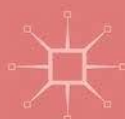


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MINIMUM WAGES, COLLECTIVE BARGAINING AND ECONOMIC DEVELOPMENT IN ASIA AND EUROPE

A Labour Perspective



Minimum Wages, Collective Bargaining and Economic Development in Asia and Europe

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Preface and Acknowledgements

This book is based primarily on contributions made to the Asian-European Labour Forum (AELF) set up by the Friedrich-Ebert-Stiftung (FES, Friedrich Ebert Foundation) in 2009. The Forum convenes some 30 researchers from various Asian and European labour research institutes, labour training institutes and think tanks related to trade unions. The research questions initiated at the first Forum meeting concerned the search for policies to reduce inequality and provide equitable living and working conditions within a common need for sustainable economic and social growth. To that end, the activity of the AELF focused on elaborating national experience with minimum wage setting and trends in income inequality. In addition, the potential of trade unions and the scope of collective bargaining at national level were assessed and evaluated as were the economic policy stances of the respective governments.

AELF meetings took place in Düsseldorf (2009), Ha Long in Vietnam (2010), Oslo (2011), Seoul (2012) and Amsterdam (2013), co-organized with the FES and hosted by, respectively, the WSI within the Hans-Böckler-Stiftung; the Institute for Workers and Trade Unions (Vietnam General Confederation of Labour); the Fafo Institute for Labour and Social Research; the research centres of the Korean trade union confederations, FKTU and KCTU; and the Amsterdam Institute for Advanced Labour Studies (AIAS) at the University of Amsterdam. At the Amsterdam 2013 meeting, it was agreed that the written contributions to the Forum should be edited and, together with comparative chapters on Asia and Europe, should be offered for publication and a wider audience. In keeping with the discussions at Forum meetings, the book offers a critical perspective on wage-setting institutions, collective bargaining and economic development. It focuses in particular on the role and effectiveness of (statutory) minimum wages (throughout this book abbreviated as (S)MW) in the context of national trends in inequality, economic development and social security systems. The book contains 16 country chapters comprising eight Asian countries, namely China, Vietnam, (South) Korea, Japan, Pakistan, India, Indonesia and Thailand, and eight European countries or country groupings, namely France, Italy, Germany, The Netherlands, the Nordic countries, Central and Eastern Europe, the United Kingdom and the Russian Federation. These country chapters, all written by AELF participants except for an additional contribution on China, reflect their contributions at the various meetings of the Forum, but all have been updated to include the latest data available.

The chapters on Asia and Europe compare and contrast national experiences in order to highlight the overall lessons that can be drawn in a number

of crucial policy areas. To this end, we have gone beyond a simple assessment of the impact that minimum wages may have made on the prevalence of low pay at country level. Discussion and inputs to various meetings of the Forum also focused on minimum wage setting and inequality trends as well as on the relevance of a redistributive wage policy for worldwide as well as national economic recovery. This enabled us to explore demand- or wage-led economic recovery as an alternative to the export-led strategies, currently pursued by countries such as China, Japan and Korea in Asia and, notably, Germany and the Netherlands in Europe. To provide important context here, we have also drawn upon the trends in trade union activity and collective bargaining coverage that are presented in the individual country chapters.

In the light of the slow pace of recovery from the recession induced by the financial crash of 2008–09, which has characterized much of the European Union, it is timely to reconsider macroeconomic policy options. The fact that fears of deflation have latterly surfaced in Europe and that the previous soaring growth rates of China and India, among others, have also significantly weakened while Japan has gone into recession, all suggest that the dominant macroeconomic growth policies, whether export led or debt fuelled, are failing to support a sustainable economic recovery. At the same time, as shown in the comparative and country chapters, short-term ‘austerity’ policies have, if anything, added to rising inequality and contributed a further twist to the downward spiral of falling consumer demand. Against this context, the need for a redistribution and rebalancing of income and wage share becomes compelling not just in Europe but also in the fast-growing economies elsewhere.

As with any international comparative study, it is important to acknowledge differences in levels of economic and social development, institutions of governance, culture and history. That said, the subject matter of this book, namely the enduring problems of low pay, rising inequality and inadequate economic and social policy responses, do seem to be common across all of the countries represented in this book. Similarly, the weakening of trade union influence and the declining coverage of collective bargaining are characteristic of the last couple of decades in virtually all the countries we surveyed. It is hard to avoid the conclusion that irrespective of country, the ‘workers’ voice’ has been systematically choked off, and the scope for collective action increasingly constrained in the pursuit of neoliberal economic policy. As the book will show, the failure to arrest rising inequality together with the very slow recovery from the 2008–09 crisis and current fears of deflation provide ample testimony that current policy responses are not supportable either from a social or an economic point of view.

It follows that while we acknowledge the relevance of policies limiting the surge in top incomes such as those recently emphasized by Thomas Piketty and others, our emphasis is on the equally urgent need for more comprehensive demand-led macroeconomic policies. Specifically from a

labour perspective, to overcome the economic crisis and reduce inequality in both Asia and Europe, such policies should be grounded on free collective bargaining and, if feasible, well-designed minimum wage-setting systems, supported by the expansion and strengthening of social protection.

We are very grateful to the FES staff members who have facilitated the AELF meetings, in particular Rudolf Traub-Merz – the initiator of the AELF – Christoph Pohlmann and Julia Mueller, as well as the staff of the five hosting institutes mentioned earlier. We are grateful to the guests in the Forum meetings who made valuable inputs to various debates: Janine Berg, Heiner Flassbeck, Prof. Eckhard Hein, Frank Hoffer, Dr Nguyen Lan Huong, Prof. Lee Joung-Woo, Dr Rostislav Kapeliushnikov, Sangheon Lee, Kristine Nergaard, Paulien Osse, Prof. Alakh Sharma, Wim Sprenger and Prof. Rolph van der Hoeven. Of course, we also thank those AELF participants who although not writing chapters, nevertheless helped to shape this book with their presentations and inputs to our debates.

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Abbreviations

ABY	Yogyakarta Labour Alliance
ACFTU	All-China Federation of Trade Unions
ADB	Asian Development Bank
AIAS	Amsterdam Institute for Advanced Labour Studies
APINDO	Indonesian Employers' Association
AWE	average weekly earnings (UK)
BPO	business process outsourcing
BPS	Badan Pusat Statistik (Statistics Indonesia)
CBS	Centraal Bureau voor de Statistiek (Statistics Netherlands)
CCNL	Contratti Collettivi Nazionali di Lavoro (National collective bargaining agreement, Italy)
CEDA	China's Enterprise Directors Association
CEE(s)	Central and Eastern Europe(an countries)
CFDT	Confédération Française Démocratique du Travail (French Democratic Confederation of Labour, France)
CFE-CGC	Confédération Générale des Cadres (General Confederation of Higher Staff, France)
CFTC	Confédération Française des Travailleurs Chrétiens (French Confederation of Christian Workers, France)
CGIL	Confederazione Generale Italiana del Lavoro (General Italian Confederation of Labour, Italy)
CGT	Confédération Générale du Travail (General Confederation of Labour, France)
(CGT-)FO	((Confédération Générale du Travail) Force Ouvrière ((General Confederation of Labour) Workers' Power, France)
CHNS	China Health and Nutrition Survey
CISL	Confederazione Italiana dei Sindacati Lavoratori (Italian Confederation of Workers' Unions, Italy)
CLA	collective labour (bargaining) agreement
CLSR	Center for Social and Labour Rights (Russia)
CNV	Christelijk Nationaal Vakverbond (National Federation of Christian Trade Unions, The Netherlands)
CPC	Communist Party of China
CPI	consumer prices index
CWC	Central Wage Committee (Thailand)
DGB	Deutscher Gewerkschaftsbund (German Confederation of Trade Unions, Germany)
DRP	Democratic Republican Party (Korea)

DWF	National Domestic Workers Forum (India)
EAPS	Economically Active Population Survey (Korea)
EPZ	export-processing zone
ETUC	European Trade Union Confederation
ETUI	European Trade Union Institute
EU	European Union
Eurofound	European Foundation for the Improvement of Living and Working Conditions, Dublin
FARCB	Framework Agreement for the Reform of Collective Bargaining (Italy)
FDI	foreign direct investment
FES	Friedrich-Ebert-Stiftung (Friedrich Ebert Foundation)
FIEs	foreign-owned firms (China), foreign-invested enterprises (Vietnam)
FIOM(-CGIL)	Federazione Impiegati Operai Metallurgici (Federation of Metal Workers (-CGIL), Italy)
FKTU	Federation of Korean Trade Unions
FNPR	Federation of Independent Trade Unions of Russia
FNV	Federatie Nederlandse Vakbeweging (Federation Dutch Labour Movement, The Netherlands)
FSBS	Serang Labour Solidarity Forum (Indonesia)
FSPMI	Indonesian Metal Workers' Union
FTE	full-time equivalent
GDP	gross domestic product
GMR	Garanties Mensuelles de Rémunération (Guaranteed Monthly Remuneration, France)
GNP	Grand National Party (Korea)
GSO	National Statistical Office (Vietnam)
HDI	Human Development Index
HICP	(European) Harmonised Index of Consumer Prices
IDR	Indonesian rupiah
IDS	Incomes Data Services
ILO	International Labour Organization
IMF	International Monetary Fund
INR	Indian rupee
INSEE	National Institute of Statistics and Economic Studies (France)
IRO	Industrial Relations Ordinance (Pakistan)
ISTAT	National Institute for Statistics (Italy)
IT	information technology
ITUC	International Trade Union Confederation
JILPT	Japan Institute for Labour Policy and Training
KAJS	Action Committee for Social Security (Indonesia)
KCTU	Korean Confederation of Trade Unions

KLI	Korea Labor Institute
KSBSI	Konfederasi Serikat Buruh Sejahtera Indonesia (Indonesian Trade Union Confederation Prosperity)
KSPI	Konfederasi Serekat Pekerja Indonesia (Indonesian Trade Union Confederation)
KSPSI	Konfederasi Serikat Pekerja Seluruh Indonesia (Confederation of All-Indonesian Trade Unions)
KTC	Korea Tripartite Commission
KTR	Confederation of Labour of Russia
LLW	London Living Wage (UK)
LPC	Low Pay Commission (UK)
LPR	labour force participation rate
MEDEF	Mouvement des Entreprises de France (Movement of French Enterprises)
MGNREGS(A)	Mahatma Gandhi National Rural Employment Guarantee Scheme (Act) (India)
MIS	minimum income standard
MOEL	Ministry of Employment and Labor (Korea)
MOL	Ministry of Labour (Thailand)
MOLISA	Ministry of Labour, Invalids and Social Affairs (Vietnam)
MHP	Vakcentrale voor middengroepen en hoger personeel (Union Confederation for Medium and Higher Staff, The Netherlands)
MPBI	Majelis Pekerja Buruh Indonesia (Council of Indonesian Labour)
MW	minimum wage
MWC	Minimum Wage Council (Korea)
NBS	National Bureau of Statistics (China)
NEET	(population) not in employment, education or training
NGO	non-governmental organization
NHS	National Health Service (UK)
NLW	National Living Wage (UK)
NMW	National Minimum Wage (UK)
NSO	National Statistical Office (Thailand)
NUPE	National Union of Public Employees (UK)
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics (UK)
PCIRR	Presidential Commission on Industrial Relations Reform (Korea)
PKR	Pakistani rupee
PPP	purchasing power parity

PPS	purchasing power standard
PRB	Pay Review Body (UK)
PSC	Provincial Subcommittee (Thailand)
REER	real effective exchange rate
RENGO	National Federation of Private Sector Unions (Japan)
RMB	Chinese renminbi
Rostrud	Federal Service on Labour and Employment (Russia)
RSPF	Russian Union of Industrialists and Entrepreneurs
RSU	Rappresentanze Sindacali Unitarie (Unitary Unions Councils, Italy)
RUB	Russian rouble
SER	Social and Economic Council (The Netherlands)
SEWA	Self-Employed Women's Association (India)
SJSN	National Social Security System (Indonesia)
SME	small and medium-sized enterprise
SMIC	Salaire Minimum Interprofessionnel de Croissance (Guaranteed minimum wage, France)
SMIG	Salaire Minimum National Interprofessionnel Garanti (Guaranteed national minimum wage, France)
SMW	statutory minimum wage
SOEs	state-owned enterprises (China, Vietnam, Indonesia, Thailand)
STAR	Labour Foundation (The Netherlands)
SZW	Sociale Zaken en Werkgelegenheid (Social Affairs and Employment, The Netherlands)
TFP	total factor productivity
TUC	Trades Union Congress
UB	unemployment benefit(s)
UIL	Unione Italiana del Lavoro (Italian Union of Labour, Italy)
UIMM	Union des Industries et des Métiers de la Métallurgie (Federation of Metal-working Enterprises and Occupations, France)
UKP	UK pound
UNDP	United Nations Development Programme
USD	US dollar
UTs	union territories (India)
VDA	Variable Dearness Allowance (India)
VGCL	Vietnam General Confederation of Labour
VKT	All-Russian Confederation of Labour
VND	Vietnamese dong
ZENROKYO	National Trade Unions Council (Japan)
ZENROREN	National Confederation of Trade Unions (Japan)

1

Asia: A Comparative Perspective

Maarten van Klaveren

1.1 Commonalities and differences

In this chapter, we set out the characteristics of the eight Asian countries (China, India, Indonesia, Japan, Korea, Pakistan, Thailand and Vietnam) scrutinized in the following chapters. The focus is on minimum wages (MWs), collective bargaining and economic development. We start by positioning the countries according to their gross domestic product (GDP) per capita ranking and growth rates since 2000. In section 1.2, we explore the patterns and differences in inequality and informality. In particular, we focus on the development of the wage or labour share and the personal income distribution coming through in the last decade. Section 1.3 covers MWs and collective bargaining, as well as the linkage with social security systems.

In 2013, the eight countries in total had a 3,240-million-strong population, accounting for nearly half (47.5%) of the world's population. They include four of the world's most populous countries: China (no. 1), India (no. 2), Indonesia (no. 4) and Pakistan (no. 6). Measured in terms of GDP (current prices in US dollars), in 2013 they comprised three of the largest economies in the world, namely China (no. 2), Japan (no. 3) and India (no. 10). That said, the GDP total of these eight made up just over one quarter (25.3%) of the world's total GDP. This reflects the fact that four of the countries we studied are, according to World Bank criteria, in the lower middle-income (LMI) range. With their GDP per capita between USD 1,000 and USD 4,000 in 2013, Indonesia at USD 3,475; Vietnam at USD 1,911; India at USD 1,499; and Pakistan at USD 1,299 all qualified as LMI countries. By contrast, two of the countries we studied belong to the 'advanced economies' category (countries with per capita incomes above USD 12,000), namely Japan (USD 38,492 in 2013) and Korea (USD 25,977), while China (USD 6,807) and Thailand (USD 5,799) (according to the World Bank Development Indicators (WDI) database) currently belong to the emerging

economies (EEs) category with per capita incomes between USD 4,000 and USD 12,000.

Considerable variation also shows up in economic growth rates. The available GDP per capita growth figures over the last 13 years (Statistical Appendix, Table A.2) confirm that China at nearly 10 per cent displayed by far the highest average annual GDP growth rate, followed by India and Vietnam with over 5 per cent. Indonesia, Korea and Thailand also showed considerable long-term growth figures. Pakistan was somewhat slower than these six, but its 10-year average growth rate remained above those of most European countries scrutinized in this book. Japan, the most mature economy of the eight, lagged far behind, with less than 1 per cent average annual GDP growth – a phenomenon analysed later in Chapter 5. Table A.2 also reveals the convergence since the 1990s between the advanced economies, the EEs and, to a lesser extent, the LMIs. During 2004–13, the eight Asian countries showed an annual average GDP per capita growth of 4.4 per cent, against an average of just 0.5 per cent growth for the eight advanced Western-Middle European countries we studied. The four Central and Eastern (CEE) countries we selected showed an annual average of 2.9 per cent growth rate while Russia, boosted by 8 per cent annual increases during 2004–07, showed a considerable 4.2 per cent average growth rate.

The recent development of national income, that is GDP, in Asia has often been highly volatile. As Figure 1.1 (based on Table A.2) shows, except for

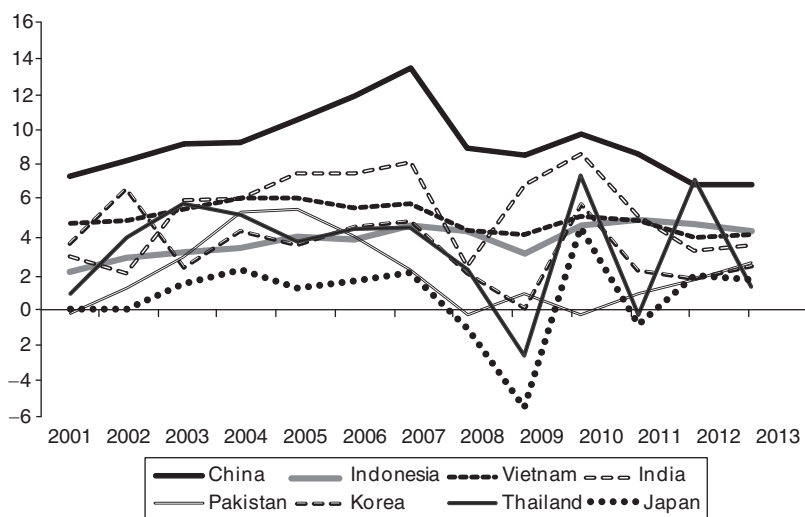


Figure 1.1 Development of GDP per capita (annual change in % in constant prices of local currency), eight Asian countries, 2001–13

Source: WDI (World Bank Development Indicators) database.

China (in spite of its slowing growth rate), Indonesia and Vietnam, this has been the case for five Asian countries. During the Great Recession of 2008–09 and again in 2011, Japan and Thailand in particular experienced troughs in growth rates. At the same time, India and Korea returned to relatively low growth figures, whereas Pakistan showed a slower recovery from the crisis than the other countries. In Asia, the damaging effects of volatile commodity prices, especially food and fuel, exacerbated by extreme weather conditions added to the effects of the worldwide slump in trade and investment, financial market turmoil and economic uncertainty. Though the Asian economies bounced back strongly after natural disasters such as the 2004 tsunami, economic insecurity and vulnerability have remained widespread, not least due to the lack of comprehensive social protection systems. In three countries, India, Indonesia and Pakistan, public social security and health expenditures were recently below 3 per cent of GDP (ADB 2013; UNESCAP 2013; ILO 2014b).

Large current account surpluses running since the 1997–98 Asian crisis have been an enduring economic feature for most of the Asian countries studied here. These surpluses in turn made up an integral part of the global current account imbalance. Figure 1.2 depicts the development of such surpluses. Though the external positions of India, Indonesia, Thailand and Pakistan had changed by 2012 and their current accounts showed deficits, the combined surpluses of the other four countries shown here were nearly three times as big. This was fuelled by the continual export-led growth strategies of China, Japan, Korea and Vietnam. Research of the Asian Development Bank (ADB) failed to find any evidence that their surpluses were rooted in underinvestment. By contrast, the researchers suggested that the key to rebalancing Asian growth towards domestic sources lay in promoting consumption rather than investment (Park and Shin 2009). This conclusion corresponds to arguments on the importance of domestic demand that we advance in this chapter.

Figure 1.3, based on Table A.3A in the Statistical Appendix, depicts the employment structure of the eight Asian economies in 2010–13. Across these countries, major differences can be seen. Whereas agriculture in six countries recently accounted for one-third or more of total employment, in Japan and Korea its share has dwindled to 4 and 6 per cent, respectively. In these two countries, the service sector has become dominant with about seven in ten employed in services. Similarly, services have also developed into the largest sector in Indonesia, the only country of the eight where the employment share of industry has remained below one-fifth. China, with nearly 29 per cent employed in industry, leads here, followed by Japan and Korea at slightly over 24 per cent.

Figure 1.4 shows the shifts in national employment structures from 1990 until recently. The decreases in the shares of agriculture show up prominently. With 21–23 percentage points, the largest decreases were in China,

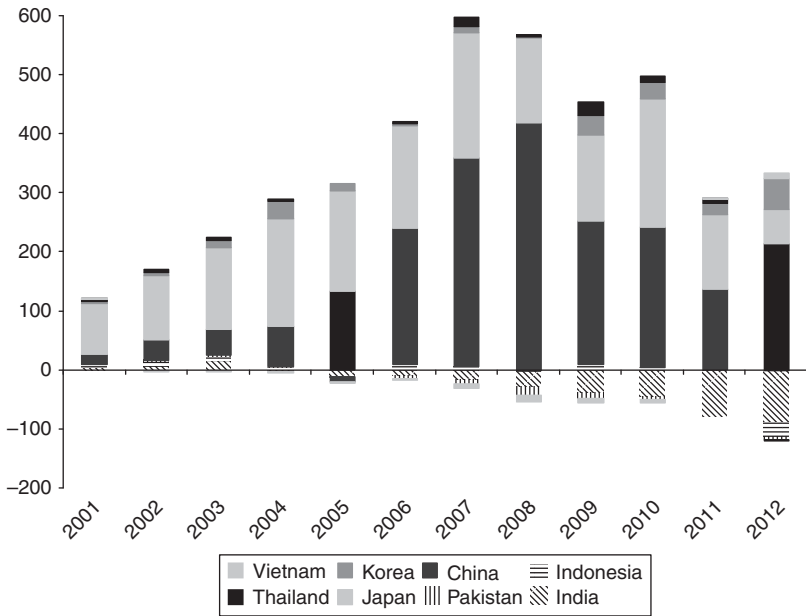


Figure 1.2 Current account balances, eight Asian countries, 2001–12 (in billion US dollars)

Source: International Monetary Fund, World Economic Outlook database.

Vietnam and Thailand, followed by Indonesia (19 percentage points) and India (14 percentage points). China and Vietnam, both with 7–8 percentage points increase, also showed the most rapid relative growth of industry. By contrast, in Japan and Korea the employment share of industry fell: by nearly 10 percentage points in Japan and by 3.5 percentage points in Korea. The other four countries saw the importance of industry in employment gradually growing.

In development economics, shifts between the sectors have been connected with demographic and labour market constraints, as shown in the dual labour model of W. Arthur Lewis (1954). In his model, productivity is driven by a modern industrial sector with the support of unlimited supplies of labour drawn from subsistence agriculture. However, a point will be reached when agriculture no longer delivers surplus labour at very low wage rates: the so-called Lewis Turning Point. Lewis' assumption that economic growth would be led by sectors other than agriculture has proven to be correct. Between 1990 and 1999, in both EEs and LMIs the highest growth rates have been attained for manufacturing (excluding mining); during 2000–11 that continued to be the case in EEs, whereas in LMIs services took the lead. Worldwide observations over the past three decades show that GDP growth

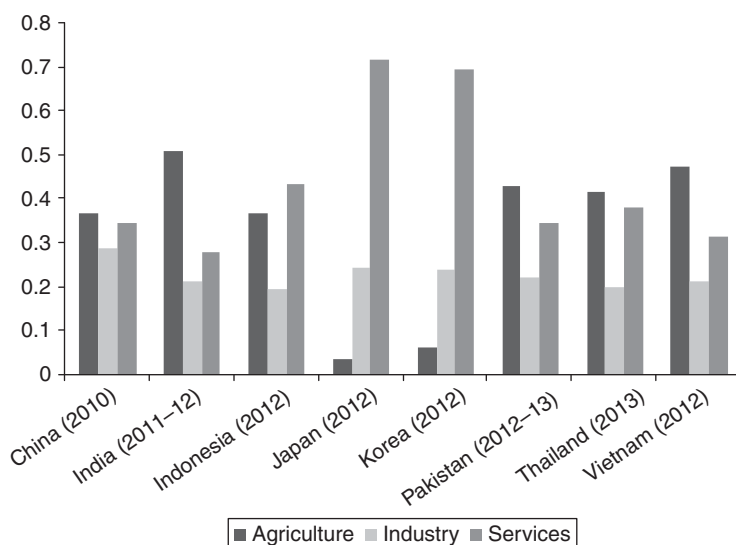


Figure 1.3 Shares of main sectors in total employment, eight Asian countries, the latest available year

Note: Agriculture also includes forestry and fishing; industry includes manufacturing, mining and quarrying, utilities (electricity, gas and water) and construction.

Source: Statistical Appendix, Table A.3A.

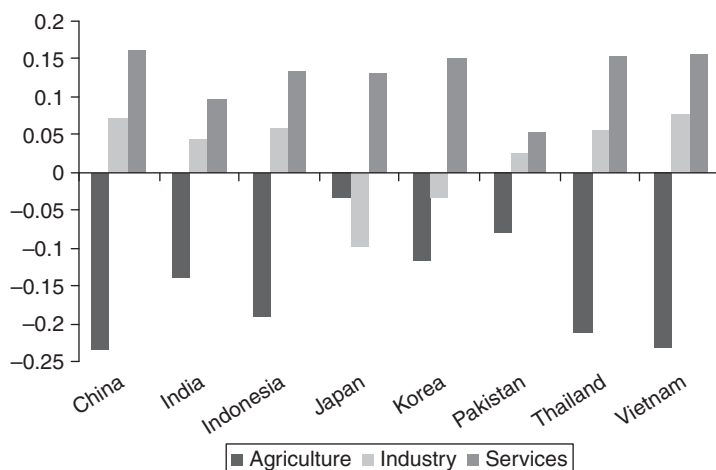


Figure 1.4 Changes in shares of main sectors in total employment (percentage points), eight Asian countries, 1990–the latest available year

Source: Statistical Appendix, Table A.3A.

has been more consistently led by manufacturing growth than by the growth in other sectors (ILO 2014a, 23–31).

As Chapter 2 on China explains, the Lewis Turning Point issue is highly relevant for that country. The point may well be less than a decade away whereby China's surplus labour from agriculture disappears and a labour shortage emerges. This prospect could impact sharply on many aspects of China's policies as well as on the world economy. It seems inevitable that China will seek to upgrade manufacturing industry and continue to make major efforts in innovation and education. At the same time, policies to decrease income inequality can be expected to boost domestic demand in China. Other Asian countries are facing similar challenges and may feel forced to pursue restructuring towards higher value-added activities, innovation and diversification, as chapters in this book testify. For instance, Chapter 4 questions the export-led strategy of Korea, as it is based on relatively low wages, minimal social security and a severely constrained trade union movement. Chapter 8 points to Indonesia's vulnerability to world market competition from countries with lower wage levels and emphasizes the need to improve the country's educational and transport infrastructure. Chapter 9 reports the debates on Thailand's economic strategy and stresses the urgent need to modify its reliance on cheap exports and shift to higher value-added production while building a stronger domestic market.

Of course, the relevant actors, including trade unions and employers' organizations, have to find national solutions for the economic, social and environmental challenges at stake. Nevertheless, there is some common ground. From the Asian country chapters, five preconditions can be isolated where progress is essential: (1) the effective recognition of the rights to freedom of association and collective bargaining (FACB); (2) the fixing of well-designed MWs; (3) the expansion of basic social security to the population as a whole and the appropriate funding for it; (4) improving both enrolment in and the quality of education, in particular secondary education and vocational training; and (5) the development of domestic markets catering for the growing purchasing power of the population. These five preconditions for improvement have been recognized by several international organizations (cf. ILO/IILS 2011, 2012, 2013; OECD 2011; ILO 2013, 2014a; UNDP 2014).

While cross-country econometric studies have shown that FACB rights along with industrial democracy are associated with higher (manufacturing) wages and considerable productivity gains (cf. Lee and Eyraud 2008, 49), five of the eight countries (China, India, Korea, Thailand and Vietnam) had not, by October 2014, ratified either the basic ILO (International Labour Organization) Conventions, No. 87 (Freedom of Association and Protection of the Right to Organise) or No. 98 (Right to Organise and Collective Bargaining) (*ILO NORMLEX* website). By contrast, the fixing of well-designed MWs has

been boosted by some recent positive developments wherein Asian policy makers have pushed through relatively strong MW increases. The need to upgrade the economy and stimulate domestic demand appears to have been the driving force notably in China and Thailand.

1.2 Inequality and informality

This shift towards a more demand-led, ‘upgraded’ economy relies on the creation of positive interactions within and between social and educational policies, labour market governance and industrial relations. Such dynamics have become visible as developing countries have climbed higher up the income ladder (ILO 2014a, 47). Yet there is also widespread proof that they can be frustrated by high levels of income inequality that impede economic growth and employment creation (Van der Hoeven 2010; Ostry et al. 2014). High inequality may also jeopardize progress in improving health and education. For example, it has been found that in South Asia after 1990 worsening income inequality undermined large improvements in health and access to education (UNDP 2011, 28). It is widely recognized, moreover, that key sources of inequality in developing countries include the persistence of a large informal sector, urban–rural divides, gaps in access to education and barriers to employment and career progression for women (OECD 2011, 49).

Against the backdrop of international campaigns promoting decent work, we focus here on informal employment as a key factor. Indeed, according to recent ILO analyses (2014a, 39), there is a significant correlation between the incidence of informal employment and indicators of poor job quality. In informal work, different aspects of vulnerability are soon manifest (UNDP 2014, 9–10). However, it should be noted that across ‘our’ eight countries, the informal economy is quite heterogeneous. Beyond the classical two-sector dichotomy, multidimensional definitions of informality have emerged, focusing on workers’ entitlement to social security benefits and their employment status (Tijdens et al. 2015). In some countries, informal *employment* is (much) more widespread than the informal *sector*, and many informal workers can be found in formally registered enterprises. In countries with many workers *de facto* in informal employment, even MW systems with universal coverage may only protect a limited part of the workforce in matters of wage setting as is the case in Vietnam (Chapter 3). Hence, social protection is even more relevant here. We should add that in some countries a considerable inflow of foreign direct investment (FDI) does not automatically translate into diminishing informality. FDI in, for example, information technology (IT) may create enclave economies, or foreign investors may outsource manufacturing to lower, informal operating tiers in the global value chains in question. India provides clear examples of ‘high-tech’ enclaves (Chapter 7), while outsourcing practices in Indonesia and Thailand largely involve informal labour (chapters 8 and 9).

Taking access to social insurance as the decisive criterion, Chapter 2 puts informal employment in China in 2012 at over 35 per cent of all those employed. The respective country chapters confirm that the labour forces of India, Pakistan, Thailand and Indonesia also include massive amounts of informal workers. For India, recent estimates suggest that informal workers account for 93 per cent of total employment, whereas for Pakistan 74 per cent informality could be noted. In Thailand, the informal sector continues to grow and currently encompasses 63 per cent of the labour force. At first sight, Indonesia shows a different picture, with the share of informal workers falling below 60 per cent. Nevertheless, here also many formal wage earners were excluded from MW and social security coverage. The latter position may be changing though with the introduction of a national social security system; Chapter 8 documents the efforts of labour coalitions to get this system off the ground.

In Japan and Korea, only small categories of workers are formally excluded from social protection and MW coverage. However, in both countries considerable amounts of 'non-regular workers' work under precarious conditions and are often excluded from social security benefits. In Japan, the share of the non-regular employed had grown to over 37 per cent by 2013. In Korea, the official share of non-regular workers in employment has decreased to 33 per cent. Although, if wage earners and the self-employed with insecure job prospects and lack of written contracts were included, the share of precarious workers would end up at 55 per cent of total employment. We found, including the official non-regular employment shares for Japan and Korea, an inverse correlation for the eight Asian countries between their level of development, measured by GDP per capita in 2012, and the share of informality in employment ($R = -0.75$). In other words, across countries a higher income level corresponds with lower informality.

We now turn our attention onto income inequality. In recent years, the functional income distribution, defined as the proportion of the shares of GDP accruing to labour and capital, has made a comeback in national and international debates. Between 1945 and 1980, the wage or labour share had been stable in most advanced economies, with real wages increasing broadly in line with labour productivity. That was accepted as a 'stylized fact' of economic growth. However, many studies covering the last three decades or so have pointed to the decline of the wage share as a predominant trend on a global scale even after controlling for cyclical fluctuations. The strong evidence, mainly produced by international organizations, identifies:

- declining wage shares in three quarters of 69 advanced, emerging and developing countries between 1990–95 and 2007–09, with more pronounced declines in developing countries, including a decline in Asian countries by on average roughly 20 percentage points in 1994–2007 (ILO/IILS 2011, 56–7);

- a decrease of the average of labour shares in a group of 16 developing and emerging economies, from around 62 per cent of GDP in the early 1990s to 58 per cent just before the 2008–09 crisis (ILO 2013, 42–3); and
- out of 35 developing countries experiencing per capita income growth during the period 2000–08, only 15 countries witnessed an increase in the labour share (ILO 2014a, 154).

In Figure 1.5, using various sources, we specify for the period from 1991 to 2010–12 the development of the wage share in five of the eight Asian countries we studied. We lack comparable information on India, Pakistan and Vietnam. Except for Thailand, the decreasing trend is clearly visible; for the five countries the average decline was 7.6 percentage points.

Until about 2007, most research, focusing mainly on advanced economies, sought explanations for the fall of the wage share in technological change, globalization and, in particular, intensified trade. Yet recent studies, covering more developing countries, have highlighted the role of institutional and policy factors. They point to the weakening of labour's bargaining power, the retrenchment of the welfare state in advanced economies and the lack of social protection in developing countries. To these they add the growing

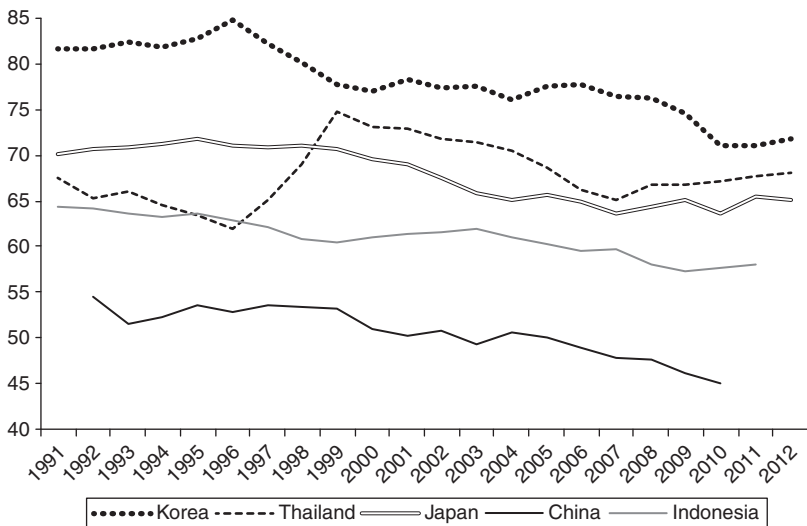


Figure 1.5 Development of wage share in GDP, five Asian countries, 1991–2012

Note: It is not fully clear whether the basis for the data on China and Thailand is similar to that for Korea and Japan. That said, the trends indicated remain.

Source: Korea, Japan (adjusted wage shares): Ameco database 2014; China: Liu 2012; Thailand: Jetin 2012 and additional calculations by the author based on UN National Accounts statistics; Indonesia (adjusted wage share): UN National Accounts statistics and WageIndicator data.

market power of multinational companies, including excessively paid corporate managers aligning with empowered shareholders, and the rise of private equity funds (ILO 2013, 41–99, 2014a, 148–79; Stockhammer 2013). In particular, ‘financialization’ – the increased role of financial motives, actors and institutions in globalization processes – appears to have played a bigger role than previously assumed and is now positioned as a major explanation (ILO/IILS 2011; Hein and Mundt 2013; ILO 2013; Stockhammer 2013).

The decline of wage shares on a global scale may have substantial negative social and economic consequences. Besides widely affecting perceptions in the population of what is fair, this decline also puts the brakes on aggregate domestic demand and, if not compensated by growing net exports, may slow down economic growth. Moreover, there are related risks involved. First, along with the impact of financialization in a non-regulated context, such a slowdown may give rise to unstable economic behaviour at national level, fuelled by increasing household debt. The world has seen this ‘debt-led consumption boom’ collapsing before, most spectacular in the United States in 2007–08. Second, leading business circles and policy makers in many countries may feel stimulated to continue ‘beggar-my-neighbour’ macroeconomic strategies, gambling on export-led growth based on relatively low wages (cf. Hein and Mundt 2013; Lee 2013).

These policy mechanisms may have serious international repercussions. In the *Global Wage Report 2012/13*, the ILO warned that ‘[I]f competitive wage cuts are pursued simultaneously in a large number of countries, this may lead to a “race to the bottom” in labour shares, shrinking aggregate demand’ (2013, xiv). Two years earlier, the ILO had urged reconsideration of ‘wage moderation’, emphasizing the negative effects of declining wage shares and increasing capital shares. The ILO found that between 2000 and 2009, on a global scale, retained earnings of non-financial firms (the portion of profits available for investment) were increasingly used to pay dividends rather than invest in the real economy – a serious disconnect between growing profits and productive investment. There was no clear evidence that wage moderation had boosted employment. In contrast, by ensuring a closer connection between wages and productivity, the global shortfall in demand could be addressed. This, the ILO argued, ‘can only be achieved through social dialogue, well-designed minimum wage instruments and collective bargaining, and renewed efforts to promote core labour standards’ (ILO/IILS 2011, ix). Through either its introduction or relative increase, the MW has the potential to stimulate domestic demand and create additional employment. In view of the fact that the relatively poor have a higher propensity to spend their incomes than the relatively rich (cf. Stiglitz 2009), raising the MW has obvious attractions insofar as boosting demand is concerned.

Following Piketty’s *Capital in the Twenty-First Century* (2014), one may expect the growth of capital income shares as well as continuing concentration of capital income to further increase income inequality across

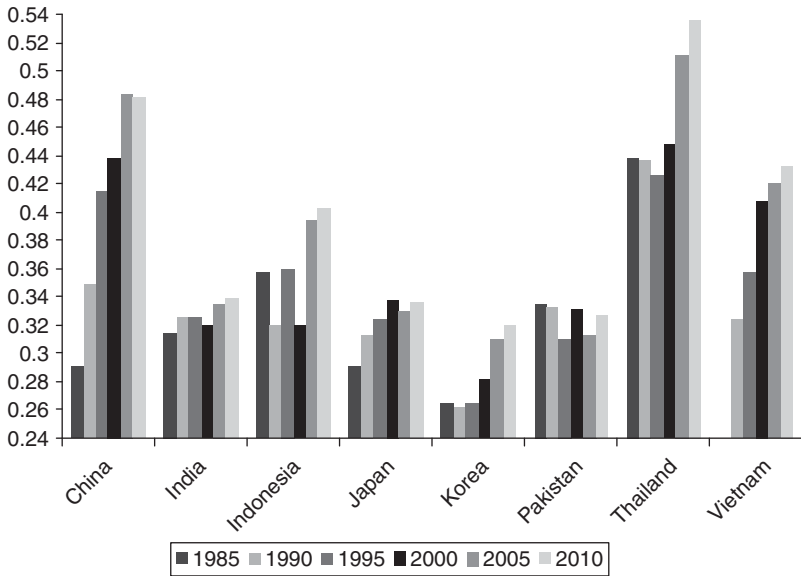


Figure 1.6 Development of Gini coefficients, eight Asian countries, 1985–2010 (Vietnam: 1990–2010)

Source: Statistical Appendix, Table A.4.

households (cf. Schlenker and Schmidt 2013). Indeed, a rather close relationship shows up between *the changes in* the functional and the personal distributions if the personal distribution is caught by the net Gini index (after deduction of taxes and transfers; ILO 2014a, 152). For the period between 2000 and 2010 and for the five countries for which data was available (China, Indonesia, Japan, Korea and Thailand), our correlation exercise (though not very convincing [$R = -0.23$]) confirmed the rule: ‘the higher the Gini coefficient, the lower the wage share’. In spite of its deficiencies (see the Statistical Appendix), applying the Gini coefficient catches the main trends in income inequality in Asia rather well (cf. OECD 2011). Figure 1.6 summarizes these developments. After 1995–2000, China, Thailand, Vietnam and Indonesia all showed rapid increases in income inequality, whereas in India, Korea and Japan inequality is comparatively moderate but has also been on the rise. Pakistan is the only country where inequality has not moved up.

1.3 Minimum wages and collective bargaining

National institutions and policies concerning collective bargaining plainly matter when it comes to explaining income inequality and the incidence of low pay (cf. Gauthé and Schmitt 2010). In particular, against the backdrop of

increasing income inequality, the MW naturally comes to the fore. Its objective is first and foremost to assist the redistribution of earnings to the lower paid, although the potential of well-designed MWs for boosting domestic demand, protecting vulnerable workers and combating gender-based pay discrimination should not be underestimated (cf. Rubery and Grimshaw 2011; ILO/IILS 2013).

In the late 2000s, according to the ILO, statutory MWs were applied in about 90 per cent of 151 countries. Half of the countries set out a single MW applying uniformly on a national or regional basis, whereas the remaining countries had implemented systems with multiple rates, which varied by industry, region and/or occupation (ILO 2010; ILO/IILS 2013). Indeed, all eight countries under scrutiny here have statutory MWs in place, though their characteristics differ. Six countries apply multiple MW rates, and only Korea and, since 2013, Thailand have a single MW (with both having some exceptions). In large countries with multiple rates, arithmetic complexity adds to legal and political complexities. Also, the differences in MW levels are often large. For example, in 2012 across provinces in China, the Kaitz indices (MWs calculated as a percentage of average or median wages) varied between 23 and 50 per cent (of provincial average wages; see Chapter 2). In 2014 in Indonesia, the proportion of lowest provincial MW rate to the highest rate was 1:2.68, though differences in the cost of living were only slightly less (Chapter 8). Overviews compiled by the WageIndicator project (Varkkey and Korde 2012) and the ILO (Labordoc database) allow for further detailed comparison of the formal aspects of MWs across countries. Here, we only refer to these sources. Neither do we explore the debate on the assumed adverse effects of MW increases on employment and GDP growth. In general though, it can be concluded that adverse effects have been small or even negligible for the countries under scrutiny (for overviews, see Freeman 2009; Betcherman 2012; Chapter 2 on China; Chapter 8 on Indonesia; Chapter 9 on Thailand).

We focus now on the basic effects that statutory MWs have had on greater wage equality or 'pay equity'. This has to be seen against the background of national economic development and industrial relations, in addition to the relationship between MWs and collective bargaining. For a number of European Union (EU) and Organisation for Economic Co-operation and Development (OECD) countries, there is evidence that MWs have contained wage inequality in the lower half of the wage distribution and a lower incidence of low pay (defined as those earnings below two-thirds of the median national hourly wage). There is also some support for the contention that advanced countries with a higher MW relative to the median or average wage (the Kaitz index) tend to have a lower low-wage incidence. Moreover, where these studies found limited evidence of the pay equity effects of MW, other wage-setting variables such as collective bargaining coverage or union density were significant (Grimshaw et al. 2014).

ILO research on MW coverage and compliance in 11 developing countries, including India, Indonesia and Vietnam, shows large clustering around the MW value, the so-called spike (Rani et al. 2013). Such wage compression towards the middle of the distribution does imply for countries with large shares of informal wage earners in total employment that a sizeable proportion of such workers receive either the MW or close to it for their work – an outcome supported by most of the recent literature on the effects of MWs in developing countries (cf. Freeman 2009). The ‘lighthouse effect’, originally discussed in relation to the pay effects of MW in Brazil, hypothesized that the statutory MW plays a role as the coordinator of the wage policy (Lemos 2009). The MW may well have fulfilled a similar role in Asian countries, primarily for formal wage earners but, to a certain extent, also for those in informal employment. Indonesia is a case in point here. Chapter 8 concludes that Indonesia’s MWs have become the effective wages for 60–80 per cent of formal private sector workers. For those striving for trade union renewal in Indonesia, it is a balancing act to revitalize collective bargaining without undermining MW fixing institutions, the latter being heavily reliant on local and national politics. In Thailand too, with collective bargaining and FACB rights even more constrained, the MW has tended to become the effective wage for large groups. Here, the MW issue is highly politicized and could clash with efforts to upgrade the country’s economy (Chapter 9). In Pakistan and India (chapters 6 and 7), similar mechanisms may be present, although governance problems and a lack of transparency concerning MWs may interfere with any possible lighthouse effects. In Korea and Japan (chapters 4 and 5), by contrast, the spillover effects of MWs are small, both to the formal sector and to the non-regular employed. In both countries, Kaitz values below 40 per cent have made their MWs rather irrelevant, and trade union claims for substantial MW increases seem justified. Also, in spite of increases of MWs in China, in 2012 some 26 out of 31 provincial Kaitz ratios fell below the 40 per cent yardstick (Chapter 2).

We compared the MW experience of seven out of the eight countries in terms of real income growth over the last decade. This revealed a diverging pattern. Where China, Japan and Thailand showed higher real MW increases between 2008 and 2012 than in the previous five years (2003–07), Indonesia remained at the same level, but Vietnam, Korea and Pakistan all saw lower MW increases (see Statistical Appendix, Table A.6B¹). Had the statistical basis been available to use such data in comparative econometric analyses for the eight Asian countries studied in this book, the outcomes would likely point to a much stronger interplay of industrial relations with economic conditions, the political sphere and macroeconomic and trade policies. Moreover, in formal employment the industrial relations conditions are less favourable for labour here than in most advanced countries; some of the well-established mechanisms in developed countries will mostly not come into play in the majority of Asian countries. Kucera (2008, 54),

presenting data for 11 Asian countries, concluded that there was a down-trend in trade union density between 1990 and 2003. Though more recent data is rather scant, it is hard to escape the conclusion that this trend has not changed. If we leave out China and Vietnam, where there is a monopoly of workers' representation by the national union centres closely aligned with the ruling Communist Party, union density recently was between 18 per cent in Japan and 2.5–3 per cent in India and Pakistan. Recent data on collective bargaining coverage presented in the country chapters show that coverage was slightly higher than union density in India, Indonesia and Pakistan; roughly the same in Korea; or even lower in Japan and Thailand. In such situations, marginal increases in union membership or collective bargaining coverage are unlikely to have a significant impact on wages, or on the incidence of low pay; a positive impact can be expected only above a certain level of coverage (cf. Lee and Sobeck 2012, 150).

As will be elaborated in the chapters to follow, tripartite social dialogue continues to be weakly developed in the market economies of Asia, as is collective bargaining. A largely fragmented trade union movement not only has failed to take the opportunity for revitalization that the Asian 1997–98 crisis and the rise of popular movements seemed to offer in Korea, Indonesia, Thailand and other East Asian countries, but also 'lacked political clout to sustain meaningful engagement with the government and employers on major national policy concerns' (Yoon 2009, 12). In China and Vietnam, tripartite social dialogue has emerged in line with a common need to contain social conflicts. In the 2000s, collective bargaining institutions and practices in both countries have been evolving, with a growing number of collective agreements including provisions above legal minimums. The uncertainties, 'inadequacies' and lack of bargaining expertise and experience currently characterizing the trade unions involved in these processes are reflected in chapters 2 and 3. These failings should be seen in the economic and political context of these countries' transitions, in particular, the intricate processes of deregulation and re-regulation of labour matters (cf. Lee and McCann 2014). Looking at the role of the MW reveals remarkable similarities between the mechanisms deployed in China and Vietnam on the one hand and those of the Asian market economy countries on the other. Despite widely varying national industrial relations systems, MW-setting commonly shows up as the cornerstone of wage bargaining. Trade unions (and, to some extent, employers) have tended to rely on statutory MWs as a substitute for wage bargaining (Lee and McCann 2014, 15; see also ILO 2008, 2013).

Where wage setting has become the (near)-equivalent to *minimum* wage setting, it may be tempting for trade unions to support the increase of MWs approaching average or median wage levels. High MWs, that is high Kaitz indices, often originate from situations where collective bargaining is weak or absent. Such 'maxi minimum wages' imply risks, for example, potentially adding to inflation, or displacing low-paid workers into unemployment or

informality, and in particular crowding out collective bargaining altogether and, in the end, weakening the union movement. Chapter 8 on Indonesia shows a glimpse of the imminent dangers. Of course, relatively high MWs² may also generate serious enforcement problems and high non-compliance (ILO 2010; Lee and Sobeck 2012).

Indeed, high MWs such as those set in India and Indonesia have tended to be associated with low compliance rates. Yet India is an interesting case since its rate of compliance increased by 30 percentage points between 2004–05 and 2009–10. At the same time, India's Kaitz index declined, no doubt reflecting to improved compliance, but progress in compliance may also be attributable to the innovative Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), a cash-transfer programme at the crossroads of MW-setting and social protection. MGNREGS has been effective from early 2006 and provides unskilled workers with employment at MW rates (see extensively in Chapter 7). The scheme, to a certain extent, has broken through the constraints a large informal or 'non-regulated' economy tends to create to undermine the potential redistributive role of MWs. Moreover, MGNREGS has stimulated consumption as well as productive investment. It can act as a wake-up call, emphasizing the need for developing countries to combine MW-setting with social protection policies in order to maximize the positive impacts of both policies (ILO/IILS 2013, 53, 58). The higher risks of poverty, unemployment and informality as well as growing inequality, falling wage shares and dwindling real wages in the current prolonged global crisis have further emphasized the need for social innovations such as MGNREGS. This is definitely the case for the Asian LMI countries studied in this book.

More generally, crisis conditions have underlined the urgency of social security both as a human right and as an economic and social necessity (ILO 2014b). In 2012, these basic principles were set out in ILO's Social Protection Floors Recommendation (No. 202), which has the potential to become a groundbreaking instrument (Hoffer 2013). The new ILO social security standard has been based on practical experiences of many countries, in particular countries such as India and Brazil that implemented large-scale cash transfer programmes. It recommends member states to establish and maintain social protection floors as a fundamental element of their national social security systems. It calls for nationally defined sets of basic social security guarantees aimed at preventing or alleviating poverty, vulnerability and social exclusion. The Social Protection Floors Recommendation urges countries to formulate and implement social security extension strategies and to monitor their progress.

Notes

1. Because of the complexity of India's MW system, we abstained from calculating annual average MW increases for India.

2. 'High' here is related to the average or median wage, not per se to the cost of living. In Vietnam, for example, MWs only meet 60–72 per cent of workers' minimum standard of living (Chapter 3). In Indonesia's capital Jakarta, the 2013 MW was equal to an income of less than USD 1 per day for a single-income household of four (Chapter 8).

