



Wage bargaining in Europe: a wide range of increasingly decentralised models since the crisis

There is no single European wage bargaining model. Wage bargaining takes place between social partners at the national and regional level in the Nordic countries. This is also the case in Germany, despite the decentralisation of wage bargaining at industry and company level that began in the early 2000s. In Belgium, Spain, and even Italy, the government intervenes sometimes strongly in wage bargaining. In France and Portugal wage bargaining is less centralised but the minimum wage set by the government can have a significant impact on negotiated wages.

Since the crisis, there has been a general trend towards decentralised wage bargaining, which enables companies to better adjust to the economic situation.

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1.55%

average increase in wages per employee between 2009 and 2017 in the euro area

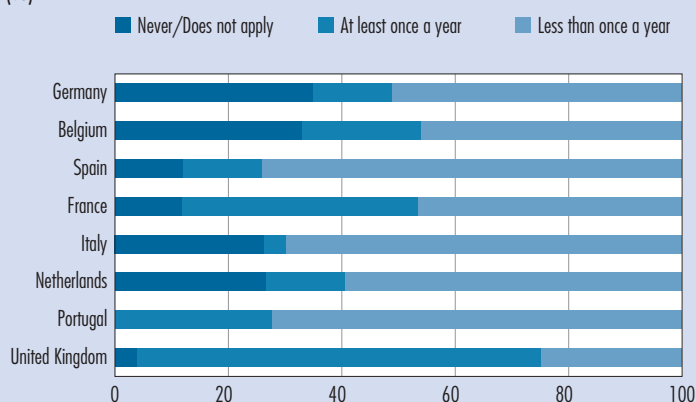
4.3%

wage increase negotiated in the powerful metalworking industry in Germany, applicable on 1 April 2018

4%

rise in the minimum wage in 2018 in Spain, following a 8% increase in 2017

Frequency of changes to companies' collective wage agreements
(%)



Source: Eurosystem's Wage Dynamics Network (WDN) survey, 2013, employment weighting.



1 Different situations in Europe despite a general trend towards decentralisation and wage moderation during the crisis

Wage bargaining systems differ across Europe according to two criteria: the importance given to bargaining in relation to legal and regulatory standards or to the provisions in the employment contract; and the degree of centralisation,¹ i.e. the prevailing bargaining level (national, industry or company).

Multiple wage bargaining systems across Europe

Government involvement in wage bargaining varies greatly across Europe: it is non-existent in the United Kingdom, but particularly strong in Belgium where a law regulates wage developments. In countries where wage bargaining is centralised (Germany, the Netherlands, Sweden), the law sets an institutional framework for consulting the social partners. In France and Portugal, negotiations take place at a less centralised level, but changes in the minimum wage affect the setting

of industry-level wage floors. According to Fougère, Gautier and Roux (2016), the elasticity of industry-level wage floors to an increase in the French minimum wage is thus between 0.15% and 0.4%, less strong when wages are high.

A European trend towards decentralised wage bargaining

Even though there is no single model, a common trend towards the decentralisation of wage bargaining emerged during the crisis. The objective was to better tailor conventional law – resulting from collective agreements – to individual companies' situation. In particular, industry-level wage bargaining was more regulated, while company-level agreements were relaxed. For example, in Spain, since 2012, company-level collective wage agreements now have priority over higher-level agreements for all matters falling under Article 84.2 of the Workers' Statute (base wage and additional compensation, overtime compensation, working hours, occupational classification, adaptation of the employment contract and family conciliation measures).

BOX 1

The economic literature does not settle on an optimal wage bargaining system

The theoretical literature shows that wage bargaining at the industry level leads to a higher unemployment rate than that obtained when negotiations are conducted at the national level or, on the contrary, at a decentralised level (Calmfors and Driffill, 1988; Cahuc and Zylberberg, 1991). The mechanism is as follows: industry-level collective agreements result in relatively high wages because trade unions have a greater bargaining power than at the company level. In addition, the players do not internalise all the macroeconomic consequences of their actions, as they would in the context of centralised bargaining. In a review of the literature, Aidt and Tzannatos (2002), however, point out that the empirical validations of the macroeconomic impact of the type of collective bargaining remain fragile.

