

# Chapter 2

## Wages and collective bargaining systems in Europe during the crisis<sup>1</sup>

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### Introduction

Collective agreements are important wage-setting institutions in many European labour markets. They provide wage floors below which wages cannot be set. However, it is not always clear how collective bargaining influences wages paid. On one hand, collectively agreed wage increases may spill over into actual wage increases, but on the other hand, rising actual wages may permit higher collectively agreed wage floors. As employee compensation is not limited to the collectively agreed pay levels, trends in collectively agreed wages and actual wages may be different. Numerous factors may play a strong role in these differences: workforce structure, the development of variable pay, institutional mechanisms and so on.

While wage restraint has been ongoing for two decades across Europe (Keune and Galgóczi 2008), the 2007–2008 crisis reinforced this phenomenon in many countries (O’Farrell 2010; Le Bayon *et al.* 2014). Numerous studies argue, however, that labour adjustments in the crisis not only involved wage cuts or freezes. Apart from the public sector, which was particularly subject to wage cuts in order to contain public debt, almost all first reactions to the crisis were characterised by a sharp fall in employment and hours worked in the private sector (O’Farrell 2010). In the context of implementing the new economic governance, industrial relations regimes have also come under growing pressure from European institutions to reform collective bargaining and wage-setting mechanisms. In recent years, pressure for more decentralisation of collective bargaining at firm level and proliferation of opt-out clauses in many coun-

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1. We are grateful to Odile Chagny (IRES) for her valuable assistance on data analysis and comments on the chapter. Obviously, any residual mistakes are our own responsibility.

tries have eroded the trade unions' power and their capacity to ensure the effectiveness of sectoral agreement in firms (Marginson 2014). This raises the question of how far collective bargaining may influence the development of actual wages, that is, wages in fact paid by employers.

To deal with this question, we examine trends in both collectively agreed wages, which reflect the outcomes of collective bargaining, and actual wages in Europe since the early 2000s and especially since the onset of the economic and financial crisis in 2007–2008. We also attempt to understand the ways in which actual wages may deviate from collectively agreed wages by paying greater attention to changes in wage-setting mechanisms over the recent period. Our analysis covers ten European countries that were involved in the CAWIE project in 2012: Austria (AT), Belgium (BE), France (FR), Finland (FI), Germany (DE), Italy (IT), Portugal (PT), the Netherlands (NL), Spain (ES) and the United Kingdom (UK).

The chapter is organised as follows. Section 1 briefly describes the main features of national collective bargaining regimes that used to prevail among these ten countries before the crisis. Section 2 provides descriptive statistics on wage developments in the selected European countries. It also pays attention to relations between the diversity of collective bargaining regimes and wage trends. The final section attempts to explain differences between actual and collectively agreed wages analytically by focusing on changes in national collective bargaining systems in time of crisis.

## **1. Main features of wage bargaining regimes before the crisis**

Collective wage bargaining is a core competence of national social partners in the EU, even if its importance varies from country to country. The ten countries under study differ markedly in terms of their wage bargaining models and their collective bargaining coverage. There is a range of channels for negotiating pay collectively in these countries. For instance, pay can be negotiated at national, sectoral, regional or company level and these levels can be interlinked in fairly complex ways. This process is always supported by the state, which sets the rules for bargaining, enacts minimum wage legislation and has the ability to extend agreements to non-affiliated parties, among many other institutional arrangements.

The way wages are bargained is obviously closely related to the forms of social dialogue and to the national bargaining system as a whole. The articulation between levels, the coordination among actors and the extent to which government intervenes distinguish the different national systems. In the industrial relations literature, two variables are traditionally used in order to classify countries according to their wage-bargaining regimes: the predominant level of bargaining and the degree of coordination in the wage-bargaining process (Traxler *et al.* 2001; OECD 2004; Visser 2005). In this section, we analyse the main characteristics of collective bargaining regimes, crossing these two variables. This helps us to identify whether countries are characterised by multi- or single-employer bargaining and what the main levels of bargaining are. In western European countries, sectoral bargaining still prevails despite the fact that – since the 1980s – the predominant trend in collective bargaining has been towards decentralisation, consistent with a logic of marketization and sustained pressure from employers for wage settlements to reflect firms' competitive performance (Marginson and Sisson 2004; Keune and Galgóczi 2008).

These pressures from the employers' side for more extensive company-level bargaining has not always resulted in a move towards decentralisation. On the contrary, with the exception of the United Kingdom and certain eastern European countries, there has been no change in the dominant level of collective bargaining (Du Caju *et al.* 2008). Moreover, a number of examples show meaningful moves towards higher levels (see below). Although a widespread decentralisation can be observed, the question is whether this move has been organised; in other words, whether increased company-level bargaining is within the framework of rules and standards laid down by cross-sectoral or sectoral agreements.

The coordination of wage setting across different bargaining units can be ensured through various mechanisms. First, they include centralised wage bargaining arrangements at cross-sectoral level, or, under sector-based bargaining regimes, the existence of a pattern-setting agreement. Pace-setting agreements form the basis for collective bargaining in the other parts of the economy, even if additional increases can be agreed in the following sectoral or lower-level collective agreements. Furthermore, there are also types of procedural mechanism that are utilised to link or articulate the levels concerned: the extension procedure and the ordering of bargaining levels. The extension procedure helps to offset the weakness of employee and employer representation, as well as the

employers’ lack of incentives to bargain. Of the ten countries concerned, there is no legal procedure for extending collective agreements in Italy and the United Kingdom. In Italy, however, judicial decisions have long underpinned de facto extension of the wage provisions of sectoral agreements. The most commonly used mechanism for ordering bargaining levels is the favourability principle. According to this principle, the social advantages attained at multi-employer level take precedence over any inferior content. Clauses that maintain the effect of agreements after their expiry, until a further agreement is concluded, also affect the continuity of collective bargaining and the coverage of multi-employer agreements.

Last but not least, two types of collective wage-setting mechanism have generalised effects: minimum wage standards, set by the state or negotiated by social partners, and indexation mechanisms. Except in Austria and Germany<sup>2</sup> where there is no minimum wage, all the other countries have minimum wages. However, their scope and level have a substantial impact on wage-setting process only in France (Husson *et al.*, 2015).

Using the ICTWSS (Visser 2014; Eurofound databases 2014b), Table 1 presents the state of the various collective bargaining systems in the mid-2000s.

Table 1 Wage bargaining regimes in ten countries (2005)

		Coordination		
		High	Medium	Low
Level	Centralised	BE, FI		
	Intermediate	AT, DE, NL	ES, <sup>4</sup> FR, <sup>5</sup> IT, PT	
	Decentralised			UK

Source: ICTWSS, Eurofound, own classifications.

Looking over the past two decades, the data suggest relatively stable systems. Major changes have occurred since the crisis in 2009, mainly

2. Over the period covered by the database, there were sector-specific minimum wages in Germany, but no national minimum wage. It was introduced in 2015.

within the programme countries (Portugal, Ireland, Greece), but also in the countries that received wage-related recommendations in the European semester<sup>3</sup> (Spain and, to a lesser extent, Italy).