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2

China

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2.1 Introduction

With a population of 1,362 million in 2013, China has achieved impressive progress in its economic development since the adoption of market-oriented reform in the late 1970s. Over the past three decades, China's real GDP grew at an average annual rate of 10 per cent – the fastest economic growth in history (ILO 2014, 55). Reaching a GDP of USD 9.2 trillion in 2013, China became the second largest economy in the world, though its scale was still considerably smaller than that of the US economy (USD 16.8 trillion). As China's economy has relied heavily on foreign trade, it is not surprising that currently the country is the world's largest manufacturer and exporter of goods and the second largest importer. Although these facts and figures may be breathtaking, it is still an upper-middle-ranked country measured in terms of income per capita. In 2013, China's GDP per capita of USD 6,807 ranked 90th in the world, although in 2012, 128 million of its people still lived below the national poverty line of RMB 2,300 per year (about USD 1.80 a day), which meant that after India, China had the second largest number of poor people in the world (see *World Bank country data/China* website¹).

Meanwhile, rapid economic growth has brought with it a series of social and economic problems. The widening of income inequality has attracted major attention, both domestically and internationally. Until the mid-1980s, income inequality measured by the Gini coefficient was lower than 0.30 in China; however, this coefficient went up to 0.43 in 1995 and, according to the Chinese National Bureau of Statistics (NBS), passed the 0.45 mark in 2003. From that year to 2012, the average Gini coefficient revealed by the NBS in January 2013 was 0.48, although with a slightly downward trend. Thus, China finds itself amidst the high-inequality countries (Ravallion and Chen 2007; Li et al. 2013). Moreover, academic researchers recently demonstrated substantially higher inequality levels. Based on multiple data sources, they argued that in the period 2010–12 the country's Gini coefficients ranged from 0.53 to 0.61 (Xie and Zhou 2014). Apart from high income inequality,

challenges to environmental sustainability and external imbalances have likewise emerged. As we will explain, China has also been facing demographic pressures in the form of an ageing population and massive internal labour migration.

Along with economic reform, China's labour market has gradually been transformed to play a more important role in the allocation of labour. Contract-based employment has replaced lifetime-secure employment or the so-called iron rice bowl, so characteristic of the period of the centrally planned economy. Enterprises have got more autonomy to determine wage levels based on changes in supply and demand for labour and in human capital endowments. Facing growing problems for workers during this transformation, the government has tried to regulate the labour market by implementing laws and regulations such as the Labour Law in 1995, the Rules for Minimum Wages in 2004 and the Labour Contract Law in 2008.

This chapter is organized as follows. Section 2.2 outlines China's wage-fixing mechanism, analysing the roles of government, trade unions and collective wage bargaining. Section 2.3 looks at changes in the social security system during the economic transition. By using aggregated and household survey data, section 2.4 examines the development of wages. Section 2.5 investigates the potential impact of demographic changes and deepening globalization on wages. Section 2.6 sets out conclusions and policy recommendations.

2.2 The wage-setting mechanism

2.2.1 The role of the government in wage setting

In the pre-reform era, that is, before 1979, wage levels and adjustments were centrally determined by the government. With the transformation of the labour market, market forces have begun to play larger roles in wage setting, providing enterprises with more rights to set their employees' wages. To tackle the rise in labour tensions and to ensure that low-wage earners could also benefit from economic development, the government has spared no efforts to promote collective contracts and collective wage bargaining² in various types of enterprises, including foreign-invested enterprises (FIEs).

Under the system of centralized wage determination, the fixing of wages was based on egalitarian principles. The government adopted a compressed wage structure that imposed restrictions on wage differentials within narrow limits across regions, occupations and industries (Hu 2010). In 1979, China initiated economic reforms and opened itself up for private investment. Although in the 1980s centralized wage setting predominated in urban labour markets, where a large majority of the labour force was employed by state-owned enterprises (SOEs), the instruments of governmental wage policy gradually diversified. Most significant was the establishment of the linking of wages to the profitability of SOEs. Within the constraint of the

total wage bill imposed by the government, SOEs were able to use their profits after tax for bonuses and temporary wage rises (Xie et al. 2012). In the 1990s, the centralized wage-setting system was further liberalized. The 1994 Labour Law provided a legal basis for the management of SOEs to establish their own internal wage structures within the confines of the overall wage budget established by the government. The introduction of a contract-based employment system allowed enterprise managers more autonomy to set up wage scales based on employees' skills and education levels (Du 2013).

In the past decade, the Chinese government vigorously promoted the so-called labour market wage rate guidance policy in order to allow the market to play a larger role in determining wages. Under this policy, the government has published on a regular basis reference wage rates collected by enterprise surveys. These rates have functioned as guidance for both employers and employees in making employment contracts. The government has also provided a guideline for wage growth including three projections; that is, maximum, average and minimum growth. According to this regulation, enterprises in difficulties or in deficit could opt to offer a 'zero increase'. The evolution of the role of government does not indicate that the state has totally lost control over wage increases, nor does it reflect the prevalence of a *laissez-faire* approach. While market forces have definitely played a larger role in private sectors, the government has still played a key role in determining the timetable and the scope for raising workers' wages in SOEs and public service sectors such as hospitals, schools and universities. In recent years, against the backdrop of widening wage differentials and growing tensions between employees and employers, the government has intensified its intervention either by issuing decrees for raising wages of low-wage earners or by promulgating laws and promoting collective bargaining.

2.2.2 The system of minimum wages

Although ILO's Minimum Wage-Fixing Machinery Convention (No. 26) was ratified as early as 1930 by the Chinese Kuomintang government, it was not until 1993 when the first state regulation was established concerning compulsory MW standards. In that year, the Ministry of Labour issued the Regulation Concerning Minimum Wages in Enterprises that took effect from July 1, 1994. The regulation stipulated that in consultation with local trade unions and employers' associations, the provincial governments and municipalities would decide MW rates. It also provided that, in general, monthly MWs should be fixed. It is worth noting that although the government instituted the MW system in 1993, during the 1990s MW standards were still in the process of being accepted by society and did not generate great attention from either employees or employers, nor was much thought given to effective implementation.

Against the background of the rising share of employment in private firms, the massive flow of migrant workers to the cities and the huge increase of

flexible work, the Ministry of Labour and Social Security in 2004 modified the 1993 regulation and promulgated the Rules for Minimum Wages ('2004 Regulation'). The new regulation provided for two types of MW rates; that is, monthly and hourly MWs – the former rate applying to full-time and the latter to part-time workers. In terms of MW adjustments the 1993 regulation had been vague, but the 2004 regulation clearly required adjustment at least every two years, in line with local changes in the cost of living, economic development, level of employment and other relevant factors. The 2004 regulation also specified heavier penalties for non-complying companies. The trade unions got the legal task of helping the labour inspectorate supervise compliance with the MW standards.

2.2.3 The collective bargaining system

Compared to the history of social dialogue and collective bargaining in many Western countries, the history of China's collective bargaining system is rather short. Indeed, it was as recent as 1994 when a collective bargaining mechanism was ratified by the Labour Law. Under that law, collective contracts should be signed by trade unions on behalf of employees. In May 1996, the Ministry of Labour, the All-China Federation of Trade Unions (ACFTU) and China's Enterprise Directors Association (CEDA) jointly issued a notice supporting the implementation of collective contracts. Similar to the MW system, the mechanism for collective bargaining did not, during the 1990s, attract much public attention, nor did the government take concrete actions to promote such bargaining. However, since the early 2000s, this has significantly changed. In 2001, the Ministry of Labour outlined the general procedures for conducting collective bargaining. The revised Trade Union Law of that year confirmed and enhanced the role of the unions in negotiating collective contracts. The Labour Contract Law of 2008 stipulated that collective bargaining could be organized at industry level. The latter law took a pro-labour position and was strongly opposed by both foreign and Chinese business communities. As with earlier labour legislation, the ACFTU contributed significantly to the drafting and promulgation of the Labour Contract Law (Brown 2010; Qi 2010). Nevertheless, it has been argued that this law failed to address the growing tensions emerging from the privatization and informalization of employment (Cooke 2011).³

As with many other policies in China, the implementation of collective bargaining has been pushed top-down by administrative force (Chen 2009). In many locations, the establishment of collective agreements was used as one of the standards to evaluate the performance of local governments. The central government's intensified efforts to promote collective negotiations can partly be explained by the growing recognition of the importance of social dialogue in resolving labour disputes and in establishing so-called harmonic labour relations. In addition, the government facing the dangers of social unrest and political instability caused by rising income inequality was,

in effect, compelled to enhance efforts to regulate the labour market and strengthen related institutions, including the collective bargaining system.

At present, collective bargaining in China mainly takes place at company level and, to a limited extent, at industry level. The ultimate outcomes of collective bargaining include two kinds of agreements, namely, collective contracts and collective wage agreements. Collective contracts are written agreements covering a wide range of issues related to employment conditions such as labour remuneration, working time, training, and health and safety. Collective wage agreements are collective agreements focusing on wages and wage growth. The latest ACFTU figures show that by June 2013 there were 2.45 million collective contracts covering 5.85 million enterprises and 276 million employees. The number of collective wage agreements is also impressive: 1.3 million collective agreements, covering 3.24 million enterprises and 150 million employees. Though these statistics appear to be substantial, the current operation and effectiveness of collective bargaining are far from satisfying. According to the labour law, the trade union should be there on behalf of employees in unionized companies when conducting collective bargaining, but doubts have been expressed as to whether the union committees are strong enough to protect workers' rights and interests (Zhang 2009; Liu 2012). Moreover, the system lacks rules on how to elect employees' representatives in non-unionized companies. Another obstacle for effective collective bargaining is the lack of expertise of both union officials and representatives of enterprise associations (Tian 2007).

The effect of collective bargaining on reducing labour disputes needs further investigation. Statistics show that while the number of collective contracts and wage collective agreements has significantly increased, the number of disputes has also been on the rise. It is obvious that there is no direct link between these two developments, but the effectiveness of the current bargaining system is definitely far from satisfying and requires the government to take substantial steps for its improvement.

2.2.4 The role of the trade union

In China, the only legal trade union is the ACFTU, officially founded in 1925. There are several levels within the ACTFU. The lowest level is the enterprise, township or sub-district trade union which is supervised by the next level, that is the district union, and above both of these is the provincial union level. According to the Trade Union Law and the statutes of the ACFTU, the union federation is under the leadership of China's Communist Party (CPC) (Traub-Merz 2012). From 2008 to 2013, according to the ACFTU, its membership increased by an average 14 million yearly, to reach 280 million by June 2013. In the early 2000s, the ACFTU leadership decided to push for the establishment of unions outside the public sector, notably in FIEs. In 2006, a breakthrough was reached by establishing union committees in the notorious anti-union retailer Wal-Mart (Cheng et al. 2012).

By 2013, a trade union had been established in almost 93 per cent of the global top 500 enterprises investing in China (see *The Global Times* website). Major FIEs, including Carrefour, Wal-Mart and KFC, have also implemented collective negotiations. Moreover, the union presence in the private sector has expanded outside FIEs (Lee 2009).

According to the ACFTU, its priorities have shifted towards collective bargaining in small-sized and labour-intensive companies. Promotion of collective bargaining at industry level is also listed as a priority. During the era of the centralized planned economy, the primary roles of the trade union were to allocate workplace-based social welfare benefits and to maintain and boost workers' productivity. Such roles evolved out of the lifetime-guaranteed employment system and egalitarian wage policy that was dominant and ensured the union was a subsidiary to enterprise management. Furthermore, following the socialist ideology that held 'workers are masters of the state', it was believed that the interests of workers and enterprises were congruent and thus there could be no serious conflicts of interests between workers and enterprise management. However, during the 1990s and 2000s, newly shaped labour relations have seen the ACFTU struggling to maintain its relevance. At the same time, shop-floor workers were evidently hoping the union could play a role in protecting them against the rising violation of their rights. Moreover, the government increasingly recognized that the union had to play an important role in creating conditions for harmonic labour relations and long-term sustainable development. To this end, it came to expect the union to be a stabilizer and mediator in labour disputes between workers and enterprises, rather than being directly involved in disputes or initiating them (Qi 2010). Up to the present, fundamental changes have not occurred in the roles of the ACFTU, which is understandable as the country's reforms have been characterized by incremental rather than radical changes (Baehler and Besharov 2013). However, it would be incorrect to deny the positive roles played by the union in organizing negotiations for collective contracts and wages, providing guidance and assistance to workers on obtaining individual contracts and helping migrant workers in recovering wage arrears.

The wage issue is not only fundamental for both workers and enterprises. Against the backdrop of rising wage inequality and the prevalence of low-paid employment, it should plainly also be at the core of union activity. Under the current legal and administrative framework, the main channels for ACFTU to be active in wage determination include the fixing of MWs and being involved in collective wage bargaining. Regarding the latter, the emphasis is on 'negotiation', since genuine bargaining over wage issues has been lacking in practice. So far, no cases have been reported whereby a failure to reach agreement between unions and enterprises has been indicated, nor has industrial action or labour arbitration taken place because of a breakdown of collective bargaining. However, since the early 2000s an increasing

number of strikes have been organized not by the unions but by workers themselves. In May 2010, for example, workers at the Japanese Honda automobile parts factory in the Guangdong province walked out asking for a significant wage rise and improvements in working conditions. This strike lasted 17 days and ended with a 32 per cent wage rise (Hui and Chan 2012). The Honda strike and similar self-organized industrial action have underlined the pressing need to reform the ACFTU for it to become more effective in protecting workers.

2.3 Social security

Currently, social insurance is the core of China's social security system. According to the Social Insurance Law enacted in 2011, workers are entitled to obtain benefits in relation to pension, unemployment, health, maternity and work-related injuries. To be eligible for these benefits, the law stipulates that both employees and employers should contribute to the old-age, unemployment and medical insurances. As for maternity and work injuries benefits, only employers are required to contribute to the relevant funds. An interesting point is that although the law stipulates cost-sharing in financing the pension fund, in practice, there are dual tracks in the pension scheme. Public servants and employees in public service sectors do not need to make contributions but are covered by the state budget after retirement. However, to qualify for their basic pension benefits other workers have to pay contributions in proportion to their wages for 15 years on a cumulative basis.

In China, with its huge population and unbalanced levels of economic development across regions, it is a tough task to establish a comprehensive and sound social security system. Under the system of lifetime secure employment, enterprises were hitherto obliged to provide workers' social welfare, enabling them to enjoy cost-free retirement pension and medical benefits. This resulted in a heavy financial burden on the state and enterprises (Zhang et al. 2009). After decades of reforms, China's social insurance has been transformed into a system of cost-sharing between employees and employers. However, under the existing legal framework, social insurance in principle is based on formal employment, a feature that makes it difficult to cover the self-employed and those in rural areas. Even among those employed in urban areas, large disparities remain in social insurance contributions and benefits. This has triggered great public discontent (Zhang 2013).

The non-compliance of employers, through non-payment or underpayment of their contributions has been posing big challenges for the effective implementation of social insurance. Moreover, flexible workers such as part-timers and temporary workers have been heavily discriminated against – the law of social insurance being quite vague concerning the rights

of flexible workers. Although in recent years the government has tried to expand the social insurance system to include migrant workers, the practical results have been limited, mainly because (1) non-compliance: many enterprises breached their obligations to pay the statutory contribution for their workers' social insurance by not signing employment contracts; (2) the fact that most migrant workers have been employed on a temporary basis with low-paid jobs, after deducting workers' social insurance premiums their wages have been significantly reduced; hence migrant workers have little incentives to participate in the scheme; (3) the fact that the lack of effective cross-region benefit transferability has discouraged the highly mobile migrant workers from participating in social insurance schemes, in particular in the old-age insurance scheme (Ran 2009; Watson 2009, 2012).

2.4 The development of wages

This section analyses overall wage growth, the development of the labour share, the trend in minimum wages and the widening wage disparities in China. To ease comparisons of wage levels across countries, we have converted the wage levels into USD, by using the official exchange rate between RMB and USD (as of September 25, 2013).

2.4.1 Wage growth

Since 1996, the wages of Chinese workers have been rising substantially in both nominal and real terms, as shown in Figure 2.1. It presents the annual growth rates of the monthly average wages for workers of SOEs, urban collective owned units, FIEs and other non-private enterprises. On average, between 1996 and 2011 the nominal and real wages grew at rates of 13.6 and 11.1 per cent, respectively.

It is important to note that the table leaves out the wages of workers in private sector enterprises. Although between 2002 and 2011 the share of private sector employees in total employment increased from nearly 8.0 to 19.2 per cent (author's estimate based on official figures), no official statistics for wages in private sector enterprises were available until 2009. The figures subsequently published in the China Statistical Yearbook revealed large gaps in nominal monthly wages between the private and non-private sectors. For example, in 2011 the nominal average monthly wage for private sector employees was USD 336, whereas for non-private sector employees it was USD 572. While between 2008 and 2011 the wage gap in percentage term fell slightly from 42 to 41 per cent, the nominal wage gap widened from USD 166 to USD 236 per month.

To a certain extent, the wage gap between private and non-private enterprises can be explained by the fact that the majority of private enterprises are currently low-technology small and medium-sized enterprises that produce labour-intensive products with low profits and lower levels of workers' skills



Figure 2.1 Annual growth (in %), average monthly wages in non-private sector, China, 1996–2011

Source: National Bureau of Statistics of China, China Statistical Yearbook, various years; real wages have been calculated by using official consumer price index (CPI; base year is 2005).

and education. However, this is not the whole story. Some owners of private enterprises have abused their powers and paid low wages either by non-compliance with MW standards or by forcing workers to work much longer than normal working hours. Furthermore, wage arrears have hit private sector employees hardest (Liu 2012). Although, in recent years, the government has strengthened its support to workers in private business by enacting laws and regulations, in the majority of these businesses the position of workers has not fundamentally changed.

2.4.2 The labour share

A downward trend of the labour or wage share in GDP is not solely found in Western countries. Over the past two decades, China experienced that decline as well, as demonstrated by Figure 1.5 in Chapter 1. That figure shows the labour share for China dropping by almost 10 percentage points from 54.6 per cent to 45.0 per cent between 1992 and 2010.

In China, market-oriented economic reforms and the government's policy of income distribution over the past decades have been blamed for this falling labour share. It has been argued that wage gains were only allowed for a small group of people, whereas the majority of ordinary workers did not get fair growth dividends and have remained at a disadvantage. International organizations such as the World Bank and the International Monetary Fund (IMF) have called on the Chinese government to adjust its accumulation

model of export surpluses and heavy investment, in order to boost its domestic demand by raising household and individual incomes. A recent joint report of the World Bank and a Chinese governmental research centre laid out the widespread implications of such a fundamental change. It stressed the need ‘to introduce measures to increase labour force participation rates, rethink wage policy, and use social security instruments (pensions, health, and unemployment insurance) that are portable nationwide’ (2013, xxii). The report made no secret that ‘China’s relatively high social and economic inequality (some dimensions of which have been increasing) stems in large part from large rural-urban differences in access to jobs, key public services, and social protection’ (2013, xxii–xxiii). A significant response to the mounting domestic and international pressures in this respect was the target set by the 18th National Congress of the Communist Party (CPC) in 2012, to double the 2010 GDP and per capita income for both urban and rural residents by 2020. In the third session of the 18th CPC central committee in November 2013, the government reiterated its determination to adopt comprehensive measures to reform the system of income distribution and to increase labour’s share.

2.4.3 Minimum wages: Trends and effects

As stated, minimum wage fixing is a main channel for the trade union to be involved in wage bargaining. MWs in China are fixed on a provincial basis and levels vary according to economic development and living standards within different areas of each province. Both conditions permit trade union input and MWs have significantly increased over time. Between 1995 and 2012, their nominal level grew on average by over 10 per cent per year, and between 2003 and 2012 by over 12 per cent, while the average yearly rate of inflation (i.e. CPI) was 3 per cent. Therefore, real minimum wages have been raised substantially during the past two decades, particularly by 9 per cent yearly between 2003 and 2012 (Statistical Appendix, Tables A.6A and A.6B). As indicated, the 2004 regulation requires adjustments of MWs at least every two years. From 2004 to 2007, the number of adjustments varied across provinces, with some provinces raising their standards yearly and others twice-yearly. On November 17, 2008, facing the global financial crisis and its impact on China’s export-oriented economy, the Ministry of Human Resources and Social Security announced a temporary MW freeze. However, from 2010 onward, many provinces announced double-digit increases and adjusted their standards for three consecutive years, resulting in 11 per cent average annual growth rate between 2010 and 2012. Such ‘collective actions’ were overwhelmingly driven by administrative forces, reflecting the more expansive wage policy adopted by the government.

While the levels of minimum wages have varied widely across provinces, in 2012, the majority of provinces had monthly MWs above or close to the level of RMB 1,000. The provinces with MWs below RMB 1,000 were located

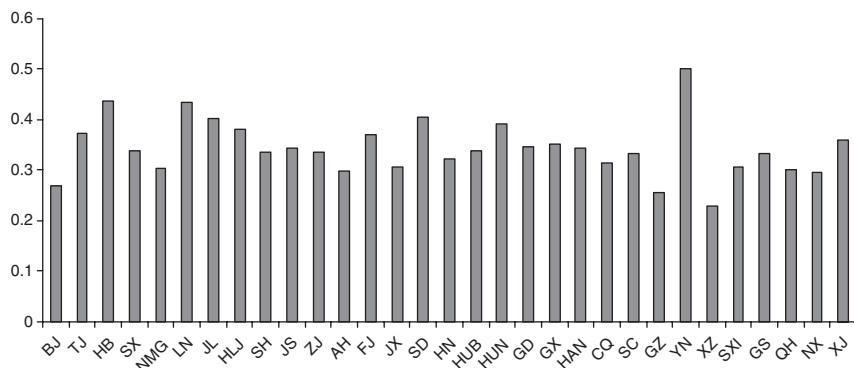


Figure 2.2 Minimum wages in percentages of average wages, China, 2012*, by province

Note: *2010 for provinces NMG, HJL, HN, HUB, GZ, XZ and XJ due to missing 2012 average wages.

Source: Based on author's own calculations.

in the western part of the country, with slower growing economies. As shown in Figure 2.2, the Kaitz indices (MWs calculated as a percentage of average wages) varied considerably across provinces, averaging 34 per cent in 2012 but varying between 23 and 50 per cent. It is noteworthy that in the 2004 regulation on minimum wages it was described as an international practice to fix MWs as a proportion of average wages ranging from 40 to 60 per cent. However, in 2012 some 26 of 31 provincial Kaitz ratios fell below the 40 per cent yardstick.

MWs can play a role in changing the general shape of the wage structure, by compressing the bottom end of the distribution and helping to narrow wage disparities. Hu (2013) used China's household survey data to analyse the impact of raising MWs on wage inequalities in nine provinces.⁴ The results showed that without increasing MWs, wage inequality would have been further widened. As Hu's analysis was based on data from a limited number of provinces, further empirical studies using national household data are needed in order to obtain more comprehensive evidence. In terms of the impact of MWs on employment, the empirical findings for China are mixed. Wang and Gunderson (2012) used aggregate data to investigate the impact of MWs on employment and wages in China. Their studies found neither significant adverse effects of MW increases on employment nor a significant effect on wages. These authors concluded that finding hardly any effects might simply reflect the fact that MWs were not enforced. However, by using large panel data at country level, Fan and Lin (2013) identified negative impacts of MW hikes on the employment of females, young adults and less-skilled workers. Also, Luo et al. (2011) suggested that the MWs had negative employment effects in the manufacturing sector. By contrast,

their study found positive effects in construction, wholesale and retail, and catering.

2.4.4 Widening wage disparities

While overall the wages of Chinese workers have significantly increased over the past decades, growing wage disparities can be observed at the same time. For example, the author found that within the waged worker category, disparities grew in the 2000s in nine provinces. Here, the overall wage inequality measured by the D9:D1 ratio showed a sustained upward trend over the period 2000–09, with a big jump between 2000 and 2004. By then the wage differentials between the first decile and the median wage (D5:D1) had also increased substantially, but they declined in 2004–06, whereas from 2006 to 2009 the D5:D1 ratio grew slightly. This may suggest a positive role of the 2004 MW regulation in improving the level of earnings of low-paid workers (Hu 2013).

Wang and Li (2011) found evidence that the incidence of monopoly positions was a major factor affecting the wage gaps between industries over time in China. Analyses by Ning (2011) and Li et al. (2011) revealed that the (increasing) gender pay gap could largely be explained by (rising) discrimination against women, in particular at the lower end of the labour market. Young women with low educational levels and poor jobs were subject to severe and increasing discrimination. Discrimination, partly institutionalized, also played a role in shaping the wage gap between migrant workers from rural areas and local workers (Peng 2012). To a certain extent, these growing disparities may have reflected the increasing role of the market mechanism in allocating labour resources by setting wages depending on demand and supply conditions and by reflecting real market rates linked to human capital endowments. In this context, such wage differentials can help improve overall efficiency and raise labour productivity. However, when wage disparities are too high or their widening is shaped by non-market factors such as monopolistic power, discrimination and institutional barriers such as the Hukou system,⁵ such inequalities could severely damage fair competition and threaten societal stability.

2.5 Will demographic change and deepening globalization help to end cheap labour supply?

In 2010, China's labour force participation rate (LPR) at 71.0 per cent (78.2% for men and 63.7% for women) was in the middle of international ranking (World Bank 2012). In China, as in many other countries, population ageing and deepening globalization are posing huge challenges to the sustainability of social and economic development. In this section, we focus on the potential implications of shifts in the age structure of the population and of deepening globalization for the large pool of China's low-cost workers.

2.5.1 Demographic change and its impact on wages

Population ageing is conventionally defined as the increase of the proportion of elderly persons in the population. In China, prior to the economic reform of 1979, the share of those aged 65 years and over was between 3 and 5 per cent. However, that share had increased rapidly, to 8.9 per cent by 2010 (Cai and Gao 2013). China's ageing pattern is rather unique in that it grew fast while China remains a developing country with a rather low per capita GDP that lacks a well-established social security system ('old before affluent'). Moreover, this pattern has been combined with a relative decline of the working-age population (16–64 of age). After a peak in 1980, the rate of increase of the working-age population showed a rapid decline until 2010 when the ratio fell below the 1955 level (see Figure 2.3). Within the working-age population, changes in the age structure are striking. It has been predicted that from 1990 to 2050 the working population aged 15–29 will decrease from 353 to 257 million, taking the share of this cohort in the overall population down from 48.8 to 30.2 per cent. By contrast, the working-age population aged 45–59 is expected to grow from 137 to 316 million, a near-doubling of its share from 18.9 to 37.6 per cent (Hou 2011). Thus, the vast supply of low-cost workers is set to dissipate indeed, the core of the working age population, those aged 20–39 years, has already begun to shrink. IMF analysts predict that under current conditions the excess supply of labour mainly originating from agriculture will be exhausted between 2020 and 2025. By then, it is said, the economy will have crossed the Lewis Turning Point (Das and N'Diaye 2013; see Chapter 1).

The question is whether this demographic pressure could bring about positive outcomes for the working population, such as wage increases. From a human resource viewpoint, the likelihood of such outcomes seems to be

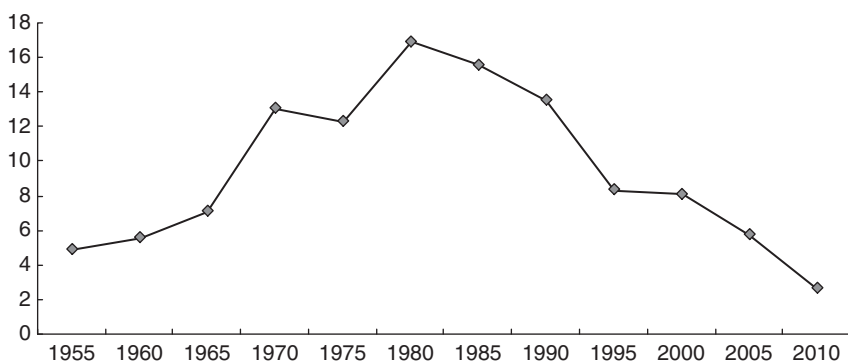


Figure 2.3 Development (annual growth rate in %) of 16–64-year-old population, China, 1955–2010

Source: Author's calculations based on UN population Database.

strong. In China, the shrinking workforce has mainly been attributed to the 'one-child policy' adopted by the government since the early 1980s, resulting in a decrease of the total fertility rate from an average 2.7 births per woman in 1980 to 1.6 most recently. On the positive side, this policy enabled millions of Chinese parents to invest more in the education of their children. As a result, the new labour market entrants and the core group aged 25–39 possess higher levels of education than older cohorts and may be expected to be more flexible to adapt to new technologies. They are also more aware of their rights and interests at the workplace and have strong ambitions to look for jobs with better pay and working conditions. This is particularly the case with the new generation of migrant workers (Cai 2008).

In response to the shortages of young workers in particular, firms are likely to attract skilled workers by offering higher wages and better conditions. Paying higher wages will benefit firms as it will engender greater feelings of commitment by workers and lead to increases in productivity that will be vital for firms to offset rising labour costs and remain competitive. It is also conceivable that rising labour costs might allow firms to speed up the transition to more capital- and technology-intensive production. This may cause some unemployment, but from a long-term perspective, upgrading the structure of the industry will strengthen China's economy and help to get rid of the image of the country as a producer of cheap goods with low-technology content and low added value.

In order to counteract the negative effects of population ageing and a shrinking workforce, the government may have to undertake policy changes. One policy option is to increase labour participation by raising MWs and removing the Hukou system in order to improve the position of migrant workers in urban labour markets. Considering rising labour tensions, the government may have to strengthen the role of trade unions in protecting workers as well. If the union federation is allowed to go through a fundamental change, it can reasonably be expected that the wage level of China's workers can be raised on a regular basis alongside the improvement of their productivity. It is apparent that sustainable economic development is a critical condition for ending low-cost labour. Conversely, the sustainability of economic growth needs to be fuelled by buoyant domestic demand, which calls for the adoption of a pro-labour incomes policy. In this sense, a sustainable development will present significant opportunities for China to transform from its current export-led growth model into a model of wage-led growth.

2.5.2 FDI and its impact on wages

Without doubt, foreign direct investment (FDI) has played an important role in contributing to China's recent rapid economic development. It brought in not only funds that the country desperately needed, but also technologies, management skills and even new labour relations practices. Indeed,

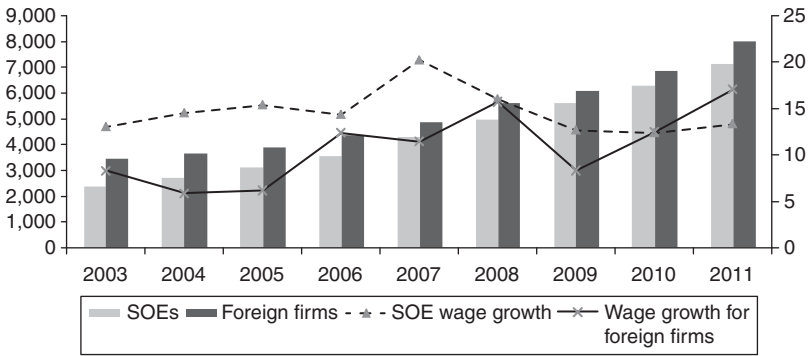


Figure 2.4 Wage levels in US dollars (left axis) and annual growth in per cent (right axis) in foreign firms (FIEs) and SOEs, China, 2003–11

Source: NBS of China, China Statistical Yearbooks, various years.

from the outset in the early 1980s, foreign investors were allowed to hire workers based on contracts that considerably affected labour allocation and increased job mobility in urban labour markets. These investors were also granted larger autonomy than SOEs to determine their own wage scales. During the 1980s and 1990s, foreign-owned firms (i.e. FIEs) became attractive destinations for considerable numbers of graduates and managerial and technical staff due to relatively high wages and flexible forms of employment. At the same time, SOEs came under growing pressure to raise wage levels and reform the wage-fixing system (Hu 2010).

Figure 2.4 reveals that annual wages in FIEs have been higher than those in SOEs. Yet, the wage gap has been narrowing largely due to more rapid wage growth in SOEs. It is particularly worth noting that in 2008 and 2009 wage growth was less in FIEs, which can be attributed to the global crisis. Also, after 2009 wage growth in FIEs rebounded significantly while in SOEs it went up moderately. The narrowing of this wage gap may partially explain why more and more graduates and skilled workers prefer to work for SOEs, in particular large and medium-sized SOEs with generous fringe benefits and better social security coverage. Perceived job stability is another factor here. A survey shows that for fresh graduates, SOEs after 2008 replaced FIEs as their first choice of employer because of expected job stability (see *Jinghua* website). Other factors in play here, which have pushed FIEs towards raising wages, include demographic change as well as the increasing pressure from the international community on multinational enterprises to improve working conditions in countries like China.

In order to attract FDI, the Chinese authorities have, since the 1980s, not only provided hefty and exclusive tax breaks for FIEs but have also maintained a detached attitude towards FIEs' HR management and wages.

However, some significant changes can be observed recently, including the abolition of some tax incentives for FIEs in 2010. Significant here also seems to have been the government's attitudes towards industrial action such as the Honda strike. Instead of taking harsh countermeasures against workers, the government tolerated strikes and mediated disputes between employers and workers. Clearly, confronted with rising labour costs, foreign investors in China are facing major challenges. However, that may also provide opportunities for them as they may benefit from improved labour productivity and rising domestic demand.

2.6 Conclusions and recommendations

Along with a remarkable economic development, the wages of China's workers have been substantially increased in the past decades, leading to a significant and broad improvement in living standards and the lifting of millions out of poverty. However, this economic achievement has been at the expense of major pollution and environmental degradation. It also brought with it a series of social and economic problems, among which increasing income inequality in particular has triggered great public discontent. In addition, China has to face major challenges with respect to its ageing population and the dramatic changes in the age structure of its workforce.

During economic reform, the role of the labour market in allocating resources and determining wages gradually grew in importance. Our analysis shows that, while the government continues to play a key role in wage setting in SOEs and public service sectors, it faces rising tensions in labour relations and, therefore, is making great efforts to cultivate collective bargaining for both employment contracts and wage growth. In the period of economic transition, the role of the ACFTU union federation as a quasi-government body did not fundamentally change, but the central government currently expects ACFTU to play a larger role in solving conflicts between workers and employers.

It is apparent that the sustainability of China's economic development is a key factor affecting the rise of individual and household income. Steady economic growth in turn depends on boosting purchasing power, and this calls for a substantial increase in workers' earnings. Considering that the government is still playing an important role in income distribution and wage setting, it needs to develop a coherent policy to ensure that the wages of ordinary workers can be increased alongside economic development. In the short term, the labour inspectorate should be strengthened in order to eradicate extremely low-paid jobs. The labour inspectorate should also closely monitor wage increases in state-monopolistic enterprises. The effective enforcement of MWs by increasing the frequency of labour inspections is another important tool to diminish growing wage inequality in the short

term. From a long-term perspective, the government should cultivate an effective system of collective wage bargaining. In order to achieve this goal, the role of ACFTU needs to be further strengthened: a strong trade union, capable of conducting collective bargaining on behalf of its membership, is needed.

The government needs to design and develop coherent approaches towards wage policy and a fair social security system. A well-established social security system allows workers to spend a larger part of their income on consumption instead of precautionary saving linked to worries about old-age pensions and unaffordable health expenses. The government should prioritize the expansion of social insurance coverage to informal and migrant workers. Another policy field concerns training. Well-trained workers would not only offset rising labour costs, they may also decongest urban labour bottlenecks. The government should increase its expenditure, in particular, on vocational education, as well as encouraging firms to train workers by providing tax incentives and subsidies. It is vital to provide various forms of on-the-job training for low-paid workers to increase their productivity and employability. Also, the removal of the Hukou system should be considered. Its abolition would allow migrant workers to earn wages and gain social security benefits based on their skills and employment records instead of where they come from.

Finally, in order to keep China as one of the prime destinations for FDI, the government needs to improve its policy framework to attract more long-term, capital-intensive, high-tech activities and to open up more sectors of the economy to FDI. It also needs to improve the regulatory environment for access to local markets so that foreign investors can compete equally with domestic firms, while safeguarding intellectual property rights and providing a solid foundation for corporate governance. For those foreign firms that keep an eye on China's huge domestic market, wage increases for their workers under such conditions may mean a fruitful gain rather than a loss.

Notes

1. All figures excluding Hong Kong and Macau.
2. In China, the term 'collective negotiation' is officially ascribed to collective bargaining. In the Chinese context, 'collective negotiation' connotes more of a discussion and agreement between trade union representatives and employers on an equal basis, rather than conflict. In order to be in line with other chapters, we use 'collective bargaining' here, unless otherwise stated.
3. Defining and calculating informal employment in China means dealing with a massive amount of uncertainty. For 2006 it has been estimated that nearly 170 million workers were employed in the informal urban economy, of which 120 million were migrant workers. On top of these, 80 million migrant workers were informally employed in rural areas (Huang 2009), thus totalling 250 million or 33 per cent of the total 753 million employed. Taking into account progress in the

development of social security in China on the one hand (Watson 2012) and the ongoing expansion of urban employment on the other, a rough estimate of the size of informal employment for 2012 ends up at 270 million, that is 35.5 per cent of all 767 million employed.

4. Liaoning, Heilongjiang, Shandong, Jiangsu, Henan, Hubei, Hunan, Guangxi and Guizhou, jointly accounting for 42 per cent of China's population.
5. Hukou is a system of residency permits in China, used since 1958 to control the movement of people between rural and urban areas. Under this system, urban residents received an array of social services while rural residents were expected to be more self-reliant. The system has become a major obstacle for migrant workers to obtain equal opportunities for jobs, education, public health service and social security in the urban labour market.

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3

Vietnam

Dang Quang Dieu and Hien Thi Thuong Dong

3.1 Economic development

Since the ‘Doi Moi’ reforms of 1986 which steered a path to a market-oriented economy, Vietnam has achieved considerable economic growth and improved standards of living. In 2013, GDP per capita reached USD 1,911, a 2.7 times increase over 2005 (USD 699) and over 19 times more than 1988 (USD 98). According to World Bank data, Vietnam’s total GDP in 2013 was 56th in the world and 6th among the Association of Southeast Asian Nations (ASEAN) countries. Since 2010, Vietnam has shifted from a low-income country towards the group of lower middle-income countries. From 1991 onwards, the country showed average five-yearly GDP growth rates of over 5.5 per cent per annum. In 2011–13, in spite of the slump of the world economy, GDP per capita growth averaged 4.5 per cent (Statistical Appendix, Table A.2).

Foreign direct investment (FDI) and development assistance have been important for Vietnam. Between 1976 and 2014, the registered inflow of FDI was about USD 270 billion. The FDI sector accounted for 47 per cent of the country’s industrial output in 2012 – nearly 20 per cent of its GDP and nearly two-thirds of its exports. Total official development assistance (ODA) commitment reached approximately USD 81 billion. Over 200 countries and territories currently maintain trade relations with Vietnam, with both exports and imports in 2012 reaching over USD 18 billion, jointly making up 26 per cent of the country’s GDP. In recent years, Vietnam has moved from being a big net importer to be a marginal net exporter (GSO 2014b).

The Government of Vietnam has made many efforts to implement policies to increase wages, control inflation and stabilize prices, in order to improve standards of living. However, economic growth in Vietnam remains challenging in terms of stability, efficiency and quality. The growth rate has slowed down for several years, lowering economic potential and missing targets (Table 3.1). Labour productivity has been rather low, and economic growth has largely been based on the exploitation of labour, natural

Table 3.1 Annual growth of macroeconomic indicators (in %), Vietnam, 2009–13

	2009	2010	2011	2012	2013
Inflation, consumer prices	7.1	8.9	18.7	9.1	−6.6
Consumer price index	6.5	11.7	18.1	6.8	6.0
Inflation, GDP deflator	6.2	12.1	21.3	10.9	6.6
GDP	5.4	6.9	6.1	5.2	5.4
GDP per capita	4.3	5.3	5.1	4.1	4.3

Source: GSO 2014b; World Bank Database.

resources and FDI. In world rankings, at the level of national competitiveness, almost all the elements of macro- and microeconomic policies (political institutions, law, human development, macroeconomic policy, business environment and corporate strategy) are ranked average or lower.

Living conditions and the social welfare system have though improved significantly. Between 1990 and 2013, Vietnam's Human Development Index (HDI) value increased from 0.476 to 0.638. In 2013, Vietnam ranked 121st out of 187 countries, but remained substantially below the HDI average of 0.703 for East Asia and the Pacific (UNDP 2014). The coverage of health insurance has been expanding with more diverse types of insurance better able to meet the needs of different social groups, and public social security and health expenditure has been increased to 6.2 per cent of GDP in 2010. However, policies and management systems are not yet effective. Most notably, nearly 40 per cent of the population are not yet covered by health insurance.

This information serves as a background for the rest of this chapter. It is organized as follows. We provide key figures on Vietnam's population and labour force in section 3.2. Section 3.3 goes into the role of the state concerning wage setting, followed by section 3.4 dealing with the role and functioning of trade unions. Section 3.5 elaborates various aspects of the minimum wage (MW) in Vietnam: its development, the MW system itself, adjustments of MWs and an assessment of the current system. Section 3.6 looks at various aspects of the informal economy, including migrant workers. In section 3.7, we discuss the strengths and weaknesses of collective labour agreements (CLAs), the implementation of wage agreements and wage disputes. Finally, we present a number of recommendations and some conclusions.

3.2 Population and labour force

The Vietnamese labour force has been growing along with population increase. By the end of 2013, the Vietnamese population stood at 89.7 million. Currently, this 'demographic dividend' ensures that the absorption

capacity of the labour market is tested by the entrance of large cohorts of young people. In 2010, the labour force participation rate (LPR) was an internationally high 79.6 per cent, 81.9 per cent for men and 77.3 per cent for women (World Bank 2012). The employment structure has meanwhile diversified. Over 12 years from 2000, the employment share of the agricultural–forestry–fishery sector decreased nearly 15 percentage points, whereas the share of the industry and construction sector increased by 8 percentage points and that of the service sector by 7 percentage points. Nevertheless, 70 per cent of the workforce still live in rural areas and waged workers form a minority here. Overall, in 2012 wage earners accounted for 34.7 per cent of the Vietnamese workforce while 62.7 per cent were own-account workers or unpaid family member (GSO 2013, 2014a). As for ownership, the share of public sector employment recently decreased slightly from 11.6 per cent in 2005 to 10.4 per cent in 2012 while that of the non-state sector in employment terms increased (from 85.8% in 2005 to 89.6% in 2012). In addition, employment in foreign-invested enterprises (FIEs) rose from 1.0 per cent in 2000 to 2.6 per cent in 2005 and 3.3 per cent in 2012 (Cling et al. 2010; GSO 2013, 2014a, 2014b).

Unemployment is quite low in Vietnam. The overall unemployment rate in 2013 was estimated at 2.2 per cent: ranging from 3.6 per cent in urban areas to 1.6 per cent in rural areas and from 6.4 per cent among young people aged 15–24 to 1.2 per cent for workers aged 25 years or over. However, labour productivity is low in comparison with other countries, and the growth rate of labour productivity (calculated at constant prices) has slowed down from 3.6 per cent in 2010 to 2.5 per cent in 2012. Despite a positive trend in education and training by the government, the educational level of the labour force is still rather limited. In 2012, only 17.9 per cent of the labour force had been trained. The urban–rural difference in the incidence of the trained employed population was significant at 22.5 percentage points (33.7% for urban areas and 11.2% for rural areas). In 2012, only 17 per cent had a formal technical qualification, and only 6.4 per cent had a university education. Moreover, over 40 per cent of the employed population worked in elementary, low-skilled occupations (GSO 2013).

3.3 Role of the state concerning wage setting

According to the Ministry of Planning and Investment, wages are a motivation for sustainable development. Wages policy, therefore, is very meaningful to socio-economic development. An increase in salaries will, therefore, be a significant measure of demand stimulus. Hence, labourers are encouraged to improve and learn necessary skills and develop their human resources – a core factor for sustainable development. However, wages are not the only incentives. First of all, there are other benefits, both in cash and in kind; second, housing policy also plays an important role as an incentive; third,

the provision of free education and healthcare services to labourers and their families is an important way to increase their real salary and, finally, fairness, transparency and justice in salary policy helps to strengthen work quality and productivity.

Thus, the role of wages as an anchor for social and economic development has been grasped by the Vietnamese Communist party and the government. According to resolutions of the Central Committee of the Vietnamese Communist party, 'Wage has to associate with national social-economic growth. Equal wage payment for employees is the implementation for investing development, contributing significantly to improving the responsibilities and the productivity of employees and the civil service', and the 'wage policy has to be appropriate to the regime of the market economy, which contributes to the foundation of a healthy labour market, attracting employees with high-quality employment in important sectors of the state'. In 2011 the Government took a decision to research how a new, more market-based, wage mechanism could be established. It should also be noted that the social security network has been much improved and has made noticeable contributions to the stabilization of socio-economic development and to support income generation.

3.4 The role and functioning of trade unions

The Vietnam trade union movement was originally founded in 1929 and is currently called the Vietnam General Confederation of Labour (VGCL). The role of trade unions in Vietnam has been recognized and affirmed legally, practically and historically. Since the first Constitution of Vietnam was established in 1949, a separate Article (Article 10) has dealt with role and functions of the trade union. Accordingly,

[t]he Trade Union of Vietnam is a socio-political organization of the working class and labourers voluntarily established to represent labourers, care for and protect the rights and lawful and legitimate interests of labourers; participate in the state management and socio-economic management; participate in the examination, inspection and supervision of the operations of state agencies, organizations, units and enterprises regarding issues related to the rights and obligations of labourers; and mobilize labourers to learn to improve their professional qualifications and skills, abide by law, and build and defend the Fatherland.

Two other important laws – the Labour Code 2012 and the Trade Union Law 2012 – have continued to emphasize the role of the VGCL. The Trade Union Law provides details on union rights and responsibilities alongside the responsibilities of the state, state agencies, organizations, units and enterprises towards trade unions. It gives guarantees for trade union activities.

The Labour Code stresses the roles of the trade union at all levels in building harmonious and progressive labour relations, participating with state management agencies and with the representative organization of employers to negotiate and settle labour issues.

VGCL is the only trade union confederation in Vietnam. It is organized by geographical area and by sector, and has 20 sectoral/industrial unions and 63 federations of labour (FOL) at city/province level. At the end of 2012, total membership was 7.9 million and the number of workplace unions over 114,000. These numbers have rapidly increased as a result of the 'Recruiting 1.5 million new members program' which has been running for 10 years.

3.5 The minimum wage

3.5.1 Development of the minimum wage

Before 1993, MWs in Vietnam existed only for civil servants although the MW concept had first appeared in Vietnam after the country declared independence in 1947. The first legal document, Decree No. 29 – 1947 (considered the first Labour Code of Vietnam), stated: 'The minimum wage is the amount set by the Government according to the cost of living, for a non-professional worker who lives on their own, in one day, in a certain area.' In 1946, a monthly MW – only for civil servants – was set at VND 150 (equivalent to 15 kilograms of rice) for Hanoi and Hai Phong and VND 130 (equivalent to 13 kilograms of rice) for other provinces. Until 1960, Vietnam did not have any regional MWs, however, although regional allowances took account of different elements such as bad climate conditions; difficult living conditions, high cost of living; and remote and isolated working conditions. Based on these factors the country was split into seven regions with regional allowances on top of the MW, adding from 6 to 40 per cent. Some regions had to concentrate on important projects, and temporary allowances were allowed to encourage employees to work there.

Between 1960 and 1985, Vietnam did not officially adjust wages although in reality, the nominal wage was increased many times through temporary subsidies and bonuses and productivity deals, and regional allowances were also adjusted. After 1987, three-digit inflation (peaking at 454% in 1986) led to a rapid decline in real wages. Only after the inflation rate dropped to two digits in 1989, did the MW become more effective. From 1993 to 2004, inflation was well under control and remained below 10 per cent annually. In 1993 MWs were differentiated. For the first time the Government published MWs for the business sector: 'The current MW of 35 USD/month applies to FIEs in Hanoi and Ho Chi Minh City; 30 USD/month applies to enterprises with foreign investment located in other provinces, cities, towns, or enterprises which hire unskilled workers in the fields of agriculture, forestry and aquaculture.' From 2004 onwards, two levels of MWs applied: the general MW (from January 1, 2014 called 'basic wage') for public servants

Table 3.2 Development of GDP, inflation (CPI) and official minimum wage (in VND), annual change (in %) and indexed, Vietnam, 2000–13

Year	GDP			CPI			MW (VND)		
	Per cent/ year	2000 = 100	2007 = 100	Per cent/ year	2000 = 100	2007 = 100	Per cent/ year	2000 = 100	2007 = 100
2000	6.8	100.0		–0.1	100.0		20.0	100.0	
2001	6.9	106.9		0.8	100.8		16.7	116.7	
2002	7.1	114.5		4.0	104.8		0	116.7	
2003	7.3	126.0		3.0	107.9		0	116.7	
2004	7.8	135.8		9.8	119.6		38.1	161.1	
2005	8.4	147.2		8.5	129.8		7.1	172.5	
2006	8.2	153.6		6.6	138.4		26.4	218.0	
2007	8.5	166.7	100.0	12.6	155.8	100.0	.0	218.0	100.0
2008	6.2	177.0	106.2	19.9	186.8	119.9	20.0	261.6	120.0
2009	5.4	186.6	111.9	6.5	198.9	127.7	11.7	313.9	134.0
2010	6.9	199.5	119.6	11.8	222.4	142.8	14.7	360.0	153.7
2011	6.1	211.7	126.9	15.0	255.8	164.2	13.3	407.9	174.2
2012	5.2	222.7	133.5	6.8	273.2	175.4	22.6	500.1	213.6
2013	5.4	234.7	140.7	6.0	289.6	185.9	12.6	563.0	240.5

Source: Ministry of Labour, Invalids and Social Affairs (MOLISA); VGCL; World Bank database.

and armed forces, and the region-based MW levels for enterprises, applied to labourers in the private and other sectors. In spite of this differentiation, since 2010 the MW in Vietnam has universal legal coverage and applies to all wage earners, also to those working in the informal sector.

The general MW has been adjusted 13 times since 1993. Good management in controlling inflation has ensured the increases of the MW have contributed to increasing real wages since 2007. Table 3.2 shows the increase of the general MW in comparison with GDP and CPI growth from 2000–13.

