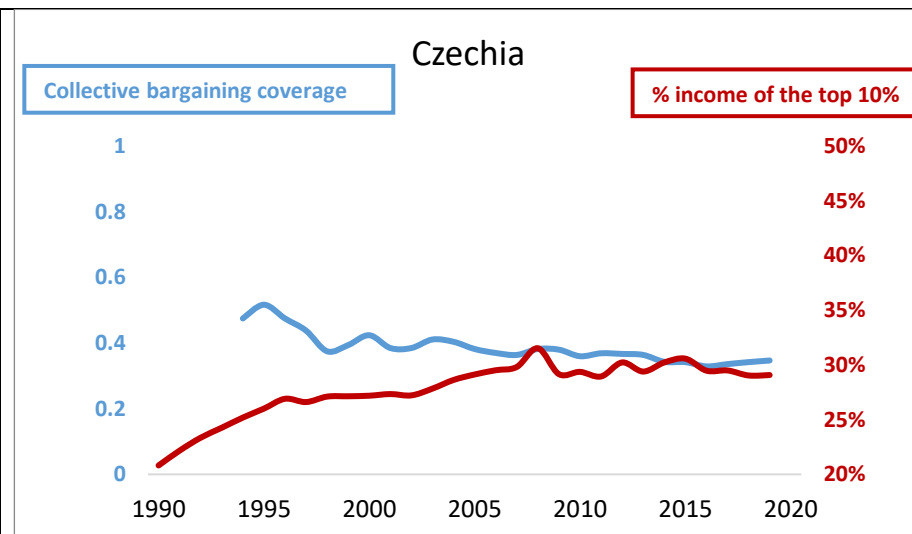
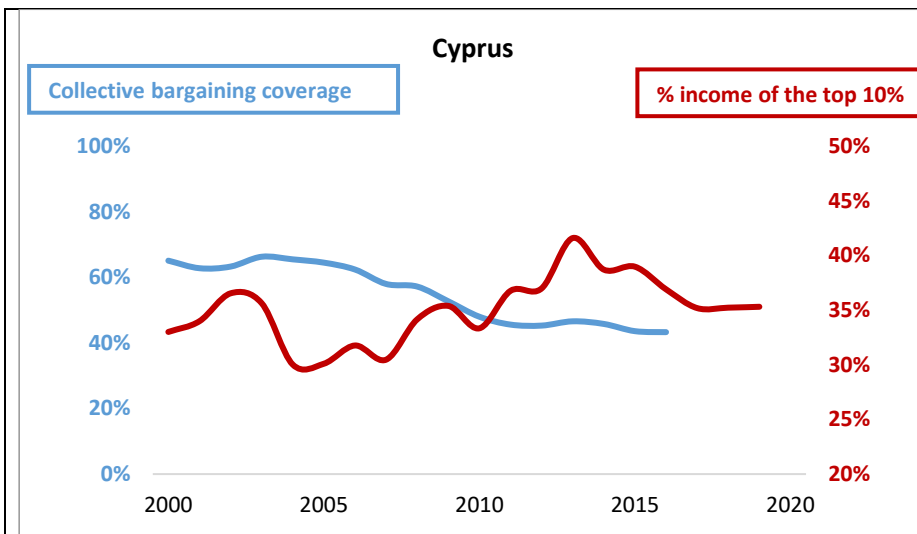
The patterns in these figures go in the same direction:

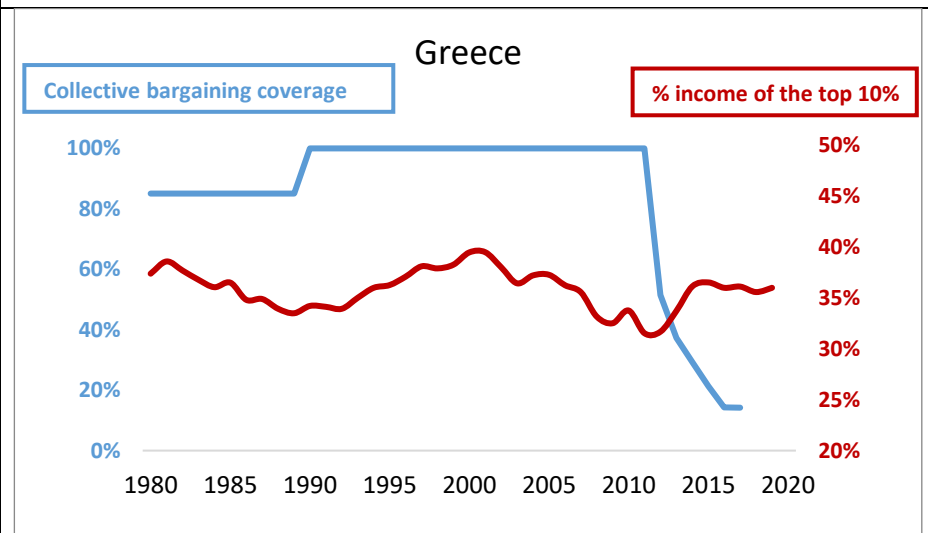
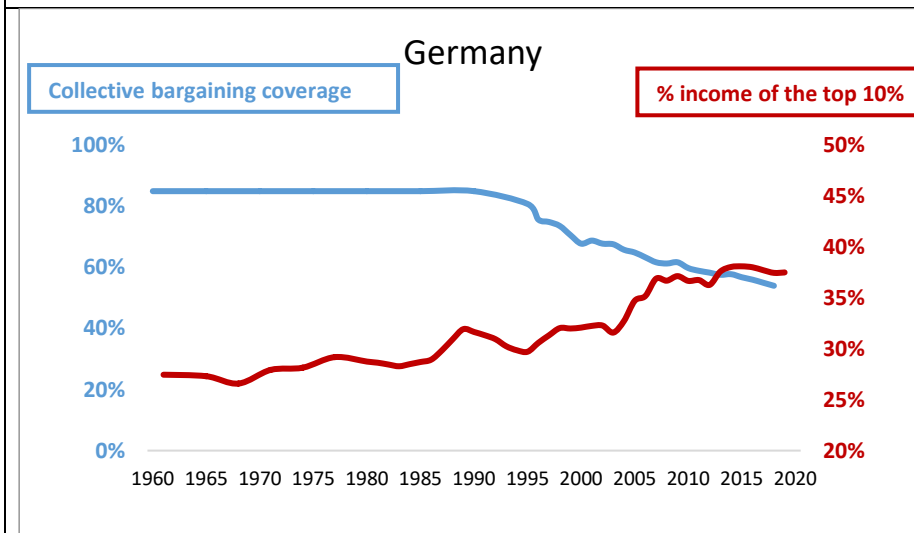
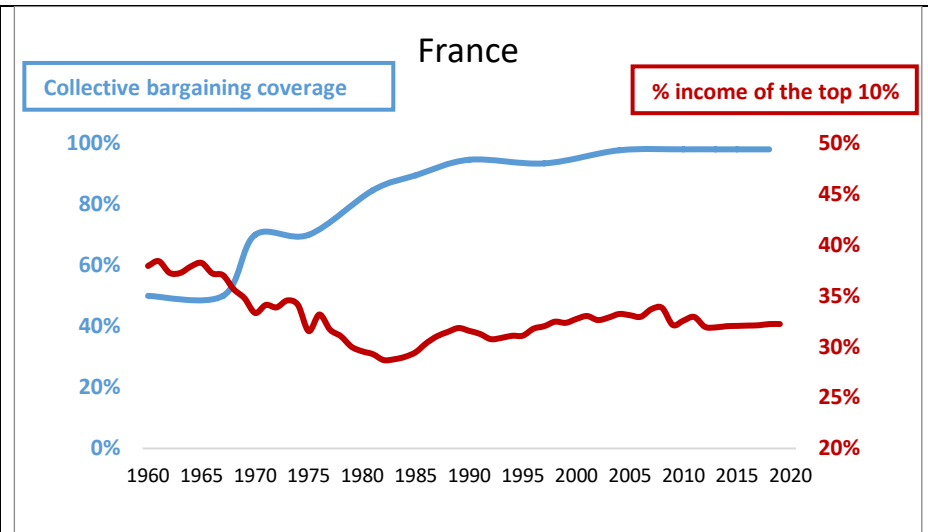
