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TUAC Comments on the OECD Employment Outlook 2018

- Making the case for coordinated and multi-employer collective bargaining systems

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Arguments in favour of decentralised bargaining

For decades, international organisations have taken the view that collective bargaining should take place at the level of individual companies. For example, the OECD 1994 Jobs Strategy pushed for more firm-level bargaining by insisting that the instrument of administrative extension of collective agreements to all firms (and their workers) within a given sector should be phased out. For its part, the IMF rarely has missed the opportunity to weaken sector level bargaining systems when a country has been requesting its financial assistance.

This view in favour of decentralised bargaining is based on both a macro-economic as well as a micro-economic argument. Both reflect the idea that higher level, sector-wide or multi-employer bargaining agreements are detrimental because they favour the "insiders" at the expense of the "outsiders".

The macroeconomic argument claims that multi-employer bargaining systems, such as sectoral ones, strengthen the bargaining position of labour by reducing "outside" options that management would have otherwise. Wages are boosted but at the expense of the creation of sufficient jobs for the unemployed. The latter would be particularly true when rigid wages prevent firms from responding to an aggregate negative demand shock by giving up wages in return for keeping jobs.

The micro-economic argument is that the link between wages and individual firm-level productivity gets broken when higher-level common wage standards are set. As productivity performance diverges across firms, those recording lower productivity would be bankrupted and their workers "priced out" of a job.

Fully decentralised bargaining systems generate inferior employment performance

The very same international organisations that were active in promoting company-level bargaining have published new research that questions, if not contradicts the view that decentralised bargaining improves labour market performance. In a recent research paper[i], the IMF finds that reforms that move collective bargaining in the direction of the company level would increase GDP per capita by 5 percentage points… over a 50 year-period. In other words, the impulse to average annual growth over these 50 years would be less than 0.1%. Moreover, the estimated coefficient is not statistically significant.

However, the most compelling research questioning reforms toward company-level bargaining can be found in the 2018 OECD's Employment Outlook. Here, the OECD starts by classifying countries into five different systems of collective bargaining. The position of each country in this classification is allowed to fluctuate over the 1980-2015 period:

- **Predominantly centralised and weakly co-ordinated collective bargaining systems**. In 2015: France, Iceland, Italy, Portugal, Slovenia, Spain and Switzerland.
- **Predominantly centralised and co-ordinated collective bargaining systems.** In 2015, Belgium and Finland.
- **Organised decentralised and co-ordinated collective bargaining systems.** In 2015, Austria, Denmark, Germany, the Netherlands, Norway and Sweden.
- **Largely decentralised collective bargaining systems.** In 205: Australia, Ireland, Japan, Greece, Luxembourg and the Slovak Republic.
- **Fully decentralised collective bargaining systems.** In 2015: Canada, Chile, the Czech Republic, Estonia, Hungary, Korea, Latvia, Lithuania, Mexico, New Zealand, Poland, Turkey, the United Kingdom and the United States.