3.5.2 The minimum wage system

There are four different MWs prevailing in Vietnam: the MW prescribed by the state, the general MW, the regional MW and the sectoral MW. We provide a brief overview.

According to the Labour Code 2012, the MW prescribed by the state includes the general MW, the regional MW and the sectoral MW. The level of these MWs is determined on the basis of the minimum living needs of the lowest paid workers and their families. However, the MWs are set rather low and are not enough to meet earners' minimum demands, even though the government has been attempting to adjust them annually. There remains a substantial gap between MWs and living wages. The general MW is the lowest wage floor provided by the Government for civil servants only. At present the general MW is applied mainly in regions with salaries paid from state budget (salaries of civil servants equal the general MW multiplied by the

coefficient of wage scales and tables) and are being used to calculate some other regimes in state-owned enterprises.

According to the provisions of Article 91 of the Labour Code 2012, the government sets the regional minimal wage on the basis of recommendations from the National Wages Council. When defining the regional MW four regions are used to take account of differing economic factors, social factors, the development of the labour market, and preferential policies of the state. The regional MW is applied to enterprises only.

MWs are also determined at sectoral level. To date, Vietnam has two sectoral CLAs that introduced higher MWs than the regional MWs. In 2010, a sectoral MW was introduced in the CLA for the textile and garment industry with the participation of 69 companies. Accordingly, the lowest wages paid for workers with vocational training was set at least 10 per cent higher than the MW (instead of 7% as prescribed by the state). In 2014, a new CLA was signed, establishing a new MW covering over 100 textile and garment firms and over 136,000 workers; for 2014–17 MWs were agreed varying from VND 2,400,000 per month for Region IV up to VND 3,150,000 per month for Region I. In 2014, a rubber industry CLA for 2014–15 was signed with MWs 5 per cent above the sectoral MWs.

3.5.3 Adjustment of minimum wages

The uprating of MWs is decided jointly by the government alongside employer and trade union representatives. From August 2013, representatives of these three parties have joined the National Wages Council which, based on Article 92 of the Labour Code, is the advisory body to the Government on adjusting and announcing MWs and wage levels. The Council is responsible for analyzing economic and social situations and living standards so as to be able to forecast the subsistence needs of workers and their families. It also evaluates the implementation of the MWs and their affordability and develops recommendations to the Government concerning the MW levels each year. The Government announces changes in the general and regional MWs two to three months prior to the date of application. This early announcement enables the Council to promulgate guiding documents and helps businesses, investors, and employees prepare implementation plans.

The MWs are declared on a monthly, daily and hourly basis. Employers, however, have the right to pay wages weekly and use piece rates if employees so agree. The Ministry of Labour, Invalids and Social Affairs (MOLISA), in collaboration with VGCL, the Vietnam Chamber of Commerce and Industry, the Vietnam Cooperative Alliance, the Association of Small and Medium Enterprises in Vietnam, other relevant Ministries, agencies and People's Committees of provinces and cities directly under the central government propaganda disseminate the MW regulations. They also inspect and supervise the implementation of MW provisions. In case of non-compliance,

the employer and employee must firstly negotiate directly in order to settle the interests of the two parties, stabilize production and business and ensure social order and safety.¹ According to the Labour Code, the settlement of labour disputes by the competent agencies, organizations and individuals is conducted after either party files an application following the failure by either party to negotiate, or where either party has failed to implement the agreement. The VGCL is participating actively in the issue of wage adjustments. An annual survey on real wages and the minimum standard of living of workers is conducted by the Institute for Workers and Trade Union to provide arguments for the VGCL to put forward for wage increases.

According to the annual report of MOLISA, if the Government adjusts the MW all enterprises have to adjust wages. However, these adjustments are very different depending on business types and types of workers in each business. In non-state-owned enterprises and FIEs in particular, wages for workers are often adjusted at low levels. Many enterprises adjust the MW but wages remain only equal to or a little higher than the MWs prescribed by the state. In state enterprises, the maximum wages are increased based on MWs of the state. However, the latter MWs only meet 60–72 per cent of workers' minimum standard of living (see Table 3.3).

According to the annual MOLISA wage survey, most enterprises paid higher wages to untrained workers performing simple work (not professional) in the four regions compared to the wage level prescribed by the state. In fact, about 98 per cent of 1,500 enterprises surveyed paid wages equally to or higher than the prescribed MWs. According to the annual research of the VGCL Institute (2013), average wages were as shown in Table 3.4.

The 2012 Labour Force Survey of GSO found that average monthly earnings were VND 3,757,000, VND 3,923,000 for males and VND 3,515,000 for females, implying a gender pay gap of 10.4 per cent. Remarkably, at 17.4 per cent, this gap was much larger in FIEs (GSO 2013). Combining VGCL and GSO data, it can be calculated that in 2012 the lowest MW made up 44 per

Table 3.3 State minimum wages and minimum standard of living by region, VND/month, Vietnam, 2013

Region	State MWs (VND/month)	Minimum standard of living (VND/month)	Difference (%)
I	2,350,000	3,881,000	60.6
II	2,100,000	3,202,000	65.6
III	1,800,000	2,830,000	63.6
IV	1,650,000	2,286,000	72.2

Source: Vietnam Institute for Workers and Trade Union; Government of Vietnam, Decree 103/2012/NĐ-CP.

Table 3.4 Average wages by enterprise type and industry, VND/month, Vietnam, 2013

Enterprise type	Average wages (VND/month)	Industry	Average wages (VND/month)
State-owned	3,956,000	Agriculture, forestry, fishing	3,899,000
Joint-stock	3,827,000	Mechanical industry	3,600,000
FIE	3,500,000	Textile industry	3,337,000
Private	3,460,000	Footwear industry	3,171,000
		Construction/transport	3,136,000
		Trade, tourism	4,179,000

Source: Vietnam Institute for Workers and Trade Union.

cent of the average national wage; this so-called Kaitz index rose to 63 per cent if the highest MW level was taken into account.

3.5.4 Assessment of the minimum wage

The State has gradually improved the theoretical basis and concept of the MW. In 1993, an important step occurred in the perception of wages in general and MW systems in particular:

- the MW was considered to be the lowest floor wage level to ensure minimum living standards for wage earners. This perception is consistent with ILO standards (Convention 131 and Recommendation 135);
- recognizing MW policy's close relationships with socio-macroeconomic policies, especially concerning growth, inflation, employment, unemployment and social security;
- applying wage agreement mechanisms in labour contracts and collective agreements, and recognizing that businesses shall be entitled to apply higher MWs than prescribed by the state to encourage employees. This was especially important to ensure the alignment of MW policy with market principles and international integration; and
- considering the MW an important legally mandated tool of the state in wage management in the market economy.

Since 1993, Vietnam has developed scientific methods of determining general and regional MWs in accordance with international practice and especially the standards of the ILO. Particular attention has been paid to methods based on minimum living standards, market wages and the ability to pay of enterprises, alongside the ability of the economy and the level of personal consumption funds. Based on these methods, the state's decisions have become the foreground for wage policymaking as well as the basis for the regulation of labour relations more generally. The method of determining the

MW has gradually improved minimum living standards (guaranteed 2,300 Kcal/day/person), bringing wage-earners' living standards closer to general living standards.

The current mechanism for determining, adjusting and applying the MW is laid down in the Labour Code and enables differentiation by regions and industries. Thus the determination and adjustment of the MW has shifted from being the sole responsibility of the government to a consensus of business organizations, employees' representatives and employers. Similarly MWs are now adjusted in accordance with market prices. Direct state intervention in the business sectors has been reduced, creating additional space for enterprises in wage setting. Also, the processes of MW adjustment and implementation have become clear, transparent and timely, so that all parties can play active roles and enterprises especially can better plan appropriate wage adjustments. However, a number of weaknesses and limitations remain:

- The MW has not yet guaranteed minimum living standards; principles and criteria for identifying and adjusting the MW have not been fully quantified and specified.
- The MW is fraught with too many functions, creating complexity and unwanted ties to other policy areas.
- The MW decision and application mechanism is not consistent with the market economy.
- The implementation of the MW is not synchronous and suited to the nation's socio-economic conditions.

First, the MW is supposed to ensure minimum living standards for bread-winners and to be consistent with socio-economic conditions. In fact, the general MW is lower than the minimum needs of workers, so it does not comply with 'recuperating and accumulating for expanded reproduction energy security' as specified in the Labour Code. The current general MW is based on the north-western region, which has the lowest CPI increases and lowest living standard, so for the regions and cities with higher costs of living it is insufficient. As said, the MW only meets 60 to 72 per cent of the minimum standard of living of workers. Indeed, according to the 2013 survey of the Institute for Workers and Trade Union, 46 per cent of workers had to work on average 20.5 hours per month extra to make ends meet. Moreover, in total over 65 per cent of workers had no savings. Migrant workers in industrial zones and workers with children have encountered even more difficulties. The combination of low MWs, with the limited abilities of workers to agree on wages, the weak roles of grass-roots trade unions and workers' worries about their employment prospects (such as difficulties in finding a job or being afraid of losing their job) has enabled private enterprises and FIEs especially to put pressure on wages. They do so through lowering pay

rates, breaking wages down by allowances and grants, and offering contracts with low pay rates.

Second, in Vietnam the general MW is linked with nearly 30 regulations and policies such as social insurance, health insurance, unemployment insurance, severance allowance, accident compensation pensions and marking poverty lines. It is also used as a base for determining the salaries of civil servants. MW policies are further constrained by many complex economic, labour and social relations, and it is difficult to separate the MW from administrative and subsidy mechanisms. The general MW is largely dominated by the state budget and is adjusted on budget affordability, not on workers' needs or on supply and demand in the labour market. As a result, wages in enterprises are not aligned with market principles and are no longer a major driving force to increase either labour productivity or to encourage workers to build up careers. The 'budget view' hampers wage flexibility and the efficient allocation and use of labour. It also creates segmentation between administrative areas and categories of firms. In spite of the many adjustments, MWs have never met the minimum standard of living. This means that workers, particularly the civil servants paid from the state budget, either have to find second jobs or be corrupt to earn enough for a living. Research by Government Inspectors found that 79 per cent of civil servants had an 'income beside salary' such as 'fostering money' and the acceptance of 'lubricated' envelopes.

A third limitation is that the MW agreement mechanism currently in enterprises is very weak and similarly at sectoral level an agreement mechanism is lacking. The determination and application of the MW within enterprises depends largely on employers and results in the MW being inconsistent with market principles. Furthermore, it should be noted that only general and regional monthly MWs are in existence and hourly MWs are lacking. Although hourly MW provisions for business in the market economy are badly needed, there is no legal adjustment mechanism for casual and part-time work.

The fact that state policies in general and wage policies in particular are still incomplete and being revised is a major cause of the weaknesses summed up above. Some provisions have simply not kept up with the actual state of economic development or international integration. A lack of synchronization of wage policy with related policy fields, especially the finance policies of enterprises, has led many enterprises to divide workers' wages into different elements in order to evade tax and social insurance. Finally, the wage agreement mechanism has not become routine. The required bargaining power as well as the ability of some grass-roots trade unions to implement wage policies are limited and wage information is inadequate. Moreover the dissemination of the legal MW framework, wages and wage inspection measures is lagging behind and the handling of enterprises' violations is also weak (Dieu 2012).

3.6 The informal economy

3.6.1 Importance of informal employment

In Vietnam, nearly a million people are currently entering the labour market each year. They cannot all be absorbed by agriculture and the formal sector. Even in a period of rapid economic growth such as that from 2000 to 2008, about 25 per cent of new entrants ended up in the informal sector. This informal sector provided about 24 per cent of all jobs by 2009. Manufacturing and construction was the largest informal industry, accounting for 43 per cent, followed by retail with 31 per cent and services with 26 per cent (Cling et al. 2010, 2011).

However, informal employment is much more widespread and can also be found in different sectors and types of enterprise (see Table 3.5).² Overall, in 2009, 80.5 per cent of employment was in informal jobs. In that year, even in the public sector and in FIEs 12–13 per cent of those employed were in informal jobs and this share rose to nearly 99 per cent in agriculture. Informal employment is, not surprisingly, more common in rural than in urban areas (in 2009, 88.0% compared with 60.9%). Yet, between 2007 and 2009 informal employment only increased in urban areas and grew notably in Hanoi and Ho Chi Minh City. At the same time, in the latter city the average income of households dependent on informal work fell (GSO 2009;

Table 3.5 Labour characteristics by sector and enterprise type, Vietnam, 2009

Sector/type enterprise	Number of employed					Average monthly income
	Total		Of which urban	Of which immigrant	Of which informal job	
	× 1,000	Per cent	Per cent	Per cent	Per cent	1,000 VND
Public sector	4,615	9.7	60.9	10.4	12.5	1,964
Foreign enterprise (FIE)	1,376	2.9	20.7	32.1	12.9	1,735
Domestic enterprise	3,669	7.7	5.0	16.0	48.1	2,093
Formal private	3,688	7.8	5.1	8.4	51.5	1,805
Informal sector	11,313	23.8	2.5	5.6	100.0	1,273
Agriculture	22,838	48.0	5.7	2.4	98.6	703
Total	47,548	100.0	100.0	6.3	80.5	1,185

Source: GSO 2009; Hũu Chí et al. 2010.

Cling et al. 2010, 2011). Outside the informal sector as such, the rights and interests of the informally employed are rarely protected and social welfare coverage remains very low (VGCL 2013). In 2012 only about 10.5 million workers, or 22 per cent of all employed, were included in social insurance schemes (Bui and Do 2012).

The informal sector seems likely to continue to account for a majority of jobs in the near future and is forecast to increase in both absolute and relative numbers, from 23.5 per cent in 2007 to 27.5 per cent in 2015. This increase is due to a number of factors including the limited capacity of the formal sector to provide new employment (the government is committed to policies of downsizing the civil service and of public spending cuts); the large wage gap between public and private sectors; the many workers switching from agriculture to non-farm activities; and the advantages of flexibility the informal sector offers (Cling et al. 2010; Hanss Seidel Foundation/ILSSA 2012).

The importance of the informal sector has been underestimated for quite a while, and workers in this sector have suffered many disadvantages. Besides uncertain and unstable employment, they often have no labour contracts; suffer low wages (average wages in 2011 varied between 2.2 and 2.5 million VND/person/month, 64%–72% of the national average wage), and long working hours (on average 47.3 hours per week, against 43.8 hours as country average) (Bui and Do 2012). In the two largest cities, hours worked were even higher. In 2007, average hours worked in unregistered enterprises in Hanoi's informal sector were 49.3 per week, in Ho Chi Minh City it was 52.1; in registered enterprises they were as high as 54.4 and 59.9 hours respectively (Cling et al. 2010). Workers in the informal sector often suffer from a vicious form of poverty and retain only a limited capacity for social integration.

3.6.2 Internal migration

The country's economic activities have increasingly been focused on urban areas or areas with some available infrastructure. Plainly, an exodus of workers from rural to urban areas has taken place. From 1999 to 2004, approximately 4.5 million people moved to work in other provinces. Despite the decline in aggregate demand caused by the global economic crisis, this number increased to 6 million from 2005 to 2009. In this period, the net-migration rate to urban areas was 19.3 of 1,000 persons (GSO 2009). With the development of FIEs, industrial zones and special economic zones, the numbers moving to urban areas to search for jobs is expected to increase further (Hanss Seidel Foundation/ILSSA 2012).

Interestingly, a survey in 2007–09 in Hanoi and Ho Chi Minh City found the proportion of migrant workers in the informal sector to be rather low. Only 6 per cent migrant workers were identified in the informal sector in Hanoi, while this share in Ho Chi Minh City was 17 per cent. This result

is contrary to the Harris – Todaro model that contends the informal sector is the backyard of migrant workers; hence, they will flow into the informal sector if they cannot find a job elsewhere. This is clearly not the case in Vietnam, at least not in Hanoi and Ho Chi Minh City, where immigration has been tightly controlled (Abella and Ducanes 2011; Cling et al. 2011).

3.7 Collective labour agreements

3.7.1 Strengths and weaknesses

Before the newly revised Labour Code and Trade Union Law came into effect in 2013, the mechanisms for dialogue and cooperation in the workplace were underdeveloped and inefficient in both legal and practical terms. The revised regulations provided a good legal framework for dialogue and cooperation that also requires trade unions to have effective implementation strategies to put social dialogue into practice. Most employers and trade unions in Vietnam, despite their differences, have a common understanding of the general principles of CLAs. Vietnamese workers, though, encounter many limits in general legal knowledge as well as limited knowledge of CLAs. From a trade union perspective, CLAs are a ‘must’ and usually, the trade unions are the ones to propose them at the beginning of the bargaining process. In 2008–13, thousands of training courses raising skills in negotiating and signing CLAs were organized for union activists at all levels.

In 2011, 65.2 per cent of enterprises with workplace unions were covered by a CLA. At 59.2 per cent, this share was lower in private enterprises, whereas in FIEs it was 64.6 per cent. In contrast, almost all state-owned companies (96.3%) were covered by CLAs. The average real wage of workers in enterprises with CLAs was considerably higher (32.2%) than that in enterprises without such agreements. Similarly, in the enterprises with CLAs, a higher level has been achieved than that prescribed by law on wages, bonuses, shift meals, transport, vacation and funeral allowances, and other welfare facilities (VGCL 2011). However, CLAs are still underdeveloped in quantity and quality. Many are of low quality and frequently just copy the law because substantive bargaining is not occurring in practice. They simply reproduce legal provisions without bringing any more benefits to the workers than prescribed by law and anyway are not implemented in reality (especially at the private enterprises and FIEs). Less than half of all CLAs have been subject to a bargaining process before being signed. Many CLAs are not updated according to the changes in labour policies or simply run out and expire. The share of good quality CLAs is around 40 per cent (VGCL 2011).

Another problem arises because CLAs at sectoral level are not adequately developed and thus cannot support enterprise-level CLAs. The capacity and representativeness of the social partners involved in the mechanism of social dialogue at all levels remains limited. There are 20 sector unions in Vietnam, but a lack of employers’ associations in these sectors still remains. Only the

textile and garment sector and the rubber sector have such associations. Hence, negotiations at sectoral level cannot be effective. In addition, the negotiation skills of some union officers are rather weak. Finally, the management role of the government is flawed and has not kept up with the development of new situations. Inspection and sanctions on violations of labour law have been weak and although such violations by employers are common, they have not been strictly and promptly handled.

One can divide the reasons for these weaknesses into four categories:

1. The legal provisions on CLAs do not clearly define the negotiating processes. Regulation in the Labour Code and Trade Union Law on negotiating CLAs and signing them by the executive committees of grass-roots unions does not fit their capabilities and competencies into the new conditions. The sanctions mechanism is not strict enough to force employers to negotiate and sign CLAs.
2. Inspection and monitoring by state labour management bodies are neither regular nor frequent or strict enough, resulting in violation of CLAs by many enterprises without being detected and called promptly to account. Guidance on the implementation, amending and supplementing of legal provisions relating to CLAs is neither timely nor specific enough, leading to a lack of knowledge of how to manage. Some local state management agencies lack knowledge on the number of enterprises with or without (expired) CLAs.
3. Many employers, especially small and medium-sized enterprises, are not aware of the importance, necessity and advantages of CLAs as well as their responsibilities in executing the legal provisions of CLAs. Many enterprises do not negotiate actual contents, fail to comply with regulations on consulting workers, do not inform workers of the (full) content of signed CLAs, do not register CLAs with the responsible institutions and do not strictly implement what was agreed upon in collective agreements.
4. Many executive committees of unions are not proactive enough in requesting employers to sign and implement CLAs. Many lack negotiation skills and offer insufficient support and assistance to grass-roots unions, especially during bargaining processes.

3.7.2 Implementation of wage agreements

An individual agreement on wages is a common form of written or verbal labour contract. According to existing regulations, every worker in an employment relationship must have a labour contract. However, according to the 2012 Labour Force Survey (GSO 2013) and VGCL reporting, nearly one-fifth of all workers in Vietnam do not have such a contract; in FIEs this share is 10 to 20 per cent. An individual wage agreement is not equal to a CLA; in consequence, individual contracts result in wages that are often lower than what could be achieved. For workers with only verbal agreements

on wages, a basis for inspection is lacking and accordingly their wage level is much lower, even below the MW.

Even where CLAs exist, they have many inadequacies in terms of content, quality and quantity, causing many disadvantages for workers. The consultation mechanism between government, trade unions and employer representative ought to be based on a legal document, be well organized and take account of practical experiences. However, a lack of regular dialogue mechanisms leads to the neglect of such documentation and experience. As noted, the sectoral level is still underdeveloped, which does not help enterprises and grass-roots unions to negotiate CLAs at enterprise level. Further, about 40 to 50 per cent of enterprises, particularly FIEs and private enterprises, do not have trade unions and thus lack CLAs. Most of the trade union officials that do exist in enterprises occupy high-salaried positions in that enterprise. Thus, while these officials may sign labour contracts with employers, they rarely have independent roles in protecting workers' interests. On the employer side, many employers in private enterprises do not fully realize the role of trade unions and are not aware of the benefits of long-term cooperation with the unions in building harmonious labour relations and developing business activities. Finally, to a certain extent, there is an overlap between enterprise wage regulations and CLAs on wages. Enterprise wage regulations are mandatory and need to be registered with the labour office after the company has been established. According to the law, when building wage regulations employers need to consult trade unions; therefore, employers always set the lowest possible wage level as a starting point. Meanwhile, the CLA on wages follows after the workplace union has been established and is voluntary though based on law. Because of the existence of both CLAs on wage and wage regulations, wage agreements in CLAs are often overlooked or diverted into wage regulations.

3.7.3 Wage disputes

Labour disputes, mainly on wages, have been increasing in number and complexity. Many disputes have led to strikes. Contrary to China, where the Labour Code does not mention strikes at all, strikes are regulated in Vietnam, with complex provisions detailing when and how they can legally occur (Chan 2012). According to VGCL statistics, from 1995 until the end of 2012 there were 4,922 strikes or collective work stoppages. Approximately 100 strikes occurred in state-owned enterprises, 3,500 strikes in FDI enterprises, and 1,300 in private enterprises. Strikes mainly took place in the south of Vietnam (Ho Chi Minh City, Binh Duong and Dong Nai), and were concentrated in the textile, footwear, seafood processing, wood processing and electronic assembly enterprises. Most of the strikes that took place in 2008–10 were related to workers' rights as employers did not live up to their obligations stipulated in the Labour Code. In addition, CLAs, labour contracts or internal problems, such as monthly salary arrears and

lack of payment for employees' insurance were implicated. The strikes in 2011–12 mostly demanded better working conditions compared to existing provisions, for example increasing wages, improving the quality of shift meals and increasing some bonuses and subsidies. More than four in five strikes were related to demands to raise wages, bonuses, allowances, grants and overtime pay and other welfare regime facilities. Therefore, negotiations on wages clearly play a very important role in establishing and building harmonious labour relations in enterprises.

Originally, the law defined the steps in dispute handling as follows: mediation, arbitration and finally the courts. In practice, conciliation councils at the local level do not function, arbitration and the courts do not have the opportunity for arbitration or trial, hence, workers usually chose to strike as the only solution. In case of a wage dispute, the workplace union will gather workers' demands and negotiate with the employers. When the employer cannot meet workers' demands disputes arise, and workers will opt for strikes with the support and assistance of the workplace unions (not with the leadership of the trade union, because it was too complicated for the trade union to take the lead in such strikes³). In reality the bilateral mechanism in enterprises, particularly the role of trade unions, is not efficient. If the role and functions of trade unions are not strong enough, strikes will arise anyway contrary to the procedure prescribed by law.

Most strikes were mediated at the grass-roots level, in export-processing zones and industrial parks. Since their inception in 1999, the labour arbitration councils in the provinces and cities have only accepted and handled a few collective labour disputes related to workers' interests. For instance, in 2002 nearly 50,000 striking workers at the Taiwan-owned Pou Chen shoe-manufacturing company in Ho Chi Minh City caused such disruption in the region that the Prime Minister issued an emergency decision on wages adjustment. Administrative interventions remain frequent when disputes arise. Provinces often establish delegations for the handling of strike. Most strikes have been successful in terms of bringing more benefits and interests for workers and have met workers' demands fully or partly. Nevertheless, the settlement of labour disputes remains problematic: the legal mechanism to resolve disputes is complex and unsuitable; the operation and structure of mediation and arbitration is neither reasonable nor independent or professional, while court procedures are complex and unreliable. All in all, the implementation in practice of the legal right to strike is difficult.

3.8 Recommendations and conclusions

Concerning wage agreement mechanisms, the authors recommend:

1. Complete uniform legislation on labour relations as a basis for an efficiently working wage agreement mechanism, including (i) a tripartite

- dialogue mechanism, (ii) collective agreement on wages and (iii) wage disputes and dispute handling.
2. Continue to improve regulations to ensure the establishment of employer and worker representatives at national and sectoral levels; build and develop the independence of representatives of the parties involved.
 3. Enhance the ability and the role of grass-roots trade unions, that is, worker representatives in enterprises in order to ensure more effective representation and protection of workers' interests; strengthen the independence of local union officials; provide provisions for union officials in enterprises with 500 and more workers; and provide protective mechanisms for union officials.
 4. Improve the efficiency of inspection; handle labour law violations in a timely and professional manner.
 5. Establish fair arbitration mechanisms for all parties where labour law and collective agreements are violated.
 6. Implement dialogue and information exchange regularly at enterprise level to increase mutual understanding between employers, workers and grass-roots trade unions, as well as between union officials and union members. Raise workers' awareness of labour law and strikes in accordance with the law; enhance the bargaining skills of union officials and worker representatives.
 7. Strengthen the role of employer representative organizations, trade unions at upper levels and labour agencies in monitoring and advising enterprises in the implementation of agreement mechanisms in accordance with market principles.

To conclude, in Vietnam government, trade union and employers have made many efforts to build up and enhance wage systems, MWs and social security as well as trying to boost the capacity of all parties participating in their operation. The main concerns are the effectiveness of these systems in ensuring the harmonious interests of all parties involved and, in turn, securing benefits for the good of the country's economy, politics and society. Many challenges remain in terms of policy revision and implementation, law enforcement, capacity-building and enhancement for all parties in tripartite cooperation. As the previous analysis has shown, despite all these efforts much remains to be improved in the coming years.

Notes

1. ILO research found for 2007 and 2011 in Vietnam a high rate of compliance (95%) with MW regulations (Rani et al. 2013; add. editors).
2. For purposes of research in Vietnam, 'The informal sector is defined as all private unincorporated enterprises that produce at least some of their goods and services

for sale or barter, are not registered (no business license) and are engaged in non-agricultural activities. Informal employment is defined as employment with no social security (social insurance)' (Cling et al. 2011, 5).

3. According to the former law, it takes at least 27 days to have a legal strike led by the workplace union if all the formal processes have taken place. Moreover, according to the 2012 Labour Code and depending on certain conditions, this process could still take at least 13 days, whatever the pressure generated by the urgent problems of the workers.

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4

Korea

Maarten van Klaveren and Tae-Hyun Kim

4.1 Introduction

From the mid-1960s to the end of the 1980s, (South) Korea gained worldwide attention for its rapid growth in gross domestic product (GDP) and exports and became one of the group of so-called Asian Tiger countries. With major government support, the large chaebol conglomerates such as Samsung, Hyundai and LG expanded to become world-famous brands. Korea's GDP per capita at USD 25,977 in 2013 was higher for instance, than the comparable figures for the Central and Eastern European countries. Less well-known is that this growth miracle has been grounded on low wages and the oppression of labour. For three decades in Korea an independent trade union movement was not allowed and workers were denied the right to strike. Thus, wage bargaining was virtually impossible. Yet, after 1987 a democratic union movement arose that by the 1990s had achieved considerable gains. A minimum wage (MW), for example, was established with effect from January 1, 1988. At the time the Korean economy seemed to be on the way to leaving its low-wage base behind and heading towards an upgrade of its economic structure.

However, in and after the 1997 Asian crisis, a number of structural problems in Korea came into the open. These were partly provoked by the neoliberal restructuring measures demanded by the International Monetary Fund (IMF), which had severe effects on the labour market and on industrial relations. This chapter concentrates on subsequent developments. After presenting in section 4.2 a brief history of Korea's export-led growth strategy, we try to connect developments in trade unionism and collective bargaining (4.3) with those in the labour market and in social security, in particular from the angle of wage inequality (4.4), before examining the MW (4.5): its history and legal framework as well as its relative value and coverage. Then, we treat the effects of the Great Recession, including the government's response, on the Korean workforce (4.6). The chapter ends with conclusions and recommendations.

4.2 A history of export-led growth

After liberation from Japanese colonization and occupation (1910–45), the Korea peninsula suffered a devastating war (1950–53) in which about 10 per cent of its population died. The end of the war saw the country divided into South and North. In the South, the US army distributed the former Japanese owned businesses among the elite surrounding president Syngman Rhee. To establish a state-led capitalist development model, Rhee pursued import-substitution policies and created a class of wealthy domestic entrepreneurs. After Rhee rigged the 1960 presidential elections, he was forced to resign and was followed by the formation of a parliamentary system under Chang Myon as prime minister. The proliferation of progressive activities during 1960–61 was ended abruptly in May 1961 by a military coup d'état. Major General Park Chung-hee emerged as the strong man of the Junta. For three decades thereafter, Korea was effectively under authoritarian military rule. In economic terms the Park administration legitimized its power by declaring growth and modernization as top priorities. In 1964–65, it developed a strategy of export-led growth, attracting foreign investors by tax reductions and low interest loans, heavy export subsidies, cheap infrastructure, 'maintaining industrial peace' and low wages. A number of domestic entrepreneurs expanded into chaebols, indispensable as partners in the system of 'guided capitalism'. By 1968–69, export-led industrialization had come on steam, initially with inward FDI as a major impetus. Japanese FDI dominated, based on assembly production for re-export and embodying low-skill labour in textiles, clothing and footwear as well as in electrical parts and electronics. Farmers suffered from government-controlled agricultural prices while rural poverty provoked a massive flight to the cities and provided a cheap labour supply. The proportion of the population in urban areas exploded from 28 per cent in 1960 to 83 per cent in 2013 (Van Klaveren 1976; World Bank WDI Indicators).

The 1960s and 1970s were clearly the high point of Korea's 'miracle', displaying export increases of some 35 per cent yearly. In the 1970s, real GDP growth accelerated to over 10 per cent annually (see Table 4.1). In this decade the Park administration became convinced that the country's comparative advantage in light assembly-type industries would not last long. A coordinated move was started to foster capital-intensive industries. Through subsidies, the administration encouraged 13 Park-friendly entrepreneurs to expand in selected industries like steel production, chemicals, shipbuilding and car and electronics manufacturing. Indeed, by the 1990s, Korea had developed into one of the world's top exporters in these sectors. The country rapidly transformed from traditional, agriculture-based into a manufacturing-based, modern society. Whereas in 1960, 63 per cent of its labour force was in agriculture, this share had fallen to a mere 12 per cent in 1995. In that year one-third of the labour force was in industry – after

Table 4.1 Annual growth of real GDP, goods exports and imports, consumer prices, population and employment (in %), Korea, 1971–2013

	1971– 79	1980– 89	1990– 96	1997– 2000	2001– 07	2008– 10	2011– 13
Real GDP (1)	10.2	8.5	8.0	4.9	4.9	3.3	3.1
Goods exports (2)	36.4	17.7	11.8	6.6	13.1	8.2	1.5
Goods imports (3)	27.7	11.7	14.8	2.4	13.1	9.0	–2.7
Consumer prices (CPI) (4)	15.0	6.0	6.4	3.8	3.1	3.5	2.5
Population (5)	1.6	1.2	1.0	0.8	0.5	0.6	0.6
Employment (6)	2.3	2.2	1.3	0.1	1.0	0.3	1.7

Source: 1–4: Authors' calculations based on Bank of Korea 2014; 5–6: World Bank, World Development Indicators; ILO, ILOStat; 1–6: OECD 2014.

Japan, Asia's second highest rate (see Statistical Appendix, Table A.3A). However, under the surface structural problems persisted that would threaten the fabric of Korean society and the economy. First of all, the authoritarian traits in the export-led industrialization together with growing inequalities produced major tensions in the political and industrial relations arenas that would periodically burst into the open. For example, following the assassination of Park Chung-hee in 1979, another coup took place led by Major General Chun Doo-hwan which evoked massive protests from students and trade unionists. In the city of Gwangju about 200 mostly students were killed in a confrontation with the armed forces. This Gwangju Massacre (May 27, 1980) was the precursor of the June 1987 Democracy Movement.

The second major problem lay in the underdevelopment of a number of the institutions necessary for a market-driven economy. This was the case for the financial sector that did not develop as a counterweight to the economic and political power of the chaebols. Thirdly, Korea's dependence on external conditions, not least on oil prices, continuously increased. These weaknesses came to the surface in the 1997–98 Asian crisis. In the years before, short-term foreign capital had flown into Korea and huge amounts of debt had been amassed by the chaebols, aggravating the over-investment they had already made. The domestic banks were not able to manage the subsequent problems, including international speculation against the South Korean won (KRW). It came as a shock when the IMF forced the government to accept a USD 58 billion bailout, under severe conditions including radical liberalization and deregulation of markets, not least of the labour market. Korea's economy recovered quickly but large parts of its population suffered from this 'IMF crisis'. In 1998–99, real wages fell by 9 per cent, 1.1 million jobs (5% of all) were lost, urban poverty tripled and rural poverty doubled. A number of chaebols got into trouble, and downsizing and outsourcing became the order of the day. Whereas in 1996, 10.4 per cent of Korean wage

earners worked in establishments employing 1,000 or more, that share had halved four years later (Graham 2003; Lee and Yoo 2008; Kim 2012).

4.3 Trade unions and collective bargaining

Over the years, the development of trade unionism in Korea has been restrained by pressure from government and large firms for whom control over industrial relations was of vital importance. In the 1950s, independent unions occurred mainly at enterprise level. After the 1961 coup, the initial strategy of the military was to tighten control over labour through the organization of industry-wide unions. At the same time, formerly independent unions were obliged to affiliate to industry federations under the government-sponsored national centre FKTU (Federation of Korean Trade Unions). In 1970, the government withdrew the right to organize and the right to strike in foreign-invested companies, and in the following years a special law denied the rights to negotiate and to strike of all workers. Government arbitration was declared compulsory for collective bargaining and workers on strike would be penalized. In 1973, laws were revised to allow enterprise-based unions again, designed to contain the union movement within the walls of individual firms (Cho 2013; Rowley and Bae 2013).

After the Gwangju Massacre, the administration of Chun Doo-hwan continued to suppress the opposition. It thus provoked a broad democratization effort. The June 1987 Democratic Movement fuelled by students' protests took shape and was crucial to the re-emergence of independent trade unionism. From July to September 1987, a mass strike movement known as the Great Workers' Struggle burst into action involving over 3,700 strikes and 1,262,000 workers. Democratic unions were formed and 220,000 new members entered the union movement. Militant union action also followed in 1988 and 1989, prompting amendments to the labour law which saw unions gaining (conditional) rights to negotiate and to strike (Park and Leggett 1998).

In spite of the unrest, successive administrations remained hesitant to revise labour laws fully. For example, the formation of a supra-enterprise union movement was seriously inhibited by the ban both on multiple unions and on the intervention of third parties; bans that would remain in effect until 1997. Against all the odds, the Korean Trade Union Congress (KTUC), based in manufacturing industry, was formed in 1991 and soon gathered 300,000 members. In 1992, Kim Young-sam was elected as the country's first civilian president in over three decades, yet independent unions continued to be crippled by police repression. Nevertheless, KTUC managed to join forces in 1995 with other union centres that were not legally recognized to form the Korean Confederation of Trade Unions (KCTU). KCTU was included when the government established the Presidential Commission on Industrial Relations Reform (PCIRR) in 1996 in an effort

to secure consensus on enlarging labour market flexibility. When a consensus on exchanging such flexibility for the abolition of repressive labour laws could not be reached, the government and ruling party passed bills in a secret night session in parliament that allowed collective dismissals with immediate effect. This sparked a general strike, the largest in Korean history, through which KCTU and FKTU jointly compelled the government to withdraw the bills. In the course of the 1990s, socio-political democratization resulted in growing variations in the system of industrial relations, and in some industries versions of Japanese-style employment relations and practices began to take shape (Kwon and Lim 2014). The 1997 crisis, however, created a rupture in Korea's industrial and employment relations. In less than a decade, the institutional basis for collective bargaining completely changed.

The newly elected Kim Dae-Jung administration had problems in combining the demands of the IMF with those of its own constituency. Basically, this administration and, from 2003 on, that of its successor Roh Moo-Hyun, stuck to neoliberal reforms by deregulating the labour market and privatizing parts of the public sector. Concerning industrial relations the Kim regime initially seemed to favour social dialogue, establishing the Korea Tripartite Commission (KTC). The KTC adopted a Social Pact to Overcome Economic Crisis, in a renewed effort to trade-off an extension of worker rights for labour market flexibility. However, a majority of KCTU's rank-and-file rejected the proposed pact. Discussions in the KTC on the reduction of working hours ended up in a stalemate between employers and unions. Moreover, when the unions in finance and the metal industry used collective bargaining to achieve a five days' working week with guaranteed wage levels, the employers sided with the government. A law passed in August 2003 stipulated a gradual introduction of the 40-hour week but left the wage maintenance issue unsolved, thereby illustrating the weakness of social dialogue Korean style. This weakness should be viewed against the backdrop of increasing labour market segmentation and, fuelled by authoritarian management behaviour, the growing lack of trust in labour-management relations in large enterprises. The KCTU regarded KTC's activities as a mere legitimization of such behaviour and, unlike the FKTU, withdrew from the KTC. Meanwhile, the bond between successive administrations and the chaebols has seemingly remained unbroken, and has continually impeded efforts to democratize industrial relations (Lim et al. 2000; Lee and Yoo 2008; Cho 2013).

Currently, trade union density in Korea is quite low. In 1989, density peaked at 19.3 per cent, but from then on, it decreased regularly to 12.0 per cent in 2000. In the 2000s density fluctuated between 10 and 11 per cent, ending up in 2012 at 10.3 per cent (Visser 2013; information Ministry of Employment and Labour (MOEL)). FKTU and KCTU are about the same size. Each has industrial federations and enterprise unions as affiliates. Both centres are affiliated to the ITUC which for 2013 listed FKTU at 878,600

members and KCTU at 812,500. The two confederations sometimes compete and sometimes cooperate. KCTU emphasizes militancy and independency, whereas FKTU stresses moderate bargaining strategies and partnerships with business.

Wage negotiations mostly take place at firm level through enterprise unions. In this respect, Korean industrial relations are somewhat similar to Japan's albeit that in Korea the state has loomed heavily over their development. Also, on the union side wage bargaining is less coordinated than in Japan. Since the late 1990s to strengthen industrial unions, both union confederations have tried to create wage spillovers to small firms from bargaining in the large shipbuilding, electronics and automotive companies. Yet, unionism still has significant limitations because of the dominant role of enterprise unions and the leadership's lack of willingness to give up that dominance. Only in large firms have unions been able to reach any 'scale'. In 2010, employees in small companies (with 1–4 and 5–9 employees) were hardly unionized with density rates of only 0.9 and 2.5 per cent respectively. By contrast, in firms with 300 or more employed, over 42 per cent were union members. Similarly, in 2010 nearly one in four Korean firms had union representation. This was the case in more than three quarters of those firms with 300 or more employed, but rarely so in small firms. Enterprise unions often only organize regular workers, that is, those working full-time with lifetime employment guaranteed. In 2012, the union density for non-regular workers was only 2.8 per cent, against 19.8 per cent for regular workers (Hwang and Lee 2012; Kim 2013). This situation, combined with the weakness of employers' associations at industry level and the lack of formal extension mechanisms explains why collective bargaining coverage in Korea is so low; at 10 per cent in 2011 it was the lowest in the OECD area (Visser 2013).

Between 2005 and 2009 the limitations of enterprise unionism seemed to have been overcome to quite some extent. In the early 2000s members of industrial unions made up less than 25 per cent of total union membership but by 2012 over half of union members were affiliated to industrial unions; for KCTU this share was as high as 75 per cent. Strong union demands and intensive union campaigning, forced groups of employers to participate in industry-level bargaining, notably in hospitals, in the metal industry and in construction (Kim 2013). In everyday practice though industrial unions continued to face major problems in attaining wage spillovers. Moreover prospects for industry-wide bargaining have remained rather bleak, not least as union efforts have been undermined by the industrial relations policies adopted by the successive governments in the 2000s. In the cases of the Kim and Roh administrations based on the Uri Party and grounded on democratic movements, this may have disappointed many voters. Hence, in the 2007 presidential election they switched to support the old authoritarian Grand National Party (GNP).

GNP-based administrations, from 2012 on led by the country's first female president Park Geun-hye, have continued neoliberal policies. New laws passed by the National Assembly in 2010 have further hindered the shift from enterprise-based to industry-level bargaining. Their provisions allowed multiple unions but also required a single bargaining channel, with the bargaining unit being the individual enterprise or workplace. With the new law in place from July 2011, new unions have been appearing in many workplaces that were previously mostly represented by a single KCTU-affiliated union (Lee 2012b; Cho 2013; Shin 2013). It is relevant here to point out that up till now Korea has not ratified the fundamental ILO Conventions numbers 87 and 98.

4.4 Labour market and inequality

4.4.1 Labour market trends

Following the 1997 crisis and subsequent neoliberal reforms, Korean industrial relations and the Korean labour market developed a US-style, liberal market model – although the strong normative power of the chaebols has stood in the way of full market liberalism (Cho 2013, 22). Similar changes in employer strategies can be observed, with the management of the chaebols and dependent firms displaying a strong orientation towards shareholder value, short-term profit maximization and related hiring and firing strategies (Lee and Yoo 2008; Cho 2013).

Different definitions of regular and non-regular work used by Statistics Korea and the Ministry of Employment and Labor (MOEL) respectively hamper the tracing of labour market developments between 1997 and 2002. However, it is plausible that the share of regular workers, defined as full-time, long-term and directly employed, decreased by 6–7 percentage points in these five years. In 2002–04, an even larger fall of 9.6 percentage points took place, bringing the share of regular workers in August 2004 according to Statistics Korea down to 63.0 per cent and that of non-regular workers up to 37.0 per cent. If the position of workers vis-à-vis social insurance is included, the proportion of precarious or 'disadvantaged' workers was even higher, at 55–57 per cent of all employees for 2004–05.¹ Sticking to the official definition of 'non-regular workers' (the lowest striped line in Figure 4.1), their proportion declined slowly to 32.6 per cent in March 2014, though between 2002 and 2014 their absolute number increased from 3.8 million to 5.9 million. By any standards the incidence in Korea of non-regular or precarious work remains high.

The Korean economic structure developed in dual fashion and that was reflected in the labour market. The pronounced gap between the payment capacity of large enterprises and that of small and micro-enterprises has never allowed the latter to keep up with the former in terms of wage increases on offer. In the past, major Korean companies focused on new

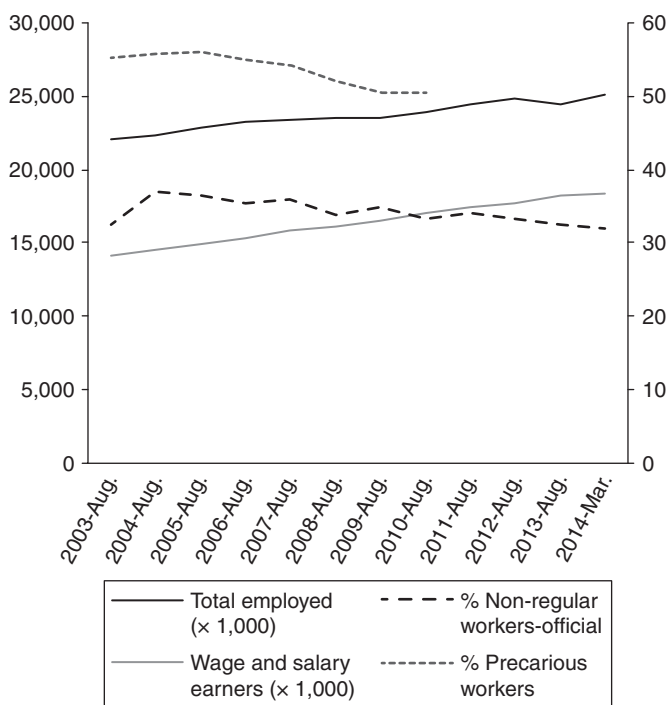


Figure 4.1 Development of total employed and wage and salary earners (× 1,000) and shares of non-regular and precarious workers (two definitions), Korea, 2003–14

Source: 2003: Shin 2013, information KCTU; 2004–14: Statistics Korea, EAPS.

investment hand in hand with increasing employment. However, since the IMF intervention drove them on the road of 'lean HR management', they have concentrated on raising their capital adequacy ratio and on investment abroad. Consequently, mobility of workers from SMEs (or from a non-regular or unemployment status) to large companies fell to a negligible level – a major feature of a segmented labour market (cf. Baccaro and Lee 2003). Segmentation took the form of polarization. Employment grew in the lower- and higher-paid ranks of the labour market, more precisely in the lowest 40 per cent and the highest 40 per cent of wage earners, whereas it fell for those in the middle of the wage distribution (Lee and Yoo 2008, 221–2). Polarization and flexibilization increased the gaps between groups of workers, thereby increasing instability and insecurity in jobs, wages and conditions (Baccaro and Lee 2003; Shin 2013).

Recent statistics (Statistics Korea, EAPS) show the composition of employment. By March 2014, the non-regular workers according to the official definition (32.1% of all employees) were composed by non-permanent workers

(18.5%), non-typical workers (11.7%), and part-time workers (10.4%), the latter partly overlapping the first two groups. Just over three in four non-permanent workers had fixed-term contracts, the others did not have any contract. Non-typical work can be divided in various categories: daily workers (13.3% of all non-regular workers); those with a contract for a specific task (10.7%, mostly individuals to which work has been outsourced); contract labour on achievement (9.3%); temporary agency workers (2.8%), and home workers/teleworkers (1.3%). Though the majority of non-regular workers (an estimated 95%–98%) has a temporary job, the temp agency market remains small. Neither have telework and part-time work spread widely.

In Korea non-regular and precarious work is, to a considerable extent, gendered: for March 2014 we calculated that 42.1 per cent of female wage earners were in non-regular employment, against 25.6 per cent of men. Non-regular employees were rather evenly divided over age groups except for a clear over-representation of those aged 55 and older. As for educational levels, non-regular workers were over-represented in those with elementary and middle education, as well as in agriculture; construction, personal services, and in other services and sales (authors' calculations based on Statistics Korea, EAPS). Finally, 2010 data confirms that non-regular workers were concentrated in small firms. They made up 46 per cent of the workforce of firms with fewer than five employees against one-sixth of the workforce of firms with 300 or more employees (Shin 2013, 345).

4.4.2 Wages and wage inequality

Labour market segmentation translates into wage disparities, as abundant evidence clarifies in the case of Korea. Detailed analysis shows that between 1970 and 1997–98 the nominal average monthly wages of non-regular workers in companies employing less than 10 workers developed similarly to those of regular workers in companies employing 10 and more. The Great Workers' Struggle of 1987 gave an impetus for stronger wage increases and the wage (labour) share in Korea's GNP rose from 52.1 in 1987 to a peak of 62.6 in 1996.² During the 1990s, wage increases for both categories were on a par, and by 1996 the disadvantage of informal or non-regular workers fell to only 3 per cent (Kim 2013, based on MOEL data). In the crisis of 1997–98, this parity broke down. After a brief dip the average wage of regular workers in real terms was restored but the average wage of non-regular workers lagged a long way behind with both real and nominal value falling in the 2000s (Kim 2011). Taking total wages (or the wage share) into consideration, from 1997 on the gap between (continuously high) productivity growth and wage growth widened (Lee 2013).

The average monthly wage of non-regular workers relative to that of regular workers showed a near-continuous decrease, according to the official EAPS statistics from 67.1 per cent in 2002 to 56.4 per cent in 2011. Shin (2013) added figures on the gender pay gap. Among regular workers, that

gap remained large (31.1% in 2003 and 32.3% in 2010), whereas it decreased among non-regular workers (25.9% in 2003 and 20.4% in 2010). Overall, the gender pay gap in Korea has been extremely high; at more than 37 per cent for monthly earnings in 2007, it was the third highest gap for the 43 countries for which data was available.³ For most industries gender pay gaps oscillated around 40 per cent (Tijdens and Van Klaveren 2012). These gaps cannot fully be explained by personal and job characteristics, such as skills and tenure: 'there remain unexplained forces including discriminatory treatment for disadvantaged or non-standard workers' (Lee and Yoo 2008, 225). Wage differentials are also considerable within the ranks of the non-regular employed, in particular related to the size of the firm. For example, if we index the average wage of non-regular workers in firms of 300 for 2007 at 100, the average of those working in firms with 5–9 persons was 51 and that of those in firms with 1–4 persons only 42 (Shin 2013, 346).

In line with the figures presented here is the evidence that individual wage dispersion in Korea is large, at both ends of the labour market. Redistribution in Korea has hardly taken place either through taxation or through social transfers. At about 0.07 points, the difference between individual Gini ratios before and after taxes and transfers (in other words, between market and disposable income) is very small in international perspective. However, redistribution to a considerable extent occurs at household level (Cheon et al. 2013, 13). The period 1990–97 could still be characterized by equitable growth, as the Gini coefficient calculated over disposable household income oscillated around 0.26. Yet that ratio rose to nearly 0.30 in 1998–99, decreased to 0.28–0.29 in 2000–04 and then went up to remain constant at nearly 0.32 in 2007–10 (Kim 2013; Lee 2013). This level of inequality seems rather modest by international standards. However, the 'Gini' tends to underestimate the (growth of the) distance between the top and bottom of the distribution. Other measures point to larger inequalities, mostly showing increases in the course of the 2000s. The D9:D1 ratio based on disposable incomes increased from 4.63 in 2000 to 4.89 in 2009, a medium-high level of inequality across OECD member states (Kim 2011; *OECD website*).

