Trade Union
Advisory Committee
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The OECD Employment Outlook acknowledges the importance of strengthening collective bargaining for labour market recovery and protecting workers against the "cost-of-living" crisis

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In brief

- This year's Employment Outlook calls strongly and explicitly on strengthening collective bargaining in order to improve working conditions and labour market performance at large. An analysis of labour market concentration leads the OECD to conclude that at least one in six workers is employed in a monopsonistic market, in which employers benefit from having significant power to unilaterally set wages and working conditions. This translates into low employment and wages, as well as decreased job quality. TUAC welcomes the OECD's emphasis on the need to counteract this trend and to protect worker's living standards in the current "cost-of-living" crisis by strengthening collective bargaining and expanding its coverage, in particular to vulnerable and non-standard workers.
- OECD labour markets have been recovering quicker than expected since the peak of the COVID-19 crisis, but the war in Ukraine weakened the process.
- The average OECD unemployment rate has returned to below pre-pandemic levels, but important differences persist between countries and sectors.
- Most worryingly, while there seem to be not enough workers for the number of job openings, wages are not rising. There are currently no signs of a wage-price spiral, an argument often used by employers and governments to oppose wage increases.
- Inflation pressures, first triggered by supply-chain bottlenecks during the recovery from COVID-19, have increased because of the war in Ukraine, with food and energy prices driving the spike. Real wages are expected to take a major hit in 2022, with low-income households struggling the most, since a higher share of their income goes towards food and energy bills.
- Beside labour market monopsony, excessive firms' wage-setting power has important consequences on wage inequality. One third of overall wage inequality does not stem from differences in workers' skill but rather from firms' power to bargain and impose lower wages. Similarly, such power accounts for ¼ of the gender wage gap. Collective bargaining is an important tool to strengthen wages,

reduce inequality and force less productive firms to move away from cheap labour as primary source of competitiveness.
- Overall, the 2022 Employment Outlook builds a strong case in favour of collective bargaining and the urgency to re-balance bargaining power between employers and workers. It represents an important call for governments to improve working conditions. The OECD should work on mainstreaming such important message, while governments should act in defence of workers and reversing decades of policies that dismantled their rights.

Introduction

The 2022 edition of the Employment Outlook presents a lucid portrait of a labour market squeezed between, on the one hand, the economic consequences of two major crises - COVID-19 and the war in Ukraine - and, on the other, structural issues of labour market monopsony and firms' increasing power to set wages.

In the face of these rising challenges, the Employment Outlook calls on governments to act in defence of workers and their collective bargaining rights. It states that "[p]rotecting living standards also requires rebalancing bargaining power between employers and workers, so that workers can effectively bargain for their wage on a level playing field." This message resonates throughout the publication, offering evidence of the urgent need to reform labour markets by means of enhanced collective bargaining.

TUAC has repeatedly argued that there is a strong correlation between weakened workers' bargaining power and falling job quality. By systemically ignoring the centrality of industrial relations to labour market outcomes, the OECD has relied too long on a narrow set of policy recommendations for boosting employment and raising inclusiveness, pivoting on training and skilling policies, as well as boosting market competition. The Employment Outlook pushes the boundary forward, demonstrating how said measures are inadequate if workers lack sufficient bargaining power to demand better jobs and a fairer distribution between profits and wages.

TUAC insists that such conclusion should set a new course for the whole of the OECD to further pursue research and gather evidence on labour conditions, providing targeted recommendations for labour markets that are fairer, more inclusive and better serve the interests of workers.

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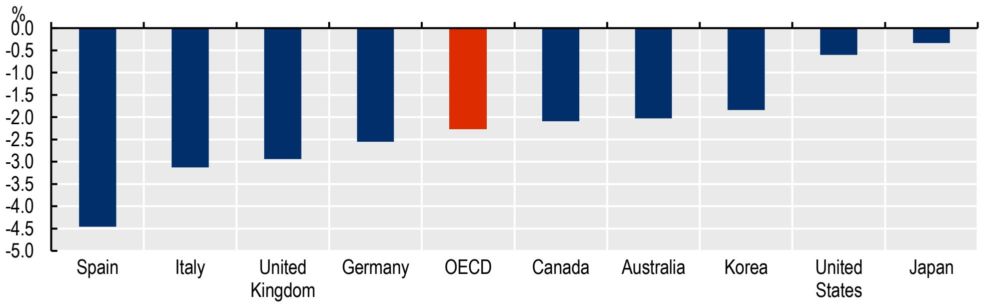
Workers in between COVID-19 and the economic fallout of the war in Ukraine

The first two chapters of the Employment Outlook provide an update on current labour market dynamics and the role governments played in protecting jobs during COVID-19.