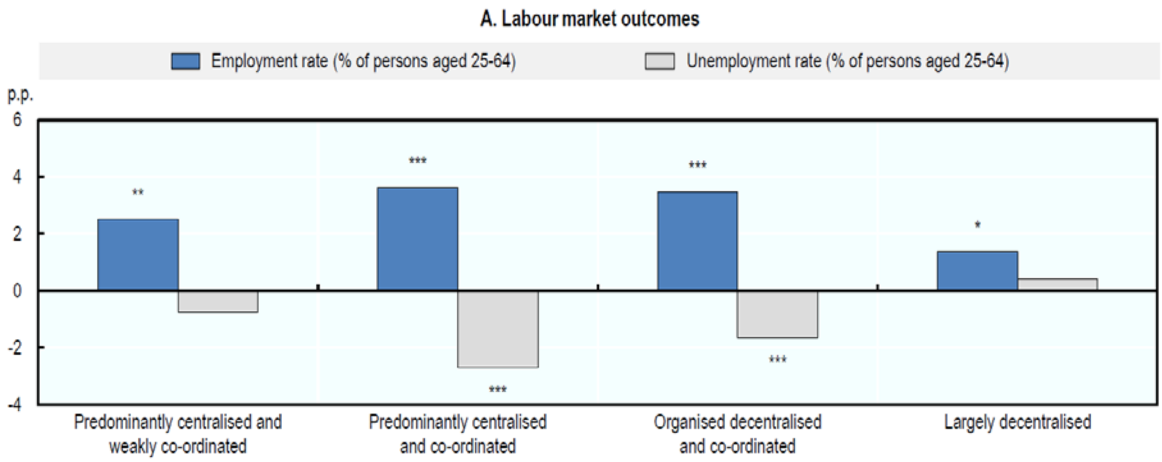
This classification forms the basis for an econometric estimation of the impact that different systems of collective bargaining have on labour market performance, with factors such as the state of the business cycle, workforce characteristics, and the use of temporary contracts being controlled for. Results are expressed in comparison with the system of *fully* decentralised bargaining. The latter is defined as a model where bargaining is essentially confined to the firm level with no or very little coordination from higher level organisations or government influence.

The OECD conclusions are striking: "*co-ordinated systems – including those characterised by organised decentralisation – are linked with higher employment and lower unemployment (also for young people, women and low-skilled workers) than fully decentralised systems. Predominantly centralised systems with no co-ordination are somewhat in between*". What matters most for labour market performance is not whether collective bargaining takes place at company level but whether there is coordination. As can be seen from the graph below, compared to a system of fully decentralised bargaining, employment rates are significantly higher when trade unions and employer federations manage to align the bargaining agendas of the different negotiating parties upon common objectives (In 2015, Belgium, Nordic countries, Germany, Austria and the Netherlands were seen by the OECD as a coordinated system).

At the same time, systems of collective bargaining that are predominantly centralised (France, Spain, Switzerland, Iceland, Italy, Portugal, Slovenia), even if only weakly coordinated, are also showing relatively better employment outcomes compared to fully decentralised bargaining. Largely decentralised bargaining (Ireland, Japan, Greece, Slovakia, Australia, Luxembourg) does perform better than fully decentralised bargaining but only slightly so and much less compared to the other systems mentioned above. Economies with *fully* decentralised bargaining by definition close this ranking and have inferior labour market performance compared to all other models (US, UK, Canada, New Zealand, Poland, Chile, Korea, Ireland, and Baltics, Turkey).