Another wage inequality measure is the share of low-wage earners, defined as those earning below two-thirds of the national median hourly wage. With the massive union pressure of 1987 and the subsequent introduction of a statutory MW (see next section) the low-wage incidence declined rapidly from 29 per cent in 1986 to 24 per cent in 1997. It returned to a peak of 27–29 per cent in 2006–08, then followed, somewhat surprisingly, with a decrease to 24.9 per cent in 2013 (Hwang and Lee 2012; Seong 2014). The latter rate remains one of the highest among OECD countries (*OECD website*). Simulations show that for the period 1993–2001, collective bargaining had

Table 4.2 Profile of low-wage earners, Korea, 2013 (based on monthly wages)

Category	Share of total	Category	Share of total
Total	24.9	Age	
Occupational category		Younger than 25 of age	50.9
Professionals and related	8.7	25–29 years	15.4
Service workers	54.2	30–39 years	10.9
Sales workers	36.4	40–49 years	18.8
Gender		50–59 years	28.1
Male	15.3	60–64 years	51.7
Female	37.1	Older than 64 of age	77.7
Activity status		Workplace size	
Working less than 36 hours	60.7	Less than 5 employees	52.0
36–39 hours	59.5	5–9 employees	34.4
40–44 hours	10.1	10–29 employees	20.8
45 hours or longer	39.3	30–99 employees	14.0
Employment type		100–299 employees	9.4
Regular	15.9	300 or more employees	3.8
Non-regular	42.7	Sectors	
		Agriculture/forestry/fishing	60.2
		Manufacturing	14.4
		Wholesale and retail	32.5
		Hotels and restaurants	65.2

Source: Seong 2014.

some effect on reducing the share of low-paid workers but that in the period 2002–08, with declines in both union density and collective bargaining coverage, this effect disappeared altogether (Hwang and Lee 2012, 250–3).

Detailed data on the composition of low-wage earners help to unravel segmentation patterns: see Table 4.2. Recently low-wage earners proved to be over-represented among service and manual workers; females; those working less than 40 and over 45 hours; non-regular workers; and among young and older workers. The over-representation of workers in small workplaces among the low-waged was confirmed, as was that of those working in agriculture and in hotels and restaurants. Strikingly, the average job tenure for low-wage workers was just two years (24.7 months), against an average of more than six years (80.6 months) for all other workers (Seong 2014), indicating low levels of job security among the low-waged. Though somewhat diminished, seniority-based pay continues to be important in Korean pay systems (Park and Park 2011), and differences in tenure explain wage differentials to a considerable extent.

4.4.3 Social security

In Korea, growing income inequality has been correlated with: increasing personal credit default; a growing rate of persistent poverty; higher crime rates; decreasing social mobility and reduced chances of status advancement; increasing divorce rates; declining marriage rates (partly through postponing marriage) and until 2006, a further decrease of the already low fertility rates (Cheon et al. 2013). Moreover, the low-paid and those in non-regular jobs (two largely overlapping categories) bear a major risk of belonging to the working poor, with a rather low probability of leaving poverty behind. Thus, the trap of non-regular employment is close to the trap of in-work poverty (cf. Lee and Yoo 2008, 227–8). These disadvantages and risks are seldom mitigated by corporate fringe benefits or the social insurance system. In fact, both enlarge social inequality. Fringe benefits are provided to over 80 per cent of regular employees, compared to less than 20 per cent of the non-regular workers. The extension of social insurance schemes to the whole population, a declared goal of the Kim and Roh administrations from 1997 on, has nevertheless remained incomplete. The biggest problem though is the pension issue. Due to the small amounts of money transferred, the National Pension Scheme has proved wholly ineffective to combat poverty among the elderly: in 2011 nearly half of those aged 65 and over lived in poverty and elderly exhibited a suicide rate that has risen to an extremely high level (OECD 2014, 28). The unemployment benefits (UB) system, introduced in 1995, has such low coverage and benefit levels that it hardly affects the incidence of low pay; less than 10 per cent of the jobless low-paid, temporary or daily workers receive UB. Other social insurance schemes, like those concerning healthcare and in-work benefit schemes, have also been heavily biased against non-regular workers, in particular due to restrictions on eligibility. These schemes also have low benefit levels. Thus, non-regular workers suffer both from low wages and from poor social protection (Lee and Yoo 2008; Kim 2011; Cheon et al. 2013).

Korea's public finances are in any event poorly placed to alleviate income inequality and poverty. The proportion of tax income in GDP is meagre at about 20 per cent while income taxes are low and not used as a redistribution tool. The large companies continue to enjoy corporate tax breaks, as is the case with the rich through income tax breaks (Kim 2012; Seong 2014). The OECD (2014, 25) concluded that 'the redistributive impact of Korea's tax and transfer system is among the weakest in the OECD'.

4.5 The minimum wage

4.5.1 History and legal framework

As early as 1953 the Labour Standard Law Clause 34 stated, 'The Minister of Labour may determine the minimum wage for workers employed in certain

types of businesses or jobs as needed'. However, this provision was not applied for over three decades as Korean governments and businesses argued that setting a MW was at odds with the strategy of export-led growth. Yet, in the 1980s the pressure to introduce an effective MW system grew alongside the growing share of low-wage earners and the evident inequalities arising in Korean society. Thus, the Minimum Wage Act passed parliament on December 31, 1986. The MW system became guaranteed with the October 1987 amendment of the Constitution, stating that 'the government must implement the minimum wage system as stipulated by law' (Article 32, Clause 1). Subsequently the Act entered into force on January 1, 1988. The MW is adjusted yearly (Jung 2011; Kim 2013).

Initially, in 1988–90, the MW only covered business in the manufacturing industry with 10 or more full-time workers. Then, from 1990 to 1999, it was extended to businesses with 10 or more full-time workers and, after a brief period, to businesses with five or more full-time workers. Finally, from November 24, 2000 it covered all workers. Korea has one universal MW. Currently, 'workers' not only includes full-time workers but also temporary, part-time and migrant workers. There are exceptions though, with lower MWs, like apprentices. Also, the Korean MW does not apply to those hired for domestic labour as well as the handicapped. The executive branch of the government sets the MW, based on deliberations in the tripartite Minimum Wage Council (MWC), a council composed of 27 councillors, nine representing workers, nine employers and nine public interest group representatives (professors and public research institute researchers), all appointed by the president. Two Technical Committees prepare the debates in the MWC, analysing developments in wages and income distribution, labour productivity and the cost of living (Jung 2011).

Initially, in 1988, the statutory MW was set rather low and fell further until 2000. As for other countries, we have related this to the Kaitz index, the ratio of the MW level to that of average or median hourly wages. Indeed, the Kaitz index for regular wages fell considerably, from 0.298 (average) and 0.366 (median) in 1989 to 0.248 (average) and 0.285 (median) in 2000 (basic data for) Hwang and Lee 2012, 249–50). By then, the MW had lost significance for low-wage workers. However, the situation changed from 2000 when KCTU took part in the MWC and combined negotiations and mass struggle. KCTU aimed to (a) raise the MW to 50 per cent of the average full – time wage; (b) reduce the number of workers suffering from neoliberal labour market conditions by applying the MW to all workers, including domestic workers; (c) include 'income distribution' as a criterion in setting the MW; and (d) change the one-sided composition of the MWC expert group, and bring in experts in sociology, welfare, industrial relations, and the like. Through forums, campaigns and other activities initiated by KCTU, public awareness of the existence of large wage differences and the need to increase the MW has grown. On the other hand, since 2008 the government

and the ruling party, supported by business, have urged the introduction of regionally differentiated local MWs included in a revision bill which has not yet been introduced. These and other proposals have sparked heated debates in the MWC (Kim 2013; MOEL website).

4.5.2 The minimum wage: Value and coverage

As a result of the trade union movements' struggle for increasing the MW, considerable MW rises have been attained since the turn of the century. For 2013 the hourly MW rate (KRW 4,860) was just over three times that for September 1999–August 2000 figure of KRW 1,600. By contrast, average nominal wages in 2013 were 1.95 times the 2000 level and that of inflation (CPI index) remained below 1.5 times the 2000 level. According to ILO data, by 2010 the Kaitz index values for regular wages (excluding overtime pay and bonuses) had increased to 0.312 (average) and 0.388 (median), or by 6.5 and 10 percentage points respectively. OECD statistics show even larger increases of the Kaitz values for 2000–12, by 13 percentage points (averages) and 16 percentage-points (medians) (see Statistical Appendix, Table A.5).

However, important caveats remain. First, according to the Kaitz indices the relative value of Korea's MW is still quite low by international standards. Moreover by whatever measure, the current MW value falls at least 15 percentage points short of the KCTU demand. Second, wage trends remain worrisome for the lower paid. We noted that in the 2000s the real incomes of the lowest decile and quintile lagged behind those of the higher income groups. Whereas in 2002 the MW made up just over 80 per cent of the average wage in the lowest decile, this had jumped to 107.2 in 2010 (Cheon et al. 2013). Indeed, the number and the proportion of those earning less than or at the legal MW in Korea, the so-called 'beneficiary workers', has risen massively, from 141,000 average for 24 November 2000 – August 2001 (2.1% of all workers) to 2,565,000 (14.5%) in 2012. An overwhelming majority of this latter group (94%), were non-regular workers; also, two-thirds were employed in firms with less than 10 workers, and 38 per cent were workers aged 55 and older (source: MOEL). It is likely that the profile of those below or at the MW is similar to that of the low wage earners depicted in Table 4.2.

It is questionable whether the growing number of 'beneficiary workers' indicates a leap forward by the MW. The available data, by contrast, point to employers' non-compliance as the main explanation: in other words there is a rising incidence of wages falling below the MW rate. This rate of non-compliance increased the incidence of low pay in the period 1993–2001 and even more markedly between 2003 and 2008. The researchers presenting these results concluded that the failure of the MW to impact on the incidence of low-pay, in spite of its increases, 'appears to be due to weak compliance'. They added that 'The fact that non-compliance is rarely caught and sanctioned may explain this phenomenon' (Hwang and Lee 2012, 253).

Though in Korea the MW is the only means to protect MW standards for the low-paid and the unorganized workers, its working has been undermined by officially sanctioned non-compliance. Weak inspection and monitoring combined with light sanctions have always been serious shortcomings. They have become even more serious since the current administration refused to expand the number of Labour Inspectors, under the motto of 'small government'. Striking, for instance, was the fact that only 11 cases found their way into legal proceedings out of 19,518 violations of the Minimum Wage Act found in 2011. Most of these were concluded with minor, if not purely symbolic, punitive measures such as the administrative request for 'correction measures' (Lee 2012a). It may be added that similar labour law violations have been found concerning working hours, also pointing to weak monitoring and weak compliance (Bae 2013). We can conclude that since the mid-2000s the increase of the MW has not been able to diminish the negative effects of labour market polarization (cf. Hwang and Lee 2012, 255).

4.6 Korea and the Great Recession

The Great Recession of 2008 had a serious impact on the Korean economy and society. Unemployment rose rapidly and average real wages fell. The Conservative administration devoted significant rhetoric to suggest that they were concentrating on solving the social consequences of the crisis, but evidence suggests otherwise. The government focused on continuing and even strengthening the strategy of export-led growth through high exchange rates and improving price competitiveness in exporting enterprises, while sacrificing domestic demand as well as neglecting labour rights. Even in this situation, the government tried to expand corporate profits by further cutting corporate taxes as well as conducting large-scale civil construction, favouring chaebols with building interests, such as the so-called 'four major rivers project', notwithstanding the destructive effects these have on the environment (Kim 2013).

Deepening the export-oriented economy is likely to bring about even further polarization in Korea's economic structure and labour market. With economic growth concentrated in large exporting enterprises, the outcomes are particularly detrimental for non-regular and low-paid workers. On the one hand, between 2007 and 2012 corporate profits grew 80.4 per cent, for example, in 2010 average net profits of the largest 55 private enterprises increased by 68 per cent. On the other hand, the adjusted labour share fell in 2010–11 to slightly below 71 per cent, its lowest ever level. It cannot be denied that measured by macroeconomic figures Korea overcame the crisis rapidly. After 2.1 per cent GDP per capita growth in 2008 and a fall of 0.2 per cent in 2009, per capita GDP rose by 6.0 per cent in 2010 and 2.3 per cent in 2011. However, as noted, the income distribution deteriorated during the crisis, and has not yet shown a return to more equality.

Adjustments in employment were smaller in the 2008 crisis compared with the 1997 crisis but non-regular workers were more heavily hit. Job losses, for instance, were larger than a decade ago for daily workers and at least equal for temporary workers. Most popular amongst employers in 2008–12 was the termination of fixed-term contracts, rather than dismissing permanent workers (Cheon 2013). Employers were also maintaining Korea's long-working-hour regime. They resisted major working-hour reductions, thus leaving the average annual hours worked per employed person at an extremely high level: in 2012 some 2,090 hours were on average worked in a year via a working week about 6 hours longer than the OECD average (Bae 2013).

Not only did Korean trade unions and progressive parties condemn the current policy orientation of the Korean administration, they were joined by other institutions. The reputable daily *The Korea Herald*, for example, on April 30, 2014, published an editorial headed: 'Wageless growth. Boosting wages helps economy grow'. It referred to leading institutes indicating that despite an improvement in real labour productivity, Korea's real wages fell by 2.3 per cent between 2007 and 2012. Only Japan and some EU member states had a larger decline in real wages, but productivity growth in these countries was much slower. *The Korea Herald* called this 'wageless growth', and argued that it stemmed partly from companies' response to the global crisis, that is from downward wage pressure. The editorial went on: 'Sluggish growth in household income hampers economic growth, as it is the biggest obstacle to spurring domestic consumption. To address the problem, the government needs to come up with policies aimed at increasing the share of national income that goes to workers.' The OECD recently focused on Korea's large inequalities in income and in the labour market, blaming the country's traditional growth model for 'contributing to greater inequality by widening wage dispersion in favour of large companies, which account for around two-thirds of exports, and manufacturing' (OECD 2014, 5).

4.7 Conclusions and recommendations

The continual export-led economic strategy of Korea has been strongly supported by the current government unashamedly granting favours to large exporting enterprises with business-friendly high exchange rates and tax rebates. Wage bargaining structures and practices concentrated at enterprise level have not produced substantial wage increases for all workers including, in particular, non-regular and low-wage workers and therefore have failed to guarantee the quality of life and work. Thus, the trade union confederations have good reasons to turn their backs on the export-led economic policy and focus instead on activities that will promote a wage-led growth policy designed to increase wages and expand domestic demand. Strategies to enhance domestic demand and reduce inequality through the expansion

of social security should also be implemented. Overall this transformation would mean a fundamental break from an export-oriented economy and from neoliberal policies. In terms of wage bargaining, the trade union movement should strengthen their activities to reduce wage differentials within industries and to lift the wage rates in small companies and those of non-regular workers. Highly important here is the execution of strategies to increase the MW and in particular to enforce its compliance more effectively.

Notes

1. Trade unions and some researchers argue that those wage earners who cannot expect to be in service continuously should be included as precarious workers, even if their employment contract is not fixed term. Though decreasing, this category in 2005 still made up 19.5 per cent of all wage earners (Lee and Yoo 2008, 209–10). If they were included, the proportion of precarious workers in all employees would have been 56.1 per cent in 2005; thereafter, that proportion would have fallen to 50.4 per cent in 2010 instead of 33.3 per cent according to the official data (see Figure 4.1, the dotted line on top). Beyond the wage-dependent workforce, precariousness is also widespread among the self-employed; based on income statistics, their share may be estimated at 40–50 per cent of all self-employed (cf. Cheon et al. 2013; Shin 2013). If they are included, an estimate of precarious workers for 2013 ends up at 55 per cent of all employed.
2. After the 1997 crisis, the wage share according to the Bank of Korea fell to 58.0 per cent in 2002, thereafter it fluctuated around 60 per cent. However, according to the Ameco database of the European Commission, the Korean adjusted wage share fell from 81–84 per cent in 1991–97 to approximately 71 per cent in 2010–12.
3. Total as well as industry pay gaps are larger than the separate gaps for regular and non-regular workers due to composition effects (larger shares of women among non-regular workers).

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5

Japan

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5.1 Introduction

The role of labour market institutions, wage determination and economic development in Japan is an interesting case. After World War II, as the very first of the ‘Asian miracle’ countries, Japan rapidly caught up with the living standard of the most developed countries in the world. However, since the early 1990s the country has suffered from a less dynamic economy, with stagnation and even deflation. The ‘Japanese disease’, as this deflationary development over the last decades has been called, depends very much on wage developments and the failure to prevent falling wage costs. In this contribution, labour market institutions and wage development in Japan and their negative effects on economic performance are at the centre of the analysis.

The chapter is organized as follows. Section 5.2 comprises a short overview of the macroeconomic development of Japan. In section 5.3, the Japanese labour market provides the focus with an analysis, covering: the wage bargaining process, the determination and role of minimum wages (MWs) and the increase of precarious working conditions. Section 5.4 concentrates on the development of wages in more detail and on the macroeconomic consequences of falling wages. The final section draws conclusions.²

5.2 Macroeconomic development

Post-war economic dynamics in Japan developed in a more or less uninterrupted way until the end of the 1980s. There had been a sharp drop in real GDP growth rates in the mid-1970s but, compared with other industrial countries, Japan returned to high growth rates that were maintained until the early 1990s. The average real GDP growth rates in the 1990s and early 2000s, by contrast, were very low (see Figure 5.1), and among the OECD countries Japan, in this respect, was one of the worst performers. The low



Figure 5.1 Development of GDP growth and price levels (annual change in %), Japan, 1961–2013

Source: Ameco Database.

growth rates were combined with high current account surpluses. In spite of these surpluses, aggregate demand did not increase sufficiently, and in consequence, both domestic investment and consumption remained weak and prevented a return to higher growth rates.

The end of economic prosperity came when a huge asset price bubble in the second half of the 1980s hit Japan. Japan, in the 1970s, had liberalized its financial system slowly at first and then with more vigour in the 1980s. The domestic financial system in particular was deregulated in the 1980s and made room for high credit expansion which did not all end up in productive investment but rather found its way into the real estate sector and speculation. The outcome of deregulation, together with a misled monetary policy which disregarded asset price inflation, was a huge real estate and stock market bubble. These bubbles came to an end in 1990 (the stock market) and 1991 (the real estate market). Non-performing loans continued to burden the financial system, and the government has been unable or unwilling to solve the problems of the financial system in any efficient way. At the time

of writing, Japan has still not been able to overcome the lingering effects of these negative developments since the 1990s. In 1997, Japan was hit hard by the Asian financial crisis. Thereafter, a weak recovery in the 2000s ended abruptly with the outbreak of the Great Recession in 2009, and so far the country's recovery from that recession has been weak.

A central feature of Japanese development has been the deflationary process which has gripped Japan from the 1990s onwards, as can be seen in Figure 5.1.³ Deflation first hit Japan in the mid-1990s and again after the Asian crisis that reverberated throughout the 2000s as well as more recently following the Great Recession. For economic development deflation is a disaster. This was already well expressed by Irving Fisher (1933) and identified as the main recession driver in the 1930s. Deflation increases the real debt burden of businesses, households and governments and leads to major distortions in the financial system. This alone reduces the ability to invest and to consume. In addition, deflationary expectations dampen investment and consumption. No entrepreneur will invest in a machine when he or she can expect the competitor to be able to buy the same machine much cheaper in the future. Last but not least, deflation renders a monetary policy ineffective. Even when a central bank during deflation cuts nominal interest rates to zero, it cannot prevent high real interest rates and high costs for debtors who take credit.⁴ Japan is a good example of the weakness of a central bank during deflation. For many years, the Bank of Japan cut refinancing rates to zero and flooded the economy with liquidity. These policies did not work to stimulate the economy sufficiently to overcome deflation and stimulate growth. Mainly due to fiscal policy, the deflationary process in Japan did not get out of control – this is the big difference compared with the Great Depression of the western countries in the 1930s. Yet, fiscal policy was ambiguous, with the government consolidating the budget too early when it thought the crisis had been overcome. Such a policy, while understandable, has seen the gross public debt to GDP ratio explode, reaching a record level of around 230 per cent in 2014 (IMF 2014).

Figure 5.2 shows the impact of economic development on the Japanese labour market. In the 1970s, unemployment rates had already started to increase slowly but remained at very low levels. Later, in the second half of the 1990s, official unemployment rates increased sharply and reached levels not previously known in Japan. Compared with other countries though, unemployment rates have been relatively low, but for Japanese society these rates are ominously high. In the analysis below, it will become clear that pressure on workers and unions has increased markedly and led to an erosion of labour market conditions in Japan.

Since the 1970s Japan has been one of the countries that posted high current account surpluses (Figure 5.3). Japanese current accounts in the 1950s and 1960s had been more or less balanced as Japan followed a policy designed to prevent deficits in the current account over longer periods. From

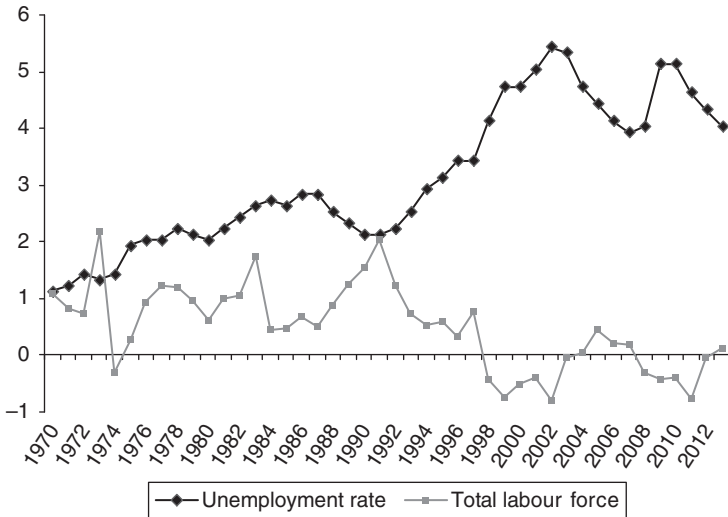


Figure 5.2 Employment and unemployment (annual change in %), Japan, 1970–2013
Source: Ameco database.

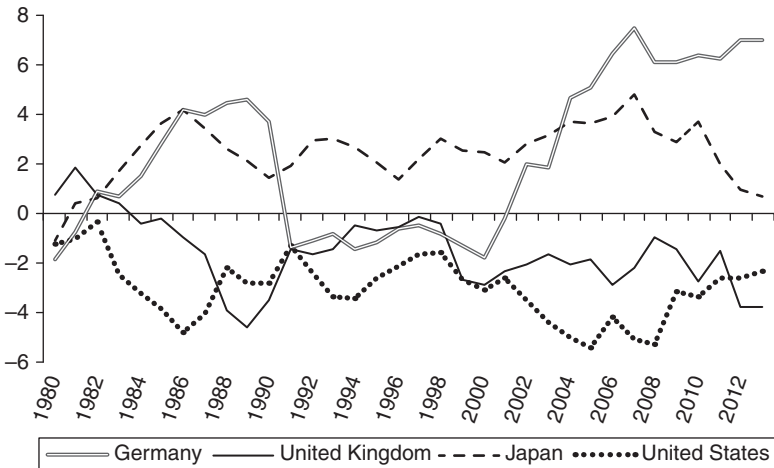


Figure 5.3 Current account imbalances in four OECD countries (in % of GDP), 1980–2013
Source: Ameco database.

the 1980s onwards though, Japan ran permanently high current account surpluses. Together with Germany it became one of the showcases for an export-led growth strategy. Not surprisingly, the export-oriented political

coalition in Japan has been quite strong and, as we will explain, trade unions can also be seen to have been part of that coalition along with big export-oriented companies and the government. From the 1990s onwards, high current account surpluses in Japan could no longer be combined with high GDP growth rates. The explanation is that consumption especially stagnated while investment was not very dynamic either. As indicated, investment only makes sense when sufficient demand can be expected. Moreover, government attempts to stabilize demand did not compensate for sluggish domestic demand.

5.3 Wage institutions and the labour market

5.3.1 The wage bargaining system

In Japan, the absolute number of union members peaked in 1994 at 12.6 million, before going into steady decline. In 1994, union density was around 25 per cent, falling to below 20 per cent in 2003, and decreasing further to an estimated 17.9 per cent in 2012, or 9.9 million union members out of a total of 55.3 million wage earners (JILPT 2014c). Japan's density rate was not especially low by international standards. Collective bargaining coverage in Japan, however, fell from 23 per cent in the mid-1990s to around 16 per cent in 2008 – clearly, even lower than union density and quite low compared with other industrial countries (cf. Visser 2013). Moreover, Japan has no formal or informal mechanism to extend collective labour (bargaining) agreements (CLAs) to non-union members. This provides a sharp contrast to the many countries where companies pay non-union employees the same wages as union members, and to those countries (fewer but still considerable in number), where extension procedures for sector-level CLAs are in place. None of this exists in Japan (cf. Du Caju et al. 2008).

Trade unions in Japan are first and foremost company based. In June 2012 no less than 54,773 unions existed, organizing on average less than 200 workers per union. In 2012, the highest density rates were in utilities (50.5%) and finance and insurance (48%), while the lowest rates were to be found in agriculture (2.2%), hotels and restaurants (4.6%), and personal services (5.9%). Most workers, nearly 2.7 million, were organized in manufacturing, with 27.3 per cent density, followed by wholesale and retail (1.2 million, 13.1%), public service (930,000, 39.5%), transport (870,000, 19.8%), and construction (830,000, 19.8%) (JILPT 2014c). Most company-based unions are affiliates of sectoral unions. There are three, politically divided, union federations in Japan, in order of size they comprise: RENGO (National Federation of Private Sector Unions), currently claiming to organize 6,750,000 in affiliated unions (see *RENGO* website; 2010 figure: 6,876,000 – see *Zenroren* website); ZENROREN (National Confederation of Trade Unions), with affiliates claiming membership in 2010 of 1,195,000 (see *Zenroren* website), and

the much smaller ZENROKYO (National Trade Unions Council), with about 140,000 members in 2010 (Visser 2013). By and large, firm-level unions have traditionally organized only regular workers who often become members automatically of the corresponding company union. Non-regular employees, on the other hand and often by statute, have traditionally been excluded from union membership, and unions continue to be hesitant to organize this category (JILPT 2013). Thus, the growth of non-regular employment (see below) has worked out quite negatively for union membership. As a result, the majority of unionized workers can be found in large firms. For example, in those with more than 1,000 workers, union density in 2010 stood at 45.8 per cent, whereas in firms with less than 100 workers density was a meagre 1.0 per cent (JILPT 2014c).

Wage negotiations take place both at sectoral (industry) and firm level. The opinions of experts differ on which of the two levels is more important. The OECD (2004) maintained that in the 1990s company bargaining was most important in Japan, whereas in contrast Du Caju et al. (2008), while admitting the importance of company-level bargaining, argued that in 1995 as well as in 2006 the sectoral level was more dominant. Here, one has to distinguish between the level of wage bargaining and wage coordination. Decentralized bargaining systems can be combined with high-level coordination if formal or informal coordination mechanisms exist. Overall, in Japan there is wage coordination at industry level but time firms have a lot of freedom for firm-specific bargaining. Inter-industry coordination means that wage development in a number of different industries is coordinated, for example via explicit coordination or pattern bargaining. To a certain extent this kind of coordination is undertaken by the powerful Japanese employers' organizations. The power of these organizations is strengthened by close networks between companies and the so-called *zaibatsu* groups, the large private industrial and financial conglomerates that dominate important industries and are closely linked to the government. Pattern bargaining means that a leading industry starts the wage round and the outcome of those negotiations is implemented by other industries. This is clearly the case for wage bargaining in Japan where the annual wage round starts at sectoral level in the metalworking industry with the so-called *Shunto*, or spring wage offensive. The outcome of these negotiations is then embraced by company unions and also by a number of unions in other industries. To a limited extent, statutory MWs also support wage coordination in Japan (Du Caju et al. 2008; JILPT 2014c).

In Japan, the development of consumer prices (CPI) and productivity as well as international competitiveness usually play important roles in wage negotiations. It is worthwhile mentioning that during wage bargaining in Japan, both firm and sectoral productivity developments are taken into account, not national productivity developments (Du Caju et al. 2008, 26). It is obvious that wage increases according to industry productivity

developments widen wage differentials between industries and are dysfunctional. Even worse are wage developments which follow firm-specific productivity. Not only are wage differentials within an industry exaggerated in such cases but the innovative power of the country is also weakened as 'lame ducks' are subsidised by relatively low wages, while highly productive firms are punished as part of their technological rent is dissipated by relatively high wages. International price competitiveness is also important for wage development in Japan and export-dependent firms play an important role in employers' associations. Thus, international price competitiveness is very much in the debate both before and during wage negotiations. Over the years, government, employers' associations and union federations have all followed a corporatist mercantile strategy. Hiwatari (2002, 14) noted that the pattern of export sector-led coordinated wage moderation in Japan was established in 1975, immediately after the first oil crisis and continued thereafter even during the economic boom of the 1980s. This was in line with David Soskice (1990, 41), who stated that during wage negotiations in Japan 'discussions are based on the requirements of maintaining as far as possible cost competitiveness.' During the later crisis-ridden decades wage bargaining shaped by international competitive arguments certainly did not become less important.

We can summarize by saying that Japan is characterized by a certain level of wage coordination which is vitally dependent on both employers' associations and some pattern bargaining. In spite of some inter- and even intra-industrial coordination mechanisms, Du Caju et al. (2008) placed Japan in the group of countries with largely deregulated and only weakly coordinated wage bargaining. That judgement was based on the lack of extension mechanisms, low union density, the important role of firm-level bargaining and weak intra-industrial coordination.

5.3.2 Minimum wages

Japan's first MW act, the Labour Standard Act, was established in 1947. According to this act, administrative authorities could establish MWs for certain industries and occupations after having requested an investigation and discussion with central or local wage councils (tripartite bodies). The Labour Standard Act was not, however, utilized in practice. In 1959, in addition to the untried Labour Standard Act, the Minimum Wage Act was enacted. According to this act, three ways to determine MWs were possible. First, in so-called trade agreements, firms in some specific industries agreed on MWs. This method became the most important mechanism for determining MWs and reflected cooperation amongst enterprises that wanted fair competition for themselves. Second, through the collective-agreement method, regional collective bargaining agreements could be extended. As there were not many industry-wide agreements, this method was not very important in practice. The third method, the council method, was also insignificant. According to

this method tripartite bodies could recommend MWs. The council method could only be used where the first two methods did not exist, which rarely happened. In fact, MWs were more or less unilaterally set by employers' associations (Nakakubo 2009; Abe 2011; Ohashi 2011).

As a result of ILO (International Labour Organization) pressure, in 1968 the Minimum Wage Act was fundamentally revised. Trade agreements were abolished. As the collective-agreement extension method was not in accord with the Japanese firm-based union system, the council method became the dominant way to determine MWs. This system is still in place today and is based on the functioning of a Central Minimum Wages Council and Regional Minimum Wages Councils at the level of the prefecture. The councils are tripartite bodies with the same number of people from workers' representatives, employers' representatives and the public. Under the new law, almost all Japanese workers were covered by MWs for the first time in history. Theoretically, the Central Minimum Wages Council could recommend national MWs for certain industries or professions and the Minister of Health, Labour and Welfare could establish national MWs on the basis of that recommendation. However, in 2008 only one national MW for one industry existed, the remaining 298 MWs were all regional minimums. In the latter cases the Director of the Prefectural Labour Bureau establishes the MW on the basis of Regional Minimum Wages Councils' recommendations. Under the Minimum Wage Act, regional MWs became the most important MW type. Industry- and occupation-specific MWs above regional MWs are possible, but they only cover a relatively small group of workers (see Table 5.1).

The Central Minimum Wages Council does not determine nationwide MW in any meaningful way. However, it gives guidelines for regional MW development. All regional MWs in Japan are grouped into four ranks and

Table 5.1 Number of minimum wages determined through various methods and number of workers affected, Japan, February 2008

Total number of MWs 299 MWs			
Collective-agreement extension method 2 MWs 500 workers	Council method 297 MWs		
	Regional (prefectural) MWs 47 MWs 50,240,000 workers	Industry- and occupation-specific MWs 250 MWs 3,730,000 workers	
		Determined on regional level 249 MWs	Determined on national level 1 MW

Source: Nakakubo 2009.

for each rank a specific recommendation can be given. The usual procedure is that the Central Minimum Wages Council is not able to find a compromise and to harmonize the opinions of unions and employers' associations. In the end, the public representatives decide about MW guidelines. According to Nakakubo (2009, 24), the division between representatives of workers and employers is so fierce every year that the Central Minimum Wage Council only issues 'opinions of public members' on guideline increases, rather than unanimous and official recommendations. Formally, regional councils are not bound to follow central council's guidelines, although these guidelines help guaranteeing a certain coherent development of MWs in different regions.

In 2007, the Minimum Wage Act was, for the first time since 1968, substantially revised. The collective-agreement extension method was abolished as being unimportant and scheduled to be phased out. Regional MWs would become even more important in relation to industry- and occupation-specific MWs – an argument pushed by the employers' association. Explicitly, regional MWs should also take into account the regional cost of living of workers as well as the capacity of firms to pay MWs. Also, MWs should be adjusted to the regional public-assistance level. The overall low MW level had led to a situation in which MWs for a single person working full-time had become lower than public assistance. This was not only seen as unfair; it also burdened public finance when the working-poor had to apply for public transfers in addition to wage income. Finally, the maximum criminal penalty for not following the MW law was increased from JPY 10,000 to JPY 500,000 (by March 2014 equal to USD 4,900 or EUR 3,550). One result of the new law was that MWs in areas with relatively low MWs began to increase faster than in regions with relatively high MW levels, for example in Tokyo with the highest MW (Abe 2011, 46).

Related to average wages and expressed in the Kaitz index, MWs in Japan are very low. Though rising slowly since the early 1990s, the Kaitz index value related to average wages has hardly been over 0.30. In 2010–12 this value stabilized at the low level of 0.33 (Statistical Appendix, Table A.5). Not surprisingly with such a low level, less than 5 per cent of all workers in Japan were paid the MW in 2006. In a survey conducted in 2003, it was found that only 0.1 per cent of full-time workers and 3.6 per cent of part-time workers in Tokyo were paid 105 per cent or lower of the MW while 2.0 per cent received wages below the minimum, the latter indicating non-compliance by employers. In rural areas the proportion of workers paid the MW was slightly higher, but still relatively low (Abe 2011, 48). Also Nakakubo (2009, 27) stated that almost only part-time and temporary workers earned MWs.

The conclusion seems justified that MW development in Japan did not significantly influence the wage structure. Both the share of workers directly affected by MWs well as the Kaitz index have been too low to make statutory MWs an effective tool to change the wage structure. Yet, the slight increase of

the Kaitz value indicated some decrease of the wage gap between the lowest- and the average-paid workers from the end of the 1980s to 2005, especially in low-wage prefectures (Kawaguchi and Mori 2009, 12). Most likely the small narrowing of the gap has mainly been advantageous for low-paid women (Lise et al. 2013, 14). Also, in Japan MW policy has not actively been used to prevent falling nominal unit labour costs and prevent deflationary developments (see also below). MW increases have more or less followed changes in average nominal unit labour costs irrespective of price-level changes. In the 1990s, weighted average MW increases continuously declined. Thereafter until 2006, MW rates moved in proportion to the general wage increase, with a short time lag (Nakakubo 2009, 26–7; Abe 2011, 47–9). Only after 2007, with the revision of the MW Act, were the nominal yearly MW increases somewhat larger, fluctuating between 1.0 per cent (2011) and 2.4 per cent (2010). The 2003–12 yearly average MW increase was a nominal 1.22 per cent which, due to deflation, was slightly lower than the real increase that averaged 1.34 per cent (see Statistical Appendix, Tables A.6A and A.6B).

Compared with an ideal case (Herr and Kazandziska 2011b), especially for a developed country, the institutions determining MWs in Japan can be regarded as suboptimal and the Kaitz value as being too low. The fact that a national statutory MW is lacking together with the existence of around 50 different regional MWs and many regional industry-specific MWs, means that MW setting in Japan is dysfunctional. In addition, the tripartite wage councils are dominated by the employers' associations together with public representatives. To date, Japanese trade unions have neither deployed the power nor followed a strategy either to create a more uniform MW, or, to increase the MW to an acceptable level. The vice-president of the ZENROREN union federation correctly summarized the position: 'In Japan, the minimum wage is only 32 per cent of average wages. Its amount differs from prefecture to prefecture. So, wage gaps persist between large companies and small- and medium-sized companies, between men and women, between major cities and local cities' (Ohki 2011). For a developed country like Japan a sufficiently high and uniform MW in all regions, for all industries and for all occupations would be desirable.

5.3.3 Non-regular employment and income distribution

The Japanese labour market is highly segmented and has been divided into regular and non-regular employees for many years. Regular employees used to have lifelong employment guarantees in the company where they started working accompanied by long-term career perspectives, relatively high wages and good fringe benefits. Non-regular employees comprised of short-term contract employees, temporary employees, part-time employees and agency workers earned less than regular employees and their termination was and is relatively easy. Traditionally, the hire-and-fire of non-regular workers and the accumulation and reduction of overtime of

Table 5.2 Development of types of employment, Japan, employees, 1985–2013

	1985	1990	1995	2000	2005	2007	2011	2013
Regular workers	83.6	79.8	79.1	74.0	67.4	64.4	64.3	62.6
Non-regular staff	16.4	20.2	20.9	26.0	32.6	35.6	35.7	37.4
Of which Part-time workers	12.5	16.3	11.8	14.7	15.6	16.6	16.8	18.2
Part-time workers with small number hours*	3.9	3.9	5.5	7.3	6.8	7.7	7.3	8.0
Other**	—	—	3.7	4.0	10.2	11.3	11.6	11.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: 2009 data is missing. *So-called Arubaito, temporary jobs taken up by someone still in school or with other reasons for working a small number of hours. **For example temporary agency workers or short-term contract employees.

Sources: Keizer 2008; JILPT 2014a, 2014b (based on Labour Force Surveys).

regular employees were important ways for Japanese businesses to react to upward and downward swings in economic growth (Freeman and Weitzman 1987, 96).

With increasing unemployment rates, attempts to reduce relatively costly workplaces alongside the expansion of the services sector in the 1990s and 2000s, saw the share of non-regular, precarious employment grow massively. Table 5.2 shows that the percentage of regular workers decreased from nearly 84 per cent in 1985, to 67.4 per cent in 2005 and 62.6 per cent in 2013. Already in 2010, non-regular employed made up the majority of the workforce in hotels and restaurants (72.7%), living-related and personal services and amusement services (54.6%), and wholesale and retail trade (51.0%) (JILPT 2014a, b). Among the non-regular workers, the share of part-time workers and contract employees especially, increased substantially. Female employees have been much more affected than male employees. The share of women in non-regular employment is more than twice as large as that of men – in 2010 these shares were respectively 58.1 and 24.7 per cent (JILPT 2014b). It should be added that the informal sector in Japan is of no importance. All precarious employment contracts and the increase of non-regular employment remain within the legal labour market system.

As mentioned, non-regular workers earn substantially less than regular workers. Between 1989 and 2003 part-time hourly payments as a proportion of that for regular workers decreased for women from 55.4 to 49.9 per cent and for men from 70.9 to 65.7 per cent. So-called ‘pseudo-part-timers’

who work about the same number of hours as regular workers but have the status of non-regular workers are also well known in Japan. Such people have evidently been unable to find a workplace as a regular worker because firms did not offer sufficient regular jobs. The increase in the number of non-regular workers currently extends well beyond any need for flexibility and has been caused by an extensive strategy to cut costs whereby firms have simply substituted regular for non-regular jobs (Keizer 2008; Evans and Gibb 2009). After the start of the crisis in the 1990s, Japanese trade unions have not always played a praiseworthy role in this respect. They partially accepted (or even at times supported) negative changes in the employment structure for cost-cutting reasons, with a view to preventing unemployment and wage cuts of their members. Non-regular workers did not play a role in unions and had no organization which could fight for their interests. It has only from around 2005 that the more influential unions have actively tried to include non-regular workers in their organizations and have tried to defend the rights of the less privileged workforce members.

The Japanese wage system is characterized by high bonus payments. Besides the 12 monthly salaries, Japanese employees usually receive a bonus payment twice annually. This bonus system provides pay flexibility that can be applied at short notice and leads to strongly pro-cyclical wage developments. The bonus system adds to the danger that during periods of low growth the income of employees drops substantially. In recent decades such systems have become even more important than before. Also, payment structures for regular workers have become slightly more performance based. But the seniority principles that ensures higher wages are paid according to the time worked in a company remains dominant (Keizer 2008). The lifelong employment model has survived in Japan, albeit for a decreasing proportion of employees and in a somewhat modified form.

The functional income distribution in Japan has though, changed dramatically. Since the mid-1970s the adjusted wage share has diminished from over 80 per cent of GDP to slightly above 60 per cent (see Figure 5.4). Of course, a decreasing wage share translates into a higher profit share. Increasing profit shares of course can have several reasons; however, the most plausible hypothesis for Japan is the growing power of the financial system as well as the impact of shareholder value principles on traditional management philosophies have systematically pushed towards higher profit mark-ups. This argument fits in with the deregulation of the financial system in Japan during the last couple of decades. Wage dispersion in Japan also increased, especially between regular and non-regular employees. As a result of these tendencies, the market-determined income distribution in Japan has become more unequal. However, due to government redistribution policies through the tax system and the social safety-net the Gini coefficient for disposable household income has continued to oscillate around 33.0 (Statistical Appendix, Table A.4). Closer scrutiny shows that between 1990 and 2008

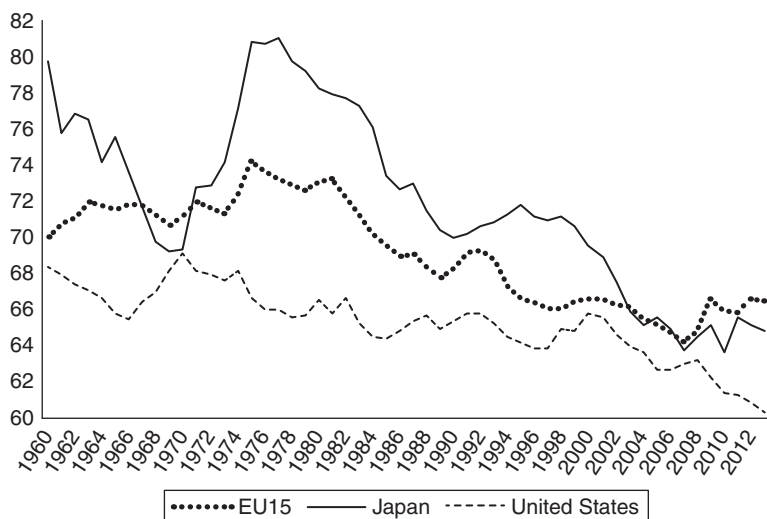


Figure 5.4 Development of adjusted wage share, Japan, EU15 and the United States, 1960–2013

Note: Compensation per employee as percentage of GDP at factor cost per person employed.
Source: Ameco database.

and measured with the Gini coefficient, that inequality was rising among male workers while it was falling among female workers. A similar difference can be observed when looking at dispersion ratios. Again, the D5:D1 ratio was rising for men and decreasing for women (Lise et al. 2013, 14). In the end, Japan remains a country with a relatively equal income distribution.

5.4 Wage development and deflation

Over the years, several factors have contributed to the ‘Japanese disease’ of deflation. Besides the insufficient restructuring of the financial system and the lack of a quick and sufficient resolution of the non-performing loan problem, a key factor explaining the overall troublesome Japanese economic history after the 1980s is the development of wages and the labour market in general. Figure 5.5 clarifies that in Japan, compared with the United Kingdom, the United States and Germany, nominal compensation of employees since the 1990s has stagnated or has even slightly fallen.

Nominal unit labour costs depend on nominal wages and labour productivity. The percentage of change in nominal unit labour costs (\dot{u}) is given by the percentage of change in nominal wages (\dot{w}) minus the percentage of change in labour productivity ($\dot{\pi}$). Thus Equation (1): $\dot{u} = \dot{w} - \dot{\pi}$. Medium-term development of productivity depends on technological progress, organizational improvements and better qualification of the work force. In the

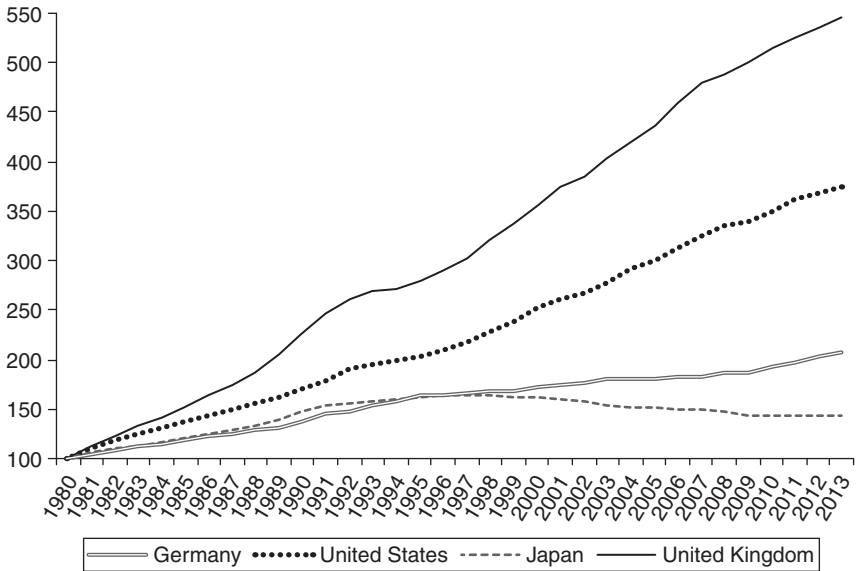


Figure 5.5 Development of nominal compensation per employee in four selected countries, 1980–2013 (1980 = 100)

Source: Ameco database.

short term also, the business cycle influences statistically measured productivity. During cyclical downturns, employment does not decrease in line with output as firms hoard labour or cannot reduce employment quickly for institutional reasons. This effect increases unit labour costs in downturns. When the economy recovers, unit labour costs fall sharply as output can now increase without increasing employment. Figure 5.6 shows nominal unit labour costs in Japan have substantially decreased in the past two decades. As productivity in Japan has continued to increase and nominal wages have neither increased nor decreased, nominal unit labour costs have dropped. In Germany, too, unit labour costs did not increase much after the mid-1990s and in the German case wage increases approximately matched productivity increases. In the United States and in the United Kingdom, nominal wages increased faster than productivity and unit labour costs increased moderately every year.

In the Keynesian paradigm, there is a very close relationship between the development of unit labour costs and the price level (Keynes 1930). Firms use markup pricing to roll over cost increase. Thus, when oil prices increase, firms will increase prices; when value-added tax increases, prices increase; when the currency depreciates and imports become more costly, prices rise; and when wage costs increase, prices will also increase. For firms,

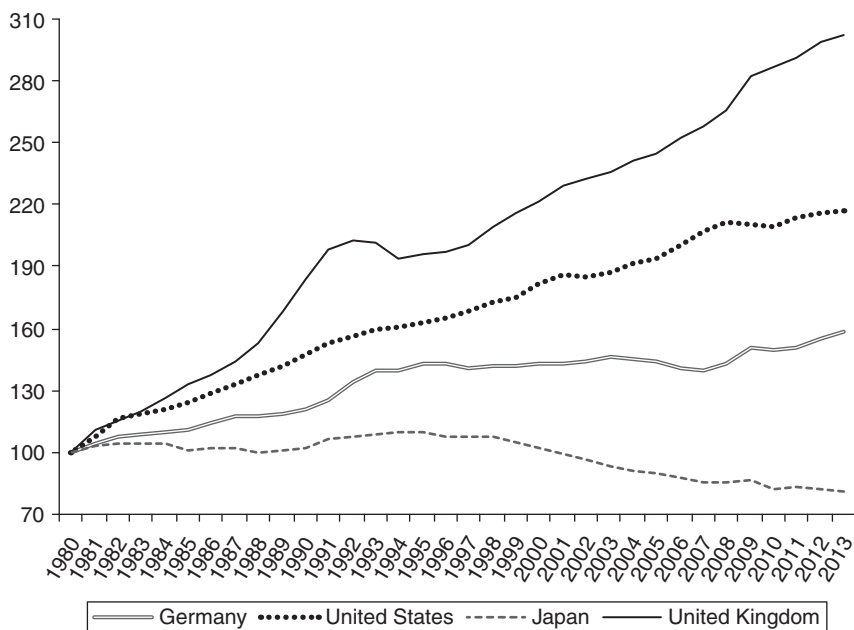


Figure 5.6 Development of nominal unit labour costs in four selected countries, 1980–2013 (1980 = 100)

Source: Ameco database.

wages are obviously costs which are rolled over as with all costs. In fact, unit labour costs are the most important cost factor because prices of intermediate and capital goods used by a company also depend on wage costs, and in the end almost all costs in a closed economy can be traced back to wage costs. The close relationship between nominal unit labour costs changes and price-level changes leads to the conclusion that unions and employers can only ever negotiate the nominal wage level and not the level of real wages. Against the neoclassical paradigm which recommends cuts in real wages to fight unemployment, Keynes (1936, 13) argued that labour as a whole cannot reduce real wages in revising ‘money bargains’ with entrepreneurs. Unions simply have no control over the level of real wages as nominal wage-level changes lead to price-level changes modified by productivity developments.