The prompt and massive response of governments from the early stages of the COVID-19 emergency helped caution its economic impact in developed countries. In particular, job retention schemes preserved the nexus between workers and their employers, speeding up the return to the workplace once conditions allowed. Strengthened and wider income support measures helped the most vulnerable and those who lost their jobs to endure the crisis. Yet, TUAC regrets that the role played by trade unions and social partners to protect workers' jobs and income, by negotiating a wide range of national and sectoral agreements, has not been adequately stressed in this section.[1]

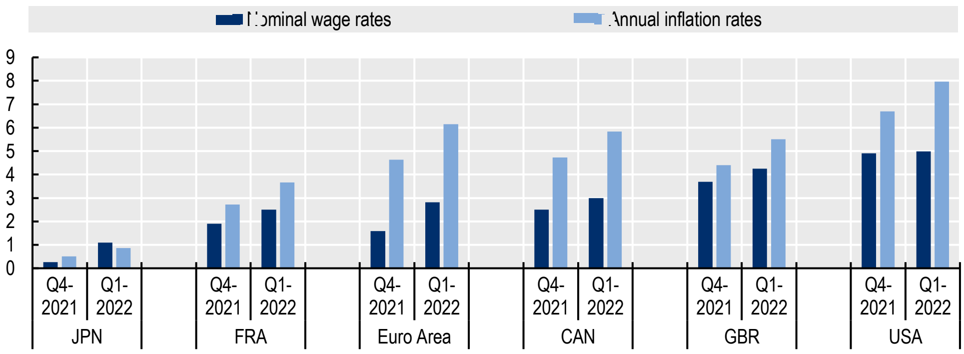
According to recent figures, unemployment in OECD countries fell from an 8.8% peak in April 2020, to 4.9% as recently as July 2022, which is below pre-pandemic levels (5.3% in December 2019). Yet, while supply-chain constraints triggered a rise in prices that affected workers' purchasing power, a quick rise in job openings compared to available workers, as the economy started recovering, did not automatically translate into higher wages. The situation turned to the worse in 2022, with the Russian war of aggression on Ukraine. As an immediate result, European countries had to cope with the worst refugees' crisis since the end of the Second World War, with millions of Ukrainians (mostly women and children) fleeing to the EU. The war further caused disruptions and price hikes in food and energy supply, giving new strength to inflation while depressing economic activity and wages (Figures 1 and 2).

Figure 1. Real wages will decline in most OECD countries in 2022
Projected percentage change in real wages, selected countries, year-over-year, 2022



Note: The figure shows projections for 2022 for real compensation per employee.
Source: OECD (2022), Employment Outlook

Figure 2. Nominal wage growth has generally remained below inflation
% change in nominal wage rates and annual inflation rates in Q4 2021 and Q1 2022, year-on-year



Note: The measurement of nominal wage rates is not harmonised across countries.
Source: OECD (2022), Employment Outlook

[1] TUAC (2020), *Covid19 crisis: Mapping out trade union and social partners' responses*, https://tuac.org/news/covid19-crisis-mapping-out-trade-union-and-social-partners-responses/

Crisis after crisis, it is always the most vulnerable who pay the highest costs: the OECD points out that food and energy price hikes hurt low-income households the most, as they spend a higher proportion of their income on these items. These are the same workers with low-income and frontline jobs that suffered the most during the pandemic, either by losing employment or being forced into prolonged inactivity due to lockdown measures.

The Employment Outlook points that aggregate figures on employment hide persisting differences between countries, in the aftermath of COVID-19. By July 2022, more than ten OECD countries had unemployment levels still larger than before the crisis, albeit only in Finland and Estonia the gap was wider than 0.5%. Young, as well as low-educated workers, are struggling the most to return to pre-crisis employment levels. This drives between- and within-country inequality up, a trend that, if left to labour market forces alone, will not be possible to revert.