According to these authors, the available studies tend to invalidate the Calmfors and Driffill thesis: coordinating negotiations at industry-level would contribute to improving labour market flexibility and limit wage dispersion. Recently, however, Jimeno and Thomas (2013) have shown that countries whose wage bargaining takes place at industry level show higher unemployment rates than those whose bargaining is done at company level. On the other hand, the existence of «opt out» clauses, i.e. clauses that enable less productive or struggling companies to get out of a binding agreement, seem to have positive effects on employment.

¹ See the degree of centralisation indicated in the University of Amsterdam database "Data Base on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts in 51 countries between 1960 and 2014" from Kenworthy's work (2001a and 2001b).



The decentralisation of collective wage bargaining is accompanied by a drive towards greater internal flexibility, in particular to prevent economic difficulties: possibility of flexible working hours or unilateral modification of contracts in the event of financial hardship for the company, in compliance with the minimum standards set by collective agreements. For example, in Italy, a Legislative Decree on the reorganisation of the rules governing social safety nets during the employment relationship adopted in 2015 as part of the Jobs Act, enables employers to review the job description of their employees in the event of a “change in the organisation” of the company, provided that wages remain unchanged. The employment protection agreements introduced in France in 2013 also enable companies to sign an agreement with employee representatives to temporarily adjust working times, the organisation and distribution of work or wages in the event of economic difficulties.

A decline in the weight of trade unions in wage bargaining

This movement is accompanied by a fall in trade union membership in all European countries (from 27% in 2000 to 23% in 2013).² Unions are no longer the only players in wage bargaining, and other players may be involved in negotiations at the company level. In

Italy, since the interprofessional agreement of 2011, bargaining is no longer the preserve of trade unions. Works councils are authorised to enter negotiations, as is the case in Germany where agreements involving the *Betriebsrat* (works council) have significantly increased. The same occurred in France in 2017 where the works councils absorbing the union delegates now have bargaining power, just like the social and economic committee in the absence of trade union representation. However, Barthélémy and Cette (2018) point out that the works council and the social and economic committee are chaired by the company manager, which leads to a situation where the employer negotiates with himself.

Greater wage moderation since 2008

Since 2008, another element of convergence in Europe is that wage regulation tools have frequently been the subject of reforms or new practices with the objective of achieving greater wage moderation. Wage floors have not been very dynamic (lowered in Ireland, frozen for four years in Portugal) and the tax wedge³ has been reduced (in Sweden, Italy, Spain and France). According to Eurostat, euro area wage growth posted a significant slowdown over the 2009-2017 period, falling to 1.55% from 2.46% over the 2001-2008 period.

BOX 2

The reform of the social dialogue in France by the Penicaud ordinances (2017)

The Labour Law of 8 August 2016 ("El Khomri Law") confirmed the primacy of company-level agreements over industry-level agreements in the areas related to working times: the overtime premium rate, the introduction of on-call periods, exceeding of the maximum daily working time, the remuneration of meal and rest breaks.

.../...

2 In the EU-15, authors' calculations based on the Amsterdam Institute for Advanced Labour Studies database, weighting by the number of employees.

3 Difference between the total cost for the employer and what the employee takes home once social security contributions and taxes have been deducted.



With the Penicaud ordinances, industries retain their prerogatives over eleven key aspects,¹ including minimum hierarchical wages and working hours. They have the possibility of ensuring that the social dialogue takes place exclusively at their level by introducing clauses on other aspects² in their agreements. The primacy of company-level agreements is maintained on the remaining aspects. The agreements on employment have been unified and will concern the organisation of working time, compensation and occupational mobility.

Bonuses and hours worked may now be negotiated at company level, whereas previously they were negotiated exclusively at industry level. This should enable companies to better adapt to the economic situation. In addition, the thresholds for appointing union delegates, their number and the recognition of their trade union experience are also aspects on which company-level agreements may take precedence over industry-level agreements provided the industry has not locked the agreements.