The theoretical argument of a close correlation between nominal unit labour cost changes and price-level changes is empirically supported (see Figure 5.7). In Japan, unit labour cost increases and inflation rates were already very low by the 1980s. Then, obviously under pressure of the crisis in the 1990s, unit labour costs started to decrease over a prolonged

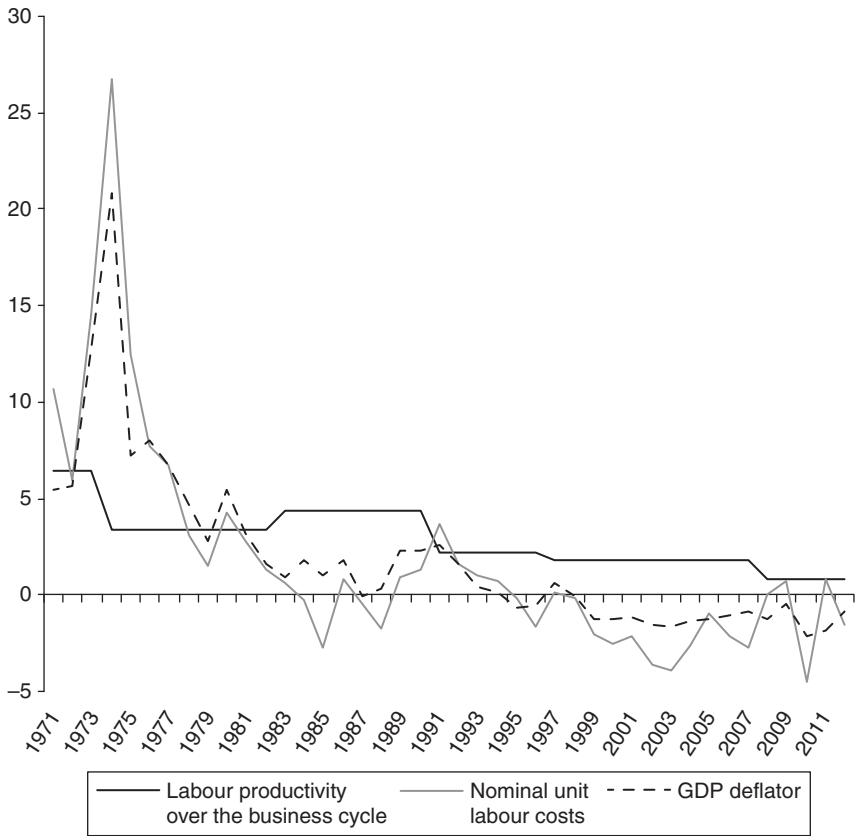


Figure 5.7 Changes in nominal unit labour costs, price level and productivity, Japan, 1971–2012 (annual percentage changes)

Source: Ameco database.

period. The result was deflation. Keynes' argument that nominal wages do not determine real wages is also fully confirmed in Japan. Real hourly compensation of employees in Japan, in spite of stagnation and falling nominal wages and nominal unit labour costs, did not decline. Actually, real wages increased. This reflects the fact that medium-term real wage growth depends on medium-term productivity increase and not on the development of nominal wages (see Figure 5.8).⁵

As price-level changes match changes in unit labour costs ($\dot{u} = \dot{P}$) in the medium term, Equation (1) can also be written in the following way:

$$\dot{P} = \dot{w} - \dot{\pi}$$

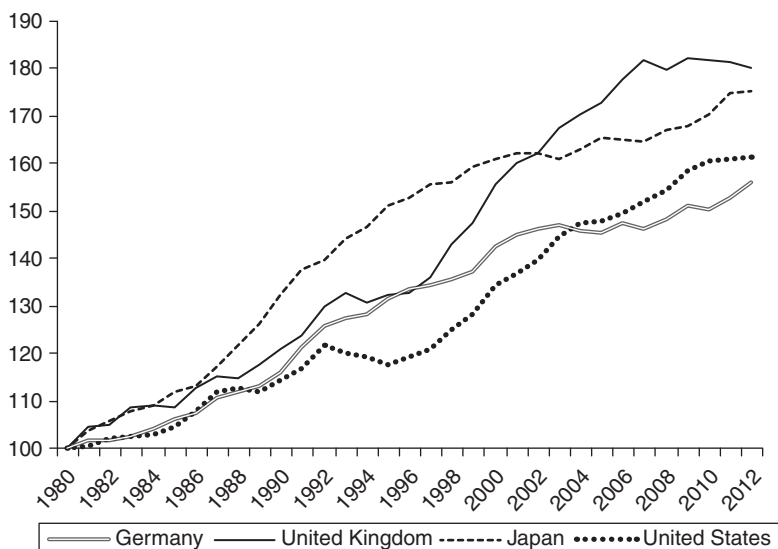


Figure 5.8 Development of average hourly compensation of employees, selected countries, 1980–2012 (1980 = 100)

Source: Author's calculations based on Ameco database.

For example, an increase of the nominal wage rate of 5 per cent and an increase of productivity of 2 per cent will lead to an inflation rate of 3 per cent. Several clarifications are needed to understand Equation (2) correctly. Firstly, in the short term, supply and demand inequalities can influence the price level independently of costs. Secondly, exchange rate movements via changing import prices lead to price-level changes. This factor is especially important in developing countries with high import prices and 'dollarization' tendencies. Thirdly, profit mark-ups can change, for example, when firms are pressured by financial institutions to increase profits or market shares and become less competitive. Fourthly, higher food and natural resource prices influence the price level. Fifthly, changes in the tax system can also influence the price level. However, in the medium-term cumulative inflationary or deflationary processes are only possible if wage–price spirals exist, whereas in many cases the spiral starts with a price-level shock triggering nominal wage increases. The paramount importance of wage development for price-level development is shown by the very high correlation between unit labour costs and price-level changes in spite of all the factors mentioned above (Herr 2009).

So, how could nominal wages increase to support economic development? If wage increases are too low and unit labour costs fall, as in Japan, deflation is the result. If a deflationary process starts it is economically very costly and

difficult to stop (see part 2 above). Sufficiently high nominal wage increases are a precondition for a stable economy and are necessary to prevent deflation. Keynes (1936, 14) was obviously too optimistic when he wrote that workers may resist reduction of money wages. In Japan, cuts of the nominal wage level were made and for some groups of workers nominal wages decreased markedly. Increases of the nominal wage level can also be too high. If nominal wage increases are too high and lead to an inflationary development above the inflation rate, central banks will accept that restrictive monetary policy is the outcome. It is debatable at which inflation rate central banks should start to fight against inflation. However, there can be no doubt that in a capitalist economy, with the explicit functions of money, a central bank has to defend monetary stability, otherwise the financial systems will erode. This means that central banks will, sooner or later, fight against nominal wage increases that are too high, using increased unemployment and other actions to weaken unions to such an extent that nominal wage increases will be reduced.⁶

If wage increases that are too low lead to disastrous deflation and unemployment while wage increases that are too high lead to unacceptable rates of inflation and unemployment, how should nominal wages be increased to establish what for a capitalist economy is an important stabilizing element, namely a nominal wage anchor? The wage norm, the functional increase in the average nominal wage per hour (\dot{w}_n) can be deducted from Equation (2). It can be expressed as follows (Herr and Horn 2012):

$$\begin{aligned} \dot{w}_n = & \dot{\pi} \text{ medium-term and total economy productivity} \\ & + \dot{P} \text{ target of central bank} \end{aligned}$$

The average nominal wage rate per hour should increase according to medium-term total economy productivity changes plus the target inflation rate of the central bank. Medium-term productivity is needed as statistically measured productivity is influenced by the business cycle (see above). It would simply be wrong (and even dangerous) to reduce nominal wage increases in a recession as a response to declining productivity during such a period. If medium-term productivity for the whole economy is not available, productivity developments of the industrial sector are a good substitute. In the ideal case, the wage norm should be a guideline for wage increases in all sectors of the economy. Using sectoral productivity as a guideline for sectoral wage development would mean that in some industries (e.g. the car industry) nominal wages (and real wages) would increase permanently and in other sectors (e.g. elderly care) nominal (and real wages) would increase at a lower rate or stagnate completely. Even worse consequences would arise from adopting firm-level productivity as a guideline for firm-level wage development. Such a guideline would, as already mentioned, reduce the

innovative power of an economy. Wages for a certain qualification should be the same in the whole industry and even in the whole economy. The law of one price for wages is the best carrot to force companies to increase productivity. Ultimately, though, higher national productivity is the only way to increase average real wages in the medium and long run. The target inflation rate of the central bank is the medium-term inflation rate central banks officially announce or implicitly prefer. Usually, in developed countries this rate is between 2 and 3 per cent. If national trend productivity increases are 2 per cent and the inflation target of the central bank is 2 per cent, then wages in all industries should increase by about 4 per cent. The outcome would be an inflation rate of 2 per cent, equal to the inflation target of the central bank.

The law of one price for wages does not necessarily apply for regions. If regional productivity levels are very different in countries within a currency area, the same wage in all regions would suppress development in the region with the lower productivity level. Thus, a compromise has to be found between equal living conditions in one country which demand more or less equal wages on one hand, and regional development needs on the other.

What does this theoretical debate mean for Japan? When we look at the Japanese case almost all dimensions of the wage norm were violated after the 1980s. Increases in nominal wages and thus in nominal unit labour costs were permanently below the increases of trend productivity in Japan plus the target inflation rate of the central bank (see Figure 5.6). Like all central banks in the world the Bank of Japan does not want deflation and prefers a low but positive inflation rate even when an official inflation target is not announced. The development of wages did not take into account the macroeconomic needs of wage growth. Japanese unions even accepted nominal wage cuts for a number of years. Company unions were too weak to defend cost-cutting strategies by management and even accepted wage cuts for union members, and even more so for non-regular and non-unionized workers. Also, the mercantile strategy and attempts to undercut the costs of domestic competitors by some unions help explain the dysfunctional wage development in Japan. At the same time, sectoral productivity development or even company-level productivity developments were used as a key variable in annual wage adjustment. This added to wage dispersion within and between industries.

Unfortunately, in Japan MW policy did not even try to remedy the economically disastrous development of wages. Firstly, there was no attempt to prevent nominal wage increases being too low or even nominal wage cuts by an aggressive MW policy. Aggressive increases in statutory MWs would have been able to reduce the pressure to cut wages and could have given a signal for general wage development. MW policy also did not prevent unacceptable wage dispersion between regions, sectors, firms, or men and women. It rather cemented such dysfunctional and unjust differentiations.

5.5 Conclusion

Japanese economic leaders should never have allowed the asset price bubble in the 1980s to occur. At that time, they had the instruments both to control credit expansion to the real estate sector and to reduce speculative activities in the stock market. After the implosion of the bubbles, interest rates were lowered too hesitantly. Later, when the Bank of Japan was following a zero interest rate policy, all possibilities of reducing real interest rates were lost within the context of deflation. The lesson which had already been taught decades before (and also applies to Japan) is that in a deflationary situation monetary policy loses power. Fiscal policy prevented a cumulative drop in demand. It would have been worthwhile to test whether stronger fiscal stimuli would have been powerful enough to overcome the stagnation. The fear of high public debt prevented such a policy – without much success as public debt to GDP is now extremely high in Japan. It was a fatal mistake for the government not to clear non-performing loans from the balance sheets of financial institutions quickly and in a comprehensive way. It waited too long and even then did not solve the problem quickly enough. Rapid intervention in the early 1990s would have helped to revive the distorted credit-investment mechanism. The best strategy would have been to nationalize banks whenever governments had to stabilize them. Later the banks could have been privatized again.

Wage development in Japan was glaringly dysfunctional. After the bursting of the asset price bubbles and half a decade of low growth, the nominal wage anchor started to erode. Japan's example shows how important labour market institutions are in preventing insufficient nominal wage increases or, even worse, cuts in nominal wages. This misguided wage development led to a deflationary process for many years which increased the real debt burden of firms, households and governments permanently. The deflation, together with long-term depressed asset prices, seems to be one of the key factors that explain the stagnating consumption demand in Japan and low GDP growth. Insufficient consumption demand in Japan can also be explained by the increase in precarious working conditions and a general increase of uncertainty for many employees. Disposable income distribution became moderately more unequal, which also added to stagnating consumption. Japanese demand has also been suffering from an ageing population.

In Japan, labour market institutions only partly worked for a coordinated wage bargaining process. One explanation is that intra-industrial and even more inter-industrial coordination, which in Japan is largely created by the employer side, became weaker or led to misguided coordination pushing for lower wages. Strong unions, by contrast, have been a better coordination mechanism than strong employers' associations. Company-level negotiations have played an important role in Japan in spite of the existence of some sectoral negotiations. Company-level negotiations have tended to add to deflationary developments in periods of long-term stagnation of an

economy. Soskice (1990) spoke about a perverse coordination of company-based negotiations in an inflationary climate. He argued that firm-based negotiations lead to high wage increases in firms with high profits. As workers in other firms within a sector do not accept increasing wage dispersion they also push for higher wages. The outcome is an inflationary wage-price spiral. The same argument can be used for deflation. Loss-making firms push for nominal wage cuts. This leads to wage cuts in other firms which do not want to lose their competitiveness. The outcome is a deflationary wage-price spiral which follows the microeconomic logic of firms. The macroeconomic effect of such a development is a disaster. Moreover, the MW policy in Japan was not able to become a dam against dysfunctional deflationary wage development. The MWs more or less followed the development of average wages and did not send a signal for higher nominal wage increases and were too low to influence average wage development effectively. Because of their low levels, MWs were not able to prevent the development of a dual labour market. The lack of a national statutory MW has even added to damaging wage dispersion.

The purpose of this contribution is definitely not to indulge in 'Japan bashing' or to make Japanese trade unions responsible for the poor economic performance of their country. Unions were responsible neither for the asset price bubbles in the 1980s, nor for the inadequate reaction of political leaders in their handling of the asset price deflation and subsequent crisis. The chapter has tried to show that labour market institutions in Japan were ineffective and could not prevent a disastrous deflation in a situation of medium- and long-term stagnation. With individual variations, many countries have similar institutions and are similarly poorly equipped to combat longer periods of stagnation and increasing pressure on their labour market. It seems that a number of countries, including European countries and the United States, will suffer from a medium- or even long-term period of low growth or even new financial crises if labour markets are not regulated quickly enough and policies implemented to strengthen the nominal wage anchor. Thus, deflation will become a topic in more countries than Japan.

Notes

1. For valuable comments and discussion, I thank Maarten van Klaveren.
2. For a more extensive case study of Japan, see Herr and Kazandziska (2010, 2011a).
3. In Figure 5.1, the annual changes of the consumer price index (CPI) and the GDP deflator are shown. The GDP deflator gives a better impression of the deflationary dynamics of the economy, as the basket for measuring price changes is bigger and more representative for the whole economy than the consumption basket of a typical family which is the basis for CPI.
4. Real interest rates are nominal interest rates minus the inflation rate. If the inflation rate is minus 5 per cent and the nominal interest rate 1 per cent, the real interest rate is 6 per cent. For investment decisions, the expected deflation rate is important. Deflationary expectations make it unattractive to take credit.

5. Real compensation per employee did not increase as much as real hourly compensation per employee (Ameco 2014). Obviously, employees worked less hours.
6. This is the substance of the so-called NAIRU – the non-accelerating inflation rate of unemployment.

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6

Pakistan

Karamat Ali, Zeenat Hisam and Sohail Javed

6.1 Introduction

In Pakistan, wage trends have been characterized by the widening of wage differentials. The gap between wages of low-income and high-income groups has widened in recent years, due more to national socio-economic structural anomalies and failures than global factors. The country has a statutory minimum wage (MW) fixing system, but it does not function effectively mostly because MW setting is not carried out institutionally but is arbitrarily based on political expediency. Wage setting through collective bargaining is rare as trade unions have diminished in number, size and power due to neoliberal economic policies, repressive labour legislation and informalization. A disconnect between the labour movement and academia and the disinterest of economists in labour issues have all contributed to the absence of a meaningful debate on MWs.

The following sections present brief overviews of the national context of Pakistan (section 6.2), its employment structure (section 6.3), labour legislation and policies (section 6.4), and working conditions (section 6.5), in order to arrive at the heart of the matter, namely, wages (section 6.6), the MW fixing system (section 6.7) and the role of the trade unions, including wage setting through collective bargaining (section 6.8). After looking at social security (section 6.9), we end up with conclusions and a few recommendations to halt the downward slide (section 6.10).

6.2 The national context

Pakistan is a lower middle-income economy with a per capita income (in 2013, current USD) of USD 1,299 or USD 108 per month. Based on 2012–13 data, 83 million of its 188-million population, or 45.6 per cent, were estimated to live in multidimensional poverty. In 2013, Pakistan ranked 146th out of 187 countries for Human Development Indicators. Its public sector expenditure on education, health and social security is among the

lowest in Asia (education 1.9%; health 0.35% and social security 0.67% of Gross Domestic Product (GDP): Government of Pakistan 2012–13). By contrast, Pakistan spends 3 per cent of its GDP on defence (Daily Business Recorder 2013) and 6.7 per cent goes towards public debt servicing (State Bank of Pakistan 2014).

Rising militancy and terrorism, policy-induced imbalances, a narrow tax base, a sharp decline of investment inflows and the spike in world food prices have been the major factors causing a severe macroeconomic crisis in recent years and a growing fiscal deficit in Pakistan. Devastating floods in 2010 and 2011 proved another setback. At the time of writing, the economy has been picking up; while GDP growth fell to a low of 0.4 per cent in 2008–09, in 2013–14 that growth reached 4.1 per cent (Government of Pakistan 2014). Factors contributing to the economic revival have been fiscal measures to increase revenues and curb expenditures, better wheat and sugar cane crops, rising prices of high value added textiles in the international market and a record inflow of workers' remittances from abroad, the latter increasing to nearly USD 14 billion in 2012–13 (or 6% of total GDP – Government of Pakistan 2014).

Since the late 1980s, under the International Monetary Fund-led Structural Adjustment Programme – including fiscal and economic liberalization – Pakistan has sought export-led development. The policies of deregulation, privatization, tariff reform and regulation of foreign investment paradoxically did not stimulate Foreign Direct Investment (FDI). From 2007 onwards, FDI inflows dried up year after year, to recover slightly in 2013 with a rather meagre USD 1.3 billion (UNCTAD 2014). The cost of local manufacture in the meantime has increased, leading to a process of deindustrialization in the country. Pakistan's GDP growth has been uneven for three decades, yet over the years the country has managed a modest average growth despite political turmoil, security hazards, floods and rains, not to mention the energy crisis of the last decade. GDP per capita rose in the 1980s and the early 2000s by nearly 3 per cent yearly but fell in the 1990s and 2007–11 to a yearly average of 1.2 and 1.4 per cent, respectively (Table 6.1). However, economic growth – determined by the inflow of external resources and public sector projects financed through foreign funds – has not been inclusive, and its benefits have not been distributed fairly among the population. Factors contributing to this non-inclusive and unsustainable economic growth have included neglect of the social sector, the skewed distribution of land and other assets, an inequitable tax structure, weak governance and poor levels of investments and savings.

Since 2011, the neoliberal growth framework has put an emphasis on the 'software of growth' (governance, institutions and human resources) and considered 'the restructuring of public sector enterprises' as a key area (BTI 2012). The government elected in 2013 reinitiated the privatization process in full force. Yet, no budget was allocated to upgrade human resources,

Table 6.1 Annual percentage growth of GDP (total and per capita), population, working-age population and employment, Pakistan, 1981–2012

	1981–90	1991–2000	2001–06	2007–12
GDP	6.5	4.6	5.4	3.1
GDP per capita	2.9	1.2	2.7	0.9
Population	3.3	2.6	1.9	2.0
Working-age population	2.3	2.4	2.1	3.2
Employment	2.2	2.3	1.8	3.0

Note: GDP per capita growth in the year range 2001–2006, according to the World Bank's World Development Indicators, was averaged 3.5 per cent.

Source: Authors' calculations are based on Pakistan Economic Survey 2012–13, Pakistan Economic Survey 2013–14 and Pakistan Labour Force Surveys.

and the bulk of the labour force remains low-skilled. The contribution of Total Factor Productivity (TFP) in the growth process of Pakistan, indicating technological dynamics, has been minimal due to negligible investment in human resources. During the period 1960 to 2005, about 80 per cent of the GDP growth rate in Pakistan was through capital accumulation and labour expansion whereas TFP contributed just 20 per cent (Planning Commission 2011).

6.3 The labour market

In 2012–13, Pakistan had a labour force of 59.7 million, of which 56.0 million were employed, indicating a gap of 3.7 million jobs and an unemployment rate of approximately 6 per cent (Government of Pakistan 2014). A large proportion of the employed labour force worked less than 35 hours per week, indicating a high rate of underemployment. The 2010 labour force participation rate (LPR) at 55.2 per cent was quite low, with a huge disparity between the rates of men (83.5%) and women (26.8%) (World Bank 2012). National sample figures confirm low LPRs for women in both urban and rural areas, with LPRs in rural areas 10 to 15 percentage points higher than in urban areas (Government of Pakistan 2013b, 2014). Besides the social constraints that have hindered women's full participation in the public sphere, it is officially acknowledged that women in labour statistics are under-accounted for due to social biases and flaws in sample size and data collection methodologies (Planning Commission 2005). Informal employment has been widespread. For 2012–13, the share of informality in total employment was 73.6 per cent; in rural areas it was 77.4 per cent and in urban areas nearly 70 per cent. Somewhat surprisingly and due to a higher share of women to be found in formal employment in urban areas than men, the overall share of women working informally (71.7%) was slightly lower than the men's share (73.8%)(Government of Pakistan 2014).

In the last decades, Pakistan's economy has shifted away from agriculture to manufacturing and services. The share of agriculture in the country's GDP has fallen from 39 per cent in 1969–70 to 21 per cent in 2013–14. Despite this low share, agriculture remains the single largest sector in terms of employment, most recently employing 43.7 per cent of the labour force, or double its GDP share. This indicates that a large segment of workers remains trapped in low-skill vulnerable employment as the majority of them are tenants/sharecroppers or small farmers. The share of the service sectors in GDP has been increasing over four decades and reached 58.1 per cent in 2013–14. The share of employment in services also increased initially but has fallen in the last seven years, and clearly lags behind that of agriculture. Most service sector jobs have been in public administration and defence, transport, storage and communication, compulsory social security, education, health and social work. Finance has taken a small share. An occupational breakdown of the service sectors shows 57 per cent brown collar workers (inferior jobs in the service sector), 21.9 per cent blue collar workers and 21.8 per cent white collar workers (Ahmed and Ahsan 2011), indicating that the service sectors have been absorbing a considerable proportion of skilled and high-skilled workers, and certainly more than either agriculture or manufacturing.

For many years, the share of manufacturing in employment (including construction) remained below the 21 per cent mark, and it was not until 2012–13 that this level was surpassed. From the mid-2000s on, manufacturing suffered a sharp decline in its growth rate: from 7.0 per cent in 2006–07 to 2.7 per cent in 2011–12, mainly due to a decline in output growth of large-scale manufacturing, which went down from 9.6 per cent in 2006–07 to 1.1 per cent growth in 2011–12 before recovering to 5.6 per cent in 2013–14. Power crises, security issues and political turmoil formed the main explanations here. Remarkably, though, small-scale manufacturing in this period has consistently maintained a growth rate of over 8 per cent (Government of Pakistan 2014).

Figure 6.1 details the development of Pakistan's employment structure by the type of employment (activity status) from 1991 to 2012–13 along with the total percentage of male and female employment.¹ Wage employment includes regular employees with fixed wages, casual employees, piece-rate workers and paid non-family apprentices. In 2012–13, it accounted for nearly 40 per cent of the total employment with a higher share of men than women. The share of wage employment in total female employment has been fluctuating. The same holds true for the share of the female workforce, working as self-employed (own-account workers) and contributing (unpaid) family workers. Statistical problems may have played a role here. A long-term increase of the rural female labour participation rate (LPR) can be observed – from 14.8 per cent in 1990–91 to 19.3 per cent in 2012–13. It has

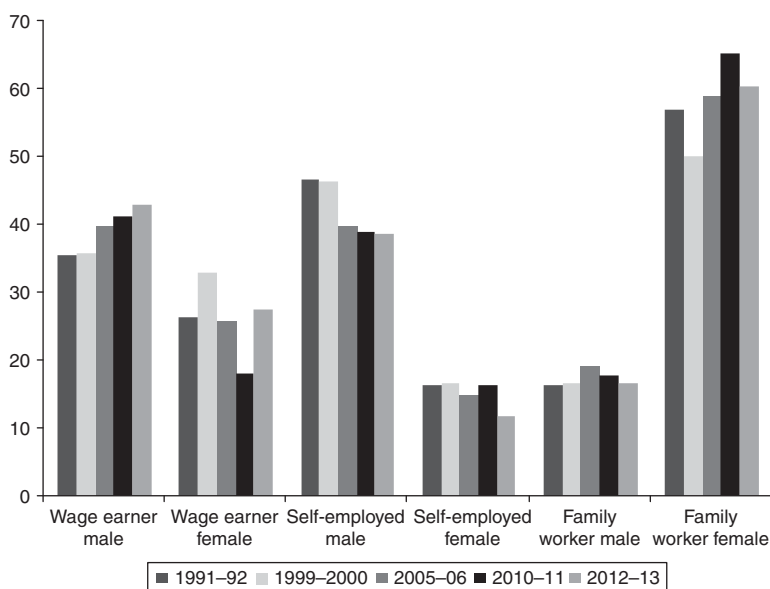


Figure 6.1 Development of employment structure by type, Pakistan, 1991–2013 (percentage of total male and female employment)

Source: Pakistan Labour Force Surveys.

been argued that in rural areas more and more women are taking up unpaid farm and off-farm activities as agricultural work has become more insecure and insufficient to sustain the household of the majority of sharecroppers/tenants/small farmers. Some analysts, however, have viewed the rising number of unpaid family workers as an indicator of increasing economic activities at household level (cf. Ghayur 2009, 6–8). By contrast, during the last two decades the urban female LPR fell slightly. Of the urban female workforce, 71 per cent were employed in 2010 as home-based, piece-rate casual workers, or as domestic workers on low remuneration (Government of Pakistan 2011, 2013b).

Overall, in 2005–06 piece rate and casual employees accounted for 43.6 per cent of total employees. Of these about 65 per cent were illiterates. The share of casual paid employees went up from 24 per cent in 1997–98 to 26 per cent eight years later and at the same time that of daily wage earners from 18 to 21 per cent, with a compensating decline in the share of those paid on a monthly basis: 'In essence, one can conclude that the job structure for wage employees has shifted towards irregularity and informality' (Irfan 2008, 8).

6.4 Labour legislation and policies

Labour legislation in Pakistan is based on a legal framework inherited from British colonial rule. Most of the Acts and Amendments enacted by the British from 1850 to 1947 have remained in the country's Labour Code. Many others were amended several times, had additional clauses inserted or were repealed. The trend in legislative changes, by and large, has remained restrictive and anti-labour. Two core pieces of legislation on labour relations enacted by the British were the Trade Union Act 1926 (right of association, registration and collective bargaining) and Industrial Disputes Act 1947 (strikes, lockouts, lay-off, retrenchment and closure) giving limited rights to labour. The Trade Union Act 1926 was replaced by the Trade Union Ordinance 1960, which made trade union registration conditional on certain requirements. The Act was further amended in 1968, then repealed and replaced by the West Pakistan Trade Union Ordinance. The Industrial Disputes Act 1947 was amended in 1957, placing restrictions on the right to strike during conciliation. The Act was further amended and replaced by the Industrial Disputes Ordinance 1959, which drastically curtailed the rights of collective bargaining and formation of trade unions. In 1969, both laws were again amended, repealed and merged into one law – the Industrial Relations Ordinance (IRO) 1969. The IRO 1969 further curtailed workers' rights. It took away the rights of freedom of association and collective bargaining from a vast category of workers in agriculture and from public sector enterprises such as railways, ports and telecommunication facilities. Additionally, by allowing the formation of more than one union in a single establishment, the legislation promoted factionalism in the unions and led to the weakening of the labour movement.

As in other countries, further restrictions were applied in Export-Processing Zones (EPZs). The EPZ Authority (Services) Rules, 1982 declared nine major labour laws to be inapplicable to the workers here. The IRO 2002 explicitly excluded the EPZ workers from the ambit of labour legislation. Furthermore, the IRO 2002 increased the restrictions and added a draconian clause empowering the government to withdraw 'in the public interest, the application of this Ordinance to any establishment or industry'.

The Punjab Industrial Policy 2003 eliminated the inspection of workplaces by labour inspectors, although this was in violation of ILO Convention 81 ratified by Pakistan. The Finance Act 2006 brought amendments to four labour laws: a clause in the Shops and Establishments Ordinance, 1969, which allowed the period of daily work, inclusive of rest interval and meals, to expand to 12 hours, and the compulsory closed weekly holiday was replaced with 'one day in each week'. The category of contract worker was added for the first time under the Industrial and Commercial Establishments (Standing Orders) Ordinance 1968, but without entitlement to compensation for overtime. The amendment in the Employees Old Age Benefit

Institution Act 1976 restricted its area of applicability, and thus of benefits to workers.

Finally, the IRO 2002 was replaced by the Industrial Relations Act (IRA) 2008. With the exception of a few positive clauses, the IRA 2008 remained basically restrictive and exclusionary. After the devolution of legislative and administrative powers to the province through the passage of the 18th Amendment in 2010, the provinces have enacted separate IRAs largely based on the repressive IRO 1969. The Punjab IRA 2010 has even gone beyond that and added several provisions that conflict with the country's international obligations under ILO conventions that it has ratified, including those on freedom of organization. The governmental statement, Pakistan Labour Policy, has by and large remained divorced from legislation. Labour Policy 2010 did not acknowledge the right of association for all workers, neither did it envision extending the rights of association and collective bargaining to agriculture and informal sector workers.

6.5 Working conditions

Low wages, long working hours, poor health and safety conditions, rising contractual work and increasing curbs on freedom of association and collective bargaining all characterize the current position of the majority of the workforce in the industrial and service sectors in Pakistan. In particular, the textile and apparel industry (employing 38% of the manufacturing labour force) suffers from grave non-compliance issues. In September 2012, a garment factory in Karachi, employing 1,500 workers, caught fire resulting in death of 262 workers and injury to at least 55. The factory had violated six building by-laws. The cause of deaths cited by the authorities was 'non-availability of emergency exit-door, non-availability of emergency stairs and non-availability of fire-fighting equipment' (Chief Fire Officer, Fire Brigade Department, Karachi, Statement, November 13, 2013; cf. Theuws et al. 2013). In a 2010 Pakistan Institute of Labour Education and Research (PILER) study of Karachi power-loom workers, more than 90 per cent reported a 12-hour working day; 93 per cent did not have paid weekly holiday; and 99.8 per cent were not paid overtime wages. None of them had any written contract and only two out of 1,000 respondents were registered at the state-run Social Security Institution and Employees Old-Age Benefit Institution (PILER 2010).

The labour force in the agricultural sector is explicitly denied the freedom of association and the right to collective bargaining. Large landholdings of 100 acres and above are concentrated in less than 1 per cent of the total number of farms, owned by a few landlords (who sit in parliament and resist land reforms), while 81 per cent of all farms measured 12.5 acre or less (Pakistan Agricultural Census 2010). In a recent PILER study on the land tenure system in the province of Sindh, 86 per cent of farms were 12.5 acres or less in size,

averaging less than 4 acres each, indicating subsistence farming for a vast majority of farmers (Bengali 2012).

6.6 Wages and prices

Wide wage differentials by sector, skill, job, location and gender characterize the Pakistan labour market. Across industries, the highest monthly wage averages for 2012 could be found in finance and insurance (PKR 29,720), followed by electricity, gas, steam and air conditioning supply (PKR 24,819), ICT (PKR 22,113), and public administration and defence (PKR 21,549). The lowest average wages were in agriculture (PKR 6,221) and domestic services (PKR 6,517) (Government of Pakistan 2013b). Within manufacturing, considerable wage differentials existed between industries, even when corrected for individual job and worker characteristics (Jaffry et al. 2006). As Table 6.2 shows, the gender wage gap continues to be high, most recently, at 38.6 per cent. The table also indicates that the urban–rural wage differential has witnessed some decline since 2003–04 but, nevertheless, remains substantial.

In 2010, a substantial difference, nearly 28 per cent, remained between the national MW set by the government for unskilled workers (PKR 7,000) and the national average monthly wage (PKR 9,715). In 2012, the gap between the MW (PKR 8,000) and the average monthly wage (PKR 12,118) had widened to 34.5 per cent. By 2012, the average monthly wage of those working in elementary occupations at PKR 7,928 was even below the MW for unskilled workers.

Since longer-term time series of average monthly wage rates are not available, we have used average wages in the construction sector as a proxy for the wage differential between skilled and unskilled labour. Table 6.3 shows this data. The growth in the average wage of skilled and unskilled construction labour was almost equal until 2004. From 2005 onwards, these growth

Table 6.2 Average monthly wages (in PKR) and wage differentials (in %), Pakistan, 2001–13

	Male (M)/Female (F)			Urban (U)/Rural (R)		
	M wage	F wage	Diff. (in %)	U wage	R wage	Diff. (in %)
2001–02	3,654	2,030	44.4	4,111	2,858	30.5
2003–04	4,329	2,594	40.1	4,938	3,360	31.7
2005–06	5,249	3,349	36.2	5,965	4,167	30.1
2007–08	7,009	3,853	45.0	7,877	5,549	29.6
2009–10	9,017	5,821	35.4	10,219	7,238	29.2
2010–11	10,211	6,422	37.1	11,386	8,362	26.6
2012–13	12,804	7,869	38.6	14,501	10,240	29.4

Source: Government of Pakistan 2011, 2013b.

Table 6.3 Average daily wage (in PKR) for skilled and unskilled workers and wage differentials (in %), construction sector, Pakistan, 2000–12

Year	Wage (skilled workers)	Wage (unskilled workers)	Diff. (in %)
2000	244.71	123.81	49.6
2001	240.76	126.27	47.7
2002	252.11	129.93	48.5
2003	257.88	131.99	48.8
2004	309.40	152.20	50.8
2005	339.80	190.00	44.1
2006	395.10	239.20	39.5
2007	449.60	271.67	39.6
2008	567.16	296.67	47.7
2009	579.20	315.00	45.6
2010	619.60	350.00	43.5
2011	681.00	401.67	41.0
2012	741.30	440.00	40.7

Source: Government of Pakistan 2005, 2007, 2013c.

rates followed an irregular pattern, ending up with a 40.7 per cent difference in 2012, nearly 10 percentage points lower than in 2000. The relative growth in wages of unskilled labour could be linked to the supply of construction workers to Middle East countries, particularly the Emirates, creating labour shortages in local markets resulting in higher wages.

Up to now, we have discussed nominal wages, but for the real value of wages we have to account for the effects of inflation, that is the Consumer Price Index (CPI). Except for the period 2002–04, the growth rate of CPI was higher than the growth rate of the average wages of skilled and unskilled labour. After 2007, the CPI showed a sharp increase in comparison with the average wage of skilled and unskilled (construction) labour, indicating that real wages decreased and until 2012 the CPI rise remained in double-digit figures. In particular, food inflation was low in 2000–04, but in 2005–06 it increased to 12.5 per cent and remained high until 2008–09 when it jumped to over 20 per cent. In 2010, food inflation decreased substantially, but after the disastrous 2010 floods it rose strongly again in 2011 (Government of Pakistan 2013c). Increases, particularly in food prices, erode workers' purchasing power and eat up a large portion of income, leaving little for other essential expenditure such as for health and education. A recent study on the land tenure system revealed that sharecroppers allocated the highest share of their expenditure, 50 per cent, to food. They spent less than 2 per cent on education but allocated 12 per cent to health expenditure, indicating the higher vulnerability of agricultural and informal sector workers forced to manage without a social protection system (Bengali 2012).

6.7 The minimum wage

The Pakistan Minimum Wages Ordinance, 1961, regulates the minimum rates of wages for all classes of workers ('skilled, unskilled, intellectual, technical, clerical, manual or other work including domestic') employed in certain industrial undertakings. The legislation excludes the employees of federal and provincial governments, coal mines and workers employed in agriculture. Under this law, specially constituted tripartite provincial Minimum Wage Boards recommend to respective governments the minimum rates of wages (for time work, piece work, overtime and paid holidays) in specified industries. The provincial governments then approve and notify these wages. In 2010, the provincial government of Punjab notified MWs for 51 different industries, Sindh for 40 and Baluchistan for 30 industries. The Act stipulates a monthly wage with revisions to be implemented not earlier than one year and not later than three years. The yardsticks for revision are stipulated in generalized terms as 'any change in the economic conditions and cost of living and other relevant factors'. Cost of living can be interpreted as consumer prices and economic conditions, or as decent living conditions. No specific criteria for revision are stipulated. A 'month' is defined as a 'working period of 26 days at the rate of 48 hours per week' with 8 hours of work per day. However, working hours in the informal sector are much longer (12–16 hours) and wages here are based on piece-rate or contractual work. The Minimum Wages Rules, 1962, set the rules for the working of the Minimum Wages Board and delineated its functions including recommendations of minimum rates of wages, scrutiny of agreements (between worker and employer), publicity of minimum rates, documentation and the appointment of inspectors.

Though the MW setting for unskilled workers is included in the Minimum Wages Ordinance 1961, the government came up with the Minimum Wages for Unskilled Workers Ordinance 1969 (amended in 1993 and 2001). The latter Ordinance is applicable to all establishments, irrespective of the size of the workforce (even if there is just one employee) and status (registered or unregistered), and permits collective negotiations by workers via representation in the Wage Board. The Ordinance from 2001 included contract workers and informal sector workers but excluded agricultural workers, defence services, government employees and the workers employed by the state contractors for physical infrastructure. The 1969 Ordinance set the MW as PKR 140. Between 1969 and 1972, no change in the MW was allowed. However, to integrate the rising cost of living, the Employees Cost of Living (Relief) Act (ECOLA) was enacted in 1973, and during 1973–86 workers received wage increases under ECOLA (Ghayur 2009). From 2005 onwards, the federal government has taken to revising the MW annually for unskilled workers through the Finance Act. Table 6.4 presents the amounts and percentage increases of the MW for unskilled workers over the years 1969 to 2013.

Table 6.4 Development of MW (amounts in PKR and increase in %), Pakistan, 1969–2013

Year	PKR	Increase (in %)
1969	140	
1992	1,500	
1998	1,950	30.2
2001	2,500	28.2
2005	3,000	20.0
2006	4,000	33.3
2007	4,600	15.0
2008	6,000	30.4
2010	7,000	16.7
2012	8,000	14.3
2013	10,000	25.0

Source: WageIndicator documentation.

In spite of the considerable nominal rises, over time the MW has fallen significantly in real terms. Ahmed et al. (2013) concluded in a State Bank of Pakistan report:

Using the GDP deflator from the International Financial Statistics with base year 2008 and taking 1992 as the reference point (the peak of real minimum wages in relative terms), it is plain that in real terms the minimum wages have fallen substantially. To return to the 1992 levels in real terms, the nominal minimum wage for unskilled workers should have been revised to PKR 9,100 in 2008 prices.

As Table 6.4 shows, the actual MW in 2008 was PKR 6,000 and it lasted until 2013 when its value was set at PKR 10,000. Yet from 2008–09 to 2012–13, the CPI rose by 53 per cent (Government of Pakistan 2013b, 2014).

The objectives of the two MW laws were not explicitly stated. The Minimum Wages Ordinance 1961 was stipulated to ‘provide for the regulation of minimum rates of wages for workers employed in certain industrial undertakings’ and included unskilled workers in its application. The Minimum Wages for Unskilled Workers Ordinance 1969 stated it was to fix ‘the minimum rates of wages for unskilled workers employed in certain commercial and industrial undertakings’. Thus, there is an overlapping of functions. Neither is it spelled out in the 1969 Ordinance whether the revisions are to be made by the federal government or by the provincial governments. At times, the federal government fixes the MW for unskilled workers via amendment in the Minimum Wages Ordinance 1961 (Finance Act 2006), and at times it does so through the amendment in 1969 Ordinance (Finance Act 2007). This ambiguity results in a lack of uniformity in the level of the MW. The provincial government of the Punjab, for example, notified an increase from PKR

8,000 to PKR 9,000 in the MWs of unskilled workers in June 2012, whereas the Sindh government in October 2012 revised the MW from PKR 7,000 to PKR 8,000 (WageIndicator 2013). In addition, the status of the Wage Boards is only advisory and the Boards are not authorized to recommend MWs on their own initiative, neither are they empowered to enforce MWs (Shafi 1967).

The process of MW fixing (i.e. selection of the members of wage boards, publicity of rates, penalties for false records, appointment of inspectors) is marred by poor governance and legal complexity. The appointment of the Wage Board chairman is often based on political expediency rather than on the criteria spelled out in the law, that is adequate knowledge of industrial labour and economic conditions. Members are similarly nominated. The workers' representatives are almost invariably the old leadership from one or the other politically affiliated trade union federations.

In the last decade, the mechanisms for the enforcement of MW and other laws have been considerably weakened, both by design, through the pro-capital lobby and, by default, through poor governance. For example, the routine physical inspection of workplaces in the province of Punjab was halted under the Punjab Industrial Policy, 2003, and replaced by self-reporting. The National Labour Inspection Policy 2006 sought a minimum role of the state but a maximum role of the market in social regulation of economic transactions. Under the Policy, self-reporting 'does not mean a total absence of routine inspection and (it) will only apply to those enterprises deemed to be "low risk" '. The Policy does not spell out the criteria either for such low-risk or high-risk places, which need inspection. While the 2006 Policy obliged the private sector 'to make greater use of technically qualified inspectors through licensing and accreditation arrangements', it explicitly attempted to encourage compliance 'through means other than rigid law enforcement'. The provincial labour ministries have been counted as weaker and neglected in terms of resource allocation. In the last few years, for instance, in the Sindh Labour Department, most of the vacancies, especially for the Labour Inspectorate, have remained vacant. Not surprisingly, non-compliance is widespread, or even dominant. For example, during 2009 the national MW for unskilled workers was PKR 6,000. Yet a large number of workers, both skilled and unskilled, got less than the national MW. In a March 2009 survey of 500 women garment workers in small industrial units in Karachi, 53 per cent of the respondents reported a monthly income of PKR 3,000–5,000 or 50–83 per cent of the MW (Hisam 2010).

6.8 The trade unions

6.8.1 An overview of trade unionism

According to non-official data, in 2012 there were 949 registered trade unions in Pakistan with a total membership of 1,865,141, giving union

density of around 3 per cent (Ulandssekreteriatet LO-FTF 2013). The number and strength of the trade unions have though diminished considerably over the years due to restrictive legislation imposed by the state. Labour laws exclude agricultural workers, workers in administration, civil service, army, social sector (education, health), EPZs and several public sector establishments from trade union membership. Trade unions have been further weakened by the process of privatization initiated in 1990. Historically, unions existed in public sector utilities (railways, electricity, water, sewage, gas etc.), public corporations (telecom, airlines) and large-scale industrial units (textile, cement etc.). However – from 1990 up to June 2011 – 167 federal government assets, in the banking, energy, telecommunications and industrial sectors, were privatized. This impacted on millions of workers.

The reasons for weak and ineffective trade unionism in Pakistan can be discerned both at macro level – through the informalization of labour and exclusionary labour laws – and at micro level – through internal fragmentation, lack of educated cadres and committed leadership, and ethnic and sectarian divides. Trade unions are often centred on personalities and, as a researcher reporting to the ILO notes: ‘Very few of them attempt to organize at the grass-roots level and tend to compete for the loyalty of the various enterprise-based unions, thus promoting instability’ (Ghayur 2009, 57). Co-option of the leadership by government is another factor that has deflated the strength of trade unions. Most trade leaders have often been co-opted by the government to serve as members on different committees and for missions abroad; simultaneously they kept on participating in the negotiations under the so-called Tripartite Industrial Relation System (Irfan 2008, 8).

Meanwhile, employers have come up with their own tactics besides harassment, threats and dismissal of workers to weaken or curb union activities in the establishments. One policy adopted by formal private sector establishments has been to convert non-management employees into formal management cadres thereby making them ineligible for trade union activities. After privatization of the Pakistan Telecommunications in 2006, for example, the new management laid off 30,000 employees and converted the position of 3,000 of the remaining employees into officers category, legally excluding them from union activities and thus rendering the union almost ineffective (Shaukat Malik et al. 2011).

The available official data on trade unions and their membership between 1990 and 2008 throws some light on the continuing struggle of workers for unionization. The number of registered unions, who have continued to submit returns, suggests huge ups and downs. The latest available figures were those for 2008, indicating 182,429 members of 854 trade unions reporting to the authority. From 1990 to 2008, the drop in the number of registered unions was most marked in textiles (from 335 to 2 trade unions), food (from 187 to 6), municipalities (from 116 to 48) railways and transport (from 104

to 37) and banking (from 98 to 5) (Government of Pakistan 1998, 2003, 2013a).

The trade unions in the formal sector have been male-dominated in terms of both membership and leadership, even where the share of females in the workforce has been relatively high. According to the latest available official data, in 2008, females only accounted for 1.5 per cent of all trade union members. In the 2009 PILER Survey, 56 per cent of women working in garment factories knew that workers had the right to form unions to negotiate for better terms and conditions, but 500 respondents from 79 factories did not report any trade union membership (Hisam 2009a). It should be noted that the textile and clothing industry employs an estimated 30 per cent female workforce. In the informal sector, the workers' associations cannot be registered under labour laws. The workers here use other institutional mechanisms to further collective struggles for better wages and working conditions.

6.8.2 Collective bargaining

The collective bargaining procedure is stipulated in industrial relations legislation. However, no data on collective bargaining is available from any authority or partner in the establishments where trade unions are operative. Neither has any research been undertaken on the status of collective bargaining in the existing trade unions that have survived in the formal sector. According to a recent study covering the period from 2009 to 2011, only 2.2 per cent of firms reported that the role of trade unions was important in wage setting compared to 91 per cent firms who ranked the role of the firm's owners as crucial in wage setting (Ahmed et al. 2013). There are several reasons for the declining role of trade unions in wage setting, the most prominent being the drastically altered status of industrial relations in connection with the labour market. All large-scale private and public sector establishments and industrial units have a majority of their workers employed on a contract basis, but for tax evasion reasons they do not share the lists of contractual employees with the authorities concerned. Neither do they share their balance sheets with the trade unions' collective bargaining agency (CBA). Conversely, union leaders and CBAs do not demand the companies' production records or balance sheets as a basis for wage increase calculations. A second major reason is the deregulation of the labour market, including the dismantling of public sector enterprises that has pushed many workers into unregulated and unprotected informal employment.

6.8.3 Informal workers' struggle

In the informal sector, as noted, workers' associations cannot be registered under labour laws. However, informal workers have used other mechanisms to promote collective struggles for better wages and working conditions.

Established on the pattern of traditional community-based, voluntary organizations, workers' associations have come to play an important role. From hawkers and vendors to workers in small-scale manufacturing and service sectors, workers have come together to pursue collective interests. Notable in terms of activism and the struggle for wage fixing are the workers' informal unions/organizations in the agriculture, fisheries, power-looms and brick kiln sectors. The most powerful of these struggles was that of agricultural workers under the umbrella of Anjuman-e-Mazarain Punjab (Tenants Association of Punjab), which was not registered under any Ordinance or Act. In 2000, this movement was initiated by the tenants of the military farms in the Okara district to resist the cash-rent and yearly lease system the Military Farms managers had tried to introduce in July 2000 for land ownership rights. Prior to 2000, the tenants paid half of the share of their produce under the batai system. In 2007–10, it spread to more districts. Over one million tenants have been struggling against the military-owned institutions (Military Farms, Army Welfare Trust and Punjab Seed Corporation) by contesting the ownership rights of 70,000 acres of highly cultivable land in 12 districts. Since the movement started, the tenants have refused to pay any share to the military authorities. By keeping the full crop, the monthly income of tenants has increased resulting in a marked improvement of household expenditure in terms of food intake, access to education and other basic facilities (PILER 2010). The tenants have not been given the right of ownership of land by the state as yet.

Other examples of labour struggle include those of textile (power-loom) workers. Production in power-loom units generally takes place in two 12-hour day/night shifts; some of the power-looms operate in 8-hour-long three shifts. On average, a power-loom worker earns between PKR 7,000 and PKR 7,500 per month after putting in 12 hours of work in a day. Workers in this sector are paid piece rates weekly or fortnightly on the basis of cloth woven per metre. Rates differ with the quality of the cloth and are determined by the power-loom owners. The cloth produced by each worker is measured at the end of the shift and documented in a register by a clerk. As production is erratic, due to electricity outages or yarn shortages, a worker is generally idle and without wages for some days. Also, according to trade unionists involved, the owners organize the production and loom operation in such a way that a worker cannot earn more than PKR 7,000–8,000 per month. As precise criteria for the revision of wages by the tripartite Wage Board are not spelled out in legislation, mixed patterns of wage regulation and collective bargaining, both in terms of process and outcome, have emerged. As the workers' mobilization in the power-loom sector in Punjab has been stronger and more broad-based than in the province of Sindh, a large number of workers in Punjab have been able to negotiate and receive better rates. Also, the power-loom workers in Punjab have pushed for access to social security provision. This case affirms that collective bargaining

benefits a broader spectrum of workers and 'goes beyond wage negotiations to include other aspects of working conditions' (ILO 2008, 46).

The mobilization of the brick kiln workers in Punjab shows similarities. The brick kiln workers' alliance, the All Pakistan Bhatta Mazdoor Union, formed in 2005, campaigned vigorously for periodic wage revisions in the brick kiln sector. In 2008, the union succeeded in the revision of piece rates of different categories of work in brick kilns that were acceptable to both owners and workers and notified by the Minimum Wages Board. Although the union succeeded in wage setting again in 2012, reaching the minimum piece rate notified by the Punjab Government (PKR 665.75 per 1,000 bricks), there remained areas in the province where brick kiln workers were being paid the much lower rate of PKR 230 per 1,000 bricks (Bin Rashid 2012). In the Sindh province, brick kiln workers' groups remained isolated and their efforts were sporadic. In 2010, a group of 200 brick kiln workers, in Shahdadpur, Sanghar district, presented a 'Charter of Demand' to the Brick Kiln Owners Association and met with local political leadership, officials, media and local consumers. This resulted in formal talks with the local Owners' Association who agreed on a 30 per cent wage raise (Ali 2010). Generally, in spite of these scattered successes, the informal sector workers' groups have been confronted with resource and capacity constraints impacting on both documentation and data storage.

6.9 Social security

Under Article 38 (b) and (e) of the Pakistan Constitution, the state is to provide

for all persons employed . . . social security by compulsory social insurance or other means provides basic necessities of life such as food, clothing, housing, education and medical relief, for all such citizens, irrespective of sex, creed, caste, or race, as are permanently or temporarily unable to earn their livelihood on account of infirmity, sickness or unemployment.

