

# Collective Bargaining and Economic Performance

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## Introduction

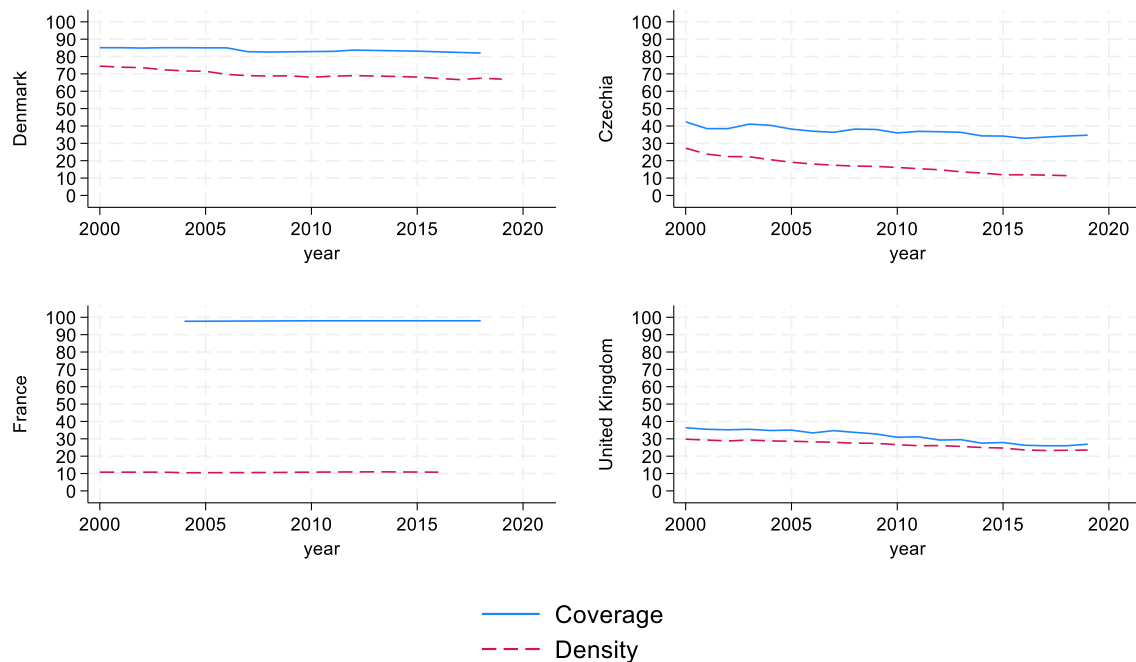
- The European Commission published [Directive 2022/2041 on Adequate Minimum Wages in the European Union](#) on 19th October 2022 and member states of the EU must transpose it into law by 15th November 2024. In addition to provisions on adequate minimum wages, the directive states that “each Member State in which the collective bargaining coverage rate is less than a threshold of 80 % shall provide for a framework of enabling conditions for collective bargaining....”.
- Collective bargaining coverage in Ireland is estimated to be around 40%, but much higher at 80% in Scandinavia or 70% in continental Europe. There will be a substantial change in how wages and working conditions are set in Ireland if we comply with the new directive.
- Amongst European countries with high collective bargaining coverage, there is considerable variation in the bargaining structure. These differences are correlated with Economic performance.

## Trends in Union Density and Collective Bargaining Coverage in Europe

Before discussing differences in bargaining structures in European countries and why this is important, Figure 1 below shows Trade Union Density (the percentage of employees who are Trade Union members) and Coverage, which is the share of employees covered by collective bargaining agreements across four European countries who are chosen to represent three broad groups of countries. Denmark is an example of the Benelux countries (Scandinavia and Belgium) which tend to have high union membership and high rates of collective bargaining coverage. A notable feature of these countries is that Trade Unions tend to be involved in the provision of social security. That is, for many workers in these countries weighing up the costs and benefits of joining a trade union, there is a substantial benefit compared to other countries. This is possibly an important reason for the high density in these countries. We see that in

Czechia (similarly to some other Eastern European countries and the UK) there is low coverage and low and declining density while France, representative of many continental European countries, has low and declining rates of union density, but very high low rates of collective bargaining coverage since collective agreements agreed by trade Unions are extended to many non-union workers<sup>ii</sup>. Information on collective bargaining coverage in Ireland is scant, but a recent survey of Irish employees outlined in Geary and Wilson (2022) put the figure at just over 43% in 2021 while Walsh (2024) documents low and declining Trade Union density in Ireland.