The extension of industry-level agreements has been significantly modified to protect SMEs and preserve competition. In addition to the effect of grouping industries, three amendments to the law were introduced in the ordinances.

- It will no longer be possible to extend an agreement if it does not include specific stipulations for companies with less than fifty employees or the justification for the absence of these stipulations.
- An extension may be refused in the event of an infringement of competition rules in the industry. The objective is to protect small enterprises from an agreement dominated by large enterprises that could be too restrictive for them.
- The ordinance also introduces a right for employers' and employees' unions and for the Minister to appeal to a group of experts to assess the economic and social effects that might result from the extension of a collective agreement. This request would therefore complement the opinion of the Commission nationale de la négociation collective (National Commission for Collective Bargaining) composed of the social partners.

While extensions are becoming less systematic as a result of these three changes, company-level agreements should become more significant than industry-level agreements for many non-members of the industry union.

At company level, the reform seeks to strengthen the social dialogue, but potentially reduces the union presence by enabling companies to set the social thresholds if allowed by the industry and by giving companies with less than fifty employees the opportunity to negotiate with a non-elected and non-unionised employee and to hold a referendum for those with less than 20 employees.

1 Minimum hierarchical wages; classifications; pooling of paritarianism financing funds; pooling of vocational training funds; complementary group benefits; working time, distribution and adjustment of working hours; measures relating to fixed-term contracts and temporary employment contracts; construction contracts; gender equality in the workplace; conditions and lengths of renewal of the trial periods; the way in which the continuation of employment contracts is organised between two companies when the conditions for transferring employment contracts are not met.

2 Prevention of the effects of exposure to occupational risk factors, professional integration and job retention of disabled workers, the number of employees required for appointing union delegates, the number of union delegates and the recognition of their union experience, bonuses for dangerous and unhealthy work.



2 Rhythm of bargaining in Europe and recent agreements

Very different rhythms of bargaining in Europe

The rhythm of wage bargaining is generally not governed by regulations, except in France, where the law sets out annual negotiations, in Belgium every two years and in Sweden every three years. The survey conducted by the Wage Dynamics Network (WDN) of the ECB among a large number of European companies compares wage setting systems in different countries (see Jadeau et al., 2015 for a description of the survey). In particular, changes to collective agreements regarding wages, whether at the company level or at a higher level, are made once a year in

France (in accordance with the law), Portugal and the United Kingdom, where the agreements are highly decentralised; the frequency of changes is one to two years in Germany and the Netherlands, two years in Belgium, two to three years in Spain and three years in Italy (see Table 1).

At company level, base wages are modified mostly more than once a year. Companies do not limit themselves to adjusting to the new collective bargaining. They also make individual wage changes and/or changes outside the scope of the collective agreement. Close to 70% of companies change base wages more than once a year in the United Kingdom and France, while one-third of Italian companies only change them every two years (see Table 2).

T1 Frequency of changes to collective wage agreements that apply to the company

(%)

	Never/ does not apply	More than once a year	Once a year	Every one to two years	Every two years	Less often
Germany	35	0	14	29	15	7
Belgium	33	4	17	6	31	9
Spain	12	0	14	16	36	22
France	12	6	36	19	10	18
Italy	26	2	2	3	9	57
Netherlands	27	1	13	27	22	11
Portugal	0	0	28	16	10	47
United Kingdom	4	0	72	17	1	7

Source: Eurosystem's Wage Dynamics Network (WDN) survey, 2013, employment-weighted companies to be representative of their country's economy.

T2 Frequency of changes to base wages in the company

(%)

	Never/ does not apply	More than once a year	Once a year	Every one to two years	Every two years	Less often
Germany	3	39	31	12	12	4
Belgium	20	40	12	4	14	9
Spain	2	47	7	12	8	23
France	9	65	11	5	7	3
Italy	3	25	9	17	33	13
Netherlands	8	51	19	8	4	10
Portugal	1	27	16	0	22	35
United Kingdom	1	71	9	4	12	3

Source: Eurosystem's Wage Dynamics Network (WDN) survey, 2013, employment-weighted companies to be representative of their country's economy.