The state has provided few institutional mechanisms for citizenship-based entitlements with the provision of social security, but in any case these exclude agricultural workers and the workers in the informal sector. Poor implementation mechanisms and poor governance further reduce the number of beneficiaries. By and large, these institutions only serve the urban workforce in the formal sector. A couple of direct cash transfer mechanisms, or community-based entitlements (Zakat Fund, Pakistan Bait-ul-Maal), targeted at poor and indigent and not specifically the workers, could have served rural workers. However, evaluations suggest that these have failed as both redistributive and risk-management mechanisms (Shaukat 2010).

The Provincial Employees Social Security Ordinance 1965 covered regular and contract employees, skilled, unskilled, supervisory, clerical and manual workers. It excluded persons in the service of the state including armed forces, police and railway servants and local authority employees. Currently, employees drawing a salary up to PKR 10,000 are liable to be registered by the employer and entitled to medical care and a range of cash benefits covering: injury at work, maternity, disablement and disablement pension, ex gratia grants and dependents pensions and death grants (see website *The Sindh Employees' Social Security Institution (SESSI)*). The employer has to contribute 6 per cent while no deductions are required from the employee. However, in the informal sector, the local employers and often subcontract vendors of multinational firms do not register their employees with the social security institutions. In a study of the Nike football manufacturing vendor, for example, only 0.4 per cent of the workers reported registration with the social security institution (Hisam 2009b).

The law empowers the provincial social security institutions to promote measures for the health and general welfare of registered persons and also to facilitate the process of registration. Vulnerable workers' groups, through linkages with civil society organizations – including ILO Pakistan – have pushed for measures including setting up adult literacy centres, primary schools, health centres and the issuing of national identity cards. By 2011, the Punjab Employees Social Security Institution had issued national identity cards to 13,000 brick kiln workers and facilitated registration with the social security institution. Under the Employees Old-Age Benefits Act, 1976, the employees of selected private sector industries/establishments are entitled to old-age pension, old-age grants, invalidity pensions and survivors' pensions. The scheme requires employers to pay 5 per cent of employees' basic salary, while the employees contribute 1 per cent of their salary. The government makes no contribution to the scheme. Currently there are nearly 5.5 million persons registered under the Act as well as some 97,000 employers (see website *Employees' Old-Age Benefits Institution (EOBI)*).

6.10 Conclusions and recommendations

Though in Pakistan institutional and legal frameworks for securing basic workers' rights exist, including the right to MW, structural flaws in social, political and economic systems have excluded the vast majority of workers from attaining fundamental labour rights. MW setting has been done arbitrarily, based on political expediency. The criteria of MW revisions have not been clearly spelled out. The gap between MWs set by the government and the minimum living wage was identified by economists even when the MW was instituted in 1961. Hence, the government was advised to double the amount of monthly MWs. Clearly though, this gap still remains. We recommend that an independent, tripartite, national wage commission is set up to

determine MWs at national and industry level. Such a commission should formulate policies and guidelines for wages and incomes. The existing provincial wage boards should work under this national commission and be made responsible for effectively enforcing MW law. The passage of the 18th Amendment in the Constitution has empowered the provinces and opened up space for reforms in labour legislation and implementation of regulations.

The workers' predicament in Pakistan is rooted in structural factors linked to the skewed distribution of assets, issues of governance and the failure of policy and implementation. Securing decent work and living conditions for all necessitates a paradigm shift in policies, particularly relating to the redistribution of assets (i.e. land) and the reduction of income inequality. Social security mechanisms need to be enhanced in their reach, that is to include workers in agriculture and all sections of the informal economy, and should be expanded to include a well-defined national social protection floor with requisite basic social security guarantees.

Note

1. The employer category has been excluded. In 2012–13, employers accounted for 1.8 per cent of male employment and 0.1 per cent of female employment.

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7

India

Biju Varkkey

7.1 Introduction

India has a long tradition of having a statutory framework for minimum wages (MW) designed to cover its large, working population distributed between the formal and informal sectors. The Minimum Wages Act 1948 enacted soon after India gained independence on August 15, 1947, which meant that the country was the first among the developing countries to introduce a statutory MW. Both internal (rising industrialization, labour unrest and strikes) and external forces (International Labour Organization (ILO) conventions and political developments) contributed to the enactment of this legislation (John 1997; Rani and Belser 2012). Even today this MW legislation is considered as a landmark law, though it is extremely complex from an administration perspective. It is through this piece of legislation (and for many years the only major one) that workers in the informal or unorganized sectors and agricultural occupations have received protection against low wages. Given the complexities of the Indian labour market, the legislation has been an achievement. MW rates have been declared for more than 1,500 occupational categories, for the centre and 30 states/7 union territories (UTs, administered by the central government), bifurcated further by geography and skill levels (Varkkey and Korde 2012).

The MW has always been a controversial issue in India and the subject of social, political and legal debate. The issue was discussed again nationally in December 2013, following a diplomatic crisis. An Indian career diplomat was arrested in the United States and one of the charges levelled concerned non-payment of MW (as per US laws) to the domestic help of Indian origin employed by the diplomat in the United States. While the event snowballed into a diplomatic crisis between the two countries and the MW issue got sidestepped, voices were once again raised in India regarding MW for domestic workers, who make up a considerable section of India's informal workforce.

This chapter is organized as follows. Section 7.2 goes into the labour market structure. Section 7.3 covers various aspects of India's MWs including: a

historical overview, treatment of the Minimum Wages Act 1948, the framework for wage policy in the country, the mechanism for fixing MWs, and issues and effects concerning the implementation of MWs. Section 7.4 looks at the trade unions and their role as a significant factor in bringing about compliance and well-designed MWs. Section 7.5 goes into the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), in particular into the debate on the relationship between its wage structure and the official MWs. The chapter ends with conclusions and recommendations.

7.2 The labour market

In 2012 India, with a population of 1.2 billion (1,263,000 million in 2013), had a labour force of 484 million people. The labour force participation rate (LPR) of 56 per cent for that year was quite low, with a large disparity between the rather high rate for men (81%) and the very low rate for women (29%). Since 2005 the LPRs for both sexes has decreased considerably, for men by 4 percentage points and even more for women with a decline of 9 percentage points (World Bank 2012). However, the most striking feature of the Indian labour market remains the large share of informal sector employment. The India Labour and Employment Report 2014 estimates that, though this rate has been decreasing since 2004–05, in 2011–12, 83 per cent of the total labour force were in the informal sector (or, in Indian terms, unorganized sector). Moreover, it is estimated that 46 out of 80 million formal sector workers (58%) were in fact informal workers, bringing the total share of informal workers in employment to 93 per cent. Informal sector employment and informal work within the formal sector have been characterized by low job quality, unstable labour markets, insecurity, the predominance of low-wage work and the absence of social security coverage. As for the type of employment or activity status, 51 per cent of all those employed in 2009–10 were self-employed (own-account workers). The share of self-employed among women was somewhat higher than among men, and for both it was higher in rural than in urban areas. A total of 196 million were wage earners, roughly two-thirds of these being casual workers. This leaves about 62 million salaried workers, 40 million in urban areas and only 22 million in rural areas, of which slightly over 11 million were women (Papola and Sahu 2012; Labour Bureau 2013; IHD 2014).

The agricultural (primary) sector provides employment for the largest number of workers, though its share has been continuously falling (see Table 7.1). After an initial decrease around 1990, the secondary sector has seen a growth of 7 percentage points between 1993–94 and 2009–10, before falling again most recently. The tertiary sector has showed steady growth over 24 years, from 18.1 to 27.8 per cent. Looking at specific industries, construction experienced strong employment growth in the late 2000s, while wholesale and retail, hotels and catering did so earlier, in the second half of

Table 7.1 Development of shares of main sectors and industries in total employment, India, 1987–2012

	1987–88	1993–94	1999–2000	2004–05	2009–10	2011–12
Primary sector	64.9	64.0	60.3	56.3	51.3	50.9
Secondary sector	17.0	15.0	16.2	18.8	22.0	21.3
Of which Mining and quarrying	0.7	0.7	0.6	0.6	0.6	
Manufacturing	12.2	10.6	11.0	12.3	11.5	
Utilities	0.4	0.4	0.3	0.3	0.3	
Construction	3.8	3.2	4.4	5.7	9.6	
Tertiary Sector	18.1	21.0	23.4	24.9	26.7	27.8
Of which Wholesale and retail, hotels and catering	7.1	7.6	10.3	10.9	11.4	
Transport and communication	2.7	2.9	3.6	4.1	4.5	
Finance, insurance, real estate and business services	0.8	1.0	1.2	1.7	2.3	
Community, social and personal services	7.5	9.6	8.3	8.2	8.6	
Total	100	100	100	100	100	100

Source: Papola and Sahu 2012; Labour Bureau 2013 (for 2011–12 no detailed data available at the time of writing).

the 1990s. Another remarkable fact is that the share of manufacturing did not increase over the full period and has remained modest.

During the same period, the share of these sectors in India's GDP also changed. The share of the primary sector, for example, declined from 31.7 per cent in 1987–88 to 24.9 per cent in 2012. While the share of the secondary sector was almost constant, it was the services sector which, by contrast, recorded an increase from 43.1 per cent in 1987–88 to 59.3 per cent in 2012 (UN National Accounts). The availability of large and growing domestic demand, the opening up of the Indian economy and the global interest in India as a provider of IT (information technology) and BPO (business process outsourcing) services have all spurred the latter growth. Though the growth in GDP and the changes across sectors created more jobs, most of them were either in the unorganized sector or were informal jobs in the formal sector (IHD 2014). Underemployment and unemployment have continued to plague the country. A large part of the agricultural workforce has remained either self-employed (working

on own land) or casually employed for part of the year. Though economic development was expected to create better quality jobs and ensure decent work conditions even in the unorganized sector, the situation has remained more or less unchanged. In terms of ensuring labour rights and protection, the legislative system has failed to cover the informal sector effectively while the formal sector has been criticized for being overprotective of labour.

7.3 Minimum wages

7.3.1 Historical overview

The ancient Indian economic text *Arthashastra*, authored by Chanakya, laid down the basic principles for establishing wages for workers engaged by the master. According to *Arthashastra*, demand and supply of labour (read: market forces) should not be the only factor considered for setting wages. The text insisted that workers should be protected against exploitation and low wages, and the ruler (government) had the responsibility to ensure that this was so (Rangarajan 1992; Kautilya 2009). While drafting the MW legislation, the principles of wage fixation, as discussed in the *Arthashastra*, were definitely imbibed by the lawmakers. The initiative for establishing a MW structure in India started in 1920, when the resolution for setting up separate boards for the determination of MWs in each industry was put before the constituent assembly. Interestingly, this happened before the International Labour Conference in 1928 adopted Convention No. 26 and Recommendation No. 30, on wage fixing machinery. In 1946, based on the recommendation of the eighth Standing Labour Committee (SLC) and the Indian Labour Conference (a tripartite body), the Minimum Wages Bill was introduced in the central legislative assembly. Although it was passed, its implementation was delayed.

After independence, the tripartite Committee on Fair Wage was set up in 1948 with the mandate to develop guidelines for wages structure in India. Its report became a landmark document in the history of labour administration and established the basic framework for a wages policy. It discussed the concepts of 'living wage', 'minimum wage' and 'fair wage', besides suggesting guidelines for wage fixing. While the ultimate aim was to ensure a living wage, establishing the MW system was a starting point, given the economic and social situation at the time. Today the MW Legislation of 1948 is considered as an important piece of social and labour legislation which helps to fulfil the constitutional mandate of establishing a socialist welfare state. Under this legislation, the power to ensure MWs in different 'employments' and to fix or revise MWs lies with both central and state governments.¹ The scope of law covers all of India, and to ensure effective implementation of the legislation, tripartite advisory committees and an inspection machinery were created, both at the central and the state levels.

The subject of MWs has always been on the agendas of national- and state-level tripartite labour forums. Trade unions have routinely raised issues regarding (a) exclusion of specific employments from the schedule, (b) inadequate MW rates including delays in revision, (c) non-payment of MWs and (d) ineffectiveness of the government machinery to handle violations. The importance of the MW and the need to ensure its implementation was highlighted lately by the cabinet minister for labour and employment and later by the prime minister of India (Press Information Bureau 2013). At the same time, an increase in MW rates was once more resisted by employers who viewed it as increasing costs (TNN 2013). Being a large country with widespread illiteracy, high levels of poverty and unemployment, and while a lack of information and access to government machinery constrains voices being raised against violations, non-payment and underpayment of MW were and are very common (Birbal 2013). In many states, the regular revision of MWs was delayed by government, thereby eroding real wages. Often, trade unions have alleged that both governments and employers have colluded to create such an undesirable situation.

When general elections approach, ruling governments invariably attempt to entice workers or specific groups by including them in the scheduled employment list or by revising MWs (Ray 2013). For example, in December 2013, the Haryana state revised MWs steeply, lifting the lowest category of unskilled labour by 52 per cent. While the revision was not surprising, the steep hike and the timing were criticized as a move made with impending elections in mind. The state government's position was that the hike had taken into account rising inflation and union demands but was also a measure to help employers by making employment more attractive thereby boosting labour supply (*Times of India* 2013). Promises to hike MW if voted into power continue to be part of the election manifestos of different political parties. National-level unions have, by contrast, attempted to raise labour issues including the MW more regularly at different platforms in order to shift them to the mainstream of political discourse.

7.3.2 The Minimum Wages Act 1948

The Indian MW structure has incorporated both the wide diversities and the different levels of economic and social development existing across the country (John 1997). The Constitution of India contains explicit provisions regarding conditions of work, wages and treatment of employees and mandates the government to ensure minimum standard of living for its citizens. The following provisions of the Constitution are directly relevant here. Article 39 states that '[t]he state shall, in particular, direct its policy towards securing (a) that the citizens, men and women equally shall have the right to adequate livelihood and (d) that there is equal pay for equal work for both men and women.' Article 43 states: 'The State shall endeavor to secure,

by suitable legislation or economic organisation or in any other way, to all workers, agricultural, industrial or otherwise, work, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities’.

It has to be noted that India does not have a formal official wage policy which can give direction to wage schemes across the country. Although, in its absence, the Minimum Wages Act of 1948 can be considered as the framework for Indian wage policy. It empowers governments to fix MWs for those working in specified employment and also provides for review and revision of MWs already fixed, in intervals not exceeding five years. Two schedules (the First Schedule and the Second Schedule) list the employment categories (‘employments’) for which the MW will be applicable. The Act also fixes the responsibilities of central and state governments, including power for inclusions and exclusions of employment from the schedules. According to the Act, permanent employees, contract employees and casual workers are eligible for MW. Workers in both the organized and unorganized sectors, including the self-employed, are also covered. However, there are exceptions. Employees on probation get fixed pay instead of MWs, and trainees as well as apprentices are entitled to stipends but not MWs (Varkkey and Korde 2012).

With the responsibility shared by central and state governments in most labour issues, there is no uniformity across states in terms of the employment included in each schedule. In the central sphere, 45 categories of employment have been included in the schedule, while significantly more, 1,679 in total, appear in most states. Among states, a maximum number of scheduled categories of employment (100) were reported from Assam and a minimal number (1) from Mizoram. In the case of the UTs, maximum numbers were reported from Daman and Diu (72) and the minimum from Andaman and Nicobar Islands. While there is a pronounced gender pay gap in India (Varkkey and Korde 2013), the MW Act has also been a step towards providing gender equality at work: no wage differentials have been permitted on the basis of gender.

From the official data, it is virtually impossible to determine the absolute number of workers receiving MW, even in the organized sector. Data provided by the Ministry of Labour and Employment (2011) shows that large numbers of establishments have been failing to submit information to the government about MW payment. Such gaps in information contribute significantly to implementation inefficiencies, including placing a check on non-payment. An institutional mechanism to collect MW compliance information is totally absent in the large informal sector. Payments are often made directly in cash, and issues of non-payment and underpayment are rampant. Moreover, workers (sometimes employers, including small farmers) often do not have the correct information about MW and other labour rights.

7.3.3 The minimum wage fixing mechanism

The law stipulates that MWs can be fixed by the appropriate government for any employment, where more than 1,000 people were found to be engaged in that employment in the particular state. In 1957, this threshold was relaxed through an amendment and appropriate governments are currently allowed to fix wages for lesser numbers of workers. The responsibilities for enquiring about the extent of employment and declaring MWs lies with the government, although inputs from unions and other organizations are significant here too. The Indian Labour Conference held in 1957 defined the parameters for MWs that were further revised by court judgements. The norms for MW fixing currently include

- (a) three consumption units (mostly man, wife and two children) per wage earner;
- (b) minimum food requirement of 2,700 calories per average Indian adult;
- (c) clothing requirement of 72 yards per annum per family;
- (d) housing rent corresponding to the minimum area provided under the government's Industrial Housing Scheme;
- (e) expenses for fuel, lighting and other miscellaneous items of expenditure to constitute 20 per cent of the total wages; and
- (f) expenses for children's education, medical requirements, recreation including expenses for festivals/ceremonies and provisions for old age, marriage and so on.

(Government of India 2011)

The expenses cited in (f) should be 25 per cent of the total MW. The local situation and other factors that impact wage rates also need to be considered. Hence, in the same state, different MW may be fixed for different types of employment, for different skill levels (e.g. skilled, semi-skilled, unskilled), and even for different localities (i.e. rural, urban). The matrix allows MW rates to be closer to the realities on the ground, and addresses geographic divide, that is the urban–rural divide, as well as skill differences. For an illustration, see Table 7.2 where a small section of central sphere MWs is presented.

The MW Act permits the government to fix the following types of wages: minimum time rates; minimum piece rates, and guaranteed time rates. The norms for hours and rates have been fixed at 9 hours per day or 48 hours per week, and overtime wages at 1.5 times the normal rate for agriculture and 2 times for other scheduled employment. Initially, MWs for each category were expressed as an all-inclusive single rate (one figure). Preventing the erosion of real wages caused by inflation was a challenge because revising the multiple and complex MW rates frequently met administrative difficulties. To get around this, an allowance linked to the Consumer Price Index (CPI) for industrial workers called Variable Dearness Allowance (VDA) was

Table 7.2 Minimum wages per day (INR) in central sphere for unskilled workers in scheduled employments, India, December 31, 2013

Seriar no.	Scheduled employment	Area	Category of workers		
			Unskilled		
			Basic MW (in INR)	VDA (in INR)	Total MW (in INR)
1	Agriculture	A	114	89	203
		B	104	80	184
		C	102	80	182
2	Industrial worker	A	180	130	310
		B	150	107	257
		C	120	87	207
3	Mining industry	Work above ground	120	87	207
		Work below ground	150	107	257
4	Sweeping and cleaning	A	180	130	310
		B	150	107	257
		C	120	87	207
5	Watch and ward (without arms)	A	220	157	377
		B	200	142	342
		C	170	121	291
6	Watch and ward (with arms)	A	220	157	377
		B	200	142	342
		C	170	121	291
7	Construction or maintenance	A	180	130	310
		B	150	107	257
		C	120	87	207

Source: Paycheck India (2013).

introduced in 1989. Many states have since introduced VDAs and instead of the basic MW rate, the VDA has been revised regularly. For example, in the central sphere the VDA is revised twice each year.

Through a fixed period has not been prescribed for the revision of MW rates, an upper limit of five years have been prescribed for a 'review' and if necessary revision of wages. Two routes have been suggested for fixing and revising the MWs. The appropriate governments can either

- appoint as many committees and sub-committees as it considers necessary to hold enquiries and advise it in respect of such fixation or revision, as the case may be (the so-called committee and consultation method), or

- by notification in the official gazette, publish its proposals for the information of persons likely to be affected thereby and specify a date, not less than two months from the date of the notification, on which the proposals will be taken into consideration (the notification method).

The former approach is common in India, and trade unions are expected to perform an important role here. Groups of employment not covered by unions (or politically not significant enough for the government to take notice) may be ignored. Large numbers of employees in the informal (unorganized) sector often feel the impact of such apathy. The most illustrative case of this is that of domestic workers where, in spite of awareness about exploitative conditions and demands for the application of a MW, the situation has not improved much. Informal sector unions like SEWA (Self-Employed Women's Association) and DWF (National Domestic Workers Forum) as well as like-minded NGOs and civil society organizations have been campaigning endlessly for it. However, as of May 2014, only seven Indian states have declared the MW to be applicable to domestic workers.

7.3.4 The implementation of minimum wages

Clearly, implementation of the MW Act remains problematic. Implementation problems have two distinct categories: (a) non-payment by employers who have the ability to pay, and (b) non-payment by employers in small enterprises, especially in agriculture, due to the inability to pay. The institutional mechanism to ensure proper payment of MWs has been provided in the Act that is, by appointing inspectors and reporting compliance on regular basis. The labour departments of the appropriate governments have to appoint the inspectors and provide the infrastructure for them to function. However, the effectiveness of the inspection machinery is questionable. Both unions and civil society organizations are vocal about it. In their opinion, after the liberalization of the Indian economy the executive and the judiciary have been undermining unions and labour departments. The labour departments' powers were restricted; often they are understaffed and lacked sufficient resources to ensure compliance (Rani and Belser 2012).

Trade unions have argued for strict action against MW violators including treating the non-payment of wages by employers who have the ability to pay as a criminal offence. They have also argued, given the attitude of the labour departments and their collusion with employers, that the right to inspect and to prosecute cases of violation should be extended to registered unions. Another proposal was made to ensure that five-yearly revisions of MW should be made mandatory. In case of non-revision, then the VDAs of the previous five years should be consolidated in with the existing basic MW, and a further flat 15 per cent increment should be given. Recently, the joint committee of trade unions petitioned the central government to

fix the lowest MW at INR 10,000 per month (about USD 6 per day), along with proper indexation. The National Campaign Committee for Minimum Wages, an organization which works for human and labour rights, also demanded that the lowest rate of MW in the unorganized sector, be made equal to the lowest paid government employee (TNN 2013).

A section of the Indian business community too has recognized the need for effective implementation of MWs, particularly in sectors that directly support economic activity. A case in point was truck drivers, including drivers and helpers. Drawing from an independent study, the Associated Chambers of Commerce and Industry of India (ASSOCHAM) petitioned the government to amend the Motor Transport Workers Act (MTWA) 1961, so that payment of MWs and the provision of social security benefits could be made legally binding. The study had indicated poor working conditions including the absence of MW as a reason contributing to the shortage of drivers, resulting in 25 per cent of trucks lying idle (Orissa Daily 2012).

In spite of statutory backing and more than 50 years of history, the effects of the MW have not trickled down fully, to say the least. Yet, based on Indian national surveys Rani et al. (2013) estimated that in 2009–10, 71 per cent of dependent wage earners were covered by MW legislation, an improvement over the 2004–05 estimate that 61 per cent were covered. At the same time, the rate of compliance they estimated, that is, the share of covered workers earning less than the MW specified for their category, in 2004–05 at 32 per cent quite low, nearly doubled to 61 per cent in 2009–10, with rates going up equally in the formal and the informal sector. The latter figure implied that in 2009–10, there were 72 million wage workers who were paid less than the applicable MW rate. Non-compliance was higher than average in rural areas, for female workers and in the informal sector. Obviously, though MW payment had improved, the deficits still seemed to be quite high (cf. Rani and Belser 2012).

7.4 The trade unions

7.4.1 The trade union structure

Trade unions have for some time been an integral part of India's socio-political milieu including participation in the independence movement. Nineteenth-century struggles by unions against the exploitative conditions of work mainly in textiles mills, resulted in the enactment of the Factories Act of 1881 and other protective legislation. However, the development of trade unions with a large membership base in India began around the end of the World War I (Dessler and Varkkey 2011). The Trade Unions Act 1926 provided legal status to unions, including protection (immunity) from civil or criminal action for leaders and organizers. Both national and regional political parties nurtured constituent trade unions. Unions were not only tools for political parties to expand their influence among the working class,

but also a source for developing future political leaders. It was common for union leaders to contest elections and hold political responsibilities including cabinet positions. At the same time, trade unions were also used as a convenient tool by established political leaders to continue their patronage and expand their influence, by directly placing their relatives or trusted followers in union leadership roles.

Traditionally, union activities were restricted mainly to the formal (or organized) sectors, and hence a high presence was established in private sector manufacturing and the public sector. After independence, India adopted a centralized planning approach to economic development through five-year plans. The early five-year plans encouraged the unionization of workplaces, and unions were able to secure worker rights in the sectors they represented. National-level unions particularly contributed to the shaping of labour and economic policies by engaging with bodies like the planning commissions as well as by their participation in lawmaking. Large unions, with more than 50,000 members and present in at least four states and sectors, were given national-level union status. More recently, however, official data show that formal union participation is currently minimal. According to Bhowmik (2012, 124), union membership covers only 8 per cent of the working population belonging to the organized sector. While the public sector has an estimated 80 per cent unionization (among eligible workers), the same rate in the organized private sector is much lower. The newly emerging sectors like IT/BPO and financial services are almost wholly non-unionized, though some signs of unionization and collective protests have been observed (Dessler and Varkkey 2011).

Currently, Indian trade unions are facing multiple challenges. They are highly fragmented and multiple unions frequently exist in the same workplace, causing divided loyalties and inter-union rivalries (Dessler and Varkkey 2011). Public perception about unions has also been changing: from unions being seen as an important social institution, they are increasingly viewed as roadblocks in the path to industrial and economic progress. Both employers and the state (governments) have been working to resist the growth of unions or even block unionization. Sen (2013) noted that even in a state like West Bengal, employees in the garment industry 'are emphatic about non-union status, and it's clear that lack of unionization is not an accident' (575). A similar trend has been observed in the diamond cutting and polishing industry (Varkkey and Kumar 2013). The recent shift of employment from the organized to the unorganized sector through subcontracting and the use of contract labour have also had a significant impact on the unions. There has been a growing alienation between union leadership and the membership, primarily due to changes in the workforce and the reduced influence of national-level unions over enterprise unions. These factors have been contributing to the inability of unions to penetrate deeply either the growing services sector or newly established firms and

multinational enterprises that are employing formally educated and young workers in large numbers in India.

For a long time, traditional unions ignored organizing huge amount of informal sector employees. That void was filled by organizations like SEWA and DWF. However, mainstream unions were not supportive of such organizations, and SEWA notably had to struggle to obtain official recognition as a trade union. In 2012, SEWA recorded more than one million workers as members. Yet, along with similar organizations and the mainstream unions, the total density of unionized workers in the unorganized sector still turns out to be less than 4 per cent. While the mainstream national-level unions were losing their foothold, other new modes of unionization emerged. Evidence points to the shift from national-, regional- or industry-level unions towards the emergence of small, independent unions at enterprise level, concerned only with limited issues (Dessler and Varkkey 2011; Bhowmik 2012). Large numbers of contract workers employed in manufacturing industry and in infrastructure projects have also been organizing and asserting their rights. This recently led to prolonged and violent strikes, as well as to the start of a debate about labour policy reforms and better conditions of work in sectors employing contract labourers in large numbers.

7.4.2 Trade unions and wages

In the formal sector, Indian trade unions have participated in wage determination through collective bargaining or otherwise. In the public sector, wage levels have been determined centrally, where national federations have been involved. In the private sector where there is union presence, unions have been involved in enterprise-level bargaining. In the government, while wage determination and revision are based on recommendations of an expert body appointed at regular intervals (pay commissions), the representative organizations of government employees have been consulted and allowed an opportunity to voice their demands. In sectors and workplaces with strong union presence, industrial disputes remain common. An overview of the causes of industrial disputes over 2001–10 (Indiastat 2013) shows that wage-related issues continue to be a major cause for disputes, though their share has decreased from over 23 per cent in the first half of the decade to 20 per cent in the second half. Over the same period, disputes over collective bargaining rights have been increasing, which may be indicative of the pressures faced by unions. A new category of disputes, included since 2006, are those connected to macro-level issues of economic policy. This category showed an increasing trend and was the fourth largest in 2010. In this period of time, all mainstream unions have been critical of the liberal economic policy decisions of government, including the opening up of many sectors for foreign direct investment, disinvestment in the public sector, increased outsourcing, and permitting the use of contract labour instead of permanent workers.

Since unions in the formal sector were able to secure higher wages for their members, the likelihood of the MW being a cause for wage-related disputes may be remote. However, that does not diminish the need and relevance of MW in India, particularly for the non-unionized in the formal and the larger informal sector. Sen (2012) found that in the garment industry, workers who were unionized obtained MWs, while others did not, in spite of having the MW law. In addition to national unions, organizations like SEWA, DWF and other civil society movements have constantly demanded MWs for unorganized sector workers, including the need for a statutory national-level MW. As the nationally recognized union for informal workers, SEWA shares the table alongside the national-level unions in consultations and tripartite forums. This allows the voice of the informal sector to reach the highest levels.

Chapter 2 already noted that income inequality in India, though relatively modest, has risen since the mid-1990s, and that also fuelled the debate on the MW. Considering the complexities involved in the current MW system as well as increasing income inequality, there have been discussions about having a single MW with statutory backing across the nation. This was expected to act as the 'minimum of minimum', which should assist in a more egalitarian income distribution through enhanced MW coverage and also better MW administration. Belser and Rani (2010) estimated that if state-level MW coverage had been available to all wage earners in India, it would impact positively on a large part (approximately 19%) of the workforce and thereby pave the way for more citizens to be included in economic development. These authors, based on their empirical work, argued that there is an urgent need to improve the effectiveness of MWs in India (Rani and Belser 2012, 57). A national MW, which is applicable to any type of work (irrespective of being included in schedules), would be able to create a larger impact.

7.5 MGNREGA and minimum wages

The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) is a national level, demand-based, wage employment guarantee scheme introduced to provide social security in the informal sector, to control rural-urban migration and combat acute poverty. The related Act (MGNREGA) became effective from February 2006, and through it the government is committed to provide wage employment ('not less than one hundred days of such work in a financial year') to a member of every rural family who demand work and whose adult member volunteer to be employed. The legislation guaranteed wage employment (the type of employment to be offered was also defined) within specific time limits from the demand being made, failing which the job seeker was eligible for compensation. The central government fixes the daily wage rates and it could be different for different areas. The Act interestingly permits the government

to bypass Minimum Wages Act 1948, by specifying a 'non obstante clause', that is, '[n]otwithstanding anything contained in the MW act of 1948, the central government may by notification' (Section 6 (1)). However, if the central government had not declared MGNREGA wage rates, then the existing MWs for agriculture applicable to the region would be payable (Section 6 (2)). Unlike the more consultative process of setting wages under the MW act, wages under MGNREGA have been decided unilaterally.

Before 2008, the central government had not declared wages for workers under MGNREGA, so they were paid the locally applicable agricultural MWs. By then, Uttar Pradesh, Madhya Pradesh and Rajasthan, the three populous states where the Scheme had high penetration, revised agricultural MW rates and expected the central government to support MGNREGA workers at these revised wage levels. The move created a crisis that pitted the centre against the states. In January 2009, to resolve this contradiction, the central government delinked the Minimum Wages Act 1948 and Section 20 of the MGNREGA. It also froze wage rates for the states where employment was provided under MGNREGA, leading to workers receiving a standard daily wage (INR 100 per day, as declared in July 2009). Consequently, in many states, the MGNREGA wages were lower than the notified lowest agricultural MWs. Since the central government substantially funded the Scheme's expenses, particularly wages (fully funding those of unskilled labour), the Scheme imposed a negligible financial burden on the states, while giving the ruling political parties high political and social returns. The delinking and subsequent events attracted criticism that the central government itself was undermining the provisions of the Minimum Wages Act 1948. Its position was even equated to supporting 'forced labour', since any payment below statutory MW was also interpreted as forced labour under Article 23 of the Constitution (Varkkey and Arora 2011).

The MGNREGA standard wage was, by default, considered as the national MW level. Critics saw the episode as a lost opportunity to introduce a dynamic national level MW, or a needs-based MW to suit geographic peculiarities. It was also an ignored opportunity to ensure decent work conditions in the unorganized sector (cf. Sankaran 2011). Around that time, there were strong reports about corruption and mismanagement of the MGNREGS, including instances of underpayment. Such developments led to protests in various parts of the country, including political pressure on the central government by the states. In addition, strikes and legal actions by NGOs and unions were undertaken to ensure payment of the statutory MW to workers covered by the Scheme. Acting on a written petition filed by a few labour groups, the Andhra Pradesh High Court suspended the operation of Section 6 (1) of the Act and ruled that MW is the constitutional right of a worker. The Court observed that the government, being the agency for implementing MWs, was itself violating the law and thereby acting in an unconstitutional manner.² Many state governments requested a legal amendment from the

central government to nullify the adverse effects. Even, the labour ministry of the central government shared this opinion with the states. Yet, the central Ministry of Rural Development, the implementing ministry for the Scheme, stuck to the delinking decision. The position of the minister in question, that states were free to compensate the wage difference from their own funds, was not accepted. As a solution to the problem, the central government proposed, in December 2010, to index MGNREGA wages with inflation, while allowing the distinction with MW to continue. An expert committee was established to suggest a proper index that would regularly revise wages under MGNREGA and protect it against inflation.

While the MGNREG Scheme took off very well and was internationally hailed as an innovative approach to ensure social security through wage employment in the unorganized sector, performance data indicated that the number of jobs claimed under the Scheme was declining. According to figures released by the central government, MGNREGA created 2,840 million individual days of work in 2009–10, which reduced to 2,160 million person-individual days during 2011–12 (*Hindustan Times* 2013). Poor efficiency of programme implementation, including a lack of viable projects and administrative support, were cited as reasons for this. Interestingly, however, evidence also showed that rural workers were able to obtain better wage rates outside the Scheme. The availability of wage employment on demand had created labour shortages, eventually forcing private employers to improve wage levels and working conditions (Press Trust of India 2013).

The indexation of MGNREGA wages in order to meet inflationary pressures has also shown positive results, though the gap with the official MWs could not be universally eliminated. The CPI-AL (Consumer Price Index – Agricultural Labour)-indexed wage rate for MGNREGA was revised upward by nearly 12 per cent with effect from April 2013. In most states, the inflation-adjusted MGNREGA wages are above the lowest official MW and are below the MW in only a few cases. This is a welcome development particularly when viewed from the perspective of reaching a position where all workers in India are able to claim living wages and decent work conditions. According to some, the availability of jobs in rural areas has helped to control rural–urban migration. Furthermore, workers have also started demanding and obtaining higher wages in the market (Banerjee and Saha 2010). Rani and Belser (2012) argued that the Scheme was instrumental for ensuring increased coverage of MW for workers, particularly in rural areas, as well as for improving agricultural wages.

Meanwhile, central government tried to improve the effectiveness of the MGNREG Scheme, by eliminating avenues for corruption and mismanagement. Social audits and the involvement of NGOs, activists and media have further helped to improve effectiveness. Subsequently, in 2013, to make the Scheme more productive, wage payment was linked to measurement and assessment of the work done instead of just marking attendance. That was

expected to address the criticism about the Scheme encouraging low worker productivity and free riding, since strict measurement of output and quality of work were missing earlier. The scope of the Scheme was also expanded to ensure the availability of more work to benefactors. To ensure prompt wage payment, direct transfer to bank accounts of the benefactors has also been initiated (*DNA India* 2013).

7.6 Conclusion and recommendations

MWs in India have been designed to cover a wide spectrum of occupations and the resulting structure reflects the peculiarities of different sectors. A complex system has been the result that has made MW administration difficult. Often geographically spread, illiterate and poor workers have faced difficulties to keep track of information given by the system and to ensure its compliance. Exploitative employers and labour market intermediaries like contractors have often colluded to deny workers what is due to them by law, and vulnerable workers perceive any recourse to justice as being a difficult and costly proposition. Low union density in many sectors has also contributed to non-compliance.

The law insists that MW rates have to be reviewed and revised if required, such that workers are protected against the harsh effects of inflation and rising living costs. Experience has shown that revisions do not follow a regular pattern. Though the introduction of the VDA system has helped to some extent, it has not been implemented universally. Often, the unorganized sector has had to shoulder the negative effects, as the MWs in many occupations have not been stable. An amendment to the law to make MW revision regular and mandatory (like the salaries of government employees that are mandatorily revised every ten years by pay commissions) and the establishment of a permanent tripartite framework with specific time limits is, therefore, desirable. Inefficiencies related to compliance monitoring have been well documented and often the government itself has been the biggest violator of the MW law. The examples of MGNREGA and the cases of non-payment of MW to casual and contract workers employed in government offices are testimony to this. Government agencies remain understaffed and lack resources to monitor and to act against violators. Interventions such as communication and awareness building, advocacy, information-sharing and peer pressure to ensure better compliance have yet to be considered.

In the MW sphere, trade unions have been and are very significant. Coordination between the national unions and the unorganized sector is still lacking. In a diverse country with strong political and democratic processes, change can happen only if the debate for labour rights including MWs are raised to the political and lawmaking arenas and pressure exerted on the parliamentarians. A coordinated approach by unions representing both sectors and other agencies is necessary. Often disunity among labour organizations

and the election-focused approach of political parties act as barriers for a meaningful debate. Similarly, the complex Indian MW system and the lack of IT use in government hampers information search and retrieval. MW-related information is distributed among central and state government sources and revisions do not follow a fixed pattern. Employers find the costs and effort for information search high and time-consuming and this often leads to compliance violations. They form another category namely, ignorant MW violators who exist in addition to the groups of intentional violators and those unable to pay, but are as equally guilty of violation. Better IT use and dissemination practices could alter the situation.

Empirical evidence points to the positive effects of MW systems on equitable growth. However, this link is often not evident to the relevant stakeholders, and such a lack of understanding contributes to the blind opposition to, or sheer ignorance of the MW system. While a section of employers routinely oppose MW increases, their arguments are often not in tune with empirical evidence. By contrast, trade unions and other agencies do not anchor their case with empirical evidence often enough and hence do not make much progress in convincing stakeholders. Partnerships between government, unions and employers' associations, as well as with the ILO and research organizations such as the WageIndicator Foundation, can become meaningful here. Paycheck India, part of the worldwide WageIndicator machinery, provides the single dissemination point for data on MWs in India and is widely consulted by different stakeholders. Most of the questions received by Paycheck stem from the formal sector and are related to fundamental administrative issues of MW implementation. This reflects the widespread lack of awareness about the law and the administrative processes involved, even in the formal sector. Collective efforts are required to bring more awareness and better dissemination of information so that voluntary compliance and reporting of violations can be enhanced. A situation in which all workers in India are eligible for the right MW and are assured of its receipt has to be attained if the country is to become an economic powerhouse that also ensures human development.

Notes

1. The Constitution of India has placed labour matters in the Concurrent List, under which both central and state governments are competent for lawmaking. However, certain issues are reserved for central government.
2. *Sanjit Roy v. State of Rajasthan* (1983); *People's Union for Democratic Rights and Others v. Union of India and Others* (1982).

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8

Indonesia

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8.1 Introduction

In August 1945, two days after the surrender of the Japanese occupiers, Sukarno and Hatta declared Indonesian independence. At this point, Sukarno, the country's first president, laid down the Pancasila or five principles of the Constitution, namely: nationalism, internationalism, representative democracy, social justice and theism. A four-and-a half year guerrilla war followed as the Dutch tried to re-establish their colony. In December 1949, the Netherlands formally recognized Indonesian sovereignty. A military coup in October 1965 meant the beginning of the end of the Sukarno era. The economic policies of Suharto's New Order fiercely encouraged foreign direct investment (FDI). Also, the Suharto regime restored and maintained tight political control over the archipelago. Economically there were massive ups and downs. The boom in oil prices and the related increase in Indonesia's oil exports resulted in strong growth of GDP per capita between 1970 and 1980. However, with oil prices trending downwards, GDP shrank 20 per cent from 1980 to 1990, followed by a 13 per cent decline from 1990 to 2000. FDI aiming at the integration of Indonesia's cheap labour in global production chains in textile, clothing, sport shoes and electronics could not take over the role of mining as growth motor. Moreover, economic growth was hampered by pervasive corruption, with immense wealth accumulated by the Suharto family and their business cronies. Their interests were at risk when in August 1997 the Asian financial crisis reached Indonesia and the Rupiah (IDR) began a free fall. After his re-election as president in April 1998, Suharto immediately implemented the harsh austerity measures of an IMF package. Steep increases in the price of electricity, fuel and transport as well as government budget cuts triggered protests. Finally, such protests took the form of a broad, pro-democracy reform movement (Reformasi) that brought Suharto down. The 1997–98 crisis though cut deep and Indonesian GDP fell in 1998 by 13 per cent (cf. Stiglitz 2002).

In the Reformasi era Abdurrahman Wahid (1999–2001), Megawati Sukarnoputri (2001–04) and Susilo Bambang Yudhoyono (two terms,

2005–14) all served as elected presidents. Essential for our story is the administrative decentralization that has taken place particularly in 2001. A key part of this decentralization was to provide the discretion for provincial and district authorities to establish minimum wages (MWs), although the final responsibility resided with the central government.

With a population totalling 252 million in 2014, Indonesia is the world's fourth most populous country. The current population growth is an estimated 1.3 per cent per year, but it has been slowing down. A major problem, by contrast, has been posed by massive internal migration. By 2011, about 51 per cent of the population already lived in urban areas and since 1980 urbanization in Indonesia has been growing more rapidly than in China or India (Mishra 2009, 38). Indonesia also posted a relatively strong growth in its GDP per capita, averaging 4.4 per cent per annum over 2004–13 (Statistical Appendix, Table A.2). Terrorist attacks (2002, 2009) and natural disasters (tsunami in 2004, earthquakes in 2006 and 2009), while having an impact on the local economy, have had rather minimal effects on national economic performance. The negative effects of the worldwide financial crisis were quite limited as well; in early 2010 Indonesian GDP and export growth had already re-attained pre-crisis rates. The impact of the crisis on the labour market was mitigated through a governmental stimulus package. In 2008–10 unemployment remained between 7 and 8.5 per cent and fell to 6.6 per cent in 2013 (see *BPS/employment* website). Exports have been fuelling Indonesian economic growth in the last decade. The share of extractives (mainly oil, coal and gas) in exports fell from 81 per cent in 1981 to a low of 25 per cent in 1995–2000, but have since increased to approximately 33 per cent in 2012, leaving them slightly lower than manufacturing exports (see *World Bank/Indonesia* website).

The rest of this chapter is organized as follows. First, we look at labour market developments (section 8.2). In section 8.3 we go into wage-setting and social security institutions, focusing on trade unions and union renewal, trade unions and social security reform, the system of minimum wage fixing, and the social security system. Section 8.4 covers the development of inequality and the minimum wage, going into inequality and poverty, and the practical working of the minimum wage. The chapter ends in discussing two related themes, namely the future of Indonesia's economic model and how unions can leave behind their strong reliance on the minimum wage.

8.2 The labour market

The labour force participation rate (LPR) in Indonesia diminished in the course of the 2000s, especially for women. In 2005, 64.8 per cent of people in the 15–64 age group participated in the labour process, comprising 84.4 per cent of men and 45.4 per cent of women; by 2010 these rates had decreased to 61.6 (total), 83.0 (men) and 40.9 (women) respectively. This

placed women's LPR in the lower ranks internationally (World Bank 2012). Remarkably, the share of the services sector in the country's employment increased substantially from 2005 to 2012, from 37.2 to 43.7 per cent. Contrary to experience in other countries, male workers took most of these 'new' jobs. Alongside a small increase in manufacturing employment, this resulted in a significant fall in the share of agricultural employment to below 37 per cent of all employed (see *BPS/employment* website).

According to the official statistics, formal employment – defined as employers with permanent workers and wage earners¹ – increased rapidly by over 9 percentage points between 2005 and 2013 to make up nearly 40 per cent of the labour force (Table 8.1). Clearly, the most significant shifts in informal employment are the declining shares of the self-employed (assisted by family members/temporary helpers) and the unpaid workers. The share of women workers in informal employment in 2013 was 6 percentage points greater than their share in formal employment. This may yet increase further since job creation for women in the formal sector has been low and constrained by discriminatory practices (Anwar and Supriyanto 2012; ILO 2013).

The outcomes shown in Table 8.1 have to be qualified as working in the Indonesian formal sector is no real guarantee of either job security or good conditions. Moreover, the chairman of the KSBSI (Konfederasi Serikat Buruh Sejahtera Indonesia (Indonesian Trade Union Confederation Prosperity)) union confederation stated that 65 per cent of 33 million

Table 8.1 Employment by occupational status (in % of total employment), Indonesia, 2005–13

		2005 (November)	2010 (August)	2013 (August)
Formal labour		30.7	32.2	39.9
Of which	Employer with permanent workers	3.0	3.0	3.4
	Employee	26.7	29.2	36.5
Informal labour		70.3	67.8	60.1
Of which	Self-employed	18.6	19.6	17.0
	Self-employed assisted by fam. member/temp. help	23.3	20.4	17.2
	Casual employee in agriculture	6.0	5.0	4.6
	Casual employee not in agriculture	4.5	4.7	5.4
	Unpaid worker	17.9	18.1	15.9
Total		100.0	100.0	100.0
Total in mln.		95.3	109.6	112.8

Source: *BPS/employment* website.

workers in the formal sector in February 2010 were temporarily employed (contract and outsourced workers), compared to 30 per cent in 2005. Based on the Indonesian Family Life Survey 2007, the World Bank concluded that 9 per cent of wage earners in the formal sector held permanent labour contracts, 10 per cent had fixed-term contracts, while no less than 81 per cent lacked any formal written contract (World Bank 2010, 58; Anwar and Supriyanto 2012, 13). Labour market flexibility, a key strategy of successive administrations and business interests in the last decade, has clearly triggered informalization and flexibilization processes in employment relations within the formal sector, notably after the enactment of Manpower Law No. 13/2003 (Tjandraningsih 2013).

8.3 Wage-setting and social security institutions

8.3.1 Trade union renewal

The opportunity for trade unions to develop as institutions capable of promoting equity and social justice has been rising since the enactment of the Trade Union/Labour Union Law No. 21/2000, which provided the legal basis for the development and functioning of independent unions. Under the New Order government though, regulations tamed and controlled unions through the concept and practice of state corporatism. Hence, the current position of the union movement is weak. Though the number of registered unions has been growing, membership has actually been decreasing. Union density can be estimated at 6–7 per cent in the formal sector (ILO 2010, 61). A number of reasons for the relative weakness of organized labour have come to the fore, namely, the legacy of the New Order's authoritarian atmosphere, the high level of fragmentation in the union movement and the strong personal rivalry among union leaders. Currently though, there is consensus among activists and academics sympathetic to labour that the employers' violations of union rights guaranteed by law have been the main cause, followed by the lack of legal protection for organized labour.

That said, recent findings both at regional and national levels have pointed to initiatives for renewal which have raised hopes for the future of the union movement. In various regions, networks and alliances of unions have achieved a break away from the inertia exerted by most of the peak union organizations (confederations) and have been able to bring about significant changes in their regions. For example, in Yogyakarta and Serang the local alliances Yogyakarta Labour Alliance (ABY) and Serang Labour Solidarity Forum (FSBS) managed to push the enactment of special regional regulations on employment, as implementing regulations of Manpower Law No. 13/2003 was adopted in their regions. These and similar alliances were generally composed of various unions in the area, including independent unions only existing at company- and regional-level unions. Joint action as an alliance was considered more beneficial than single-union action, even if the latter might have attracted more workers. Most alliances maintained

informal structures, with leadership held collectively through 'presidiums'. Many of the prime movers had occupied positions in plant level unions or in the branch level organizations and already had some experience in interacting with other unions. Moreover, joint issues, for example concerning local MW fixing, have proved to be unifying (Tjandra 2010, 2015).

Most of the alliances started from common demands arising from workers in their regions and MW issues in particular were crucial here. In some regions, for instance in East Java, the alliance developed wider demands on more general social issues, such as on the rights of disabled people and the state's obligation to provide health care. The decentralization of political power offered unions opportunities at district and city levels. Where alliances took these opportunities, they were regularly able to overcome the separation between the labour movement and politics. Such a development was also triggered by the political parties' recognition of the unions as increasingly important political forces. All of this seems to have resulted in a higher level of political participation from the labour side. Yet, influencing politics while not being subjugated by political parties remains a delicate balancing act, as events in the Batam region, Riau Island province and in regional elections in Jakarta, for instance, have shown (Ford 2009; Tjandra 2010, 2015).

8.3.2 Trade unions and social security reform

The absence of a common goal may hamper regional alliances from developing further. In this context, it is interesting to note that many alliances have embraced the issue of social security reform especially since the enactment of Law No. 40/2004 on the National Social Security System (SJSN Law). The development of the KAJSS (Action Committee for Social Security), an alliance of various national trade unions specifically campaigning on this issue, has encouraged unity in this respect. Though the right to social security is enshrined in the Indonesian Constitution of 1945 (Articles 28H(3) and 34(2)), the 2004 SJSN Law was a milestone as it was the first legislation to rule that all Indonesians should be covered by social security through five mandatory universal programmes covering healthcare benefits, occupational accident benefits, old-age risk benefits, pension benefits and death benefits. The enactment of the SJSN Law proved quite an effort as interest groups showed strong reservations, notably Jamsostek Ltd. (a state company responsible for social security for formal workers), Taspen Ltd. (state company responsible for managing pension funds for public servants), and the government itself. They obviously regarded the Law as a threat to their vested interests as the government had hitherto enjoyed direct access to social security funds administered by the state-owned enterprises (SOEs). Moreover, the Law only regulated basic principles of the social security system, not how the system would be administered. In this respect, the Bill on Social Security Provider (BPJS bill) was a necessity. Although the SJSN Law required the administration to set up regulations and presidential

instructions, in order to implement the five programmes, the government on October 19, 2009 deliberately frustrated the parliamentary procedure by clogging up negotiations to discuss the BPJS bill before that deadline (Thabrany 2011; Tjandra 2015).