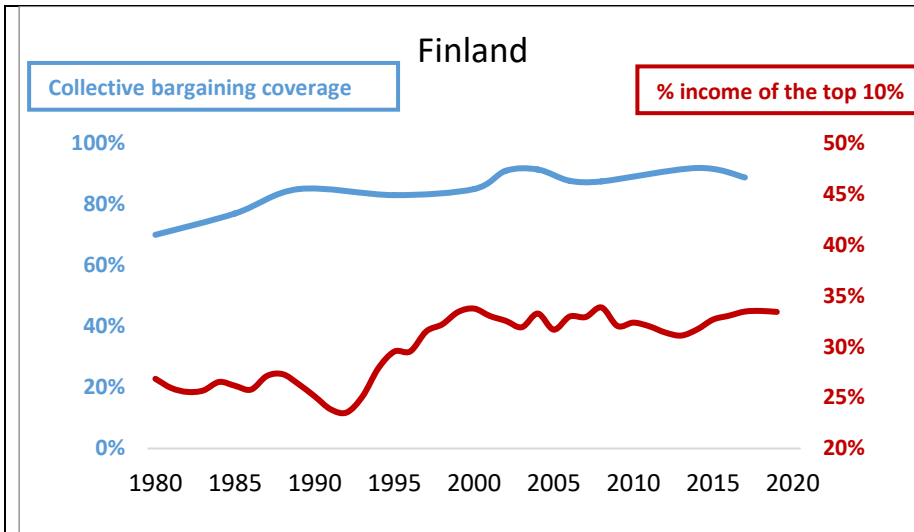
- When **collective bargaining coverage declines**, income **inequality tends to increase**. Examples are Bulgaria, Cyprus, Czechia, Germany after 1990, Greece after 2008, Hungary, Ireland, Malta, Poland and the UK.