A detailed review of measures adopted by governments during the COVID-19 pandemic finds that the use of job retention schemes has dropped from 20% at the peak of the crisis to less than 1% in April 2022, among reporting OECD countries. Increased generosity of unemployment benefits was also a common feature among policy responses to COVID-19, but has mostly faded out since. It would instead be important for governments to pick up from lessons learned and permanently extend coverage to all those workers, particularly in non-standard forms of employment, that fall through the cracks. Most notably, the Employment Outlook reports that Italy extended unemployment benefits for specific categories of self-employed workers until 2023, on an experimental basis, while France and Germany are considering adopting similar measures beyond the COVID-19 emergency.

Structural issues in the labour market and the role of collective bargaining

If labour markets are tight and unemployment on average below pre-COVID-19 levels, why are wages failing to respond to increased labour demand, even more so in the face of mounting inflation rates? From the analysis presented in the chapters of the Employment Outlook, it has to do with long-term structural issues affecting OECD labour markets, namely the impact of labour market monopsonies and excessive firms' wage-setting power. Such findings prompt the OECD to call in unequivocal terms for strengthening the role of collective bargaining.

Labour market monopsony

Monopsony describes a situation in which employers have the power to set wages below a level that aligns with workers' productivity, in other words the added value workers contribute to the company. One source of such employer power is an overly concentrated labour market, with only a few employers competing for a multitude of workers. This situation gives employers a larger power to set low wages since they know that workers do not have much of an alternative option. Furthermore, monopsonistic behaviour negatively affects employment levels and job quality.

Importantly, labour monopsony does not only apply to specific regional circumstances where employers are few, but "is more general, and arises even in markets with many employers", because workers are often constrained by multiple factors in their research for employment, such as housing conditions, family or other obligations, limiting their opportunity to change employer. While the Employment Outlook does not clearly state so, this condition already hints to the fact that workers need collective bargaining in order to balance their individual contractual power, which is weaker even notwithstanding the level of labour market concentration.

The analysis considers fifteen OECD countries and Singapore to assess the level of labour market concentration. The result is staggering: across the analysed sample, one in six workers is employed in markets that are "moderately" to "highly" concentrated (16% of all workers). These are conservative estimates.

The presence of workers from vulnerable groups, such as migrants, women and young people, in monopsonistic markets is similar to the ones in more competitive labour markets. Yet, young workers' wages appear particularly penalised when working in a monopsony. In terms of jobs, there is no clear consistency across countries: some blue-collar professions and health professionals operate in more concentrated markets (with 40% of agricultural workers to half of health professionals across the OECD employed in highly and moderately concentrated labour markets), whereas, for different reasons, ICT, business and administration professionals, but also low-skilled workers such as cleaners and helpers are located in less concentrated markets. What is noticeable, still, is that labour market concentration is higher in rural rather than urban areas. Also striking is that workers who stood at the frontline in the COVID-19 pandemic and faced significant risk of getting infected tend to work in more concentrated labour markets. Arguing that employers in concentrated labour markets may not need to invest in a safe work place to attract and retain workers, the OECD motivates the case for the various protective measures that were adopted for workers who are required to work in proximity to other people.

Looking at comparable wage data for Denmark, France, Germany and Portugal, the authors found that a 10% in the concentration of a given labour market decreases the average daily wage by 0.2% to 0.3%. For workers in most concentrated labour markets this penalty rises to 5% compared to the median worker.

Other OECD studies have found that the impact of monopsonistic power on wages has increased over time even when concentration levels remained the same. One suggested explanation is the decreasing trend in trade union density and collective bargaining representation over the past decades, resulting in weakened bargaining power for workers.

In addition, evidence shows that workers in concentrated labour markets are more exposed to non-standard forms of work (flexible contracts). In Germany and France, the 10% of workers in most concentrated labour markets are 10% less likely to be hired on permanent contracts than those in markets with median concentration. This is further evidence of the detrimental impact of labour market monopsony on job quality.

The OECD recommends a number of policy actions that governments could implement in order to tackle the issue of labour market monopsony.