Recent collective agreements on wage increases

As regards the recent collective agreements, negotiated wages in Germany, the United Kingdom and the Netherlands have been rising at a faster pace. In southern Europe, negotiations remain difficult in a context of weak labour market conditions. In Belgium, for the period 2017-2018, the wage standard⁴ requires that the companies' average wage costs do not increase beyond 1.1%. In Spain, following the non-renewal of the national wage agreement at end-2016, the government took the initiative of raising civil servants' wages by 8% over three years, on the condition that economic conditions in the country continued to improve. In the Netherlands, the 2016 agreements led to wage increases close to 2% and they could reach 2.3% in 2017. In Germany, a wage agreement was concluded in the metalworking industry in February 2018. It provides for a 4.3% wage increase in April 2018, plus various bonuses and an additional compensation for 2019. Overall, the annual wage increase negotiated in this key industry of the German economy is slightly above 3%. In addition, the social partners of the temporary work sector signed a three-year agreement in 2017, which provides for wage increases between 2.5% and 4%. In the civil service, three wage increases were negotiated in April 2018: 3.2% from 1 March 2018 retroactively, 3.1% from 1 April 2019 and 1.1% in 2020. According to Bundesbank forecasts, wages in Germany were expected to be raised by 2.5% in 2017.

Gautier (2018) points out that, since 2008, industry-level wage floors in France have gradually slowed down in nominal terms. In a context of near-zero inflation, they have increased at a rate of less than 1% per year since 2014. In 2018, negotiated wages could once again

rise by more than 1%, due to very moderate recovery in inflation. In the services sector, the industry-level agreement for "automobile services" contains an average wage increase of 1.3% in 2018; in «cleaning activities», the agreement provides for a 1% rise in wage floors in 2018. The wage agreements for the metalworking industry, the plastics industry and the pharmaceutical industry each set an average wage increase of 1.2% in 2018.

3 Reference points for conducting negotiations

The revaluation of the minimum wage

The existence of a minimum wage constitutes a strong driver of wage setting and bargaining. In recent years, the trend has been towards a significant increase in national minimum wages. In Portugal, it rose by 5% on 1 January 2017. In Germany, it was up by 4% on the same date. In the United Kingdom, a National Living Wage was introduced in April 2016 with the objective of having it reach 60% of the median wage by 2020. To this end, it was raised by 4% in April 2017; it should then be revalued each year from 5.5% to 6.2%. In Spain, the minimum wage increased by 8% in 2017 and by 4% in 2018. National minimum wage revaluations are generally reviewed once a year, except in Germany (every two years). The revaluation of the French minimum wage remains relatively moderate in comparison with the wage increases observed in neighbouring countries (1.24% in 2018). However, the level of the French minimum wage relative to the median wage is significantly higher than in other countries (see Table 3). In addition, the revaluation rule is automatic and depends on inflation and the wage level of employees and workers.

⁴ Wage increase that must not be exceeded failing which penalties will be applied; it is based on the estimated wage growth for the next two years in neighbouring countries (Germany, France, the Netherlands) and takes into account expected inflation, without any explicit reference to the target inflation of the European Central Bank.