## 2. Collectively agreed wages and actual wages: main trends since the early 2000s

Even if it is well known that individual wages do not tend to fall in nominal terms (Bewley 1999; Babecký *et al.* 2010), the question is whether real wages are declining in some countries or whether there are wage freezes or wage moderation. Do actual wages keep pace with productivity? Is productivity declining without falling wages or pressure on collective bargaining? Following the ILO's golden wage rule, if there is to be economic stability, wages should grow at the rate of change of prices and productivity (Watt 2007). The logic is that increasing productivity without increasing wages reflects either growth of income inequality or overproduction, and therefore social or economic crisis.

Quantitatively, a cross-country analysis of trends in collectively agreed wages is difficult because data are scarce. Information is not gathered systematically and national sources use different methodologies and are thus not comparable. There have, however, been some developments. For instance, the ECB constructs an indicator of 'negotiated wage rates' that is computed as an aggregate indicator for the whole euro area. Still, it is based on non-harmonised national data sources that do not allow cross-country comparisons. Moreover, it offers a biased view of the potential impact of collective bargaining because in some countries (for instance, France) the data rather reflect labour costs than collectively agreed wages (Schulten 2013). Alternatively, Eurofound's European Industrial Relations Observatory (EIRO) proposes another indicator on pay developments, which is annually updated and includes data on 'collectively

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3. The new economic governance regime (2011–2012) reinforces the powers of the Commission in relation to the surveillance of wage policies.
  4. Spain used to be a country in which sector-level bargaining was predominant. Since 2005, because of the conclusion of cross-sectoral agreements on wages, Eurofound codes Spain as a centralised country. However, these agreements only provide guidelines for negotiators (Vincent 2013). Thus, we do not change the classification for Spain.
  5. Eurofound codes France as a low coordinated country. The wage provisions of sectoral agreements are always subject to legal extension and wage increases are constrained by the annual revalorisation of the minimum wage: that is why we assign France 'medium-level coordination'.

agreed wages'.<sup>6</sup> In this chapter, we use the TURI data on collectively agreed wages, the main goal of which is to provide an indicator of potential influence, namely the 'bite of collective bargaining' (Salverda 2014) on actual wages in Europe (see Box 1 and Appendix).

#### Box 1 Collectively agreed wages: definition and data

The TURI database contains information on collectively agreed wage increases in ten EU member states (Austria, Belgium, Finland, France, Germany, Italy, Portugal, Spain, the Netherlands and the United Kingdom).<sup>7</sup> The main objective of this database is to construct an indicator of potential influence, namely the bite of collective bargaining on actual wages in Europe. The sample of member states does not include central and eastern European countries nor most of the Nordic ones, but it does represent the largest European economies and the sectors traditionally known for strong collective bargaining. Another drawback of the TURI database is that data are not directly comparable across countries because of differences in conception and measures of collectively agreed wages among countries. Indeed, as mentioned in Section 1, countries covered by the CAWIE project differ in their institutional systems and collective bargaining may take place at national, sectoral or firm level or at several levels at the same time. Measurements of collectively agreed wage may also differ because of heterogeneous sources and the fact that the data do not always fully reflect the predominant level of wage bargaining in some countries (see Table A in Appendix, which reports the main features of national sources on collectively agreed wages). In particular, in two countries (Portugal, Spain), indicators are broad with information coming from collective agreements concluded at several levels. Nevertheless, as the sector remains the predominant level of collective bargaining in these latter countries, we suppose that the data reflect a substantial part of outcomes related to sectoral agreements. For instance, in Portugal, sectoral agreements (national or regional) covered from 89 per cent to 93 per cent of employees between 1995 and 2010, while firm-level agreements covered from 7 per cent to 11 per cent of them (Naumann et al. 2012). In almost all countries (Austria, Belgium, Finland, France, Italy, Germany and the Netherlands), data come from sector-level collective agreements, meaning that the collectively agreed wages indicator allows us to measure the bite of collective bargaining at sectoral level on actual wages, even if sectoral agreements can be supplemented by agreements at firm-level. Finally, the analysis of the British case should make us cautious because of this country special features in terms of

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6. For more details, see the website: <http://eurofound.europa.eu/observatories/eurwork/collective-wage-bargaining/context>

7. Data collection is part of the CAWIE project presented in this book. Data were collected in 2012 and updated in 2014. For a discussion of the quality of the TURI database, see Van Gyes 2012 and Chapter 1 of the present volume.

bargaining and available data. As already mentioned, the British system is characterised by a decentralised bargaining regime at company level and low coverage. For the United Kingdom, data come from the pay round settlements published by the Labour Research Department (LRD).

The wage definition included in data is another source of differentiation between countries. This point appears crucial because bonuses, fixed premiums and non-wage benefits may sometimes represent a high proportion of total compensation,<sup>8</sup> these components are not systematically determined by collective bargaining. In some countries, collectively agreed wages include all payments that are conditional on one's job. The definition could be close to the concept of total earnings in countries that include base wage and other regular payments as fringe benefits, family allowances, thirteenth month, holiday pay and so on (Austria, Italy and the Netherlands). In these cases, performance-related pay is excluded from collectively agreed wages. On the contrary, in other countries data are related to the base wage, which does not include bonuses for overtime, family allowances and so forth (Belgium, France, Portugal, Spain and the United Kingdom). Information on France and Spain is complex because some agreements provide data on total compensation, which is a broader concept. Furthermore, the definition of wages in Finland is slightly different as it includes performance-related pay but excludes compensation for overtime, holiday pay and other such items. Finally, the scope of collectively agreed wages defined at sectoral level may differ across countries.

In the TURI database, statistical series are not fully homogeneous in terms of time period. Data cover the period 2000–2012 in Belgium, Germany, Finland and Portugal; 2000–2011 in Italy, Spain and the United Kingdom; 2003–2012 in France; 2000–2013 in Austria; and 2001–2012 in the Netherlands.

Figure 1 presents trends in collectively agreed wages and actual hourly wages in nominal and real terms, real labour productivity and the inflation index (HICP, Harmonised Index of Consumer Prices)<sup>9</sup> since the early 2000s. As a first result, the data show that collectively agreed wages and actual wages generally grew in line with price increases in almost all countries (with the exception of Germany). In all countries,

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8. According to the 2010 Earnings Structure Survey (provided by Eurostat), this proportion is particularly high in Spain and in Portugal (approximately 16 per cent of annual compensation in 2010; authors' calculations).
  9. Data are provided by Eurostat on the basis on national accounts. Concerning actual wages, we use an indicator of hourly labour productivity, which has been constructed by dividing GDP (volume terms) by number of hours effectively worked. The main drawback of (*cont.*)

the economic and financial crisis was preceded by a huge increase in inflation due to rising commodity prices (O'Farrell 2010). As a result, despite the grave economic circumstances, both actual and collectively agreed wages continued to increase in numerous countries because the social partners bargained higher wages in relation to higher expected inflation. This phenomenon is particularly pronounced in Spain where nominal actual wages grew annually by 2.3 per cent on average. The relative resilience of wages during the crisis may also be due to the nature of employment adjustment, namely changes in composition workforce. For instance, Spain is among the countries that have experienced a sharp decline in employment, whose first victims were low-paid workers, which could explain the observed wage increases (for more details, see next section). Moreover, in some countries, the role of indexation mechanisms may have been determinative during the crisis because the huge 2008–2009 inflation decrease is associated with an increase in both actual and collectively agreed wages. Indexation systems aim to link wage developments to the evolution of living costs to ensure that actual wages are not overtaken by inflation.