- When collective bargaining coverage **remains stable** at a high level, **inequality remains stable** too. Examples are Austria, Belgium, Denmark, Netherlands, Sweden.
- When collective bargaining coverage remains stable at a low level, inequality is relatively high. Examples are Latvia, Lithuania.
- When **collective bargaining coverage increases**, **inequality decreases**. One example is France between 1960 and 1990.

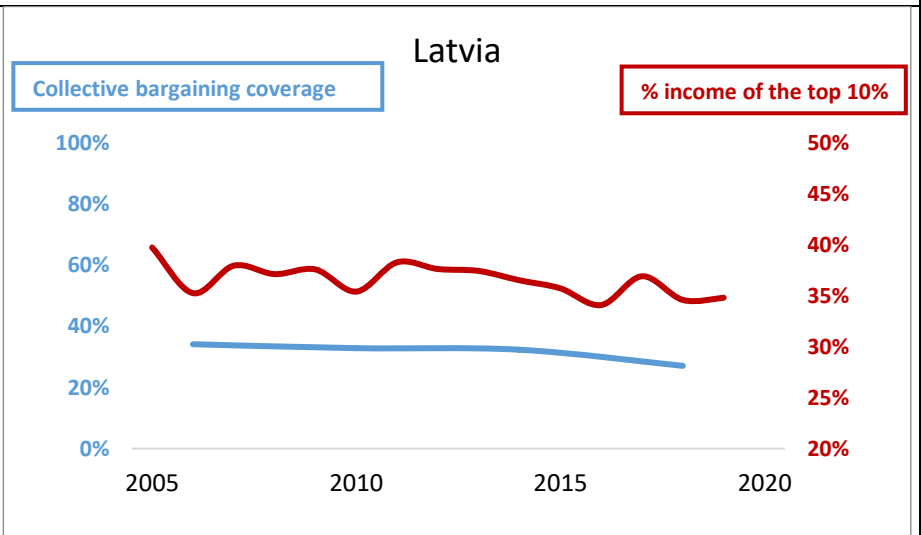
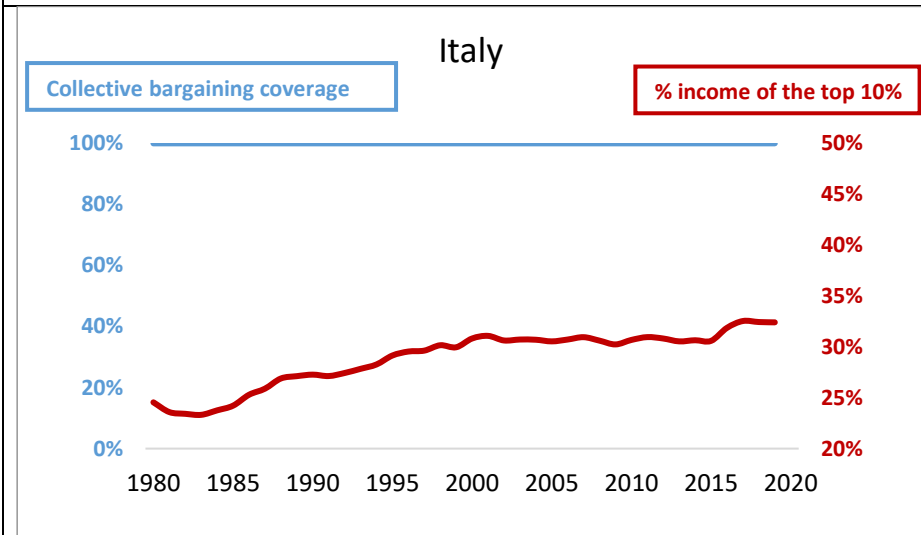
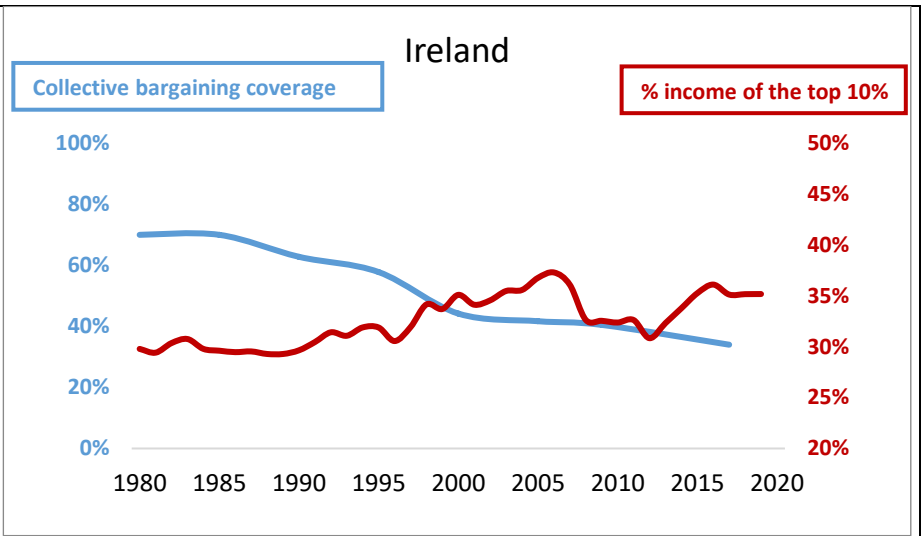
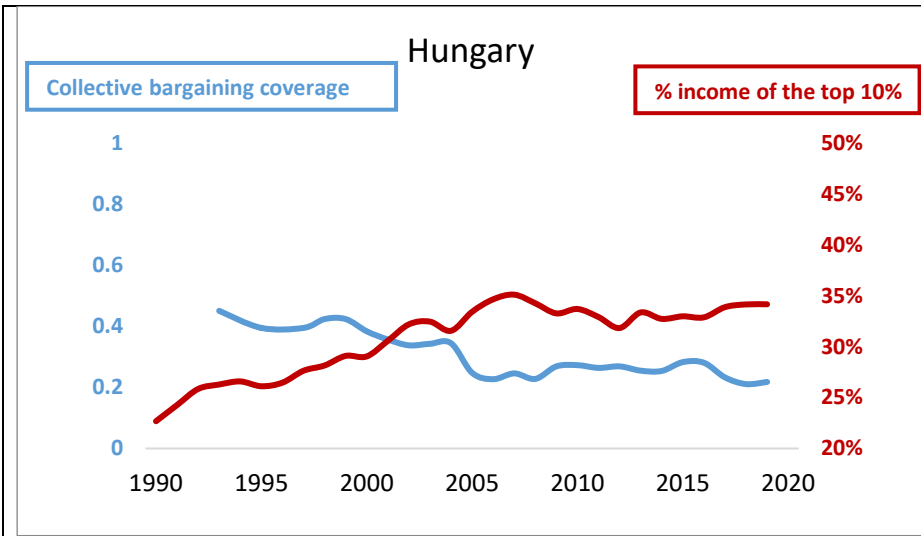
These figures show that collective bargaining coverage is not only related to lower inequality in general, but that changes in collective bargaining coverage quite often coincide with changes in inequality levels in countries.