T3 Wage bargaining in the major European countries

(rates in %)

Country ^{a)}	Coordination of wage bargaining	Additional company-level bargaining	waivers – favourability principle ^{d)}	Industry-level institutions	Minimum wage ^{e)}	Coverage rate ^{f)}	Unionisation rate
Belgium	central – governed by law	Often	Waivers under certain conditions defined by law	strong	49% of the median wage	96	55
Netherlands	central – unions and employers	large enterprises	Parties determine the waivers	strong	46% of the median wage	80	18
Italy	central – tripartite	large enterprises	Waivers under certain conditions defined by law	strong	No minimum wage	80	37
Germany	central – unions and employers	large enterprises	Waivers under certain conditions defined by law	strong	48% of the median wage	58	18
Spain	central – tripartite	large enterprises	abrogation of the favourability principle	strong	37% of the median wage	78	17
Sweden	industry – unions and employers	Often	Parties determine the waivers	strong	No minimum wage	89	67
France	Industry and company ^{b)}	large enterprises	Waivers under certain conditions defined by law	moderate	62% of the median wage	98	8
Portugal	Industry and company	large enterprises	Abrogation of the favourability principle	moderate	57% of the median wage	67	18
United Kingdom	company	- ^{d)}	Parties determine the waivers	weak	49% of the median wage	30	26

a) Ranked from the most centralised to the least centralised bargaining.

b) Although bargaining is principally coordinated at industry and company level, the government intervenes by giving an impetus to the minimum wage (SMIC).

c) In the United Kingdom, wage bargaining takes place at company level.

d) According to the favourability principle, the collective agreement may contain provisions that are more favourable to employees than those of the laws and regulations in force.

e) The minimum wage level is significant because it influences the wages that are in its «halo» and its method of indexation has a strong impact on wage dynamics.

f) Percentage of employees covered by a wage agreement.

Sources: Eurofound [European Industrial Relations Observatory]; OECD; ICTWSS database (Amsterdam Institute for Advanced Labour Studies); Eurostat; Conseil d'orientation pour l'emploi (*Les réformes du marché du travail en Europe*), country monographs); European Trade Union Institute.



Indexation to inflation

According to López-Villavicencio and Saglio (2017), the indexation of wages to past inflation is stronger in countries where employment protection and the degree of government intervention in wage bargaining is significant. Wages are more heavily indexed in Europe than in the United States and Japan. However, this indexation tends to decline with the fall in inflation observed at the end of the period under review (1985-2014).

According to the WDN survey, 30% to 45% of companies in the larger European countries index wages to inflation (see Table 4). Because of the legislation, almost all Belgian companies index wages to expected inflation. In addition, in Belgium, the Central Economic Council caps wage increases. In the other countries, although there is no explicit reference to wage indexation to inflation, the expected price trend is an indicator used in wage bargaining. The inflation index taken into account is then calculated at the national level, most often by the national statistical institutes, such as the

Italian 3-year inflation forecast calculated each year by the national statistical institute. However, as a result of the fall in inflation in recent years, the use of expected inflation in Italy and Spain has become less systematic: the Spanish metalworking industry has thus taken into account past inflation to moderate wages.

Taking account of productivity

Productivity is not explicitly used in wage bargaining. However, it is taken into account de facto. In the Netherlands and Germany, it is addressed in discussions between trade unions and business representatives at the regional and national level. A decoupling of wages from productivity is sometimes observed in cases where the economic environment, in particular the labour market situation, plays a significant role in the negotiations. This occurred for example in the United Kingdom, where wages increased less rapidly than productivity between 2010 and 2013 due to the deterioration in the labour market. Wage growth has remained moderate since 2013 due to the small rise in the cost of living.

T4 Collective agreements and wage indexation

(%)

	Application of a collective agreement	Existence of a company-level agreement	Existence of a higher-level agreement	Opt-out ^{a)} at company level	Opt-out ^{a)} from higher-level agreements	Wage indexation to inflation
Germany	48	16	47	10	12	42
Belgium	58	31	63	2	4	99
Spain	96	28	79	2	7	45
France	87	29	83	3	6	41
Italy	88	60	89	0	1	29
Netherlands	80	52	55	3	6	.
Portugal	66	13	62	0	3	24
United Kingdom	19	17	7	1	1	32

a) Opt-out means that it is possible for a company to waive a collective agreement. For example, an opt-out from a company-level agreement means occasionally waiving a collective agreement signed within the company.

Source: Eurosystem's Wage Dynamics Network (WDN) survey, 2013, employment-weighted companies to be representative of their country's economy.



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