Turning to the cross-country comparison, as in previous research (ETUI 2012), we are able to highlight relationships between national collective bargaining systems and wage trends. First, in the Netherlands, Germany and Austria, countries that are characterised by an intermediate degree of centralisation and high coordination, wage restraint has been the major trend since the early 2000s. In these three countries, wage restraint is not a new phenomenon and has been practiced since the early 1990s, a period marked by a sharp degradation of the labour market and the opening up of foreign trade resulting from the EU's single labour market. The German situation has shown the most pronounced wage moderation, as nominal hourly wages grew below inflation, whereas collectively agreed wages exceeded prices rises, albeit to a lesser extent

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9. (*cont.*) this indicator is that it refers to a broad definition of wages because it includes employees' gross earnings and indirect costs (employers' social contributions plus taxes less subsidies). Such a definition may be problematic as collective wage agreements do not deal with tax and social contributions. However, national accounts provided by Eurostat remain the most reliable source for wage comparison across countries. Moreover, using such an indicator allows adjustment in terms of worked hours and employment during the crisis to be taken into account. In almost all countries, downsizing and reducing worked hours were the first reactions to the crisis, while wage adjustment has remained relatively low. For instance, in Germany, reductions of total working hours were prevalent through extensive use of short-time working schemes, encouraged by state subsidies (O'Farrell 2010).



after the onset of the crisis in 2008. Since 2008, the increase in wages has been attributed largely to agreements reached before the crisis when negotiators anticipated higher inflation. As a result, the development of real actual wages and real collectively agreed wages is lagging behind labour productivity growth.

Data on Finland and Belgium are more contrasting. The Finnish case reveals that nominal wage growth was higher and more dynamic than in the three previous countries: until 2008, nominal wages (whatever the indicator under consideration) largely exceeded labour productivity and inflation increases. However, the sharp decline of labour productivity in 2008–2009 led to wage restraint with regard to both actual and collectively agreed wages from 2009. This period also saw the establishment of a more decentralised procedure: no central agreement was in force in 2009–2011 and a number of sectoral agreements allowed for wage deviation in firms facing economic difficulties. In 2011, the social partners agreed a so-called framework agreement on pay and conditions, which expired at the end of 2013. The renewal of this agreement proved difficult, but in August 2013, the social partners concluded a long-term national centralised labour market settlement, including wage increases under those of consumer prices. Despite this return to centralised bargaining, in Finland the collective agreement in the technology sector (including metalworking) continues to serve as the pace-setting agreement. Although there have been no recent major changes, the Finnish employers' organisation has expressed its dissatisfaction with the recent wage trend. A one-off and time limited crisis response was implemented in 2010 with the conclusion of opening clauses in several sectors (Marginson and Weltz 2014). Unlike Finland, trends in nominal wages are in line with inflation in Belgium. This may be due to the high degree of centralisation and the role of wage indexation.

In the group of countries (France, Italy, Spain and Portugal) that are characterised by an intermediate degree of both coordination and centralisation of collective bargaining, data show that nominal actual wages grew in line with productivity and prices during 2000–2009. In particular, in France and Italy nominal collectively agreed and actual wages were more dynamic than price increases. Although there is no proper automatic pay indexation mechanism in Italy, the inflation rate indicator is meant to protect the purchasing power of wages. This indicator, which is only to be considered a reference for collective bargaining actors in order to establish wage increases, may play a role in observed

Figure 1 Development of collectively agreed wages (CAW), actual hourly wages (HW), labour productivity (LP) and HICP since the early 2000s (base 100=2003)

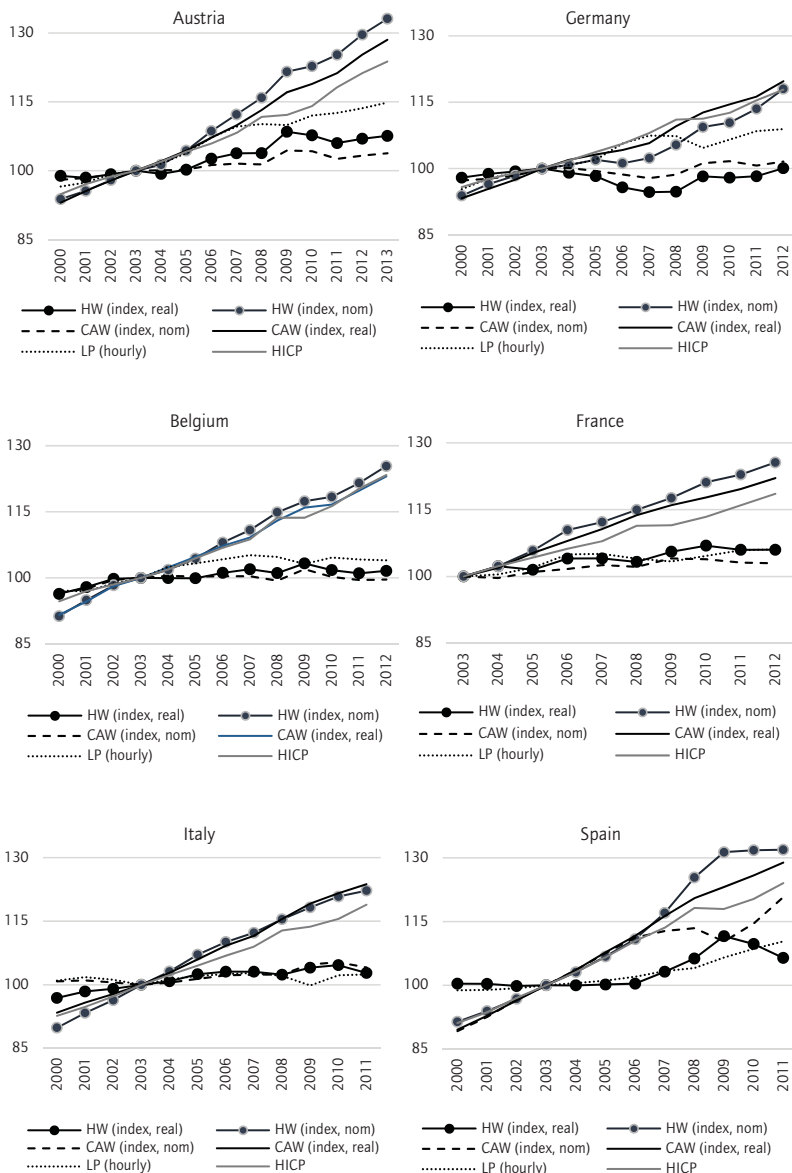
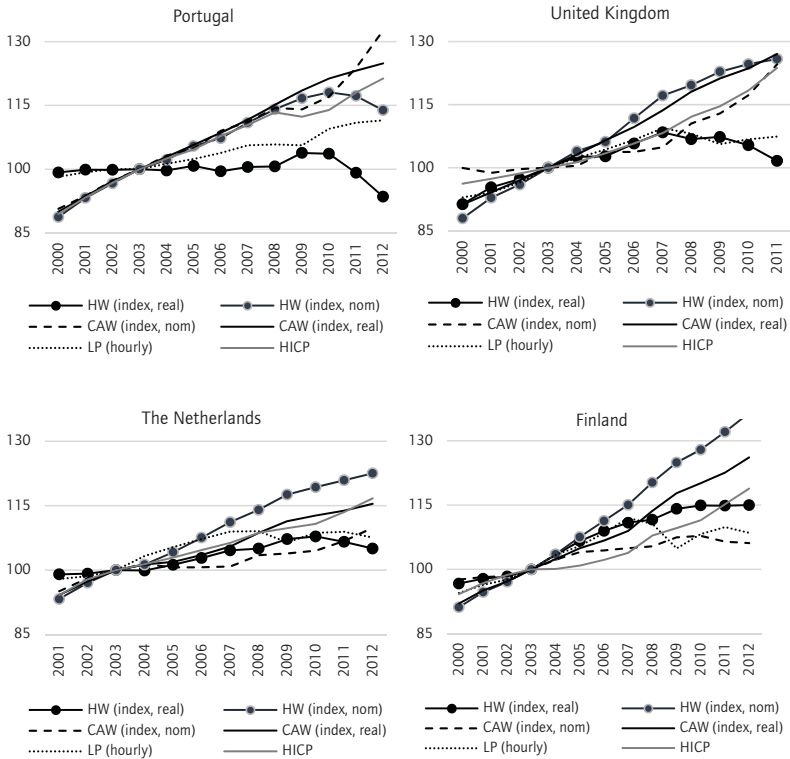