**Figure 1: Trend in Trade Union Density and Collective bargaining Coverage in a selection of European Countries**



Source OECD Database, compiled by author

## Differences in the structure of Collective Bargaining and why they matter

A central issue determining the impact of collective bargaining on economic outcomes is the degree of substitutability or complementarity in both input and output markets between the workers who bargain collectively. The easier it is for the employer to substitute a worker who bargains individually for similar workers, the weaker will be the worker's bargaining power. For this reason, if a group of workers across a sector who are highly substitutable for each other bargain collectively, this will increase their bargaining power since the employer's ability to substitute them for similar workers is limited by their collective action. When these workers

exert their bargaining power they may achieve high wages, but if wages are very high this may limit economic activity and there may be negative consequences for complementary workers who work in industries that are dependent on the output of the industry where wages increase. For example, workers in the building supplies industry may suffer a decrease in the demand for their services if very high wages in the construction industry raise costs and lower construction output. That is, the demand for workers in the building supplies sector declines if construction workers achieve large wage increases. This idea helps explain the hump-shaped relationship between unemployment and the level at which workers and employers bargain (by company, by sector, or across sectors) hypothesised in the influential article by Calmfors and Driffill (1988). Workers bargaining at the firm level would have relatively weak bargaining power and wages and unemployment would be relatively low, if bargaining is at the sectoral level bargaining power is high and wages may be excessive as each sectoral union drives up wages but does not account for the impact on complementary workers and this may raise unemployment, whereas multisectoral bargaining, it was argued was more likely to lead to coordination across complementary workers which would prevent excessive wage demands and unemployment.

More recently, the literature has emphasised the importance of accounting for more detailed differences in the bargaining structure. For example, Garnero (2021) develops a taxonomy of bargaining systems across OECD countries looking at (1) the level of bargaining, (2) the degree of coordination across these bargaining units in wage setting (for example, having common wage targets to account for macroeconomic conditions), and (3) the degree of flexibility for firms to modify higher level agreements and finds employment to be higher when these conditions prevail. Similarly, Braakmann & Brandl (2021a) emphasise the importance of coordination across firms rather than the level at which bargaining is conducted across different bargaining frameworks, providing evidence that firm performance is better under systems with more coordination<sup>iii</sup>. The recent literature also documents substantial wage drift in collective bargaining, that is, while the collective agreement will specify a minimum wage for categories of workers, in fact, many workers will be paid more than the minimum wage<sup>iv</sup>. Bhuller et al (2022) discuss this type of firm-level flexibility, the importance of which is reflected in category (3) in Garnero's taxonomy discussed above. The issue is that while we can see how multisectoral bargaining may help to solve the coordination problem across complementary workers in different firms and sectors, an agreement that imposed uniform wages for each worker type across all firms would fail to take account of the substantial heterogeneity in productivity and local factors that might affect the ability to pay of different firms. For this reason, mechanisms that facilitate minimum wages that are not too high, but where local bargaining can take place to supplement the wage of high-productivity firms or high-productivity workers may be important in preventing excessive demands on more vulnerable firms.

## **The Role of Employers**

Bhuller et al (2022) include an interesting discussion on the emergence of coordinated collective bargaining in Sweden and Norway in the 1930s. They describe how firms in export-orientated industries during this period were subject to very difficult trading conditions relative to firms in non-tradeable sectors, resulting in much greater militancy from unions representing workers in the non-traded sector. While this is a good example of problems arising when workers fail to coordinate across sectors, Bhuller et al (2022) describe how the employers' federation played a crucial role in establishing pattern bargaining where the wage levels negotiated in the traded sector became the basis for wage agreements in the non-traded sector. Even though the literature on collective bargaining tends to be focused on trade unions, this description outlines how the role of employers in actively shaping bargaining institutions and coordination across sectors may be an important factor in ensuring that these institutions are designed in a way that leads to positive economic outcomes.