It was in this context that dozens of national trade unions and all kinds of civil society organizations (CSOs) gathered at the Hotel Treva, Jakarta, on March 6–8, 2010 to form the KAJIS. The unions played major roles, with the FSPMI (Indonesian Metal Workers' Union) as the initiator and main facilitator. By contrast, the mainstream union confederations KSBSI, KSPSI (Konfederasi Serikat Pekerja Seluruh Indonesia (Confederation of All-Indonesian Trade Unions)) and KSPI (Konfederasi Serekat Pekerja Indonesia (Indonesian Trade Union Confederation)) were hardly involved in the KAJIS movement, and parts of them even opposed the social security legislation. For some unions, the transformation of Jamsostek Ltd. from SOE to public institution was a particular bone of contention. However, with the regional alliances as main forces, the KAJIS initiated a series of demonstrations involving tens of thousands of workers in different regions. A national action was held on April 6, 2010, coinciding with the opening of the House of Representatives plenary session. It was followed by similar actions across the regions, leading up to the peak demonstration on May 1, 2010. This involved an estimated 150,000 workers on the march to the office of the President at the State Palace with just one demand, namely, the implementation of the SJSN Law and the enactment of the BPJS bill. Since June 2010 the KAJIS has been highly active in monitoring the House of Parliament's special committee sessions on the BPJS bill, sending short messages directly to the legislators' mobile phones if any kind of misleading information was noted. The instruction to send these messages went through the KAJIS Facebook account. This was also used to instantly provide supporters of the KAJIS in the regions with any developments in parliament. By mid-2011, this Facebook community had reached 6,000 members. Facebook had thus developed into a powerful tool for workers' mobilization, and had contributed to KAJIS's victory when, on October 28, 2011, the House and the government agreed to pass the BPJS bill. Before this was reached, further pressure had been built through intensive lobbying and mass demonstrations, culminating in a demonstration of thousands outside the parliament building on the night of 27th October. Finally, legislation on BPJS was enacted on November 24, 2011 (Tjandra 2013a, 2015).

The success, as well as the rather loose but effective structure of the KAJIS, has been at the root of recent developments in the trade union movement. On May 1, 2012, the Council of Indonesian Labour (MPBI) was established. In a statement to around 100,000 workers at the National Stadium in Jakarta, the MPBI was declared as the umbrella organization for the country's union movement by uniting the three largest confederations and several national federations. Like the KAJIS, the MPBI has a loose structure,

allowing initiatives from below while strengthening national coordination. The social security demands have remained on top of their agenda. In its two years of existence, the MPBI has posted major achievements and in particular has shown its capacity for mass mobilization. For example, it launched a national strike on October 3, 2012, involving at least two million workers in 14 industrial districts, along with rallies of tens of thousands of workers in the streets of Jakarta. As a result, political attention to labour demands has grown (Tjandra 2015).

8.3.3 The system of minimum wage fixing

First and foremost, it should be noted that minimum wage setting is the only forum on which Indonesia's trade unions can actually show what they are doing to defend their members and the workers in general. Modern industrial relations remain in their infancy and collective bargaining is weakly developed, not least because unions willing to bargain meet with a number of serious legal constraints laid down in Manpower Law No. 13/2003 – a law influenced by active lobbying of business through the Indonesian Employers' Association (APINDO) and Kadin, the Indonesian Chamber of Commerce and Industry (cf. Hartono 2011). Crucial elements of labour protection are missing in the new labour legislation, mainly because provisions promoting labour market flexibility dominate and limit the scope of such elements. Also, initiatives to negotiate wages at plant level frequently and easily end up with the dismissal of union officials and other forms of repression, in which regional and local authorities often side with employers (Tjandra 2008). In other words, MW setting in Indonesia has become a main source of social conflict. While the state during the New Order era had used the MW mainly as a tool for controlling labour unrest, in the Reformasi era the role of the state seems more ambiguous. We may conclude that the administration wants to retain control over MW setting and is reluctant to delegate it fully to collective bargaining which would require that trade union action be protected and facilitated.

In the mid-1950s, the first attempt to develop standards and methods for determining wage rates in Indonesia emerged through an ILO mission. Its 1958 report recommended to the government that 'the ultimate goal of wages policy should be to ensure that all wage earners earn at least a living wage from their principal employment'. At the time that was quite an ambitious target and it lasted until 1971 when the first MW legislation was passed. Up till the late 1980s, however, this regulation was merely cosmetic. Based on 1969–71 laws, national and regional Wage Councils were installed but trade unions were only represented by the one government-sanctioned union, FBSI. Independent workers' organization met many more constraints. For example, by law the minutes of the Councils were only available for their members. Basically, this situation remained unchanged until Reformasi

(Tjandra 2013a, 2015). Yet, remarkably, in the late 1980s the Suharto administration undertook serious measures to enforce the payment of MWs and lifted the MW, in the early 1990s even doubling its real value. These policies were abandoned between 1993 and 1998, when the interests of the Suharto family and their cronies were openly prioritized (Van Zanden and Marks 2013).

In the beginning of 2001, with the adoption of decentralization, MW setting was handed over to the provincial governors. Currently, MWs may vary by province, district and sector. The fixing criteria for MW are: needs; consumer price index movements; ability, development and sustainability of the company; wages in general in particular regions and between regions; labour market conditions; economic growth and income per capita. Decent living needs have returned to the centre of MW setting. With the KFM (Minimum Physical Needs) of 1956 as a predecessor, the KHM (Minimum Subsistence Needs) was put into MW law in 1999: a basket of 43 consumption items needed for the livelihood of a single worker, which included a food basket set at 3,000 calories/capita/day. With the enactment of the Manpower Law No. 13/2003, in which Articles 88 and 89 make up the current legal basis for MW setting, the MW is expected to reach KHL (Decent Living Needs), by considering productivity, economic growth, and the position of marginalized industries.

As Ministerial Regulation No. 17/2005 puts it, 'Standard needs must be fulfilled by a single worker to live physically, non-physically and socially for one month and applied for those workers who have worked for less than one year'; such needs should be formulated by market surveys conducted by tripartite teams in each region, guided by the Wage Councils consisting of representatives of government, employers and trade unions. After the surveys, the Wage Council members hold meetings to discuss the results, followed by meetings to discuss recommendation. Finally, the MW is set by the Provincial Governor based on Wage Council recommendations. Remarkably, the existing regulations do not detail the operations of the National Wage Council nor of the Regional Wage Councils. This includes all the processes of predominantly political negotiations and decision-making, whereby unions and employers as well as government try, in their own ways, to influence the outcome. In these processes unionists have learned to situate MW fixing within political contexts (Tjandra 2015).

The provincial MW rates establish a floor for MWs within the province. The various MW levels have a fixed relationship: the district MWs must be higher than provincial MWs, while the sectoral provincial/district MWs must be 5 per cent above provincial/district MWs. The MWs have to be set at least 40 days before implementation, which is every January 1, and are routinely revised each year. Once the provincial governors have decided the MW for all the cities and regents in their regions, the MW becomes a rule. For 2014, the basic monthly MWs vary from IDR 910,000 for Central Java to IDR 2,441,300 for Jakarta. The distance between these lowest and

highest MW rates has widened, from 1 (Central Java): 1.86 (Jakarta) in 2009 to 1:2.68 in 2014, though at about 1:2.4 the differences in the cost of living were only slightly lower (WageIndicator 2010; website *WageIndicator*). Compliance with the MW is supervised by Labour Inspectors, regulated under separate ministerial decrees and regulations. Non-compliance may be subjected to a criminal sanction in jail for a minimum of one year and a maximum of four years and/or a fine of a minimum of IDR 100 million and a maximum of IDR 400 million. However, employers unable to pay MWs may be allowed to postpone payment, based on a proposal to be submitted at least ten days before the MW is due (Tjandra 2015). In spite of the extensive institutional set-up and the severe sanctions on non-compliance, serious problems in applying the MW have continued to pile up in Indonesia, as we will demonstrate in section 8.4.2.

8.3.4 Social security

We have already referred to the enactment of Law No. 40/2004 on the National Social Security System (SJSN Law), and to the subsequent problems of implementing the five programmes envisaged in this law. On December 31, 2013, President Yudhoyono launched the new BPJS health insurance scheme with effect from the next day, January 1, 2014, aiming straight away to cover 122 million Indonesians or nearly half of the population who were previously under various benefit schemes. By 2019, universal health insurance coverage is to be provided – a highly ambitious target (Jatikusumah 2014).

We now go into the different sub-systems of social protection existing before the start of BPJS. Three main sub-systems provide benefits for different groups: civil servants and military personnel, workers in formal employment and those in the informal economy. Civil servants have traditionally enjoyed the best level of protection, with generous health insurance, maternity benefits, secure employment, and a monthly pensionable income. Health insurance is co-funded by civil servants and the government through a 2 per cent wage share while the pension benefits of civil servants are financed directly from the state budget. For workers in the formal economy, a Labour Social Security System (Jamsostek) had been established in 1992. The system covers mandatory programmes for occupational injuries, a defined contribution provident fund and death benefits. For the informal sector, a number of social assistance programmes have been installed, including cash transfers, free health care for the poor and subsidized rice for the poor. Most were aimed at addressing acute poverty during the economic crisis, and when the crisis faded away a number of these schemes disappeared. Nevertheless, a free basic healthcare scheme for the poor through Jamkesmas has survived (ILO/IILS 2011; Thabrany 2011). The performance of the programmes that have continued has mostly lagged far behind the targets set, and suffers from structural weaknesses (ILO/IILS 2011; Nehru 2013, 163).

Health insurance has until 2014 been administered through four major and some smaller services. Best insured are the 17 million civil servants and their families, through PT Askes. The provision of free medical services for the poor through Jamkesmas has rapidly expanded in recent years and currently covers 96 million Indonesians. Pension insurance recently covered 7 per cent of the population. Through Jamsostek, in 2013 about 9.5 million private employees took part in the provident fund. Beneficiaries of the other risks insured through Jamsostek (accidents, health care, old age and death) amounted to 24.5 million, or about half of all formal sector workers. It should be noted that overall, the level of contributions to social insurance provisions is very low. In nominal terms, it has remained about the same since 1993 – implying a fall in real terms of over 300 per cent (Thabranay 2011).

Limited social security coverage has also contributed to inequality. In 2007, only 8.2 per cent of the low-paid were covered by social security, compared to 25.2 per cent of the medium-paid² and 62.4 per cent of the high-paid (Damayanti 2011). It is highly unlikely that this situation has changed much in the last eight years. Direct government spending on social goals remains at the very low end, amounting to between a half and a third of what comparable developing countries have been spending on similar programmes. For instance, in 2011 health spending only made up 0.6 per cent of the Indonesian GDP, and social programmes 1.0 per cent (OECD 2012, 16). By contrast, energy subsidies have taken about 24 per cent of central government's spending, more than double that on health and social assistance (Burke and Resosudarmo 2012, 310–11).

8.4 Inequality and the minimum wage

8.4.1 Income inequality and poverty

According to various measures income inequality in Indonesia has, since the mid-2000s, clearly been on the rise. BPS (Statistics Indonesia) data show that in the early 2000s the Indonesian Gini (net household expenditure) coefficient went quickly upwards, from 0.31 in 1999 to 0.39 in 2005. From 2008 onwards, a further increase took place until the Gini ratio reached 0.41 in 2011–13, the highest value in the country's history and indicating a substantial increase in inequality. The increase of inequality has occurred consistently in both urban and rural areas as well as across the 33 provinces. The rate of change was higher in rural areas but 7 to 9 percentage points higher levels had been reached in urban areas (Yusuf and Rum 2013; *BPS/Gini ratio* website). Moreover, it is widely recognized that the consumption basket used in the regular consumer surveys underestimates the household consumption of the rich,³ and excludes consumer durables like cars, as well as holidays abroad and the like. A reworking of the Gini expenditure coefficient with a consumer basket which includes high-value items leads to a dramatic

rise, for example to over 0.50 for 1999, 0.18 above the official figure (Mishra 2009; Yusuf and Rum 2013).

The outcomes of other inequality measures showed a similar trend over time (cf. Lee and Wie 2013). Inequality grew in particular through the stretching out of income and consumption at the high end of the income distribution. While in 1990 the income share of the 20 per cent richest households was 42.1 per cent, by 2012 it had increased to 49.5 per cent. From 2004 onwards, this was accompanied by a decrease in the income share of the 40 per cent poorest households. The same holds for the D9:D1 ratio calculated as the ratio of the mean expenditure of the 10 per cent richest to that of the 10 per cent poorest households. This ratio saw a steep rise from 2006 to 2012, both in urban and rural areas and in Java and elsewhere (Yusuf and Rum 2013). The same D9:D1 ratio calculated for wage inequality even doubled from 4.2 in 2005 to 8.6 in 2010 (World Bank 2012). Whatever administration was in power, serious redistribution policies through taxation have not been pursued. A sign of this is that Indonesia's rate of property taxation remains one of the lowest in the world (Mishra 2009, 57).

Remarkably, since 2000 growing income and consumption inequality in Indonesia has been combined with a falling poverty rate – though this rate is still considerable. Whereas in 2000, 19.1 per cent of the population was officially registered as poor in view of the national poverty line, this proportion had fallen to 11.3 per cent by March 2014, or 28.3 million people (*BPS/poverty* website). Earlier, in the 1990s Indonesia had showed a rather high rate of mobility out of poverty. Developments after the turn of the century however, have cast doubt whether this trend has continued. A high-level Indonesian World Bank researcher has argued that the focus on the falling poverty rate has masked the continuous high degree of vulnerability among non-poor households in Indonesia that has threatened to push them back under the poverty line (Alatas 2011, 69).

8.4.2 The minimum wage in practice

As said, in spite of the extensive MW regulations a number of problems related to the MW have shown up in practice. A large part of the informal sector is effectively excluded from the MW. Although Manpower Law No. 13/2003 does not exempt employers in the informal sector from paying the MW, a large majority of them do not do so. In a survey even those informal employers who were aware of the MW, responded they could not afford to pay (Widarti 2008, 252). Second, in 2009 the government enacted Special Economic Zones (SEZs) Law No. 39/2009, which included a provision on MW setting in these zones that seemed to overrule the MW regulations described. The Law introduced a special provision whereby KHL as the first basis for MW setting moved to become 'number three'. Unions with many members in the SEZs, like the Metal Workers Union, have raised concerns about this provision. The most important SEZ, Batam (still) has a MW, albeit

about 8 per cent lower than in non-SEZ production hubs such as Jakarta. Batam SEZ also lacks a sectoral MW while non-SEZ areas have sectoral MWs (Hertanti and Ceresna-Chaturvedi 2012).

The effects of the Indonesian MW on wages and employment have been intensively debated. They seem disappointingly small (but positive) on wages but reassuringly small (and negative) on employment. Changes overall in the MWs are negatively correlated with the share of those in low pay, but the size of this positive wage effect is relatively small. In Indonesia, the relation between the average MW and the average wage as calculated by Statistics Indonesia suggests otherwise: this Kaitz index, after being on or slightly above 50 per cent in 1998–2002, increased to 70 per cent in 2006, decreased to 62 per cent in 2009 and by 2011 stood at 65 per cent (derived from ILO 2010, 69; Damayanti 2011, 7; OECD 2012, 24). Yet this development is misleading, as is the relatively high level of the Kaitz index itself. ILO's *Global Wage Report 2010/11* explained that the increase of the 'Kaitz' in Indonesia after 2003 was driven more by stagnating or even falling real average wages – in spite of strong economic growth – than by increasing MWs (ILO 2010, 70).

Indeed, the years 2000–02, influenced by the freeing up of trade unions and the new government seeking to accommodate union demands (Bird and Manning 2008, 920), saw strong real increases in MW levels combined with increasing compliance. From 2004 onwards, the role of the MW suffered some reversal. The strong increases in real MWs of the early 2000s were 'corrected' in the next years. Damayanti (2011) found that in 2004 the value of the average provincial MW was very close (99%) to being two-thirds of the median wage for wage earners, the usual low-pay yardstick, whereas in 2009 the average provincial MW had gone up to be nearly a third more (131%) than this yardstick. Thus, while in 2004 those under the MW could be considered equivalent to the low-paid, five years later those on the MW fell partly into the medium-paid category.⁴ Moreover, according to ILO research at about the same time the estimated rate of compliance with the MW legislation fell in Indonesia, from 65 per cent in 2005 to an internationally low 49 per cent in 2009 (Rani et al. 2013).

Clearly, the purchasing power attached to a single MW has sunk to a deplorable level. As a matter of fact, for a single-income household of three adults, the MW is not able to provide a decent standard of living. In 2009, the daily food basket of 3,000 calories to feed one adult was priced at about IDR 390,000 a month but by then food and non-food costs for three consumption units (such as man, wife and two children) were calculated at IDR 2,335,200, or over 2.5 times the prevailing average MW (Schulten 2009; Tjandraningsih 2009). Even Jakarta's MW in 2013 only represented an income of less than USD 1 per day for a single-income household of four (Cornwell and Anas 2013, 22). Under these conditions, the MW in Indonesia, instead of acting as a wage floor, has become the effective wage

for most of the workers – most likely 60–80 per cent – in the formal private sector. In a context with weakly developed collective bargaining, workers here remain highly dependent on the statutory MW for their wage setting.

Whereas in 2005 the informal sector's compliance rate was an estimated 60 per cent, the decrease to 35 per cent in 2009 has been rather dramatic (Rani et al. 2013). It may be questioned anyway whether positive effects of the MW on wages in the informal sector can be tracked in Indonesia. One research team found that rising wages for men in the formal sector had combined with higher pay in the informal sector (Comola and De Mello 2011), but another team found no positive spillovers for men. If there was something like a lighthouse effect, it seemed to be concentrated on women: MW increases caused considerable pay rises for low-paid women in the informal sector (Chun and Khor 2010). The latter authors did not go as far as those suggesting that in the Indonesian context MWs were not beneficial at all for the majority of the population (cf. Bird and Manning 2008), but concluded that marginally raising MWs may be an effective tool for boosting wage equality (see Islam 2011, 169–70 for an overview of econometric studies in this field concerning Indonesia).

The trade union movement has had to oppose continuously the campaigns of APINDO who have suggested that a raise of the MW was an obstacle to economic development, job creation and inflows of FDI. The Yudhoyono administration seemed to have borrowed such arguments. For example, the former President himself, on April 4, 2013, and in front of an audience of hundreds at the National Congress of APINDO felt the need to disparage the then Governor of Jakarta (and current President-elect), Joko Widodo, in relation to the provincial Jakarta MW that had been increased significantly. Yudhoyono pleaded that MWs should not be exploited for political purposes to the extent that it became a populist issue. It cannot be denied that the atmosphere in the lead up to local elections can cause fairly high MW increases. However, that atmosphere can also have the opposite effect. In West Java in 2013, for example, a governor, despite a relatively high MW hike in the region, granted a suspension of the MW for hundreds of companies (Tjandra 2013b). We should add that thorough analyses have convincingly countered suggestions that labour market rigidities created by generous labour legislation and an aggressive pursuit of MWs have, since 1998, constrained the Indonesian economy and hampered FDI (cf. Islam 2011).

8.5 Economic development and outlook for trade unions

The discussion on the future of Indonesia's economic model is still in its infancy. Clearly, in this huge and populous country with the poor and mid-income masses longing to take their share of economic and social progress, lifting domestic demand will remain a cornerstone of economic

policies. However, to achieve greater income equality may well also imply a major shift in consumption patterns away from luxury consumption. In this respect, the full exercise of labour rights including the freedom to bargain collectively may be essential. It has become clear that industrialization over the last three decades has acted as a motor for economic growth. Disquieting, however, is the fact that manufactured exports have only to a very limited extent developed in the high- and medium-technology direction. Thus, a pattern of knowledge-based growth seems far-off, and Indonesia's vulnerability to world market competition from countries with lower wage levels may be growing rapidly. In this respect it is widely acknowledged that efforts to improve the country's educational system are urgently needed, in particular to increase enrolment at secondary and tertiary levels. The second major area constraining growth and exports, the traffic infrastructure, has near-universally been mentioned and condemned (cf. ADB/ILO/IDB 2010; World Bank 2010).

We already concluded that the MWs in Indonesia, instead of acting as a wage floor, have generally become the effective wages most likely for 60–80 per cent of formal private sector workers. Due to the weak development of collective bargaining, these workers remain highly dependent on the statutory MW for their wage setting. Moreover, the MW shows hardly any spillovers to the informal sector, at least not for men. For the time being, the unions seem trapped in this system and are lacking the powers to escape from it. Regional decentralization policies have complicated their situation even more, since they challenge unions already fragmented by policy orientation, sector and region. Unfortunately, the relative successes of the alliance of workers and unions in East Java have not recently been followed up by similar stories and seem to have become rather the exception. Nevertheless, developments in the Reformasi era have allowed unions to get more involved in MW-setting processes. Moreover, there has been a growing understanding among union leaders that MW setting, in particular through the Wage Councils, is basically a political process and should be responded to through the organization and deployment of their collective powers. Such an understanding is beneficial since it provides the unions with insights and opportunities to influence the country's labour policies and legislation and to engage successfully in collective bargaining. This is important as the strong reliance on the MW has to be minimized if the mass of Indonesian workers are to benefit from a reorientation of economic policies.

Notes

1. Though combined with a division according to occupational categories. An alternative calculation, imputing formal status to a part of the self-employed, ends up at 46.4 per cent formally employed in 2013 (ILO 2013).
2. Those between 67 and 150 per cent of the median wage.

3. If these are represented at all. Yet, besides the (very) wealthy, underrepresentation in Indonesia statistics may also relate to the very poor (cf. Cameron 2002).
4. The same researcher calculated the overall share of the low-paid had increased from 26.6 per cent in 2004 to 30.0 per cent in 2009. In 2009, women, low-educated, and workers in trade, hotels and restaurants as well as in community, social and individual services were clearly overrepresented among the low-paid (Damayanti 2011, combined with website *BPS/Sakernas*).

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9

Thailand

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9.1 Introduction

This chapter focuses on the conflicts fought in and around the institutions of wage-setting, trade union formation and collective bargaining in Thailand. It argues that over the past three decades, institutionalized processes of wage formation and bargaining in Thailand have been dominated by the interests of capital and the state to support a strategy of export-oriented industrialization based on the mobilization of cheap, unskilled and disorganized wage labour. However, this strategy may now be in transition as sections of business and state managers have recognized its limitations and the need to shift to a growth model with greater emphasis on domestic markets, productivity growth and higher wages. A key source of conflict is now focused on the institutional architecture that might underpin such a model.

The chapter is organized as follows. First, a brief historical background is provided (section 9.2), followed by a general sketch of employment, wages and welfare coverage (9.3). Third, the chapter discusses the role of trade unions (9.4). Then, the main mechanisms of minimum wage fixing are discussed (9.5). Section 9.6 is devoted to recent changes and conflicts in Thailand and their implications for (minimum) wages. In the conclusion, the main themes of debate are drawn together and key factors that will determine the future of wage formation are identified.

9.2 Historical background

Although Thailand has never been formally colonized, its incorporation into capitalist production and trade dates back to the mid-nineteenth century when, largely under British auspices, the country became an exporter of primary products and an importer of Western manufactured goods. Since that time, and within limits set by shifts in international patterns of capital accumulation, its growth strategies have passed through different phases, notably: a period of 'primitive accumulation' lasting until 1932, followed

by haphazard state-led industrialization labelled economic nationalism (1932–57), import-substitution industrialization (1957–late 1970s) and, from the early 1980s, an export-oriented industrialization growth strategy. From 1987 to 1996 the Thai economy boomed, fuelled by foreign direct investment (FDI) in electronics and car production. The Asian economic crisis of 1997–98, starting with a speculative attack on Thailand's currency, the Baht, as well as the global financial crisis of 2007–08 both impacted significantly on Thailand. Thai production and exports diversified to some extent but the country's export orientation as such remained unchanged. In 2012, for instance, exports comprised 68 per cent of GDP. Nevertheless, the crises have led to domestic political debate about the need to pursue a growth strategy that balances the country's reliance on export markets with the development of a stronger domestic market and a better-skilled and remunerated workforce (Jaroenlert 2009; Jetin 2012; Le Fevre, 2013a).

Throughout this last period, the Thai state, alongside both foreign and domestic capitalist class interests, has played a key role in securing the necessary conditions to support changing patterns of capital accumulation. In so far as industrial relations and processes of wage formation are concerned, the state has established an institutional framework enabling strong employer authority and control at workplace level. That framework has constrained the capacity of workers to organize collectively and participate in the processes of workplace bargaining as well as in wider social and political affairs (Brown 2004). The processes of democratization have not yet significantly altered this environment.

9.3 Institutions and employment

Much of the institutional architecture that governs Thai industrial relations dates back to the 1970s. The import-substitution industrialization strategy, adopted at the beginning of the 1960s, produced significant industrial expansion and the growth of an industrial workforce concentrated in and around Bangkok and five surrounding provinces. From the late 1960s onwards, low wages, poor conditions and long working hours as well as the lack of the legal right to establish trade unions led workers to become involved in escalating levels of industrial activism. In this period of heightened industrial conflict, a new civilian government established an institutional framework designed to ameliorate industrial disputation. Between 1972 and 1975, a system of wage fixing was established and new laws were promulgated ruling the establishment of unions and collective bargaining. Below, we discuss how this institutional framework has operated in practice.

Figures for 2013 from the National Statistical Office (NSO) show that Thailand's labour force numbered nearly 39.5 million, of which 35 per cent resided in urban areas (see *NSO/LFS* website). The 2010 labour force

participation (LPR) rate at 81.5 per cent was quite high, with a relatively small disparity between the rates of men (88.0%) and women (75.7%) (World Bank 2012). Also, since 2000, official unemployment has remained at a very low level below 2 per cent. According to NSO, underemployment was at the same low level. Thailand's pursuit of an export-oriented industrialization strategy finally seems to have hit its boundaries, though, and the country's labour market has been described as 'overheated', with labour in extremely tight supply (Le Fevre 2013a). This development has taken place against the backdrop of trends similar to those in China (Chapter 3), including a long-term fall in the total fertility rate (from an average 6.6 births per woman in the 1950s to 1.6 in 2012), a connected decrease in the employment share of the population aged 15–29 from 31 per cent in 1990 to 23 per cent in 2013 and a doubling of the share of the 40–59 age group, from 15.5 per cent in 1990 to 32 per cent in 2013 (Aemkulwat 2010; NSO website).

The export-oriented industrialization strategy has had a significant impact on the nature and structure of Thailand's working class. The country's wage-labour force is now more geographically dispersed, ethnically more complex as well as being more 'flexibilized' and precariously employed than it was in the 1970s. The informal sector is large: 2012 figures indicate that 24.8 million, or 63 per cent of the total 39-million strong labour force, secured their livelihood in this sector (NSO 2013a, 2013c). Except for agriculture, the informal sector consists of casual and outsourced workers as well as a large number of workers moving between the countryside and the towns and cities (and to foreign destinations) to supplement income generated by small family-owned farms that no longer provide viable livelihoods.

In Table 9.1 the labour force over the last two decades has been detailed. In the 2000s the decrease of the primary sector share continued but slowed down, whereas the share of manufacturing, having reached its high point in 2000, fell by 1 percentage point in the next decade and has not recovered since. This development may, once again, question the alleged success of the export-led development strategy and many manufacturing companies relying on unskilled labour seem to have disappeared or have shrunk (cf. Siengthai 2008, 321). Finally, in the 2000s the growth of the tertiary sector continued at about the same speed.

The national statistics also break down the labour force into categories such as civil servants, state employees, private sector employees and those working in the informal sector. Workers in each of these categories face different conditions of recruitment, wages, welfare support, security of work and quality of life. The most securely employed are civil servants (*kha ratchakan*). They possess job security, reasonable wages, clearly defined salary structures, high social status (as befits their nomenclature as 'servants of the king') and good welfare and other work-related benefits. In recent times, governments have attempted to cut the numbers of this category of employees and replace them by the category of state employees (*lukcang khong rat*)

Table 9.1 Development of shares of main sectors and industries in total employment, Thailand, 1990–2013

	1990	1995	2000	2005	2010	2013
Primary sector (agriculture, forestry, fishing)	62.9	52.0	47.8	44.3	42.1	41.9
Secondary sector	14.4	19.8	19.4	19.9	20.0	20.1
Mining & quarrying	0.2	0.2	0.1	0.1	0.1	0.2
Manufacturing	10.4	14.6	14.8	14.5	13.8	13.8
Utilities	0.4	0.4	0.5	0.3	0.3	0.3
Construction	3.4	4.6	3.9	5.0	5.8	5.8
Tertiary sector	22.7	28.2	32.8	35.8	37.9	38.0
Of which						
Wholesale & retail, hotels and catering	10.0	14.5	14.8	15.6	15.0	14.7
Transport & communication	2.5	3.3	2.9	2.9	2.9	2.8
Services	10.2	13.8	15.1	17.3	20.0	20.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Aemkulwat 2010; World Bank 2012; website NSO/LFS 2010-III, 2013-III.

who are paid lower wages, have less job security, lower social status and fewer benefits. Neither civil servants nor state employees have the right to establish trade unions and engage in collective bargaining.

State enterprise employees work in 66 state-owned enterprises (SOEs) such as railways, electricity generation and public transport, of which 45 are unionized. These workers occupy strategically important positions in Thailand's economy and have been able to use that position to secure good wages and welfare benefits. The State Enterprise Relations Act 2001 accorded SOE workers the rights to organize and to collective bargaining but not to strike. The 45 SOE unions with their large membership base have long formed the backbone of the Thai union movement, and have joined to form the State Enterprise Workers Relations Confederation (SERC) as a central body. The greatest single threat to SOE workers over the past 30 years has been government attempts to privatize SOEs, a process that has met with some success despite strong union opposition.

Another official category is that of private sector employees employed within the formal sector. This group of around 9.6 million persons is covered by the 1975 Labour Relations Act (LRA) and other labour laws such as the 1998 Labour Protection Act (LPA). They are also incorporated into the social security system established in 1990. The latter offers benefits related to health, maternity leave, child allowance, disability, unemployment, old age support and funeral expenses. Although they possess the formal right to establish trade unions and to bargain collectively, only about 413,000 private sector workers are union members, implying a density rate of around

4.0 per cent. Collective bargaining coverage is even lower, and an International Labour Office (ILO) estimate for 2009 ended up at 2.0 per cent (Hayter and Stoevska 2011). The lack of collective bargaining strength for the vast majority of private sector employees means they are not well placed to ensure that employers adhere to laws on minimum wages (MWs) and other conditions. Efforts of private sector employees to establish unions are constrained through legal provisions as well as through employer intransigence, including union busting tactics. Flexibilization through subcontracting and outsourcing has also impeded union formation.

The characteristics of Thailand's industrialization have also constrained the development of trade unions as the economy has a predominance of small-scale enterprises employing less than 10 workers whereas a minimum of 10 workers are required to establish a union. Union organizers, though, argue that at least 200 workers are needed to promote an enterprise-based union to have any chance of stopping employers from simply sacking the union promoters. In December 2011 according to the Office of Social Security, over 98 per cent of all enterprises employed less than 200 workers, covering 67 per cent of the insured labour force. About 21 per cent of that labour force was employed in enterprises of 1,000 and more employees.

Informal sector workers, around 66 per cent of whom have only primary education (NSO 2013b), can be differentiated into a number of sub-categories. A first category is not employed directly within the factory-based production system but is linked to production and supply chains through self-employment, home-based work or via subcontracted employment. They can be found in the many small worksites located in urban back alleys and lanes as well as in rural districts and peri-urban areas. A second category refers to those employed in the service sector, in restaurants, street stalls, massage parlours and hairdressing salons, and also those working as domestic workers and taxi and motorcycle drivers. A third and large category is employed in the agricultural sector as contract farmers, casual labourers and the like. All informal sector workers fall outside the protection of labour laws and the system of social security, though they are covered by the universal healthcare system and old age pension scheme and are entitled to free high school education. Informal workers, though, do not have legal rights to organize and have little bargaining power (Hewison and Tularak 2013). Informal sector wages are considerably lower than those earned in the formal sector. In 2012 the wage gap between the formal and informal employed averaged 58 per cent and varied between 33 per cent in agriculture and 80 per cent in the utilities sector. The only exception were the domestic workers, who on average earned more in informal than in formal work (Source: NSO 2013c).

Thailand's 'overheated' economy has increasingly used migrant workers, especially from neighbouring Burma, Laos and Cambodia. There may currently be between 2 and 4 million of them, of whom only 1.1 million are

formally registered. These workers form a crucial source of cheap labour, especially in low-skilled, labour-intensive areas such as agriculture, construction, fishing and domestic help. They have also become an important source of labour in manufacturing, especially in textile and clothing, food canning and electronics. Recent data show that on average migrants earned 6,000 Baht a month while the average for comparable Thai workers was 8,280 Baht, a gap of 27.5 per cent (Noppadol et al. 2012). Migrant workers form a highly vulnerable category, often paid below legal MW rates and not enjoying other legally stipulated conditions. The many among them that are illegal are also subject to abuse by traffickers, police, military and other predatory interests. Migrant workers have been involved in industrial action. Yet, they do not have the legal right to form a union themselves, although they may become members of a legally registered union (Bundit Paenviset 2012).

9.4 The role of trade unions

A significant gap exists in Thailand between the legal rights to establish unions and collective bargaining and the actual practice of workplace relations as workers have struggled to build and sustain the capacity to exercise their legal entitlements. This situation is partly the product of the nature of Thailand's industrialization itself, but is also due to the political legacies of state and employers and the culture-based hostility to any workers' attempts to develop a collective voice. This is reflected in the words used for employer (*nai cang*) and employee (*luk cang*), implying that there is inequality of cultural worth and status between the two, between 'masters' (*nai*) and 'subordinates' (*lukcang*). Opposition to unions has taken many forms, including the state's consistent refusal to reform archaic labour laws, especially the 1975 LRA. At workplace level employers have been able to dictate the conditions of hiring and firing, the use of technology and the organization of production as well as wages, welfare and health and safety. We now outline the formal procedures for collective bargaining and trade union formation, starting with an examination of the legal procedures for collective bargaining (Sakdina 2010).

According to the LRA 1975, firms that employ more than 20 must put in place an agreement signed by employees. The agreement may last up to three years, with an automatic extension of one year if there has been no negotiation for a new agreement at the end of the three-year period. Employees may seek to alter conditions of employment in either one of two ways. First, they may submit a list of written demands that are supported by at least 15 per cent of all employees. The employees must also submit the names of no more than seven individuals who will act as negotiators. Second, in cases where a trade union exists and covers at least 20 per cent of employees, it may submit a demand. Once a demand is lodged, negotiations must begin within three days. If an agreement can be reached, it must be signed by both

parties and announced within three days of signing. Within 15 days, the employer is then responsible for having the agreement registered with the Ministry of Labour (MOL). If negotiations do not occur within three days after the submission of a demand or when no agreement can be reached, then a 'dispute' is held to occur, and the party initiating the demand may approach a state conciliation officer to seek arbitration. The officer will seek to resolve the matter within five days. If arbitration is successful, an agreement in writing must be made public and formally registered. If this does not occur, then three options are available. First, both parties have the right to appoint an 'adjudicator'. Second, the employer can, after notifying both employees and state authorities, engage in a lock-out. Third, employees may engage in a strike provided that the majority of union members vote for strike action and the employer is advised 24 hours in advance that a strike is to occur.

Trade union involvement in processes of collective bargaining is governed by two main pieces of legislation: the 1975 LRA, which governs private sector workers, and the 2001 State Enterprise Labour Relations Act, which provides for union formation in state enterprises. Under the 1975 LRA, private sector employers may establish trade unions, labour federations and labour councils. A union may be organized at an enterprise or industrial level and there are also distinctions made between unions of employees that have supervisory and hiring authority and unions of employees that do not. At least 10 employees must sign an application to establish a union and all must hold Thai citizenship. Those wishing to join a legally registered union must work for the same person who employed those who first established the union or they must be employed in the same line of work as the original union promoters. A labour federation may be established by at least two unions and has the responsibility to promote good relations among unions. The establishment of a labour council requires the participation of 15 union or labour federations; its role is restricted to promoting education and good labour relations. It is worth noting that state enterprise unions may become member of a labour council (and therefore work with private sector employees) provided that at least ten state enterprise unions first establish their own state enterprise labour federation (Le Fevre 2013b).

Currently, the union movement is highly fragmented. There are 1,373 mainly enterprise unions and 13 peak labour councils (Source: Labour Relations Bureau, Department of Labour Protection and Welfare). This reflects a lack of unity and coordination and small, weakly organized and poorly resourced unions often find their demands are in conflict with those of other unions. Various other ideological, group and personal differences have contributed to the absence of a more unified movement. In this context, private sector employers have seized the opportunity to dominate the processes of wage-setting and often have simply ignored legal MW provisions (Sakdina 2010).

In strictly formal terms, workers employed in private sector firms and in state enterprises do possess the right to collective bargaining and to form unions. However, as mentioned, there are major restrictions on the exercise of these rights. Moreover, labour laws deny civil servants as well as those employed in agriculture and in the informal sector the right to organize and to bargain. As also noted, even those who are covered by relevant legislation face major constraints in light of employer and state hostility. These constraints mostly derive from legal restrictions and the prevalence of small enterprises. However, the lack of state monitoring and poor enforcement of labour laws, together with official and employer antipathy, have all combined in shaping very difficult terrain for the deployment of worker power in Thailand. Collective bargaining remains weakly developed and, until recently, well-defined wage structures were rare even in larger companies. The combination of all these factors helps to explain low union density, the fact that unions only exist in 39 of 76 provinces, the limited number of registered collective bargaining agreements (CLAs) and the small numbers of workers covered by CLAs. Between 2002 and 2012, the number of registered collective bargaining agreements fluctuated between 200 and 435, covering at its peak 361,000 employees, in other words, no more than about 2 per cent of workers in the formal sector (Ministry of Labour 2012).

9.5 The minimum wage

9.5.1 Historical overview

Legislation establishing an MW rate dates back to 1972. The law provided for the Ministry of Interior to create a Tripartite Wage Committee comprising representatives from the state, employers and employees. The first MW was set in April 1973. The law does not stipulate when MW adjustments can occur. Sometimes this has happened on a yearly basis, sometimes there have been two adjustments per year and occasionally there has been no annual adjustment at all. Initially, definitions of the MW referred to an amount that would enable one worker and two family members to maintain a 'dignified' standard of living. In 1975 this definition changed and the MW now refers only to an amount required by an employee, and does not include two family members. Through their weight of numbers on the wages committee, state and business representatives were able to prevail over worker attempts to have the legally stipulated MWs increased substantially through the 1980s and 1990s. It was no coincidence that this was a period when the cost of living rose dramatically in Thailand.

While state and employers cooperated to contain labour costs through the 1980s and 1990s, the impact of the 1997–98 Asian economic crisis posed further problems for attempts to increase MW rates in line with increases in the cost of living. The crisis had a devastating impact on Thailand and the rapid economic growth rates of the previous decade came to a grinding halt.

With its GDP falling by 10.5 per cent in 1998, Thailand's contraction was the most severe in Asia. Many businesses went bankrupt, hundreds of thousands of workers lost their jobs and the absolute number of the poor went up (Warr 2011). The Thai government had to request financial assistance from the International Monetary Fund (IMF) and the Asian Development Bank (ADB). The resulting assistance packages required the government to impose controls over labour costs via wage freezes and other measures. In 1999 and 2000, the MW was not adjusted. In this context the government changed the wage-setting mechanism. The new system, established by a 1997 Ministerial Decree, provided for the decentralization of wage-setting, and for different MWs across provinces. This effectively empowered employers, in league with provincial state authorities, to set rates unilaterally as workers in many provinces lacked union representation and had little capacity to engage in collective bargaining.

9.5.2 The minimum wage fixing mechanism

The 1998 Labour Protection Act (LPA) carried provisions that embedded the new system of wage-setting, including MW fixing. Main changes included (a) a revised definition of 'wage' that allowed employers to pay below minimum rates on the basis that other benefits (welfare, accommodation, food) were being provided; (b) restrictions placed on who would be covered by MW rates with many exclusions including employees of government agencies, state enterprise employees, agricultural workers, homeworkers and domestic workers; (c) the introduction of a differentiation between two MW rates: a basic MW rate and MW rates, the former fixed by the Central Wage Committee for use by the Provincial Wage Committee when setting wage rates in the provinces. Both wage rates have to be submitted to the Cabinet for final approval, which contradicts the thrust of the new legislation which was meant to decentralize the processes of wage fixing. Criteria used to set MW rates include: (1) factors that pertain to an employee earning a living taking into account data provided by employers on actual wages paid, changes to the cost of living index, price of products and standard of living; (2) costs of production, capacity of enterprises to pay and labour productivity; (3) broader economic and social indices that include GDP growth rate as well as general economic and social conditions

The structure of wage-setting and the related processes are as follows. The law establishes two minimum wages committees – central and provincial. The Central Wage Committee (CWC) has representatives from the Ministry of Labour, the National Economic and Social Development Board, the Ministries of Commerce, Finance, and Industry and other members added by the minister, including two experts and seven representatives each from employers and employees. The Head of the Office of the Ministry of Labour's Wage Committee serves as secretary to the committee. Trade unions vote for nominated candidates on the basis of one union one vote, regardless of the size of

union membership. This provision has created opportunities for both labour and non-labour interests to establish 'paper unions', in the quest to have preferred candidates elected – a source of disunity and tension with the union movement. The Provincial Subcommittee (PSC) on the Minimum Wage Rate must have at least 15 members, with the provincial governor acting as chairperson. The number of representatives from the employers' side is equal to that of the employees and to that of the government agencies. In so far as the election of employer and employee representatives is concerned, the Provincial Labour Office requires the labour councils and employers councils to nominate candidates who wish to sit on this committee. The PSC must ensure that the provincial MW rate is not lower than the basic minimum rates set by the CWC. Once a rate has been nominated it has to be forwarded to the Minister of Labour for final approval before it can be enforced.

With collective bargaining and industrial action heavily constrained, the MW tends to become the effective wage for large groups of workers (cf. Siengthai 2008, 326). Despite their formal representation on CWC and PSCs, workers have been unable to pursue an agenda for real wage increases successfully. In a context where low wages were a critical factor for employers in their efforts to compete successfully, a more flexible and decentralized wage-setting system has continued to favour the interests of capital and state. This is reflected in official figures comparing the rate of MW increase with the rate of inflation for 2002–11. They show that while the cumulated MW increase was 25.7 per cent or 2.57 per cent per year, the cumulated rate of inflation was higher with 27.6 per cent or 2.76 per cent yearly (Table 9.2). Also, mainly due to lack of enforcement, a considerable share of employees entitled to the MW has been paid less. The ILO estimated that in 2009 about 25 per cent of workers in the Thai manufacturing sector earned less than the MW (ILO 2010, 70). Thus, by 2011 there were various grounds to lift the MW rate.

9.6 Recent changes and conflicts

9.6.1 Away from export-oriented growth?

In the wake of the 1997–98 Asian crisis a debate in Thailand emerged about the direction of future developments and about the continued viability of a growth strategy built on the use of cheap, unskilled wage labour. As competition from Indonesia, Vietnam and especially China intensified, state officials and domestic business as well as civil society and other organizations got involved in a debate to determine the most appropriate development strategy for Thailand. The debate intensified as a decade later the effects of the Great Recession made themselves felt.

At the level of politics, these debates have been partly reflected in a series of major events that began with the election of Thaksin Shinawatt's government in 2001. Representing the interests of big domestic capital groups,

Table 9.2 Average minimum wage and comparison between minimum wage increase and inflation (annual change in %), Thailand, 2002–11

	Average MW (Baht per day)	MW increase (%)	Inflation rate (%)
2002	137.0	0.2	0.7
2003	138.3	0.9	1.8
2004	139.7	1.0	2.7
2005	148.1	6.0	4.5
2006	149.4	0.9	4.7
2007	154.0	3.1	2.3
2008	162.1	5.3	5.5
2009	162.1	0.0	−0.9
2010	165.3	2.0	3.3
2011	175.8	6.4	3.0
Total 2002–11		25.7	27.6

Source: Ministry of Labour, Office of Wage Committee.

Thaksin attempted to initiate major economic, social and state reforms. His government remained committed to an export-oriented industrialization strategy but also wanted to expand domestic markets and to bolster local consumer spending. Thaksin's ambitious project attracted the ire of conservative forces, including other sections of business, the monarchy, civilian and military bureaucrats as well as various civil society groups. In September 2006 Thaksin and his government were removed via a coup d'état, an event that set in train a series of, at times violent, political conflicts. These exacerbated divisions in a society struggling with the impact of rapid social change.

The crises of 1997–98 and 2007–08 highlighted to some sections of state and business the risks of an export-oriented growth strategy. The effects of these crises gave momentum to those interests arguing that more emphasis needed to be given to building strong and sustainable domestic markets, a process that would necessitate some rise in wages. The 2001–06 Thaksin government and the subsequent Thaksin-aligned administrations borrowed some of these ideas to develop and implement a range of populist policies aimed at building consumer demand. The world economic crisis once more fuelled the reassessment of the country's strategy of expanding domestic markets. There has been talk of rebalancing growth, a departure from a labour-intensive industry development model to one in which industries use higher technology and more skilled labour in order to escape the entrapment of intensive competition with countries producing lower-grade products. For example, in 2010 the permanent secretary of the Ministry of Commerce stated that Thailand's target was to reduce GDP dependency on exports from 70 to 60 per cent within five years (Puangraj 2010).

A major change in the dominant development model is also urgently needed to deal with social unrest and the growing inequality. World Bank, ILO and national data show a rapid increase in income inequality in Thailand. The Gini coefficient rose from about 0.43 in the mid-1990 to over 0.53 by 2009, an internationally high level.² In 2010, the income share of the lowest 20 per cent of the population was calculated at 6.8 per cent, a low score across countries. The wage share in GDP declined massively from 86 per cent in 1960 to 62 per cent in 1996, recovered to 75 per cent during the Asian crisis because of the fall of profits, fell in the upturn to 65 per cent in 2007 and thereafter recovering somewhat (again due to falling profits) to 68 per cent (Jetin 2010; additional calculations by the author based on statistics available on NSO and NESDB websites).

In elections held in 2011, the Phua Thai ('for Thais') party, led by Thaksin's sister Yingluck Shinawatra, made a major pledge to increase the MW substantially to a uniform rate of 300 Baht per day. Rival political parties did the same. Yingluck's party won the election and was in government until removed on May 7, 2014, following six months of political crisis and violence. A short-lived caretaker government was replaced on May 22, when Thai armed forces seized power, dissolved the parliament and arrested under martial law a large number of politicians, journalists and social media activists, including Yingluck (wikipedia 2014 Thai coup d'état). Before this all happened, the Yingluck government delivered on its election promise to raise the MW, although this was not without qualification. The new 300 Baht per day rate was implemented in two stages, the first covering workers employed in Bangkok and the seven surrounding provinces from April 1, 2012, and, from January 1, 2013, covering workers employed in the other 72 provinces. Subsequently, further increases of the MW rates were frozen for two years. Moreover, the Yingluck administration did not undertake any reform of the institutional mechanisms used in MW setting. This effectively meant that the unequal distribution of power between capital and state, on the one hand, and labour, on the other, has not shifted. Due to the new uniform rate the 2011–13 increases varied across provinces between 35.7 and 88.7 per cent, with an (unweighted) average of 70.1 per cent (author's calculations based on data Ministry of Labour).

The possible effects of a substantial MW hike have been the subject of a study by the Thailand Development Research Institute (TDRI). This institute found that uniform higher wages nationwide could contribute to generally better living standards for workers, while boosting domestic demand and tax revenue for the state. Moreover, 3.2 million workers, or 30 per cent of employees in the private sector, should benefit from the MW increase. The higher wage would benefit low-paid workers with little bargaining power. However, the report also argued there would be negative impacts, especially for labour-intensive industries, or those requiring high-skilled workers. There would be a cost-push inflation risk of 1 percentage point. If productivity did

not increase by 8–10 per cent, the GDP of Thailand might decline by 1.7 per cent from the norm (TDRI 2013³).

The government announced several measures to pacify business opposition, as business circles claimed the new MW would lead to large-scale firm closures and job losses. Assistance provided included the reduction of company tax rates from 30 to 23 per cent and the reduction of employer contribution to the social security fund, as well as the provision of cheap loans to SMEs. Despite this, sections of business remained virulently opposed to the MW rise and tried to avoid paying the new rate. They lodged complaints with the Central Administrative Court (CRC), arguing that the decision by the Central Wages Committee was illegal. A survey conducted by the Thai Labour Solidarity Committee (TLSC) in July 2012 found that employers were also simply refusing to pay the new MW, especially in the auto parts production, hotel, transport and jewellery sectors. Workers in electronics, food, furniture and service sectors accused their employers of factoring in welfare payments with daily wages when these employers claimed they were meeting the MW requirement. Also, garment and clothing workers complained that they encountered negative changes in employment conditions, including job transfers and dismissals.

Practices like these did not go unnoticed. Workers have opposed employer practices curtailing wages, in particular in multinational enterprise (MNE) subsidiaries. For example, in early 2013 workers of Electrolux Thailand, part of the Swedish MNE, fought their employer's refusal to adjust wages in line with the new minimum. Eventually, after being locked in by security and police for eight hours, Electrolux dismissed all the workers involved (see *IndustriALL global union* website). Another dispute took place at General Motors (Thailand) Co. Rayong factory, where thousands of workers went on strike in February/March 2013 against a company decision to extend the working week from 5 to 6 days, a strike on which the US trade press noted it was hitting General Motors' supply chain (see *Pattaya Mail and Automotive News* websites).

The then minister of labour claimed that from January 1st to May 3rd, 2013, 3,102 employees from 65 enterprises had been laid off, but that only 1,385 had lost their jobs because of changes in the MW (Bangkokbiznews May 3, 2013). The NSO July–September 2013 survey found that the unemployment rate remained extremely low at 0.8 per cent (see *NSO/LFS* website), whereas other official figures showed similar reassuring trends. The number of employees and enterprises displayed no marked decrease during the rise of the MW; indeed, the number of employees covered by social security grew from 8.7 million in January 2012 to 9.6 million in June 2013, while at the same time the number of enterprises increased from 404,000 to over 412,000 (Office of Social Security 2013). This evidence suggests that lifting the MW to 300 Baht did not have negative repercussions on employment, at least not in the short run. Yet a caveat, to be taken seriously, is that such outcomes may,

at least partly, be the result of a lack of compliance with the increased MW rates. It is perhaps telling that in a 2013 survey conducted by the Bangkok University Research Centre, only 44 per cent of respondents said their living conditions had improved, a drop of 16 per cent over the 2012 poll. Similarly, almost 86 per cent of those surveyed said any wage increase they had received had been eroded by the increased prices of many basic items (Le Fevre 2013b).