Figure 1 (cont.)



Note: Data cover 2000–2012 in Belgium, Germany, Finland and Portugal; 2000–2011 in Italy, Spain and the United Kingdom; 2003–2012 in France; 2000–2013 in Austria; and 2001–2012 in the Netherlands.

Source: Turi database; Eurostat, national accounts.

trends. Labour productivity in Italy and France grew at a moderate rate from the early 2000s and, at the same time, real wage trends are in line with labour productivity increases. Since the economic crisis, there has been a growing gap between productivity and collectively agreed wage increases in Italy due to the decline in productivity. Significant divergence can be observed in recent years – a period marked by the crisis– in Spain and Portugal. In both countries, since the early 2000s real collectively agreed wages have increased faster than labour productivity, while actual wage growth has remained in line with labour productivity

increases before a sharp decline from 2009. However, trends in collectively agreed wages are divergent. Since 2009, collectively agreed wages have grown faster in Portugal, but have experienced a huge fall in Spain. This trend may be due to changes in the indexation mechanism. Until 2010, the ex-post wage indexation mechanism followed by the social partners was based on the inflation rate. Since 2010, however, collectively agreed wage increases have been based more on company-based indicators, such as labour productivity.<sup>10</sup> These guidelines, which are set by the cross-sector agreement for employment and collective bargaining and which the social partners commit to follow at lower levels, advocate wage moderation.

In the United Kingdom, where bargaining is uncoordinated, wages grew dynamically while inflation remained moderate despite the recession. However, looking at values in real terms, wage restraint during the economic crisis has been severe, resulting in wage growth below productivity. In the United Kingdom, the dramatic fall in real wages may have something to do with the rising value of the pound against the euro, as well as falling bonuses (particularly in the financial sector, where bonuses were reduced by 30 per cent between 2008 and 2009, O' Farrell 2010). In the United Kingdom, the economic crisis is associated with a growing gap between real wages and labour productivity.

Finally, looking at trends in real wages, the data indicate wage moderation in almost all countries since the early 2000s. As already pointed out by numerous studies, we show that wage moderation is ongoing not only with respect to collectively agreed wages but also in actual wages. Prior to the crisis, in almost all countries, figures show modest wage growth since the early 2000s, with the exception of 2008–2009 (and to a lesser extent 2010) when wages continued to increase despite the economic downturn. Since 2009–2010, hourly wage increases have remained moderate and some countries – Spain, Portugal and the United Kingdom – have experienced a sharp decline in real actual wages, despite an increase in collectively agreed wages since 2007–2008. These observations raise the need to understand and appreciate the bite of collective bargaining on wages.

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10. It should be recalled that these guidelines are not mandatory.

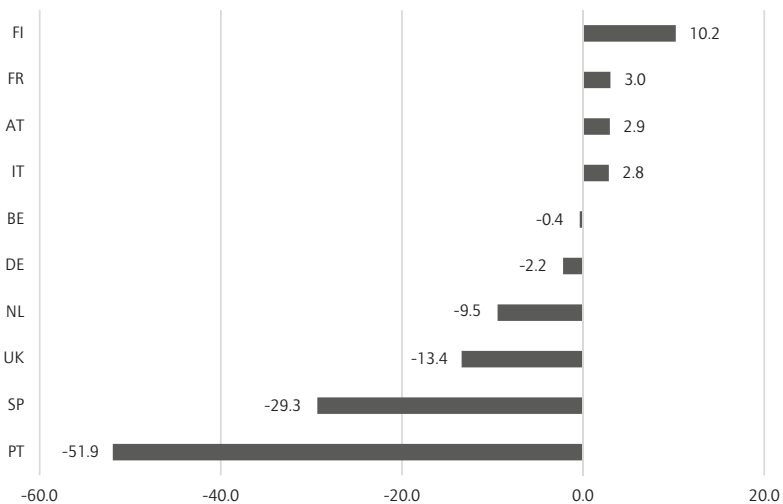
### 3. Assessment of the bite of collective bargaining on wages

One way to appreciate the potential influence, namely the bite of collective bargaining on wages is to consider so-called ‘wage drift’, which measures the difference between actual wages and collectively agreed wages. Positive ‘wage drift’ would indicate that actual wages are growing faster than collectively agreed wages, while a negative sign reveals that collectively agreed wages remain higher than actual wages. At the same time, we would expect that the more collective bargaining is decentralised, the higher wage drift will be. Such a result means that a larger part of total compensation is determined outside collective bargaining. To appreciate the bite of collective bargaining, we thus compare trends in collectively agreed wages and trends in actual wages. Besides collective bargaining, other factors also have to be taken into account. First, as already underlined (Box 1), the indicators of collective agreed wages vary across countries (in terms of level of collective bargaining, conception and set of wages). Second, the literature suggests that several factors may play a strong role in differences between actual and collectively agreed wages: (i) the composition effect related to changes in workforce composition (by gender, age, type of contract, working hours); (ii) human resource management (promotion effects, compensation policies, extra payments; and (iii) the existence and level of a statutory minimum wage. As far as possible, we will take into account these potential effects in the next section. We shall then focus on the main institutional changes in times of crisis.