Collective bargaining systems and employment outcomes

Difference in percentage points with respect to fully decentralised systems

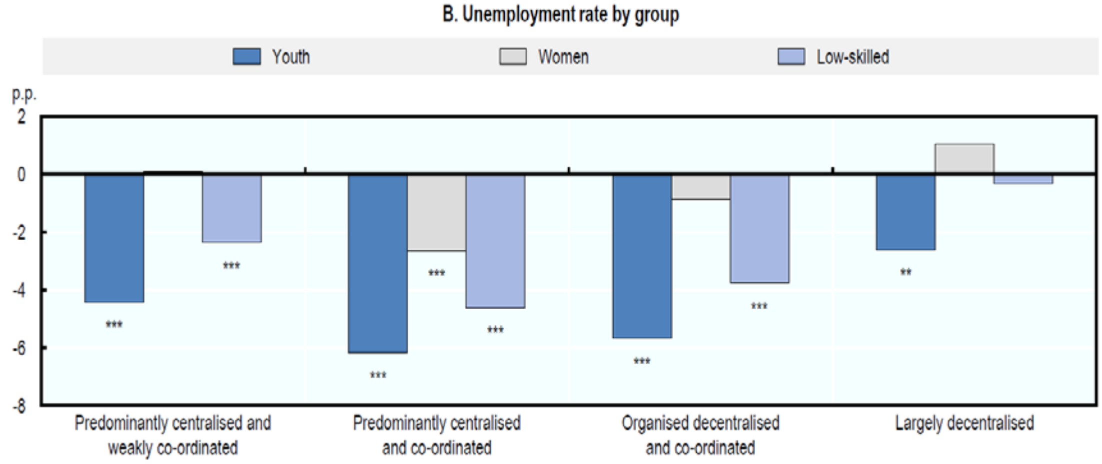


Source: OECD Employment Outlook 2008

Youth, women and low-skilled workers are better off in more centralised systems

More centralised systems of collective bargaining are often accused of protecting those workers that already have jobs ('insiders') at the expense of more vulnerable workers who find it difficult to access the labour market ('outsiders'). The new research from the OECD contradicts this theory. Compared to fully decentralise bargaining, unemployment rates for groups such as youth, women and the low skilled are significantly lower in coordinated and/or centralised bargaining systems (see next graph).

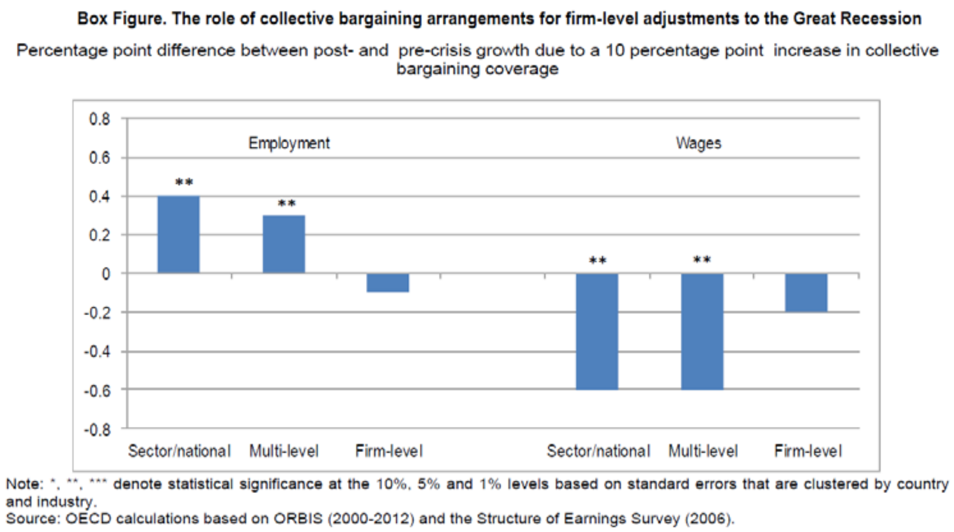
Collective bargaining systems and unemployment of specific groups



Source: OECD

Labour market resilience

A previous edition of the OECD [Employment Outlook] failed to demonstrate the other argument of company-level bargaining saving jobs in the event of a negative demand shock. Instead, the conclusion was that firms covered by centralised and multi-level collective bargaining agreements experienced better employment performance in the four years from the 2009 crisis compared to firms with no collective bargaining agreement, whereas firm-level bargaining appears to make things worse (see next graph). As argued by the OECD at the time, short-time working schemes, where the government financially steps in to offset the impact on workers of reduced working hours and weekly pay, are driving this phenomenon of labour market resilience. The presence of robust national and/or sectoral employer and trade union organisations makes a policy dialogue to set up or implement such short time working schemes much more straightforward, thus explaining this link between centralised and multi-level bargaining and job resilience that is unveiled by the OECD.