## **Collective Bargaining in Ireland**

Paolucci, Roche & Gormley (2023) give a detailed outline of the structure of collective bargaining in Ireland and how it has developed over recent decades. They document how private sector bargaining has become largely decentralised since the collapse of the social partnership process in 2009<sup>v</sup>. Paolucci and Roche (2024b) argue that unions prefer a decentralised framework since members can see more clearly the tangible benefits of being in a union. “Voluntarism” has been a central feature underpinning Ireland's bargaining structure. That is, employers and unions voluntarily engage in collective bargaining. While workers have a constitutional right to join a trade union, generally employers are not obliged to bargain with trade unions. Several important legal decisions have bolstered the principle that firms may refrain from bargaining with trade unions in their workplace in recent decades. NESC (2022) discusses the legal constraints to bargaining posed by the legal system in Ireland, while Eustace and Kenny (2023) discuss the legal issues of whether there would need to be constitutional change to facilitate a right to collective bargaining in Ireland.

Paolucci and Roche (2024a) present detailed evidence from a large survey of collective bargaining agreements in Ireland negotiated in recent years. They argue that even though there has been a move towards firm-level bargaining in the private sector in Ireland, mechanisms to facilitate effective coordination of bargaining across firms within particular unions, and also across, have emerged. Given the evidence discussed earlier that it is the ability to coordinate that is important rather than the level of bargaining, the emergence of these mechanisms and their expansion will arguably be increasingly important if collective bargaining is expanded.

## **Trade Union Density**

Arguably the widespread decline in Trade Union membership reflected in Figure 1, but also more generally in OECD countries is a worrying trend in this regard. Union members are not a random group of employees. Studies show that union members are older employees with

longer job tenure concentrated in particular sectors, that is, workers who possibly have more bargaining power because they would be difficult to replace without significant disruption to the firm<sup>vi</sup>. We can see that to the extent that unions are more representative across different types of workers and sectors, the imperative to coordinate bargaining agreements across firms and sectors will likely be more important and possibly easier to implement.

## Conclusions

Ireland and other European countries with poor collective bargaining coverage will need to formulate action plans to increase collective bargaining coverage in response to the requirements of European law. It is important to ensure that reforms to the structure of bargaining in Ireland are done in a way that encourages union membership and mechanisms that facilitate coordination in bargaining across firms represented by the same union and across unions. As we note above, ensuring that employee and employer bodies are representative is an important aspect of this, in that the more representative these bodies are, the more likely they are to be able to, and wish to, facilitate coordination. The high-level LEEF group (LEEF 2021) makes a number of detailed suggestions in terms of reforming the way that sectoral and individual firm bargaining takes place<sup>vii</sup>. These are based around mechanisms such as improving training and information such that when bargains are made they know and take account of the norms in other firms and sectors, a code of practice that ensures information sharing and timely bargains, and importantly, given that non-engagement with the bargaining processes has been a particular problem in Ireland, a mechanism whereby the labour court can play a role in imposing a bargain in some circumstances as a last resort.

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<sup>ii</sup> In terms of the overall picture in Europe, Bhuller et al (2022) document that about 80% of Scandinavian employees and 70% of employees in continental Europe were covered by collective agreements in 2018.

<sup>iii</sup> The literature on the impact of collective bargaining on economic outcomes has not always shown positive effects. For example, Bhuller et al (2022) note the limitations of the cross-country evidence generally used in the literature comparing bargaining systems, Fanfani (2023) finds negative employment effects for wage increases associated with collective bargaining in Italy, and Martens (2021) finds extending collective bargaining to uncovered workers in Portugal lowers hiring and employment.

<sup>iv</sup> While there is evidence of wage drift across many countries, Card and Cardoso (2022) provide a detailed analysis of wage drift in Portugal showing an average premium of 20% over the minimum bargained wage, with older workers, higher skilled workers, and workers in higher productivity firms receiving higher premiums. Bhuller et al (2022) document a 15% average premium in Norway with similar patterns.

<sup>v</sup> Bhuller et al (2022) note a trend toward more decentralised bargaining across OECD countries.

<sup>vi</sup> See Walsh & Strobl (2009) or Walsh (2014; 2018; 2024) for details on trends in Union density in Ireland and the composition of Trade Union members

<sup>vii</sup> The high-level LEEF group comprises representatives from the main employer and employee representative bodies, as well as other experts and relevant officials. The group that considered issues around collective bargaining and related issues at the request of the government issued the LEEF (2021) report. This group was chaired by Michael Doherty who is a full professor of law at Maynooth University.