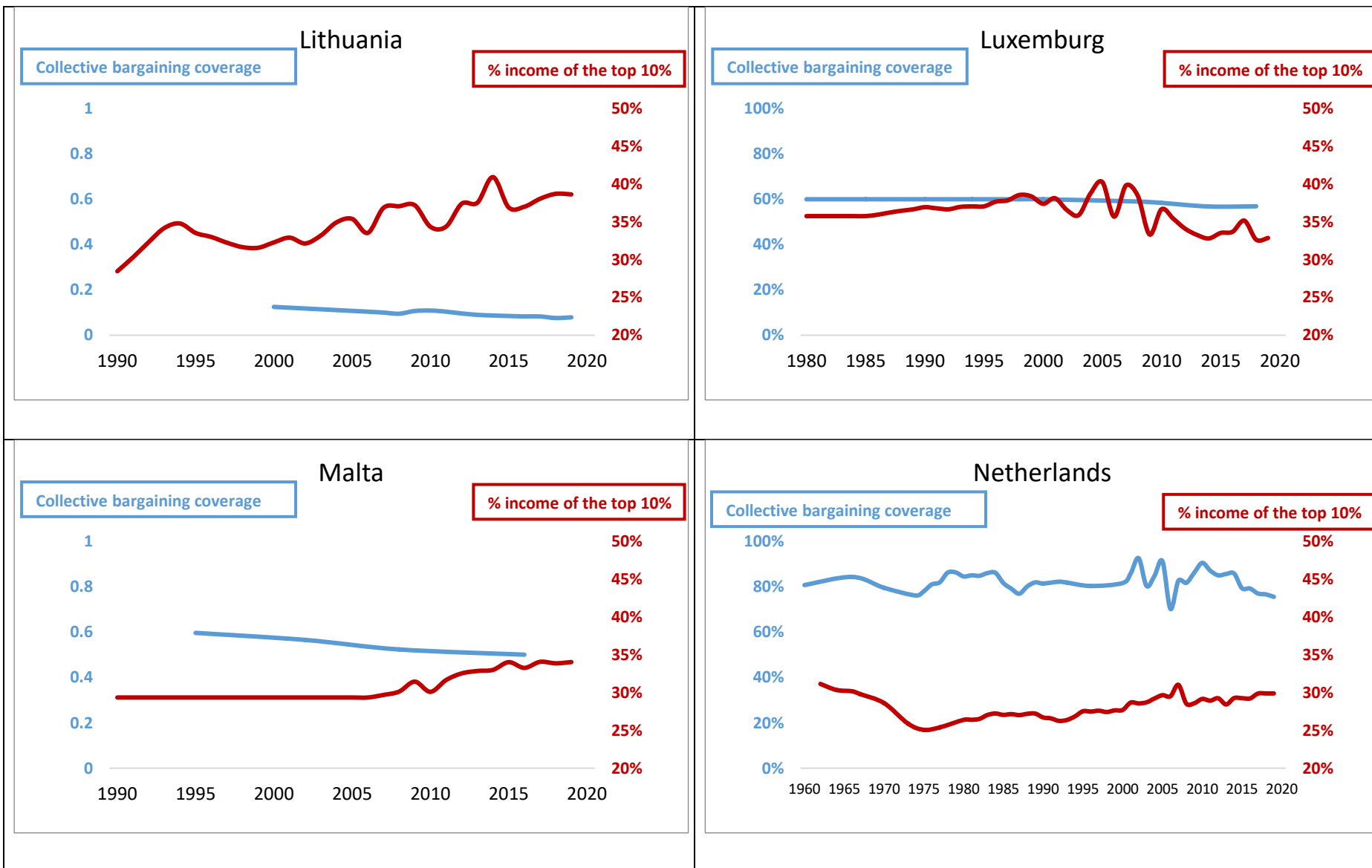
This observation adds to the argument that collective bargaining is a main cause for reduced income inequality. Obviously, collective bargaining is not the only determinant of inequality, explaining some variations and why some countries do not fit in the pattern clearly.

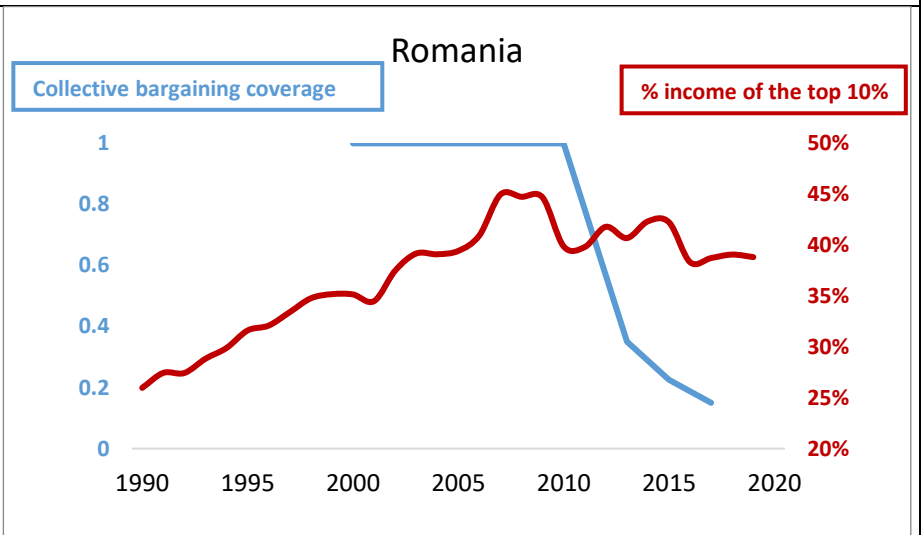
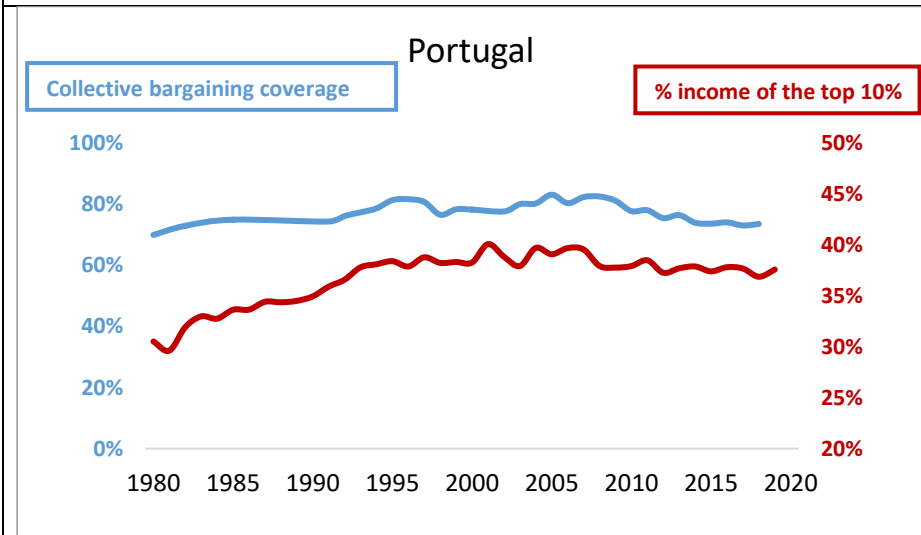
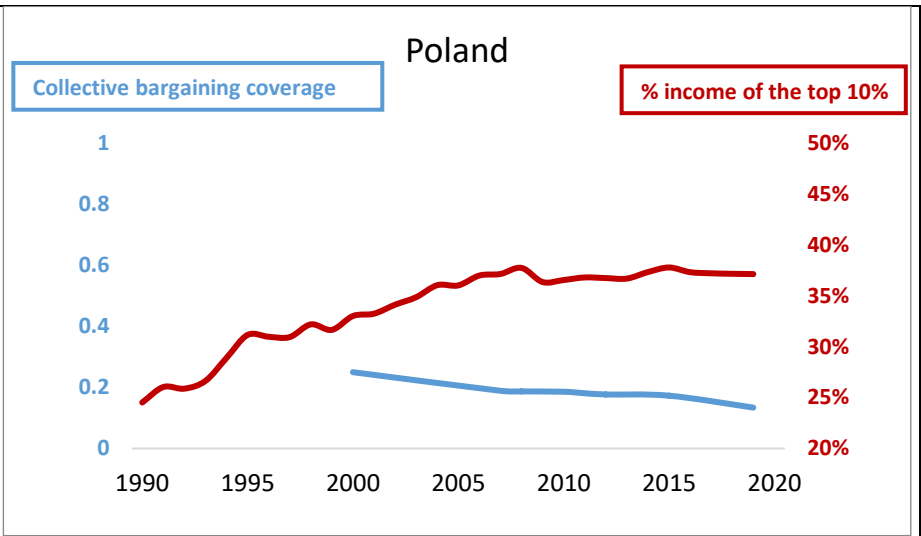
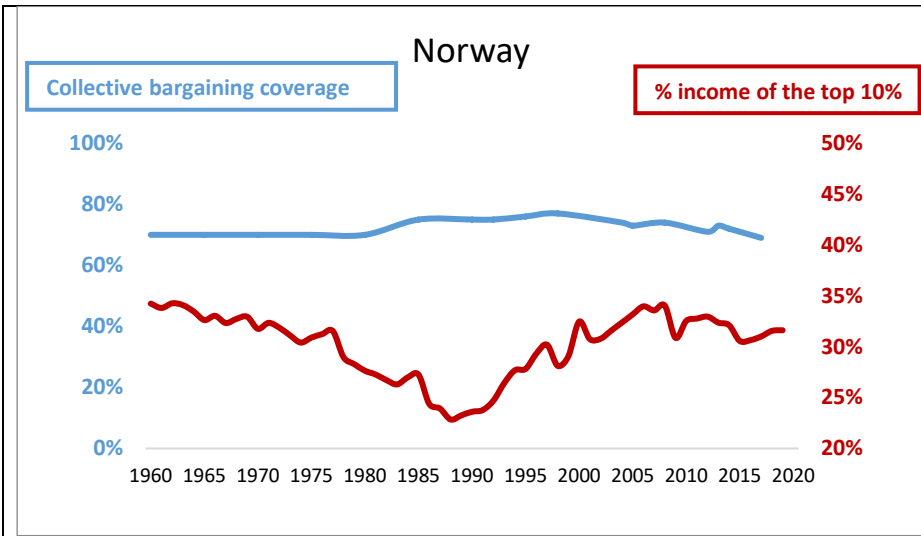


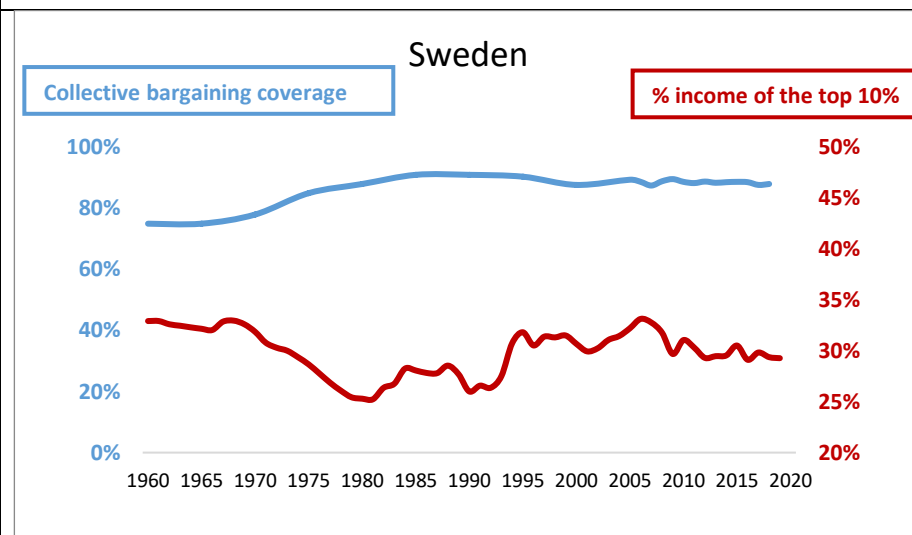
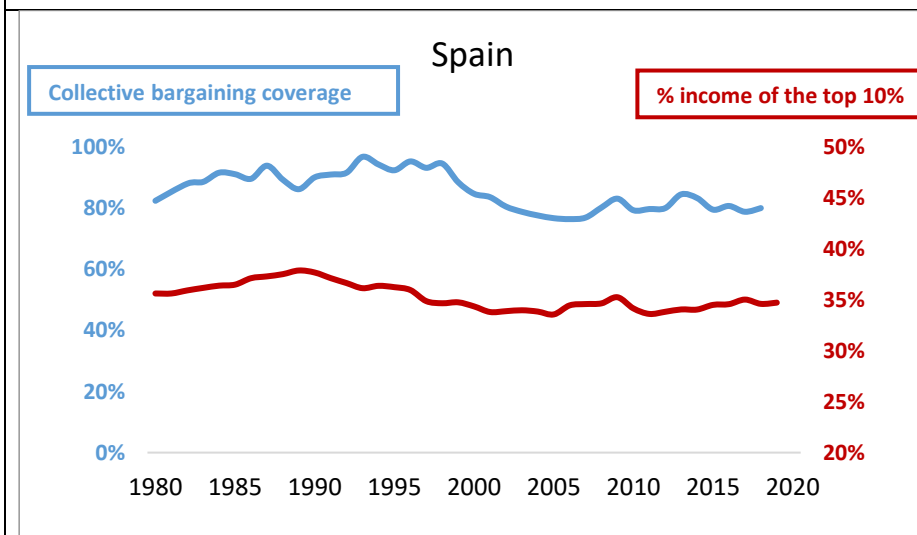
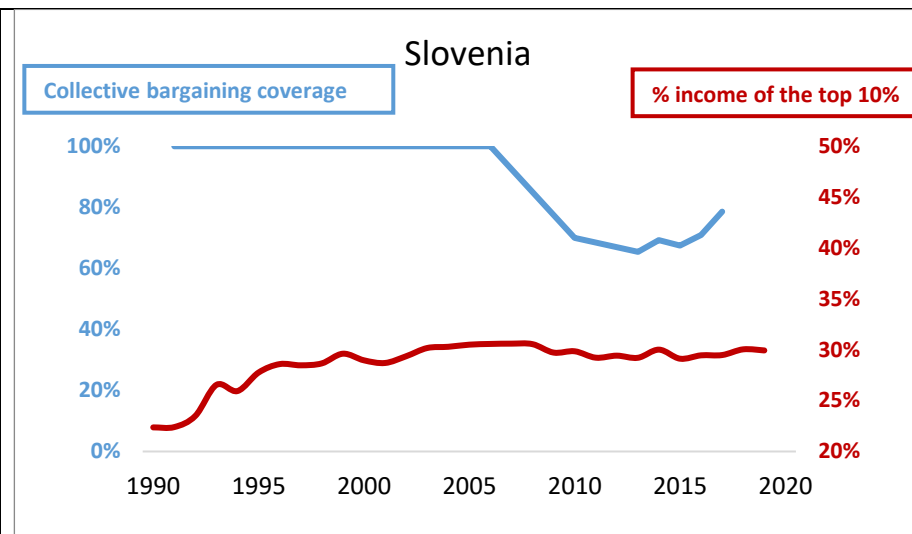
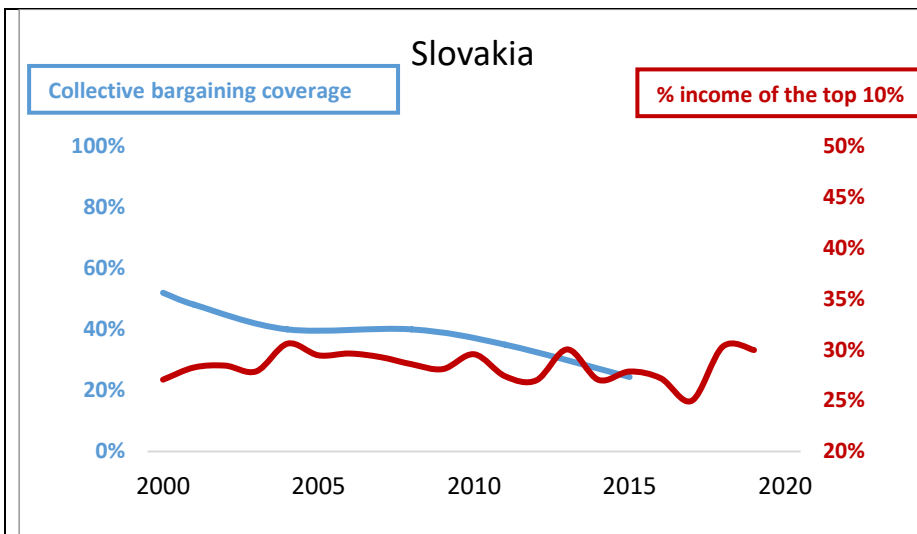