Source: OECD

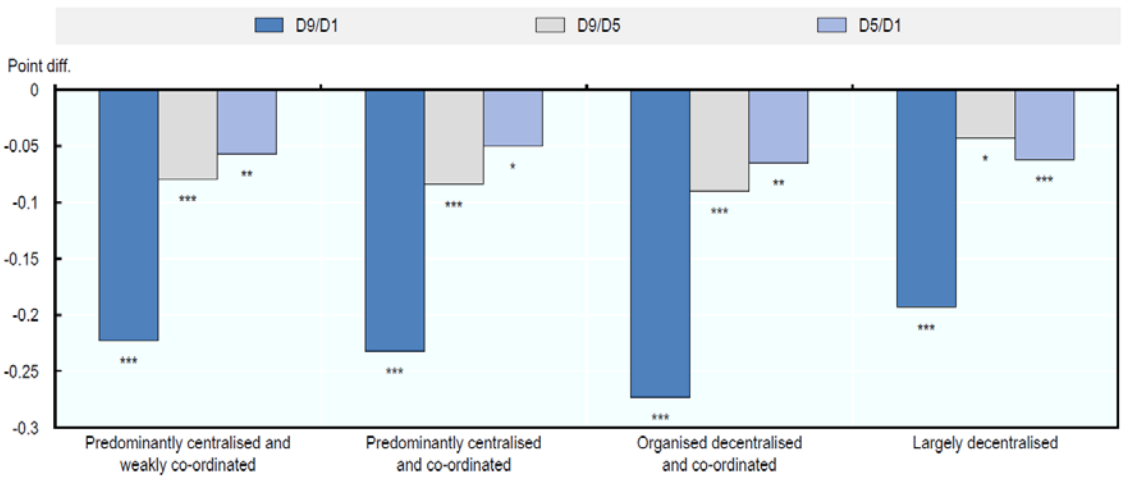
Bad for inequality

Besides concluding that fully decentralised bargaining goes hand in hand with inferior labour market performance, the OECD report is also pointing to the fact that such bargaining is pushing up inequality. For full-time employees, the ratio of the wage of the 10% workers who are in the ninth highest wage decile to the wage of the workers in the lowest decile becomes more compressed in bargaining systems that are not fully decentralised (see next graph).

When delving into the micro-data, the OECD report finds that collective bargaining strengthens the relative wage position of lower educated workers, especially in case of sector-level bargaining. While the OECD report does not elaborate further on this, the background to this finding is that such workers are more vulnerable to the power of employers setting wages unilaterally and at their own discretion instead of paying the prevailing market wage. Whereas better skilled and educated workers may counter employer power over wage by shifting to another job in another company, workers who are at the lower end of the job ladder tend to do less so (as they have less information about alternative jobs, pay levels elsewhere, have fewer resources to do substantive job search efforts or to reinvest in another job and/or make less use of negotiating techniques using the threat to change jobs as a point of leverage). For these workers in particular, stronger collective bargaining is a necessary counterbalance. Accordingly, it comes as no surprise to find a much more compressed wage ratio when collective bargaining is stronger.

Collective bargaining and the wage distribution

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 wedges, product market regulation, employment protection legislation (both temporary and permanent), ratio of minimum wage to median wage and gross unemployment benefit replacement rate). Earnings inequality measures are based on gross earnings of full-time wage and salary workers. D1, D5 and D9 stand for the first, fifth and ninth decile of the wage distribution.
Source: OECD estimates. Details on sources and definitions can be found in Annex 4.B.

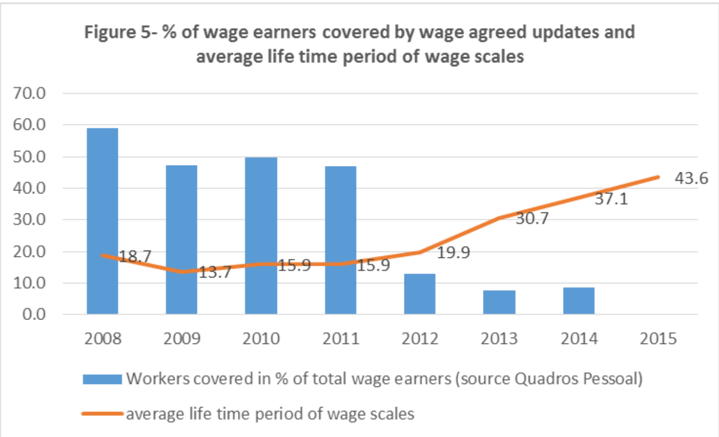
Yet, policy recommendations that restrict extension of sector-wide agreements continue