#### 3.1 Descriptive statistics on wage drift

Figure 2 reports the difference in percentage points between collectively agreed wages and actual wages over the period of observation. It gives a first overview of the magnitude of wage drift across countries. As mentioned by Eurofound (2014a), there are no systematic relationships between the development of wage drift and national collective bargaining regimes. Among the ten countries, only four (Finland, France, Austria and Italy) present positive wage drift, meaning that actual wages grew faster than collectively agreed wages over the entire period. The highest wage drift is registered in Finland (10.2 percentage points), but it remains relatively low in the other three countries. By contrast, five countries show negative wage drift, suggesting that on average actual wages

Figure 2 Cumulated wage drift since the early 2000s (percentage points)



Note: Data cover 2000–2012 in Belgium, Germany, Finland and Portugal; 2000–2011 in Italy, Spain and the United Kingdom; 2003–2012 in France; 2000–2013 in Austria; and 2001–2012 in the Netherlands.

Source: TURI database; Eurostat, national accounts.

lagged behind collectively agreed wages. The phenomenon is particularly pronounced in Spain and Portugal – 52 percentage points in Portugal and less than 30 percentage points in Spain– and to a lesser extent in the United Kingdom. Belgium constitutes an intermediate configuration since wage drift is close to zero, meaning that the developments of actual and collectively agreed wages are similar.

Figure 3 reports annual changes of the main variables in order to better understand the relationships between collectively agreed wages and actual wages and thus the magnitude of wage drift in time of crisis. With no connection to national collective bargaining regimes, three groups of countries can be distinguished on the basis of wage drift trends since the onset of the crisis. The first group includes countries that have experienced huge wage drift, driven in the year preceding the crisis by increases in actual wages that were lower than collectively agreed wage rises. In southern countries, the data indicate that wage drift is counter-cyclical: it

was negative prior to the crisis and became positive during 2007–2009. Since 2009–2010, a dramatic trend reversal has taken place, with collectively agreed wages largely exceeding actual wages. The second group includes countries in which wage drift remained, on average, relatively low over the entire period (Austria, Belgium, Germany, France and, to a

Figure 3 Annual changes in collectively agreed wages (CAW), hourly wages (HW) and wage drift

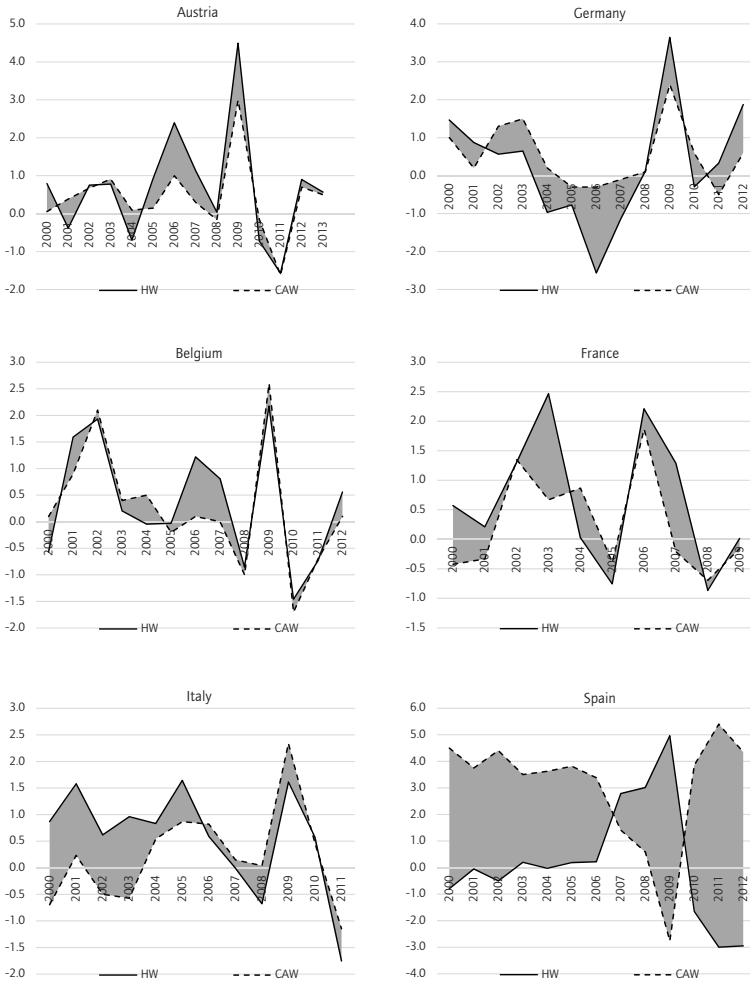
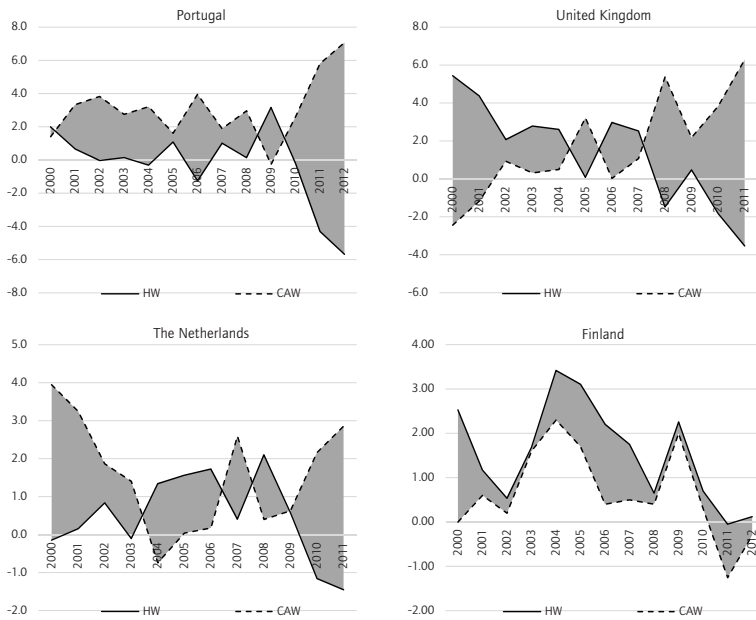


Figure 3 Annual changes in collectively agreed wages (CAW), hourly wages (HW) and wage drift (cont.)



Note: Data cover 2000–2012 in Belgium, Germany, Finland and Portugal; 2000–2011 in Italy, Spain and the United Kingdom; 2003–2012 in France; 2000–2013 in Austria; and 2001–2012 in the Netherlands.

Source: Turi database; Eurostat, national accounts.

lesser extent, Italy and Finland), although trends in collectively agreed and actual wages diverge over the period. The common point between these countries is an overall reduction of wage drift in the first year or so of the crisis. Germany constitutes a specific case because actual wages grew systematically more slowly than collectively agreed wages prior to the crisis, which is consistent with the well-known strong wage restraint in that country. Finally, the last group includes countries with erratic patterns of wage drift (the Netherlands and the United Kingdom).