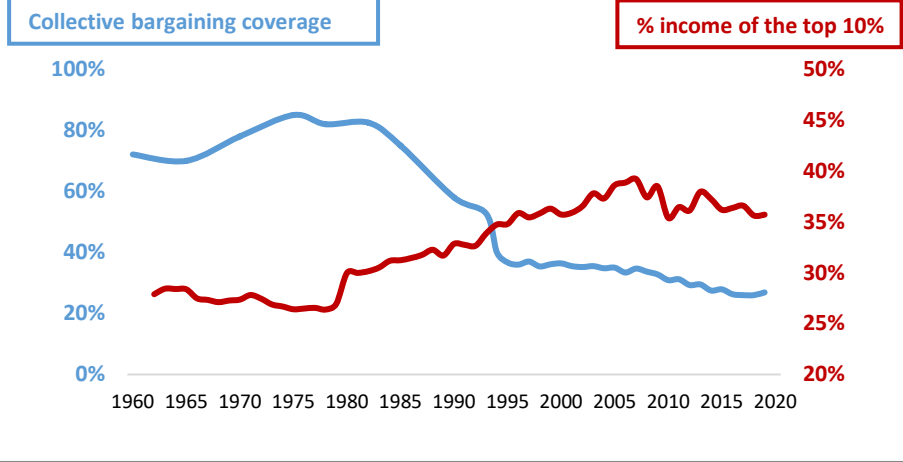








United Kingdom



5 Policy pointers: strengthening through policy

If the European Union wants to “*reinvigorate our European social model*” ([Porto Summit](#)) it is to reorient its policy of planned obsolescence towards one of **planned relevance** and take decisive steps towards a **strengthening of collective bargaining in Europe**.

Given the strong link between income inequality and collective bargaining coverage, the European Union and its Member States need to take decisive action on strengthening collective bargaining coverage.

Given that the decline in collective bargaining coverage can largely be attributed to policy decisions and options, **policy** should equally take a central role in restoring collective bargaining. Policy can do so via various methods such as:

- Reducing barriers to the right to organise, the right to strike and to bargain collectively.
- Actively promoting trade union membership through Ghent-system like structures.
- Restoring or establishing cross-industrial collective bargaining by extending the rights of consultative social dialogue bodies.
- Restoring or establishing a clear hierarchy of norms which gives preference to sector level collective agreements.
- Restoring or establishing a legal framework for sectoral level collective agreements that is enabling rather than inhibiting.
- Investing in capacity building for company and sectoral level social partner organisations.
- In public procurement, ensuring that all public contracts go to companies with collective agreement that respect trade union voice.
- Providing sufficient protection to workers representatives and putting an end to union busting.
- Ensuring compliance with collective agreements through strong social inspection services.

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