Moving to the policy recommendations however, the 2018 Employment Outlook fails to offer a clear-cut position in favour of the strong elements of coordination and centralisation of collective bargaining systems. The focus is still on policy measures that weaken the power of this instrument in setting sector-level wage standards, *inter alia*:

- Submit administrative extension of sector agreements to the condition that the initial collective agreement is signed by employer and/or trade union organisations that representing a 'reasonable' share of workers;
- Submit the use of administrative extensions to a "public interest" test, such as the impact on employment. The OECD thereby believes that extension can run counter to the public interest, a view that is not shared by the ILO[ii] and the approach adopted by many countries, for which public interest concerns such as the need to establish training funds or the need to avoid wage dumping, would precisely facilitate (not restrict!) the use of extensions.
- Allow companies to request the Labour Ministry an exemption from the agreement, or make pre-defined and clear criteria for exemptions a condition for extension.
- Provide different wage conditions within the sector agreement according to region, size or age of companies.
- Introduce opening or opt- out clauses that allow individual firms to deviate from sector - wide agreements.

Experience with these measures is far from positive. The "troika" (IMF- ECB-European Commission) in the European economies that suffered the most during the financial and euro crisis requested several of these measures. When applied, they resulted in a serious weakening or even an outright collapse of collective bargaining coverage. The case of Portugal where coverage of new collective agreements that update wages fell from 58% of workers to only 9% after imposing a 60% representativeness threshold provides a vivid illustration. Employers were extremely reluctant to negotiate any new collective agreement, as they feared that non-member employers would grasp the absence of extension as an opportunity to undercut the collective agreement.

Portugal: Falling coverage of collective agreements updating wages



Declining bargaining coverage however was not the only result. Country case studies from ETUI research[iii] (Spain amongst others) underline the fact that employers themselves experienced the collective bargaining reforms as negative. Employers reported that reforms had harmed social climate and trust by re-introducing the issue of distribution of added value and "class struggle" from the sector level back onto the shop floor. Moreover, these social conflicts were then delegated to labour courts, thus increasing the role of the judiciary system in company management, a trend much disliked by employers.

Conclusions

Two conclusions can be drawn.

First, the traditional view that higher inequalities are the inevitable price to pay for improved labour market performance needs to be rejected. Multi-employer and coordinated bargaining supports stronger employment performance while at the same time also reducing wage inequalities. In contrast, fully decentralised, company-level bargaining works to increase inequalities while resulting in inferior employment outcomes.

Second, policy makers should stop advancing proposals that weaken or hollow out existing systems of multi-employer bargaining. As described above, there appears to be a lot of ingenuity in particular when it comes to subjecting the administrative extension of sector agreements to all sorts of conditions. Such proposals weaken the role of common sector-level wage standards, thereby risking to unbalance current bargaining systems and to reduce collective bargaining coverage and, in the end, to weaken the capacity to coordinate. They would achieve what should be avoided based on the OECD research itself: a devolution of the bargaining system into uncoordinated and/or pure firm-level bargaining or, even worse, no bargaining at all.

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[i] http://unassumingeconomist.com/2018/01/growth-equity-trade-offs-in-structural-reforms/

[ii] [ii] Hayter, S. and Visser, J. (2017) "The application and extension of collective agreements: Enhancing the inclusiveness of labour protection", International Labour Review

[iii] Koukiadaki, Tavora and Lucio (2016) "Joint regulation and labour market policy in Europe during the crisis" ETUI publication, Brussels.