Besides collective bargaining, numerous factors may play a strong role in the divergence of collectively agreed wages and actual wages. For instance, examining Dutch wage drift between 1995 and 2005, Salverda (2014) concluded that the ‘bite of collective bargaining as regards wage



earnings is far from comprehensive: employer contributions are around 25 per cent on top of wages, the non-CLA (collective labour agreements) part of the wage bill is another 20 per cent and average wage drift in recent years was 40 per cent' (p. 20). While the coverage of collective bargaining has remained stable in recent decades, Salverda pointed out that the influence of collectively agreed wages is relatively low (about 40 per cent of total gross wages). To explain this observation, Salverda insists on the role played by two factors: the growth of pay inequality (especially at the bottom of distribution) within firms that is associated with the increase in low-pay jobs and the fact that employees not covered by collective agreements earn more than employees who are covered. Besides these explanations, Van Klaveren and Tijdens (2012) also highlight the potential role of additional payments. In some countries, the way in which the statutory minimum wage may influence both collectively agreed and actual wages is another explanation of wage drift. For instance, in France the reduction of the gap between actual wages and collectively agreed wages can be explained by an increase in the number of sectors that revalued minimum wages between 2003 and 2006. At same time, the transition to the 35-hour working time took place and, from 2005, the government spurred a revival of collective wage bargaining. Since 2005, more than four sectors out of five have reviewed annually agreed wages. Since 2006, agreed and actual wages have risen at an annual rate close to that of the minimum wage. Sectors have been encouraged to raise the lower wage in their job classifications to a level at least equal to the minimum wage as part of the renewal of collective bargaining at sectoral level (Delahaie *et al.* 2012). These observations are consistent with the results of Castel *et al.* (2014), who argue that the effectiveness of collective bargaining (at sector and company levels) depends on compensation policies. In particular, they stress that the scope of collective bargaining may be limited because of the growing individualisation of pay practices, directives from parent companies or contractors, as well as the statutory minimum wage.

Comparing the evolutions of collectively agreed wages and actual wages often shows low or very erratic correlations, to the extent that one might question the effect of both institutional wage setting and the business cycle on wages (see above and Delahaie *et al.* (2012) for France and Den Butter and Eppink (2003) for the Netherlands). There are three possible explanations for the absence of an effect. The first explanation is the simplest: it may be that there is no substantial effect between levels or rates of change, for instance because coverage is low. The second explanation

is that the correlation appears with a lag, because agreements are to be implemented or because they are reacting to wage developments, as if catching up. The third explanation is that the measurement of wage trends is affected by a composition effect. If workers earning low wages are the first victims of the crisis, actual wages may increase counter-cyclically, while lower bargaining power results in more moderate wage demands from trade unions, inverting the intuitive positive relationship between collectively agreed and actual wages. ‘Controlled’ wage drift has been established in data reported by the Dutch central planning bureau (van der Wiel 1999). In the ECB’s 2012 Euro area labour markets and the crisis report, these stylised facts appears also over the Great Recession. Institutional explanations turn out to be poor predictors of actual wage developments and wages do not respond to the negative shock. Following the decomposition method of DiNardo *et al.* (1996), the change in wages between peak and trough for five countries (Belgium, France, Germany, Italy and Portugal) is then separated into a part due to education and experience, and a part due to latent wage adaptations. The results indicate that, with the exception of Portugal, a positive selection bias (either through dismissals or non-entry) of men has taken place. For women, the findings are more mixed, but as a rule the wage change is positive and stronger than for men, as is the latent wage change when controlling for composition effects. The latter are consistently positive for both genders, at the mean as well as at the tails of the wage distribution, indicating upskilling and insider-protection.

Much research has also indicated the importance of changes in workforce composition, especially in the crisis. During that period, many countries also made huge adjustments in employment and working time, which were concentrated on low-paid workers. For instance, Cruces *et al.* (2012) argue that the counter-cyclical pattern in Spain may be due to substantial composition effects. In particular, prior to the crisis, job creation was focused on activities and occupations that required low qualifications and often concerned temporary jobs with a significant proportion of female, young and immigrant workers. By contrast, in the economic crisis, these latter jobs are often the first to be removed. According to two recent studies (Puente and Galan 2014; Orsini 2014), real wages decreased by twice as much in 2011–2012. Hence the observed wage drift in our data is much greater. In France, where increases in both actual wages and collectively agreed wages have been registered since 2011, composition effects may have played a strong role: employment of skilled workers tended to increase, while employment of low

skilled workers has fallen since 2002 (Husson 2015). According to Husson, these trends may have been reinforced in the crisis. In fact, by taking composition effects into account, real actual wages decreased by 0.8 per cent over 2008–2011 (Verdugo 2013, cited by Husson 2015). Likewise, in Germany, Schulten and Bispinck (2014) argue that the development of mini-jobs since the end of 1990 is associated with a growing proportion of workers who have not benefitted from the higher wage growth determined by collective agreement.<sup>11</sup>

### 3.2 Wage drift and main institutional changes in wage-setting mechanisms

As already mentioned, collective bargaining system architectures overall remained broadly stable until the mid-1990s (excepted in the United Kingdom). Since then, most European countries have suffered both wage moderation and decentralisation of collective bargaining, which are clearly interrelated. In a majority of countries, bargaining coverage appears to have decreased in recent decades. In four countries – the United Kingdom, Germany, Spain and Portugal – there has been a considerable decrease in coverage of more than 10 percentage points (see Figure 4).

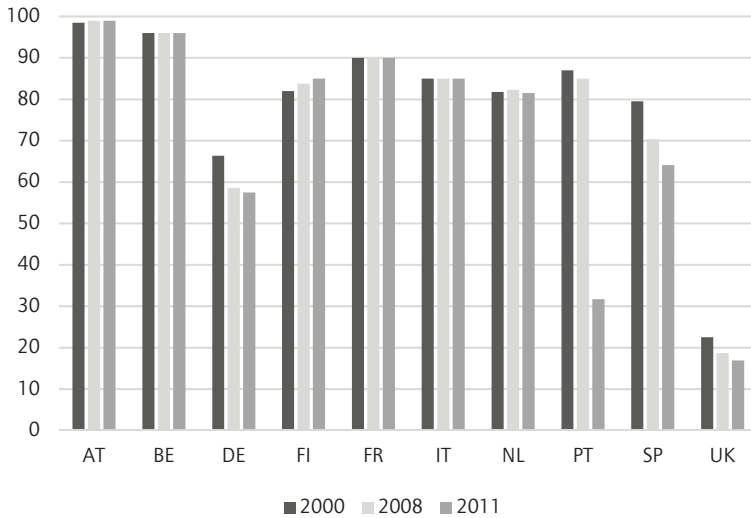
Since the onset of the crisis, these developments have been reinforced. One explanation of the lack of upward wage development is the intensification of the trend towards decentralisation of collective bargaining. In our ten countries, the coordination of collective bargaining is more or less on a downward trend, with two exceptions: one of increased coordination, namely Belgium and Finland, the other of disorganised decentralisation, as in Spain and Portugal.

Changes to wage-setting mechanisms since the onset of the crisis can be clustered into three main types: changes in linkages between levels under multi-tier bargaining (including ordering between levels, opening and opt-out clauses); withdrawal of legal support for collective bargaining (weakening of extension mechanisms or after-effects of collective

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**11.** In connection with the development of mini-jobs, the proportion of low-wage workers increased from 18.8 per cent to 24.3 per cent between 1995 and 2012 (data from Kalina and Weinkopf 2014, cited by Schulten and Bispinck 2014).