- Labour (and competition) authorities should pay more attention to labour market concentration, particularly by: i) limiting the diffusion and abuse of non-compete agreements in job contracts; ii) easing occupational licences requirements; iii) monitoring and sanctioning labour market collusion; iv) introducing labour considerations in assessing the impact of mergers by antitrust authorities.

- Strengthening collective bargaining and the role of trade unions to countervail labour market monopsony and employers' power to set wages and poor working conditions, through sectoral frameworks such as minimum wages. Collective bargaining rights should be extended to cover the increasing share of non-standard workers.
- Additional mix of measures, including the introduction and/or strengthening of minimum wages, promoting telework and flexible work arrangement to broaden access to labour markets beyond commuting space, as well as re-skilling/re-training policies to widen the choice of accessible jobs to workers.

These recommendations are partially in line with those suggested by TUAC back in 2019, particularly those related to including labour market considerations in the analysis of antitrust agencies and competition authorities.[2] Yet, while there is no silver bullet that can rebalance alone bargaining power between workers and employers, not all of the policy measures suggested by the OECD have the same outreach. Taking the example of the United States, about 20% of the workforce is subject to non-compete agreements[3] and 25% to licensing requirements.[4] Comparable figures are probably somewhat lower in the European Union. The share of teleworkable jobs, which allow workers to look for a job beyond the local living area, is roughly under 40% in both the US[5] and the EU.[6] This share mostly applies to high-paid, white-collar workers, who could for example expand their work from home during COVID-19. There remains a majority of workers, such as frontline workers, that are cut out of the possibility to telework, limiting the outreach of such recommendations to a minority segment of the labour pool. For the majority of workers that cannot work from home for a distant employer, better representation and collective bargaining, particularly in countries and sectors not covered by collective agreements, remains the fundamental approach.

While stressing its importance, the Employment Outlook could still have made clear that strengthening collective bargaining is the first priority, since its coverage has been on constant decline in the OECD over the past decades, from about 50% in 1980 to 32% in 2020. This trend is the result of changing demographic and technological conditions, but more importantly of the dismantling of workers' rights and labour market institutions, that weekend the capacity of trade unions to bargain for their rights.

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[2] TUAC (2019), *TUAC proposals to enhance protection against rising corporate market power*, https://tuac.org/news/tuac-proposals-to-enhance-protection-against-rising-corporate-market-power/

[3] U.S. Department of Treasury (2016), *Non-compete Contracts: Economic Effects and Policy Implications*, https://home.treasury.gov/system/files/226/Non_Compete_Contracts_Econimic_Effects_and_Policy_Implications_MAR2016.pdf

[4] NCSL (2019), *The Evolving State of Occupational Licensing*, https://www.ncsl.org/Portals/1/Documents/employ/Occu-Licensing-2nd-Edition_v02_web.pdf

[5] Dingel, J. I. and Neiman, B. (2020), *How Many Jobs Can be Done at Home?*, White Paper, Becker Friedman institute, University of Chicago, https://bfi.uchicago.edu/wp-content/uploads/BFI_White-Paper_Dingel_Neiman_3.2020.pdf

[6] Sostero M., Milasi S., Hurley J., Fernández-Macías E., Bisello M. (2020), *Teleworkability and the COVID-19 crisis: a new digital divide?*, Seville: European Commission, JRC121193. https://joint-research-centre.ec.europa.eu/publications/teleworkability-and-covid-19-crisis-new-digital-divide_en

While the Employment Outlook warns about the risk of employers putting in place strategies aimed at weakening bargaining rights, such as domestic and international outsourcing and franchising, it does not offer recommendations on how to do so. TUAC finds that further efforts are required to assess the impact of trade and investment liberalisation on workers' bargaining power. Similarly, the effect of digital and technological innovation on collective bargaining should also be analysed. While the OECD invites to extend and innovate collective bargaining instruments to cover platform and digital workers, it should remind how digital giants and highly capitalised platform industries take advantage of enormous economies of scale, investment capacity and intangible assets that dwarf workers' ability to bargain on fair ground, in the absence of adequate interventions to curtail their monopolistic dominance in product and service markets.

