

# ENTIRE VIEW

## Policy Report

### European, National and Transnational Industrial Relations: Visible and Invisible Hands in European and National Wage Setting

*Bernd Brandl, Barbara Bechter, Jan Czarzasty, Alex Lehr, Oscar Molina, Patrik Nordin,  
Dominik Owczarek, and Aarron Toal*

## University of Durham

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Corresponding Author & Project Leader: Professor Bernd Brandl  
Durham University,  
Durham University Business School,  
Mill Hill Lane, Durham, DH1 3LB, United Kingdom.  
T: +44 (0)191 334 5756  
F: +44 (0)191 334 5201  
Email: [bernd.brandl@durham.ac.uk](mailto:bernd.brandl@durham.ac.uk)  
<https://entireview.uk/>



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## **Background**

Given that the European industrial relations system consists of many national industrial relations with national actors embedded in national institutional frameworks makes the implementation of any European wage strategy and policy extremely challenging. The high complexity and diversity of the European industrial relations system makes it nearly impossible to govern wage developments from a European perspective. In this research project, the complexity of the European industrial relations system was analysed in order to find pathways or examples on how a European wage strategy can be realized.

In this research project, it was evidenced that over time, i.e., since the start of the new Millennium, the complexity and number of industrial relations actors has even increased since industrial relations structures became increasingly decentralized. This trend towards decentralization also implied that the transnational coordination and governance of wages became increasingly difficult as more actors needed to be involved. Against this background, this project aimed to identify characteristics of some industrial relations systems which allowed for coordination.

## **The development of wages in the EU**

The European economy is challenged by the increased exposure to the world economy with European companies competing all over the world. In past decades, it has become increasingly challenging for European companies to compete with other countries who try to gain advantages on the basis of lower wage costs. More specifically, in many countries in Europe, wages are relatively high compared with other international regions even though there is no doubt that wages are, on average, certainly not too high as European workers are highly educated and productive, reflected in the highly competitive unit labour costs by which companies based in Europe are characterized. Nevertheless, in the past two decades, there has been pressure on the development of wages, as wages would need to be governed in order to maintain the competitiveness in the world economy. For example, wages should develop in a way that optimises the mutual interests of all employees in the European Union (EU), instead of other companies, sectors or countries trying to gain an advantage over others. Hence, it is important to coordinate wages thorough the EU so that fairness and competitiveness goals can be optimized. In this context, the research project was able to show that wages and wage costs

developed in a sustainable way but that there is no clear European pathway in the sense that different countries are characterized by very different developments which appear to be not controlled or governed by policy makers at a national and European level.

## **The development collective bargaining in the EU**

The project has shown that in all EU member states collective bargaining takes place although in very different forms, i.e., on very different levels and with different implications for the setting of wages and working conditions for different types of employees. It was also shown that the share of employees who are covered by a collective agreement also differs substantially across the EU, i.e., collective bargaining coverage varies across the member states. The main reasons for differences in collective bargaining coverage is that trade unions are involved in a variety of ways, able to bargain over wages and working conditions as well as adhering to the different legal systems that exist in countries throughout the EU, which ultimately affects how easy or difficult the process is for trade unions to bargain collectively over wages. As mentioned earlier, one megatrend in the development of collective bargaining systems in the EU is that collective bargaining institutions and structures became increasingly decentral. Even though there is a high degree of variation in terms of how decentralization worked in different countries as well by how decentral collective bargaining systems are actually characterized, one main stylized fact is that collective agreements were increasingly made in addition or in expense to higher level agreements, such as in particular sectoral collective agreements. In an increasing number of countries, it became not only possible for companies to deviate from higher level collective agreements via so called opening, hardship, or opt out clauses, but it also became a common practice that wages and working conditions were being regulated predominantly on the basis of agreements with a narrow domain. Furthermore, along with decentralization of collective bargaining systems, the number of agreements and actors involved increased. As the number of actors increased, any form of coordination of individual actions and interaction was hampered. As shown in the project, this trend made the coordination and governance of wages in the EU certainly more difficult or in some cases even impossible.

## **The importance of the governability of the wage setting systems**

In this research project, it was shown that the governability of wage setting systems is a key element for policy makers to maintain or increase the competitiveness of the European economy. It was explained and demonstrated that if industrial relations structures and mechanisms have a high degree of governability, it is possible to align wage policies and strategies to mutually agreed goals. Conversely, systems which lack governability fail to achieve mutually beneficial goals and are associated with a poorer economic performance. It was also shown that the same applies for the transnational level which was investigated in this research project in further detail. As shown in the project, some wage setting systems have demonstrated the ability to adjust their processes and outcomes to the changing needs of the economy and were able to pursue different wage policies. However, within the new system of economic governance in the EU, various changes in the socioeconomic environment of wage setting can be observed and there are reasons to believe that previously observed relationships may have changed, but the fundamental principles remain the same.

### **Key findings**

This research project was able to reveal a number of important transformations in industrial relations including, most notably, the increasing complexity and the increased number of wage setting actors. Both of these transformations were shown to have a detrimental effect on the governability of wages and the implementation of common wage strategies and policies in the EU. It was also shown that some of these transformations are rooted in long-term trends which have continued in recent years, and other transformations were induced by the economic crisis in 2008. However, independent from the roots of these transformations, all of these trends impede the governance of wages from a European wide perspective but are not irreversible. Independent from these developments, the project also showed that highly coordinated collective bargaining systems offer the opportunity to realize different wages policies. Such wage policies could include wage led growth strategies as well as wage moderation strategies. The analysis showed that it is not necessarily important what the goal or the target from the European Semester is, what is important is that actors need to understand the mutual and long-term benefits. If this is known, many actors made clear that they are willing to implement

policies. However, it would, of course, also be beneficial if national social partners who are responsible for the implementation are also involved in the preparation and design of the policies. This research project also evidenced that even though there is scope for improvement for all collective bargaining, i.e., industrial relations systems, all systems need to be legally and organizationally strengthened in order to increase their efficacy and functioning, with Nordic and continental European systems demonstrating to be better suited than other systems. Ultimately, completely liberal and deregulated systems are not equipped with the capacity to implement higher level, or European level, wage policies at all.