Figure 4 Collective bargaining coverage (% of employees)



Source: ICTWSS, Visser, 2014.

agreements); and disruption of bargaining by the extension of options allowing non-union groups to negotiate (Marginson and Welz 2014). The most substantial change concerns the relationships and ordering between levels, introducing circumstances under which further negotiation derogates from the higher agreement (opening or opt-out clauses in sectoral or cross-sectoral agreements). Opening clauses in sectoral agreements provide scope for further negotiations on aspects of wages at company level, such as the implementation of a variable (productivity-related) element of wages. Opt-out clauses permit derogation under certain conditions from the wage standards specified in sectoral or cross-sectoral agreements. The use of derogation is limited mainly to companies in economic difficulties, although how strictly this is defined varies. The development of opening or opt-out clauses may be noted in most of the ten countries: Austria, Germany, Finland, France, Italy, Spain and Portugal. Another type of disruption in the articulation of bargaining levels appears when bargaining competence is accorded to non-union representatives, mainly within companies. This occurs in France and Portugal. Finally, there have been changes in extension mechanisms or in their use in Italy, Germany and Portugal. Clauses providing a continu-

ation of agreements beyond expiry are found in Austria, Portugal and Spain. Changes have been made in the latter two countries.

In light of these facts – wage drift trends and institutional changes in collective bargaining– we may distinguish Spain and Portugal, in which substantial ‘structural reform’ occurred at the same time as a reversal of trend with regard to wage drift. The other eight countries have suffered fewer institutional changes, but among them two cases should be particularly stressed. First, France and Italy, where a number of reforms have weakened the collective bargaining system but coordination within the system has not really been undermined; and Germany, where institutional changes took place before the crisis in the early 2000s.

### **A ‘de-collectivisation of labour relations’? (ETUI 2015)**

This intensification of reform programmes has been particularly strong in Spain and Portugal. Even though the well-established multi-employer bargaining structures in these countries have remained formally intact, their scope and regulatory capacity have been increasingly undermined by the various legal changes introduced in response to the demands placed upon these countries by the Troika (Schulzen and Müller 2014). The far-reaching impact of the various ‘structural reforms’ that have been implemented in the collective bargaining systems of the southern European countries manifests itself in the dramatic decline in numbers of collective agreements and in collective bargaining coverage. The collective bargaining systems in these countries now increasingly resemble the highly decentralised systems typical of the United Kingdom and many central and eastern European countries (Meardi 2014).

In Spain, huge changes have been imposed by the previous and current governments in laws enacted in 2011 and 2012. The 2012 law completely inverted the favourability principle. Priority is now given to company-level agreements rather than the sectoral or provincial levels with regard to basic wages and wage supplements. However, employers and trade unions retained the option to re-establish the favourability principle if they so wish. They did so in 2013 for some sectors, including metalworking, chemicals and construction (Vincent 2013). These agreements were not renewed in 2014. The number of sectoral agreements was almost halved between 2008 and 2013, from 1 448 to 887. However, company-level agreements declined even more, from 4 539 in 2008 to 2 274 in 2013. Hence, between 2008 and 2013, the number of workers covered by collective

agreements decreased in Spain from 12 million in 2008 to just 8.5 million in 2013 (see Chapter 3 in this volume).

In Spain, the 2012 law also extended the clauses enabling employers to ‘remove themselves’ from the application of collective agreements, on economic, technical, organisational or production grounds. These ‘opt-out’ exit clauses already existed, but their range of authorisation was extended significantly. Companies with only two consecutive trimesters of deficit are now permitted to waive the conditions of a sectoral collective agreement. In case of disagreement between employers and unions concerning the application of this derogation clause, the National Consultation Committee on collective bargaining is authorised to settle the dispute within 25 days (Vincent 2013). Finally, the 2012 reform of collective bargaining imposes a 12-month time limit, beyond which agreements will no longer be binding.

The reforms were more radical in Portugal. The 2012 Labour Code inverted the favourability principle, specifying that the provisions of agreements concluded at company level take priority over those contained in sectoral or cross-sectoral agreements, but, as in Spain, allows employers and trade unions to negotiate a clause in higher-level agreements reverting to the favourability principle. To date, no agreement has been signed. Opening clauses have existed since the 2012 Labour Code enabled sectoral agreements to delegate the regulation of some issues – such as wages – to company level. Portugal’s 2012 Labour Code also sets stricter criteria for the application of extension procedures, limiting this to sectors in which employers’ organisations cover over half the workforce.

Moreover, the 2009 law provided trade unions with the option of delegating negotiating responsibility to company-level employee representatives in companies with 500 employees or more. This threshold was lowered to 150 under the 2012 Labour Code. The Memorandum of Understanding recommended that Portugal remove trade union consent for delegation. To date, this has not featured in the government’s legislative proposals. The Memorandum also asks the Portuguese government to think about reforming the continuation of agreements beyond expiry. Since a 2009 law, the duration of the after-effect of collective agreements is 18 months, although the parties can agree to extend this duration, up to a maximum of five years.

As a result, in Portugal the decline in the number of collective agreements was even more dramatic than in Spain. Here, the total number of registered agreements fell from 296 in 2008 to 95 in 2013, when no more than 27 sectoral agreements. Since, at the same time, the number of extended collective agreements fell from 131 in 2008 to only 9 in 2013, the number of workers covered by collective agreements virtually collapsed, from 1.7 million in 2008 to 200,000 in 2013 (Schulten and Müller 2015: 349).

### **Uncertain effects of substantial changes**

Two countries have suffered a weakening of their collective bargaining systems overall, France and Italy, even though the impact of such decentralised mechanisms is not easily comparable. The consequences are clearly much more effective with regard to the outcomes of collective bargaining in Italy.

In Italy, a 2011 cross-sectoral agreement reformed the two-tier bargaining system, setting new rules for the validity of company-level bargaining. To be valid, company agreements had to be approved by a majority in the RSU (company union-based employee representative body), now the sole entity with the power to reach agreement, a right previously shared with the unions. A cross-sectoral agreement in 2013 complemented that of 2011, which essentially dealt with company-level agreements. Sector-level agreements became valid on two conditions: they must be signed by the majority of trade unions in the industry (majority of a mixed indicator votes/members) and approved by a majority vote by the industry's workers (Rehfeldt 2013).

In 2009, a cross-sectoral agreement introduced possible derogation conditions to enable companies to 'manage crisis situations or to foster economic and employment growth' to encourage company-level bargaining on productivity bonuses. Few industries have implemented the new derogation possibilities.

Simultaneously, the long-established practice of 'quasi-legal' extension has been called into question by recent court rulings that confirmed the validity of the new plant-level agreement imposed unilaterally by Fiat in 2011. Italy's economic difficulties led to a decrease in company bargaining, its coverage and intensity (Burroni and Pedaci 2011). The fact that actual wages remain lower than collectively agreed wages may be due to the reduction of the scope for pay bargaining at firm level. Indeed, between 1990 and 1999, 43.3 per cent of firms and 64.1 per cent of em-

ployees were covered by firm-level collective bargaining. These proportions were 30.6 per cent and 54.4 per cent, respectively, in 2000–2008.