Firm performance and wage-setting practices impact on wage inequality

The Employment Outlook also looks at firms' wage-setting power in relation to wage inequality. In particular, it aims to explain, on the one hand, stagnating productivity and widening productivity gaps between frontier and laggard firms, and on the other increasing wage inequality between firms.

The analysis, conducted on twenty OECD countries, shows that one third of overall wage inequality between workers is the direct result of firms' power to impose low wages, rather than depending on the particular skills of the workers. Such power is also accountable for one fourth of the overall gender wage gap.

Since firms have wage setting power, the Employment Outlook finds they do not risk losing underpaid workers to better-paid jobs, building their competitiveness on low labour costs despite lower productivity levels. More productive firms, on the other hand, can also afford lower wage rates because they control larger shares of the market and face limited competition from less productive firms. This situation closely reminds the one in labour market monopsonies. Friction to labour mobility and other obstacles contribute towards limiting workers' bargaining position *vis-à-vis* their employers.

The OECD suggests three types of measures to reduce productivity dispersion between firms and contain their wage-setting power:

- First, supporting investment in intangible assets, digitalisation and removing entry market barriers for smaller firms, to help them improve their performance.
- Second, facilitating job mobility, by strengthening adult learning to increase employability, removing regulatory barriers, strengthening social housing policy and other housing support measures, as well as expanding teleworking.
- Third, in order to contain firms' wage-setting power, strengthening sectoral collective bargaining and minimum wages, fighting non-competitive agreements in labour markets and integrating labour market power considerations into merger controls.

Here, recommendations revert to ground that is more traditional for the OECD, focusing especially on creating a "level playing field" for firms to adopt technology and improve market competitiveness, while removing "labour market frictions" for individual workers, so they can have more employment options. Still, the recommendation on collective bargaining matches the one made on labour market monopsony, showing how the two phenomena are intertwined, as well as the importance of strengthening workers' bargaining power through collective action, rather than just offering individual workers tools to improve, hopefully, their individual bargaining position. It should also be noted that the language on collective bargaining appears more convoluted, compared to other sections of the Employment Outlook. While considering the positive impact of sectoral wage agreements to curtail firms' wage-setting power, the authors are careful to remind at each step that sectoral wage floors and minimum wages should never rise beyond productivity levels and leave sufficient scope for negotiation at the firm level.

Concluding remarks

"In labour markets, a worker's compensation is not solely determined by their skills or productivity, but what they have the power to negotiate."

As trivial as it may sound, such acknowledgement in this year's edition of the Employment Outlook can represent a breakthrough in the way the OECD frames its analysis of labour markets, leading to a more realistic portray of industrial relations and labour market outcomes. This is certainly not the first time that the OECD dedicates attention to collective bargaining. Most notably, the 2019 publication "Negotiating Our Way Up" showed how beneficial collective bargaining is in reaching higher employment levels and job quality, as well as in fighting income inequality.

Yet, increasing evidence and renewed attention to the pervasiveness and influence of labour market monopsony sheds new light on the importance of collective bargaining and the need to protect workers' interests, as well as low- and middle-class incomes, eroded by decades of excessive profit seeking. This comes at a time when the OECD is in the process of refreshing its MNE Guidelines, which include improved frameworks for positive industrial relations. If adopted, these targeted updates would actively support workers in sectors from agriculture to manufacturing, construction and services, facilitating effective collective bargaining at all steps of the supply chain. The evidence included in this Employment Outlook corroborates the importance of such actions.

Time to change course is due and governments should take immediate action. In its editorial, the Employment Outlook calls for "giving a new impetus to collective bargaining and, therefore, accompanying the efforts of unions and employer organisations to expand their membership and enlarge the coverage of collective agreements", ensuring "workers in the grey area between dependent and self-employment have access to collective bargaining, as recently proposed by the European Commission."

Trade unions are adapting to a changing labour market. The OECD stops short of acknowledging that the current state of affairs and the continuous rise in non-standard forms of work is not just the result of demographic and technological change, but of decades of labour market deregulation. The dismantling of employment protection legislation, including through the misuse of employment protection indicators, led to the progressive rebalancing of bargaining power in favour of employers. Yet, the overall relevance given to collective bargaining throughout the latest edition of the Employment Outlook gives hope for positive future recommendations, if the course is maintained.