France is always hard to place in a European classification. Important new laws reformed collective bargaining long before the crisis, but with limited practical impact. For instance, opening clauses have existed since the 1982 Auroux law, but only for working time. A 2013 cross-sectoral agreement, subsequently enacted as law, created a new type of ‘job retention’ agreement that allows firms experiencing difficulties to bargain for lower temporary compensation in exchange for continued employment. Only ten company agreements have been signed since then. The limited success of the measure is due to the considerable constraints related to this type of agreement. These new devices have not replaced the many existing formulas that are used to allow employers to reduce wages in time of economic difficulties, such as ‘competitiveness agreements’, which were implemented by law in 2012 and are still by far the most popular.

France was also the only country to make changes in the operation of the favourability principle before the crisis. The 2004 Fillon law inverted the principle, giving precedence to agreement concluded at company level over the provisions specified in higher-level agreements, with the notable exception of collectively agreed wages and job classification.<sup>12</sup>

Unlike the other countries, since the 2008 crisis company-level bargaining in France has enjoyed new growth. Previously, it was permitted only with a union delegate present or, in certain circumstances, with an employee holding a bargaining mandate issued by a union outside the company. The Act of 20 August 2008 allowed employers, under certain conditions, to bargain with the works council or even a staff representative, in the absence of union delegates.

### **Germany: main changes before the onset of the crisis**

In some ways, the evolution of the German collective bargaining system may sound fairly unique compared with other European countries. The decline in the number of companies bound by collective agreements

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12. Plant-level agreements could waive higher-level bargaining agreements, even towards less favourable dispositions for workers, except in four areas: minimum wages, classifications, vocational training and supplementary social protection.



at sectoral level was early and rapid. The weakening of collective bargaining is particularly striking with regard to the coverage of sectoral agreements: in 2013, 52 per cent of workers were covered by a collective agreement in western Germany and only 35 per cent in eastern Germany; fifteen years ago, the levels were around 68 per cent and 52 per cent, respectively (Bispinck and Schulten 2014).

The spread of derogation constitutes another important factor in the erosion of collective bargaining. Opening clauses were bargained by German trade unions before the crisis. Opening clauses were included in the 2009 and 2010 German metalworking and chemical sector agreements. Opt-out clauses were also used not only to make working time more flexible but also to deviate from collectively agreed wages. In 2010, 58 per cent of companies made use of opening clauses and the number of derogation agreements on wages grew. More recently, in direct contrast to the other countries, a statutory minimum wage has been implemented and the use of extension procedures has increased in Germany, reflecting a growing problem of low pay in parts of the private sector.

## Conclusion

Since the early 2000s, wage restraint has been common in all ten countries dealt with in this chapter. This trend has further been reinforced since the onset of the crisis. We have examined the extent to which collective bargaining may influence trends in actual wages; in other words, we have tried to provide indicators of the 'bite' of collective bargaining in Europe. This also involved an attempt to explain how actual wages may deviate from collectively agreed wages (so-called 'wage drift').

First, our analysis shows that wage restraint has been reinforced since the onset of the crisis, not only with regard to collectively agreed wages but also actual wages. Second, analysis of the development of 'wage drift' – measured by the difference between actual wages and collectively agreed wages – leads to the identification of three groups of countries. The much larger group has experienced fairly weak wage drift, moderately positive or negative: Austria, Belgium, Finland, France, Germany and Italy. In stark contrast, countries of the second group have experienced huge wage drift, which is a typical feature of southern Europe: in our sample, Spain and Portugal. Finally, wage drift has followed a fairly erratic pattern over the period in two countries: the Netherlands and

the United Kingdom. We also highlight that these divergent trends may have been due to a wide range of explanations: changes in the composition of the labour force; minimum wage setting and pay indexation; and compensation policies at firm level. Besides these latter determinants of wage drift, in connection with implementation of new economic governance, industrial relations regimes came under growing pressure to reform collective bargaining and wage-setting mechanisms.

We considered in a last section the main institutional changes in wage-setting mechanisms and their potential impacts on wages and wage drift. In particular, our analysis has distinguished Spain and Portugal, which were subject to important ‘structural reforms’, which occurred at the same time as a reversed trend with regard to wage drift. In the other countries, fewer institutional changes are reported but two cases have been stressed: first, France and Italy, where a number of reforms have weakened the collective bargaining system, although without undermining coordination; and second, Germany, where ‘deregulating’ institutional changes took place before the crisis in the early 2000s (derogation and opting-out), and ‘re-regulating’ changes very recently (minimum wage and revised extension mechanism).

The wage moderation recorded in the euro-zone countries goes far beyond adjustments in labour costs to restore productivity; it has been accompanied by reforms whose worst effects have not yet been felt except in countries under Memorandums of Understanding. This can be explained by the resistance of institutions to change (path dependency) and by the strategies of the social partners, which restrict the negative effects. However, the reforms are likely to result in permanent erosion of collective bargaining systems.

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## Appendix

Table A Main features of indicators of collectively agreed wages (TURI database)

Indicator	Description	Data source	Wage concept	
Austria	Index of collectively agreed minimum wages	Wages defined by collective agreements or similar legal regulations	Collective agreements that come into force	All regular payments conditional on the job.
Belgium	Index of collectively agreed wages	Index following the rise in sector level median pay scales based on collective agreements	Collective agreements at sectoral level	Base wage (not included: bonuses such as premiums, year-end bonuses and holiday allowance; included: automatic indexation)
Germany	Collectively agreed earnings	Agreed pay levels and increases	All collective agreements registered by the Ministry of Labour (Sector-level agreements only)	Base wage, including one-off and flat-rate payments and other bonuses
Finland	Index of collectively agreed wages	Index measuring the effect of collectively agreed pay on average earnings	Collective agreement filed at employer organisation	Total compensation (including basic pay and bonuses)
France	Index of collectively agreed wages	Minimum wages at sectoral level	Collective agreements at sectoral level	Minimum wages (hierarchical minimum wage or annual guaranteed compensation)
Italy	Index of collectively agreed wages	Wages set by the national collective agreement (CCNL, Contratto Collettivo Nazionale di Lavoro)	Consiglio Nazionale dell'Economia e del Lavoro (CNEL)	Base wage, seniority premiums and shift work allowances, all bonuses (except for one-off payment and periodically bonuses (1.3th monthly payment).
Netherlands	Index of contractual wages	Gross wages at sectoral level	Collective agreement (250) monitored by the CBS (2,500 employees)	Wage, including specific remuneration, such as gross wages for regular working hours, paid benefits, holidays allowances or end-of-year payment

Table A Main features of indicators of collectively agreed wages (TURI database) (cont.)

	Indicator	Description	Data source	Wage concept
Portugal	Annualised weighted average variation between wage tables	Calculated on the basis of a comparison between pay levels in the respective wage tables (present and previous agreements)	All collective agreements signed under the legislation	Base wage
Spain	Statistics on labour collective agreements	Number of collective agreements, number of workers, agreed wage increase	Collective agreements signed by trade unions and companies	Base wage (but many agreements define total compensation)
UK	LRD pay round pay settlement medians	Median increase of the lowest basic rate of pay arising from pay settlements	LRD pay round settlements	Base wage

Source: Van Gyes (2012), national reports CAWIE I.