9.6.2 The debate on wage-setting

Workers and their organizations have used the introduction of the new MW as an opportunity to argue for wider reforms of the wage-setting system. They have pointed to several shortcomings of the current system and have offered a number of reform proposals. These emphasize: (a) the unequal power relations and resources that workers and unions possess concerning both central and provincial wages committees; (b) the fact that all decisions have to be passed up the bureaucratic hierarchy; (c) the lack of transparency regarding the selection of representatives in provincial and central wages committees; (d) the absence of the ability to engage in full and frank discussions where powerful provincial governors chair committees and (e) the lack of adequate data and information available to employee representatives. In terms of reform, a working group representing unions, NGOs and academics has pleaded for a raft of changes, including redefining the MW as comprising a wage for an unskilled employee to support himself or herself and two others; the abolition of the provincial wages committees; the enactment of new laws that require firms to adjust wages annually and put in place clear salary structures; forbidding employment on a daily or hourly basis; changes to the system for the election of representatives to ensure greater transparency; clarification of data for use in processes of wage deliberations and improvements to management structures by establishing an impartial panel of experts that would act in an advisory capacity. They also argued that the Thai government should ratify ILO Conventions 87 and 98 on the Freedom of Association and Protection of the Right to Organise, and on the Right to Collective Bargaining.

The ongoing debates over wage-setting reform need to be placed in the wider context of problems in Thailand's economy. How these problems are addressed will have significant implications for systems of wage formation and the roles that workers and their organizations may play in such systems. Several factors require consideration here. First, Thailand's population is now ageing, so ensuring an adequate labour supply looms as a problem (though most likely this will be limited compared to China – World Bank 2012, 213–4). Second, education, skill development and productivity growth have been enduring problems and have not yet been addressed adequately. The country's educational system displays severe weaknesses and providing vocational training has developed to be a major difficulty. The United

Nations Educational, Scientific and Cultural Organization (UNESCO), for example, recently pointed out serious issues of quality across all levels of education which affect the competitiveness of the Thai labour force (see *UNESCO Bangkok* website).

Third, the coming into being of the ASEAN Economic Community (AEC) in 2015⁴ will introduce the free flow of trade, investment and labour within this community. Against that backdrop the Thai government has to take measures ensuring that high-skilled labour, already scarce, is not lost to economies where better wages and conditions are on offer. Here, the country's highly flexible employment and outsourcing system, which has pushed large sections of Thai labour into informality, may be a serious obstacle. Putting clear salary structures in place could be part of the answer. Indeed, the Thai government has begun to link wage rates with skill levels. In 2006 it stated plans to specify wage rates in accordance with skilled labour standards, the aim being to complete that scheme for 30 occupations and allow the Wage Committee to determine wage rates tied to skilled labour standards. In April 2011, the Labour Ministry announced (as a law) wage rates for 11 occupations to be adopted by employers. Employees that have passed the competency test administered by the ministry can get their wage adjusted according to the scale specified; employers that do not comply within six months can be fined or even jailed.

9.7 Conclusion

This chapter has focused on enduring conflicts related to wage-setting, collective bargaining and trade unionism in Thailand. Over the past 30 years, the interests of capital and state have prevailed over the interests of workers in a context where cheap, unskilled wage labour has formed a crucial component of Thailand's export-oriented development strategy. There is certainly recognition among some sections of state and capital as well as labour for the need to modify the country's reliance on cheap exports and move to higher value-added production and a stronger domestic market. This, in particular, requires workers to be better remunerated and protected. Former government commitments to invest in skilling labour may indicate that Thailand could be moving in this direction. Some observers, for example, within the ILO, interpret the 2011–13 increase of the MW in the same vein, that is, as a policy decision in line with efforts to elevate the manufacturing case of the country (cf. Le Fevre 2013b). However, in the last decade the civil administrations in charge took no steps to reform existing wage-setting institutions, or, the laws restricting collective bargaining and the role of unions. Under military rule such reforms seem further away than ever.

Nevertheless, sections of business have argued that under increasingly competitive pressure there is an urgent need to reform the key institutions for wage-setting and governing labour relations. Various trade union

federations are also continuing to press for substantial reform, especially those that protect basic labour rights to organize and bargain collectively. These pressures for reform are being resisted by other sections of business, conservative political forces and state agencies. It will be the outcome of ongoing battles between these competing interests that will ultimately determine the direction of changes in wage-setting and industrial relations in Thailand.

Notes

1. Special thanks to Andrew Brown and Maarten van Klaveren for comments, advice and support.
2. A national Thai source gives higher Gini ratios for the 1990s and early 2000s, although this did not reveal an upward trend over the whole time span (Siengthai 2008; *National Economic and Social Development Board* website).
3. See UNESCAP (2013, 25) for an econometric exercise resulting in even smaller effects on employment and GDP (add. editors).
4. The AEC members will be Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand (ASEAN-6), and Cambodia, the DR Laos, Myanmar and Vietnam (CLMV).

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10

Europe: A Comparative Perspective

Maarten van Klaveren and Thorsten Schulten

10.1 Commonalities and differences throughout the crisis

An analysis of European developments from a comparative perspective has to consider at least two important features. First, there are the different economic development models and different wage-setting regimes in the countries to be compared. Accordingly, to carry out a comparative analysis it makes sense to cluster groups of countries which represent similar ‘varieties of capitalism’. Thus, we have drawn a rough distinction between five different types of European capitalism, namely, the Nordic, Central, Western, Southern and Eastern European models. Within each type, countries show substantial similarities in both the dominant national economic development model as well as the national wage-setting regime (Table 10.1).

A second important feature to be considered here concerns the European Union (EU) and its unique position as a political entity. Currently covering 28 countries, the EU embraces national, intergovernmental and supranational forms of political regulation within a multi-level governance system. Over the years, the EU has not only exerted growing influence on national regulations but also constrained national policy-making in a way that has systematically favoured market-making liberalization policies instead of market-correcting social policies (Scharpf 1999).

As a consequence of the international breakdown of financial markets in 2008–09, Europe entered into a deep economic crisis with unprecedented, simultaneous drops of GDP rates in many European countries (Figure 10.1). As a first reaction, most national governments in Europe developed a kind of Keynesian macroeconomic crisis management, including significant stimulus packages and, in particular, the bailout of banks which de facto transformed private debt into public debt (ETUC/ETUI 2014, 21). Moreover, a number of Northern and Central European countries promoted various forms of working-time reductions (reduction of regular working time, increase of part-time work, use of temporary short-term work arrangements) in order to pre-empt the drop in GDP from translating into an equivalent

Table 10.1 Different types of capitalist models and wage-setting regimes, Europe, late 2000s*

	Nordic	Central	Western	Southern	Eastern
Countries (examples)	Denmark, Finland, Norway, Sweden	Austria, Belgium, Germany, Netherlands	Ireland, United Kingdom	France, Italy, Portugal, Spain	Baltic states, Czech Republic, Hungary, Poland, Slovakia
Dominant economic model	Account surplus (export-led)	Account surplus (export-led)	Account deficit (debt-led)	Account deficit (debt-led)	Account deficit (debt-led)
Union density	High	Medium/low	Medium	Medium/low	Low
Collective bargaining coverage	High	High/medium	Low	High	Low
Dominant bargaining level	Sector	Sector	Company	Sector	Company
Statutory minimum wage	No	Yes**	Yes	Yes	Yes

Note: *Compiled by the authors; **no statutory minimum wage in Austria.

decline in employment. The trade unions, in particular, have promoted these forms of employment-securing crisis management at national as well as company level, though such action often coincided with employer practices of labour hoarding initiated to cope with expected shortages of skilled labour (Glassner with Keune 2012; OECD 2012).

In many countries, economic stimulus packages and the rescue of banks led to a significant increase of public debt and, from mid-2010, the dominant economic policy in Europe shifted from a basically Keynesian approach towards policies of austerity and so-called ‘structural reforms’ aiming to overcome the crisis by increasing countries’ competitiveness. This policy shift was heavily promoted through the institutions of the EU which at European level had developed new forms of economic governance, leading to much stronger supranational influence on national economic policy (Schulten and Müller 2013). The latter became clear when European countries such as Greece, Ireland or Portugal came under the supervision of the so-called ‘Troika’ composed of the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF). In exchange for new credits, these countries had to accept far-reaching ‘reform programmes’, including significant cuts in wages (in particular public sector wages), and far-reaching deregulation of employment protection.

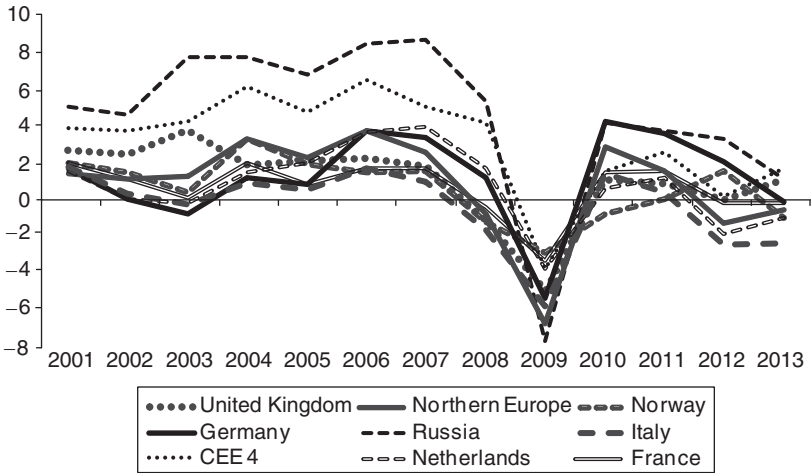


Figure 10.1 Development of GDP per capita (annual change in %, in constant prices of local currency), selected European countries, 2001–13

Note: CEE4 = Czech Republic, Hungary, Poland, Romania; Northern Europe = Denmark, Finland, Sweden.

Source: WDI (World Bank Development Indicators) database.

While Keynesian crisis management was initially relatively successful in many European countries and had promoted a temporary recovery of economic development, the shift towards austerity policy once again led to a deterioration in the economic situation. In a number of EU countries, including Denmark, France and the United Kingdom, expenditure cuts in 2011–12 accounted for at least 70 per cent of austerity measures, with tax rises coming second. A number of governments, like those of Poland, Germany and the Netherlands, took refuge in indirect tax hikes such as value-added tax increases, notwithstanding their regressive effects and the rise in income inequality that ensued. Only in a few cases were serious efforts made to focus tax rises on upper-income groups and capital, thus, for most EU countries, the overall impact of austerity packages has been to widen income inequalities (Theodoropoulou and Watt 2011; De Beer 2012). Even worse have been the various ways that negative effects on aggregate demand have accumulated. For instance, many governments have announced wage cuts or freezes for public sector employees. In Central and Eastern European (CEE) countries in particular, such measures were implemented as early as 2009, while in most other countries they came into force in 2010 or 2011 (Glassner 2010). Moreover, social spending, which had played a significant role in sustaining household disposable income during 2008–09, lost its impact notably in the Southern European and

CEE countries (EC 2014, 22, 57). Fiscal consolidation measures in a number of countries reduced the level or duration of social benefits such that benefits no longer functioned as a proper automatic stabilizer. Similarly, direct tax revenues declined, partly due to wage moderation and related falling income taxes, partly due to falling profits and decreasing profit taxes. The consequent weak development of disposable household income rapidly translated into falling domestic demand and decreasing growth, in particular in the Southern Euro-area EU member states (cf. EC 2014, 20–22, 309).

With some time lag, the EU-wide decline in demand resulted in a substantial increase in unemployment. Between 2008 and 2014, the total number of officially registered unemployed in the EU skyrocketed from less than 17 million to more than 26 million. At the same time, the average EU unemployment rate increased from 6.9 (2008Q2) to 10.3 per cent (2014Q2). However, as Figure 10.2 shows, large differences in unemployment and in development patterns could be noted across countries. By 2014, the lowest unemployment rates could be found in Germany, the Czech Republic and the Nordic countries (the Norwegian rate, not shown here, remained below 4%). The highest rates were in Southern Europe, exemplified by Italy. It should be noted that we have not included Greece and Spain here, where

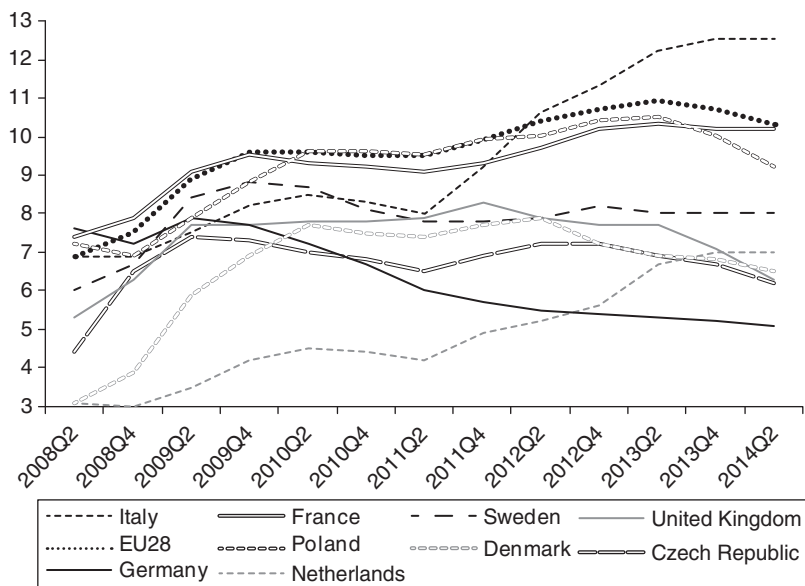


Figure 10.2 Development of unemployment rates, seasonally adjusted, selected European countries, 2008–14 (second and fourth quarters)

Source: Eurostat.

in mid-2014, according to the official figures, every fourth worker was jobless. In other words, the unemployment rates in these countries were latterly about double that of Italy. Most disquieting in all of this has been the soaring rates of youth (less than 25 years of age) unemployment, which since 2012 have averaged over 22 per cent for the EU28 and over 50 per cent in Greece and Spain, reaching unprecedented levels. In contrast, Italian youth unemployment was slightly less than this and by 2013–14 had increased to over 40 per cent (see *Eurostat* website). Recently, the European Commission has recognized that between 2007 and 2010 the worsening labour market situation has resulted in an increase in poverty and exclusion, and that high levels of youth and long-term unemployment may well lead to lasting losses of productivity and competitiveness (EC 2014a, 309). Trade union and NGO reporting have consistently emphasized the human cost of the economic crisis, in particular related to high unemployment levels, and have pointed to the growing threat to European social cohesion and the rapidly decreasing trust citizens of the EU have in European institutions (ETUI 2013, 2014; Caritas Europe 2014).

Moreover, against the backdrop of rising unemployment and the further reduction of employment protection, a significant increase of flexible, precarious or ‘casualized’ employment could be noted. This was the case in the increasingly polarized labour markets of virtually all EU countries but could even be discerned in those countries with a more favourable development of employment. Although already widely documented at European level (cf. ETUC/ETUI 2013, 2014; OECD 2013a; EC 2014), we illustrate these trends in particular for France, Italy, Germany and the Netherlands in chapters 11, 12, 13 and 14, respectively. As the European Commission has recently recognized, there appears, since the onset of the crisis, to have been an acceleration in labour market polarization ‘which may (also) be partly attributable to the effects of negative changes in those institutional arrangements that had served to protect or support lower income workers such as minimum wages, collective wage bargaining, unemployment benefit levels’ (EC 2014, 93).

10.2 Economic imbalances in Europe

There is widespread agreement that the strong and persistent economic imbalances within Europe have been one of the structural causes of the continent’s economic crisis. During the 2000s, an ever-growing gap could be seen between countries posting a current account surplus and those recording a deficit (Figure 10.3). Among the surplus countries, Germany had by far the largest account surplus, followed by the Netherlands and the Nordic states. Their respective governments had all followed an export-led growth strategy that had generated large trade surpluses. Norway and Russia should be noted as special cases here, since their surpluses were mainly based on

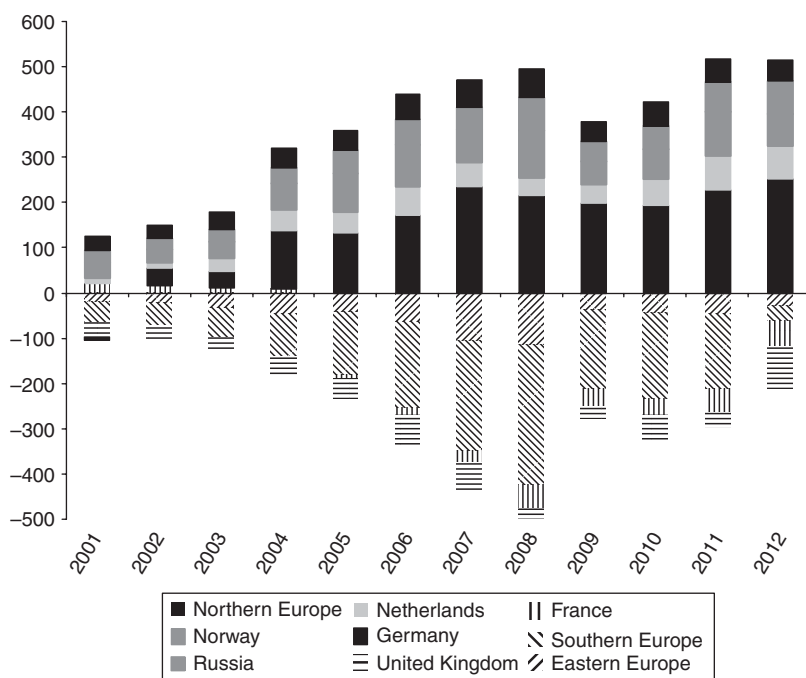


Figure 10.3 Current account balances (in billion US dollars), Europe, 2001–12

Note: Northern Europe: Denmark, Finland and Sweden; Southern Europe: Cyprus, Greece, Spain, Italy, Malta and Portugal; Eastern Europe: Bulgaria, the Czech Republic, Estonia, Croatia, Hungary, Latvia, Lithuania, Romania, Slovakia and Slovenia.

Source: IMF, World Economic Outlook database.

oil and other energy exports. The deficit countries comprised the Southern European as well as most Eastern European countries plus the United Kingdom.

In the meantime, it has been equally widely recognized that in order to overcome the economic crisis, Europe needs to reduce these imbalances. The EU has even established a so-called 'Macroeconomic Imbalances Procedure' (MIP), a European surveillance mechanism which aims to prevent and correct harmful macroeconomic imbalances. However, according to the mainstream view shared by the European Commission and most national governments, the causes of macroeconomic imbalances are closely related to national competitiveness. Thus, the main focus of the debate has been on the deficit countries and their lack of competitiveness attributed in the main to labour costs being too high. Consequently, EU policy recommendations have been focused on labour market reforms to cut wages and other social

costs. The relationship between labour costs and competitiveness is, however, relatively limited as non-price factors also influence competitiveness; for example, quality and originality of products and services. Moreover, the mainstream economics view tends systematically to underestimate the role of domestic demand (Feigl and Zuckerstätter 2013). In this book, arguments emphasizing the importance of non-price factors have been put forward particularly for France (Chapter 11), Germany (Chapter 13) and the CEE countries (Chapter 16). As we will explain in the next section, an alternative explanation for growing macroeconomic imbalances therefore focuses much more on the demand side (Stockhammer 2013b).

During the 2000s, Europe saw two ways in which countries were able to deal with their aggregate demand problems. One was through a growing export sector by which demand problems were solved abroad. This was more or less the case in most surplus countries in Northern and Central Europe. On the other hand, there were many states in which demand problems were solved by an increase of private debt. These national debt-led development models can be found in Southern Europe as well as in the United Kingdom. Since both the export- and the debt-led models depend on each other's reduction of macroeconomic imbalances, changes are not only required in the deficit countries but in the surplus countries as well.

10.3 Inequality and growth perspectives

An alternative explanation for the growing macroeconomic imbalances in Europe has to focus much more on the demand side. In Chapter 1, we pointed to the relationship between the slowdown of aggregate demand and growing income inequality, in particular the relationship with moderate wage development. Indeed, in most European countries such a development has contributed substantially to a structural lack of domestic demand. Since 1998–99, most European countries have witnessed a quite moderate wage development, in which real wage growth has often lagged behind real labour productivity increases. In Germany and the Netherlands, this was quite clearly the case, as documented in chapters 13 and 14, whereas in France until 2007 wage growth lagged slightly behind productivity growth (Chapter 11). In most CEE countries, wages grew rapidly but productivity increased even faster (Chapter 16) (see also Schulten 2013). As a result, the (adjusted) wage or labour share has been falling over most of this period in the large majority of EU member states, except in the Czech Republic, the United Kingdom and Finland (ILO 2013; Eurofound 2014). This was in line with the long-term decline of the wage share from 1980 onward, which has been noted as a global trend in Chapter 1 and detailed in that Chapter for developing countries as well as in Chapter 6 for Japan and the United States.

In a number of the following chapters, the development of the wage share has been elaborated for European countries, notably for France (Chapter 11),

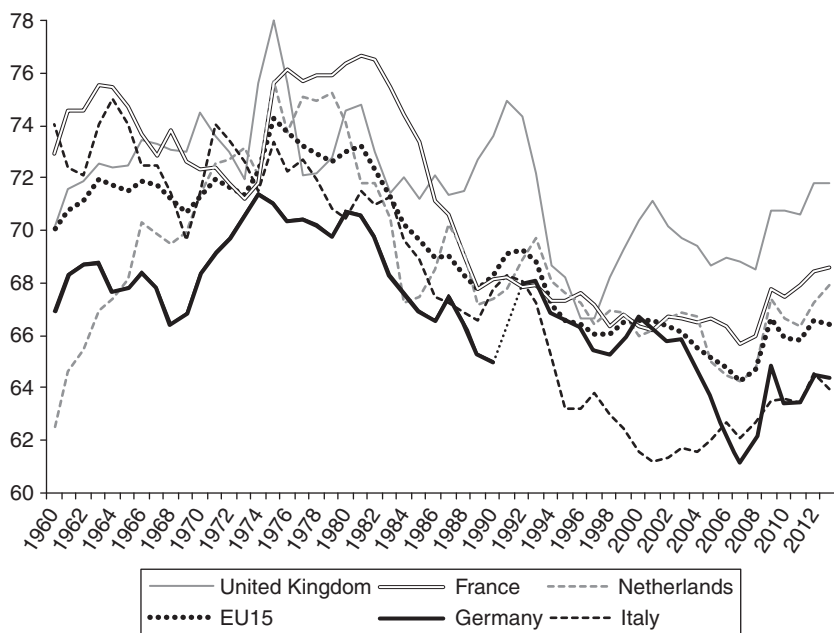


Figure 10.4 Development of adjusted wage shares in GDP, five European countries and EU15, 1960–2013

Note: Germany 1960–90 = West Germany.

Source: Ameco database.

Italy (Chapter 12), Germany (Chapter 13), the Netherlands (Chapter 14) and the CEE countries (Chapter 16). Figure 10.4 presents a long-term overview for five countries and the 'old' European Union (EU15). The national data, albeit not fully comparable to data from the main international database in this respect (the EU's Ameco database), nevertheless confirm that in the early crisis years (2008–09) the wage share increased in most European countries. This was only to be expected, since wages tend to be less volatile than profits in an economic downturn. However, this seems to have been only a temporary effect (ETUC/ETUI 2013, 52; ILO 2013, 39) – although, as Figure 10.4 suggests, the 'second dip' in their GDP in 2012–13 in some countries, at least, led to a renewed increase of the wage share. The extent to which this apparent reversal of the long-term trend of declining wage share is anything but temporary, of course, remains to be seen. The following chapters confirm recent research that institutional and policy factors have played dominant roles in the widespread decline of the wage share, notably weakening of labour's bargaining power; retrenchment of the welfare state; and increasing power of multinational enterprises, private equity funds and in particular

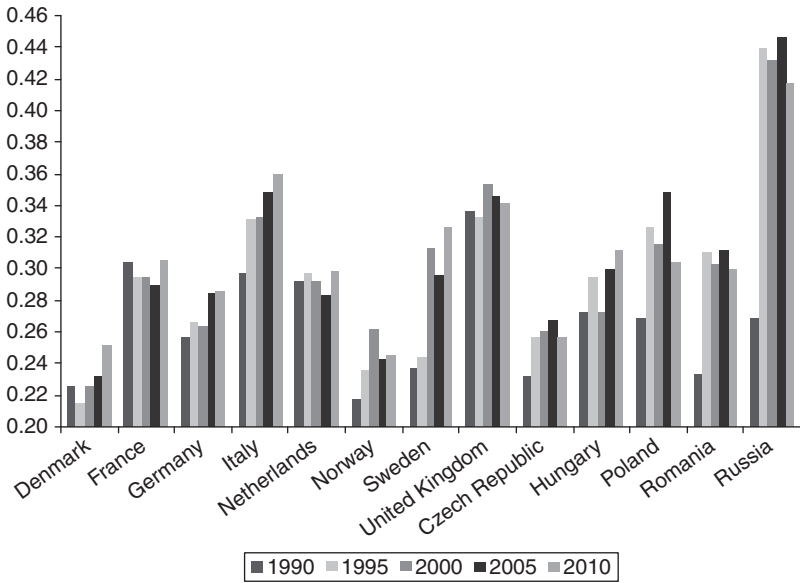


Figure 10.5 Development of Gini coefficients, 13 European countries, 1990–2010 (Hungary: 2008; Romania: 2009)

Source: Statistical Appendix, Table A.4.

the emergence of a ‘finance-dominated capitalism’ (Hein 2012; Judzik and Sala 2013; Stockhammer 2013a¹).

Figure 10.5 shows longer-term developments in personal income inequality measured with the Gini index, for the 13 European countries scrutinized in the following chapters. An International Labour Organization (ILO) research found a rather close relationship between the changes in the development of the wage share and the Gini index (after deduction of taxes and transfers – ILO 2014, 152). For the period between 2000 and 2010 and for the 12 European countries with data available (except Russia), we also found confirmation of the proposition: ‘the higher the Gini coefficient, the lower the wage share’, though the correlation was not very strong ($R = -0.35$). Over this decade, five countries had a falling labour share (Germany, Sweden, Hungary, Poland and Romania), and seven countries had an increasing Gini coefficient (Denmark, France, Germany, Italy, Netherlands, Sweden and Hungary).

Furthermore, data allowing detailed insight into what happened in this field from 2008 onward is scattered and sometimes contradictory. There is clear agreement that Gini coefficients rose in most Southern European countries including Italy, Spain and Greece. Moreover, according to our sources, this was also the case in Denmark and Sweden. In most countries, the ‘Gini’

remained stable or, as in the United Kingdom and the Czech Republic, fell slightly (see Statistical Appendix, Table A.4). Applying other inequality measures, such as the distance between the top and bottom deciles of the income distribution (D9:D1), leads to the conclusion that in the EU28 overall inequality grew slightly, with increases concentrated largely in Southern Europe (OECD 2013b; EC 2014, 17–19, 377, 394–97). Across countries, recent developments in inequalities in Europe have largely run in parallel to the growth rate of real gross household disposable income, an important indicator of aggregate demand used by the European Commission. In the first part of the crisis, disposable household income fell over 5 per cent in the Southern European countries and Ireland and less (but still substantially) in the Netherlands, the Czech Republic and Hungary (EC 2014).

10.4 A wage-led recovery? Contours of an alternative programme

The currently dominant economic policy in Europe with its strong focus on austerity and labour market deregulation has clearly failed to overcome the economic crisis (Marterbauer and Oberndorfer 2014). On the contrary, the growth rates in most European countries are rather low, and there is a clear danger that Europe will suffer a longer period of economic stagnation. Moreover, high unemployment together with strong political interventions in wage policy and collective bargaining have put heavy pressure on overall wage growth (Schulten and Müller 2013; OECD 2014). As a result, in the second part of the crisis, that is, between 2010 and 2014, real wages have fallen in 14 out of 28 EU member states while many of the remaining countries have shown either stagnation or only slight increases in real wage levels (Figure 10.6). Real wage decreases were particularly strong in Southern Europe and in some of the Eastern European countries as well as in the United Kingdom.

These weak or even negative wage developments have significantly aggravated the economic crisis in Europe as they are closely connected to the development of private consumption expenditure and therefore to a growing decline in domestic demand (Schulten 2014a). Moreover, the decreases in real wages have had a strong dampening effect on overall price developments and have significantly enlarged the risk of European-wide deflation. Under these circumstances even organizations such as the OECD have warned against continuing the current path of wage policy. As the OECD Director for Employment, Labour and Social Affairs, Stefano Scarpetta, put it recently: '[A]ny further reduction of wages risks being counter-productive because then we would run into a vicious circle of deflation, lower consumption and lower investment' (quoted in Groom 2014).

An economic recovery in Europe requires a more fundamental change in wage policies towards a more stable and more expansionary development

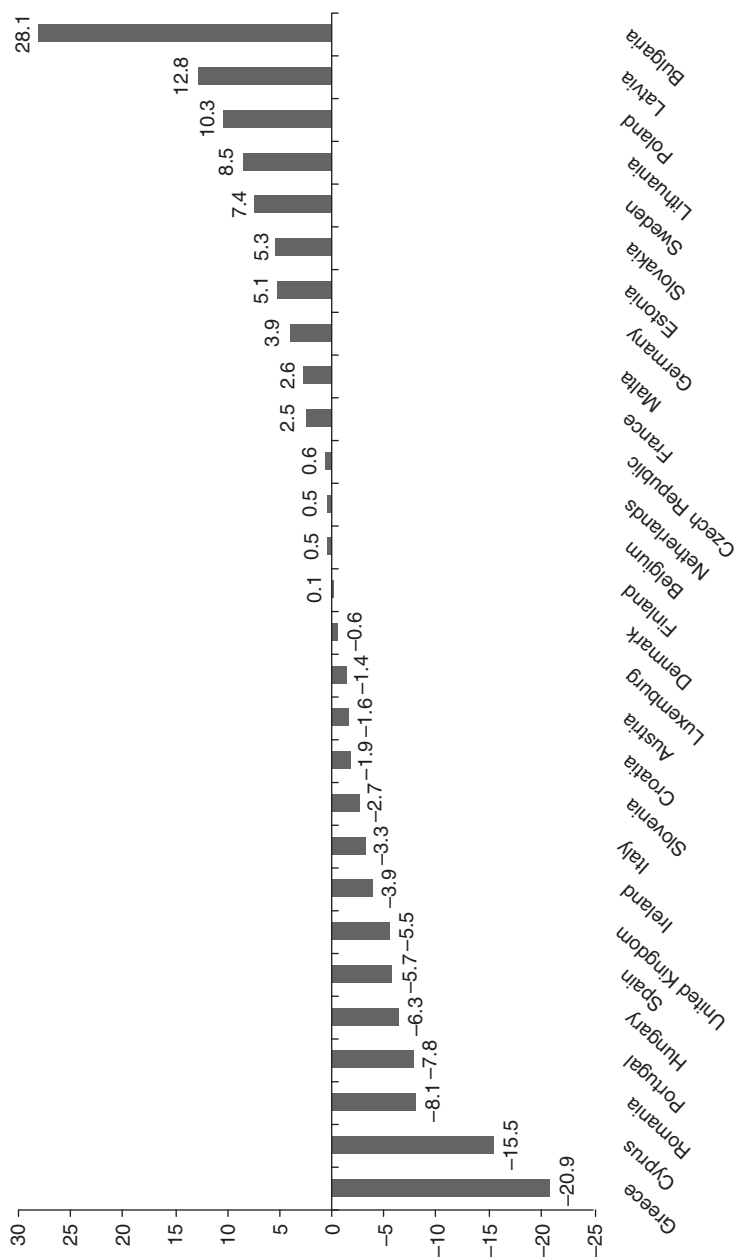


Figure 10.6 Development of real compensation in EU28 countries, 2010–14

Note: Nominal compensation deflated by the Harmonised Index of Consumer Prices (HICP). Data for 2014: Forecast of the European Commission (Winter 2014).

Source: Ameco database, calculations by the authors.

of wages (cf. Stockhammer and Onaran 2012). For Eastern and Southern European countries especially but also for the United Kingdom, there is a compelling case to stop further cuts in real wages in order to stabilize domestic demand. Additionally, most Northern and Central European countries – and, in particular, Germany and the Netherlands – need more expansive wage development to boost domestic demand and bring down their current account surpluses in order to allow more balanced economic development in Europe, as elaborated in chapters 13 and 14. Such a wage-led recovery also requires institutional backing that strengthens and expands wage-setting institutions and collective bargaining as demanded, for example, by the ILO (see Chapter 1; for Europe, see ILO 2013). However, during the crisis the policies of many European countries, notably those in Southern Europe (e.g. see Chapter 12 on Italy), have moved in the opposite direction. In order to increase the downward flexibility of wages, they have weakened their collective bargaining systems by the decentralization and sometime even the de-collectivization of wage formation. Such a neoliberal ‘neutering’ of collective bargaining has also been promoted by the EU and its new economic governance mechanisms (Schulten and Müller 2013). Nevertheless, there are also countertendencies. For example, Germany has strengthened its wage-setting institutions by the introduction of a national statutory minimum wage and a relaxation of the procedures to declare collective agreements to be generally binding (Chapter 13).

While we acknowledge the relevance of policies limiting the surge in top incomes, such as those recently emphasized by Thomas Piketty (2014) and others, our emphasis is on the equally urgent need for more comprehensive demand-led macroeconomic policies to overcome the economic crisis and reduce inequality in both Asia and Europe. Specifically from a labour perspective, such policies should be grounded on free collective bargaining and, if feasible, on well-designed minimum wage-setting systems and be supported by the expansion and strengthening of social protection. Against this backdrop, an alternative programme for a more wage-led recovery in Europe would require a European-wide approach to strengthen wage-setting institutions.

Currently, there are two strategic approaches under discussion among European trade unions and other progressive forces. First, there is the idea of a European minimum wage policy (Schulten 2012a, 2014b; Schulten and Müller 2014). Although all European countries have some form of MWs regulated either by law or by collective agreement, the MWs themselves tend to be set at rather low levels and are sometimes even below the national poverty threshold. Considering the great differences in national wage levels, a European MW is not about a single European MW rate but about a European wage norm which defines an adequate minimum wage in relation to national wages. A widely discussed proposal, for example, contends that all European countries should provide a minimum wage which corresponds

to at least 60 per cent of the national median wage (Kaitz index). Since the Kaitz index in most European countries currently remains between 40 and 50 per cent (Statistical Appendix, Table A.5), the implementation of such a European wage norm would benefit about 16 per cent of all workers in Europe (Eurofound 2014).

Second, there is the notion of a European-wide campaign to strengthen collective bargaining requiring that the procedures of European economic governance at EU level should support rather than weaken national bargaining institutions (Eurofound 2014). Such a strategy could first of all draw on the positive experiences of the Nordic countries especially (Chapter 15), which have proved the feasibility of combining comparatively strong bargaining institutions and low income inequality with good overall economic performance. A more positive approach at EU level to support collective bargaining would, in particular, also promote the extension of collective agreements. The latter have proved their value in many European countries as a core instrument to secure high collective bargaining coverage (Schulten 2012b). Finally, such an approach would also have to acknowledge the positive economic function of strong trade unions, which remain the key agency for a more equal income distribution and a more solidaristic overall development in Europe.

Note

1. It should be mentioned that some authors recently researching developments in the wage share in OECD countries concluded, like earlier research, that technological change was a major influence (cf. Bassanini and Manfredi 2012).

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11

France

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11.1 Introduction

The wage determination process in France is affected by two institutional forces. The first is the statutory minimum wage (SMW) set unilaterally by the government, and the second is a decentralized system of collective bargaining. The linkages between the two benefitted workers for three decades in a row but have changed significantly since the mid-1990s. In the aftermath of World War II, the minimum wage (MW) was a powerful tool to level social inequalities, while the social benefits collectively bargained in large companies spread to similar branches of activity and, to some extent, from one sector to another. Since the 1990s, however, this mechanism no longer functioned well due to the changing economic environment. On the one hand, the casualization of labour has undermined the benefits of lifting the MW. On the other hand, collective bargaining has been gradually reshaped through a decentralization process whereby plant-level settlements have become the standard. Accordingly, the key question for us concerns the extent to which this fundamental change in French industrial relations has affected both the wage distribution over time and the long-term dynamics of wage development.

This chapter is organized as follows. Section 11.2 provides basic information on the SMW in France, including the profile of workers currently on the MW. The rather complex linkages of the SMW with collective bargaining are analysed in section 11.3. We show here how the French collective bargaining system, successful at first, has been gradually distorted. Section 11.4 shows how the SMW has impacted on the wage distribution over time, featuring a historical break similar to that observed in section 11.3. While initially improving the living standard of blue-collar workers who were catching up with the median-waged, the SMW has ceased to produce significant egalitarian effects. In section 11.5, we go into the long-term dynamics of the development of wages, considering productivity, the wage share in GDP, and demand. Tracing wages and domestic demand, we compare France with

Germany. Finally, we analyse wages in the long run as a key component of firms' competitiveness. In our conclusion, we emphasize the profound changes in the role of the SMW in France.

11.2 The minimum wage

11.2.1 The historical context

The first SMW in France was implemented in 1950 as a statutory law. It was called SMIG, the 'minimum guaranteed inter-professional wage' (*Salaire Minimum National Interprofessionnel Garanti*). Its value was set at subsistence level, regardless of industrial occupations and was weighted geographically (the lower the weight, the further the distance away from Paris). The SMIG was indexed to inflation only. This guaranteed MW came into law after a period of rapidly growing wages (1944–50) which was a response to the war. Moreover, it followed a two-decade-long quasi-stagnation of blue-collar workers' earnings dating back to the Great Depression where between 1920 and 1938 the average earnings of blue-collar workers employed full-time in the manufacturing industry fluctuated between 85 and 95 per cent of the average national wage (Piketty 2001, 684).

Being pegged to the consumer price index (CPI), the guaranteed MW did not keep pace with the development of average gross earnings. The so-called 'Trente Glorieuses' ('Glorious Thirty' years: 1945–75), a rather exceptional period in France that saw the standard of living significantly improve for many, were not that glorious for everyone. Wage inequalities between high- and low-skilled workers rose, and by the late 1960s were the highest in the OECD area (Fourastié 2004; Piketty 2014). In March 1963, facing uncertainty in their industry, coal miners responded massively with a 35-day-long strike for the wage claims jointly launched by three trade union confederations, CGT, CFTC and FO, in ten coalfields throughout the country. This event was widely supported and has long been remembered by the general public. Similarly, as sectoral- or company-level wages had remained relatively low, several other strikes took place in the manufacturing industry in 1965 and 1966. In 1966, CGT and CFDT, by then the main union confederations, signed a unity pact laying emphasis on purchasing power, labour rights, social security and unemployment benefits. Thus, the labour movement in the first half of the 1960s laid the foundations for the historical events of May 1968 when student riots erupted and turned into a popular uprising that triggered general strikes although without strong union leadership. In response to such social turmoil, the government, employer organizations and trade unions negotiated for three days at Hôtel du Châtelet (the residence of the Minister of Labour on Grenelle street in Paris) to produce the 'Grenelle agreements' of May 26, 1968. This provided a 35 per cent MW increase (in nominal terms) along with other labour rights and further steps towards reducing the full-time working week.

Although the 35 per cent MW increase was a significant improvement for low-paid workers, it barely bridged the income gap accumulated in the past and did not provide any kind of guarantee for low wages to keep up with average wage growth. For this to happen, a systematic mechanism needed to be implemented. Thus, in 1970 the SMIC (*Salaire Minimum Interprofessionnel de Croissance*) was created. While the SMIG was a guaranteed minimum income helping workers to meet the basic needs of their family, the SMIC, by contrast, was designed as a dynamic response aimed at both widening employees' participation in the benefits of economic growth and at narrowing wage inequalities. Since then, the rate of the SMIC has been set by the government, with various adjustments depending upon four indicators:

- the annual rise in the CPI;
- inflation spikes exceeding 2 per cent within a year; in that case, the adjustment takes place immediately;
- at least half the increase in the purchasing power of the gross hourly wage earned by blue-collar workers in manufacturing; and
- the government's additional 'boost', the so-called 'coup de pouce', granted or not according to the socio-economic and political context of the year under consideration.

In 1998, the so-called Aubry law reduced the statutory working week from 39 to 35 hours and established guaranteed monthly wage rates (*Garanties Mensuelles de Remuneration*, GMR) that maintained the monthly earnings of those already working on the MW prior to the 35-hour week law, while all newcomers were paid at the new hourly rate. In 2002, up to five different rates were defined as more and more companies adopted the 35-hour week. The 2003 Fillon law reorganized these five into one rate only, a task executed in 2005.

11.2.2 Who are the minimum wage earners?

The number of MW (SMIC) beneficiaries is estimated to be equal to the number of wage earners whose salary improves with the MW upratings (see Figure 11.1). Thus defined, the proportion of all privately employed wage earners receiving the MW followed a downward trend after the high point of 2005–06 before increasing in 2010. In January 2013, 12.3 per cent of all workers in private firms were MW earners; among part-time workers, this share was much higher at 28.6 per cent (Jauneau and Martinel 2013).

Ananian and Calavrezo (2010) re-assessed the MW population based on a more restrictive definition and for 2007 reported the share of employees whose net earnings varied between 20 per cent below and 5 per cent above

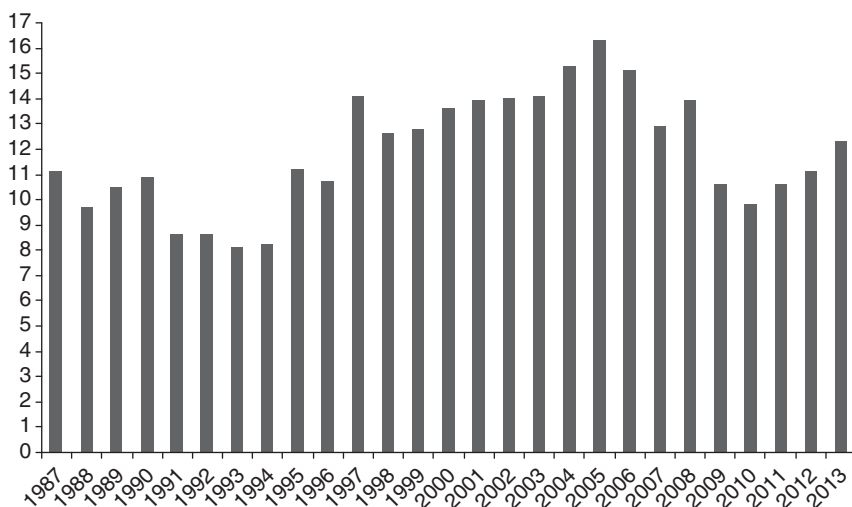


Figure 11.1 Development of share of minimum wage earners in total employees, France, 1987–2013

Source: Jauneau and Martinel 2013. Selection: competitive sector firms.

the exact SMIC value as being 7.5 per cent. This proportion was higher for women (11%), part-time workers (15%), clerks and service workers (22%), and plant and machine operators (16%). The typical MW earner is therefore a woman working part time in the service sector. Taking into account sector size, around 11 per cent of these workers could be found in the manufacturing industry, 82 per cent in the service sector and 7 per cent in construction. This is crucial information when it comes to assessing the effectiveness of restrictive labour-cost policies.

It is essential to keep in mind that the French MW is defined as an hourly rate. As women mostly work on a part-time basis, it comes as no surprise that in 2011, 75 per cent of the French low-wage workers (defined here as those earning *monthly* wages less than two-thirds of the national median *monthly* wage¹) were female. Their risk of belonging to the low-wage category was even higher between the mid-1990s and the late 2000s, when 24.2 per cent of female workers fell into this category, against 8.0 per cent of males. In other respects, the 2011 figures for low-wage earners also showed a distributional pattern similar to that concerning the SMIC earners: the risk of belonging to the low-wage category was particularly high for workers younger than 30 years of age, service workers, workers without a diploma or a completed primary education and, most strongly, part-time workers (Demailly 2012).

11.3 Collective bargaining and the minimum wage

11.3.1 Main developments in collective bargaining

Wages in France are set at three levels: nationwide, sectoral level and company level. At national level, as noted, the government sets the MW according to the strictly established rules of the annual review, albeit on a discretionary basis. At sectoral level, trade unions and employer associations bargain each year about the so-called conventional MW, that is the wage floor an employer cannot undercut for a given set of qualifications. Finally, pay determination also occurs in companies. Such a mechanism of wage setting reflected at first a 'virtuous circle' that explains the parallel development of real wages and productivity. From the 1950s to the 1980s, industry-wide bargaining was the most common level at which collective agreements (CLAs) were negotiated; only in large companies did wage bargaining take place at enterprise level. With the Auroux Act of 1982, annual bargaining became compulsory in any firm recognizing one or more trade unions, even though no pay settlement was required. Since then, the system of collectively bargained wages, hitherto relatively plain and straightforward, has become a complex and diversified process. The new practices are no longer associated with wage bargaining. As a result, the formerly large role of the unions has diminished and, to a considerable extent, they have lost their grip on wage formation.

In the meantime, the social dialogue on employment policies between the government and the social partners has developed. Currently, employment regulation is the main multi-sector bargaining subject: no less than 20 multi-sector agreements which deal with the effects of the crisis were signed between 2008 and 2013 covering labour market rules, training, youth unemployment, and so on. A new course of public action, combining governmental decision-making with social partners' responsibilities and a 'co-production of norms', has also emerged (Freyssinet 2010) although this does not apply to pay determination.

11.3.2 The early decentralization of collective bargaining

In France, social dialogue has hardly existed without either government intervention, or, an acute social crisis. Political interference in the social dialogue both reflects and maintains the loose links between social partners. After World War II, trade-union pluralism emerged in France and has prevailed thereafter. Its evolution revealed a surprisingly stable architecture with five union pillar organizations being granted 'national representativeness' by the government. The 2008 law on union representativeness introduced a new criterion based on employee representative elections results and the Ministry of Labour collected electoral data (about work councils mainly). The unions labelled 'nationally representative' in 2013 remained the same five. Of these organizations, CGT scored highest in employee representative

elections (26.8%); CFDT scored 26.0 per cent; CGT-FO 15.9 per cent; CFTC 9.4 per cent, and CFE-CGC 9.3. Union membership statistics have always displayed relatively low density rates for France, and already in the late 1960s rates barely reached 20 per cent. The oil shocks and recession of the 1970s hastened the decline and union densities have revealed constant low levels since then: 5 per cent in the private sector and roughly 15 per cent in the public sector, resulting in an overall density rate of about 8 per cent between 2000 and 2011 (Visser 2013²). Although France was the worst performing European country with respect to union density, an alternative indicator, namely the on-site presence of a trade union, showed France to be in the middle of the EU ranks in 2005 and was higher than both Germany and the United Kingdom on this measure. Despite its increase in France (from 37.5% in 1996 to 41% in 2005 – Wolff 2008), this latter yardstick does not provide any information on the characteristics of unionization at the workplace. However it appears that it has become more convenient for employers to have an in-house union rather than an external ‘player’ in order to minimize the uncertainty that can arise with a powerful external union force. So, employers have gradually found it to be in their interest to have unions in their company, which is a new development in French industrial relations (Lerais et al. 2013).

The structural weakness of French employers’ organizations mirrors the image of the trade unions. The three French employers’ associations recently attracted only a minority of CEOs. Analysing their collective action reveals the paradoxical outcome that their poor cohesion coexists with their exercising considerable influence over society (Amossé et al. 2012). The weakening participation of management representatives in employer-led organizations is mainly a consequence of the transformation of the industrial fabric that has undermined the industrial base of employers’ organizations. The loss of factories, operational facilities and manufacturing potential in places once famous for their economic attractiveness can be contrasted with the rapid expansion of services in the French economy. These structural changes saw the traditional domination of large industrial corporations, such as UIMM from the metalworking industry and its influence in the MEDEF, the central employers’ association, giving way to domestic competitors from the service sector. However, one core issue has survived these industrial changes, namely, the constant renewal of cost-reducing strategies.

Many observers of French industrial relations have queried how a country with such a continuously low union density can also have one of the highest collective bargaining coverage rates, embracing over 90 per cent of employees. Shedding light on this paradox requires a short reflection on the background of the French system of collective bargaining. Despite the steady development of common agreements, legislation has remained the principal source of regulation. This pre-eminence is of course attributable to France’s well-known republican tradition wherein the government is

responsible for protecting workers and their individual rights. The key role of labour law in collective bargaining mitigates the long-standing mutual distrust between employers and trade unions. In order to compensate for the weakness of bargaining regulation, a specific procedure was implemented in 1936 which required the contents of sector-level agreements to be binding on all employers of similar activity, with or without registered membership of a professional association. This extension procedure helped to offset the weakness of employee and employer representation as well as the employers' lack of incentives to bargain. In the 1950s and the 1960s, such a mechanism, alongside the technical support provided by the Ministry of Labour through joint consultative committees, ensured the rapid diffusion of locally bargained benefits to the entire workforce within industries. Later on, the benefits from collective negotiations spread out on a macroeconomic scale at variable speed depending, among other things, upon employers' strategies. The Collective Labour Agreement Act of 1971 legalized the triple space where collective bargaining was taking place, namely, at the multi-industry, sectoral and company levels, in descending order of priority. The social advantages attained at multi-industry level take precedence over any inferior content of the latter two. In other words from the employee's perspective, the most favourable clause will prevail over any other less favourable clause (derogation *in mejus* or 'favourability clause').

In order to gain flexibility, and to get around the domination of sector-level agreements (and eventually to get rid of them), MEDEF has, since 2000, been advocating a type of firm where the employee status has to be tied to a collective contract, with or without trade union mediation. In July 2001, four union confederations – CFDT, CFE-CGC, CFTC and CGT-FO – and three employers' organizations including MEDEF agreed upon a 'common position' setting out their wishes for reform of the rules governing collective bargaining. The central plank of this proposed reform was the introduction of the 'majority principle'. This text did not contain a firm decision on the issue of the hierarchy of norms, which was demanded by employers' associations. The overhaul of collective bargaining, also desired by some trade unions, finally occurred in 2004. The act of May 2004, amended by the law of August 2008, introduced four main reforms:

1. Electoral success was required, before trade unions could take part in collective bargaining. The minimum threshold at the enterprise level, set at 10 per cent of the votes in work council elections, took effect in 2010 at the firm level and was expected to be applied to other levels by 2013.
2. A majority criterion was introduced meaning that any agreement would only take effect once unions had gathered 30 per cent or more of votes at the latest elections and only if that was not blocked by the majority of unions at the level concerned.

3. Plant-level agreements could waive higher-level bargaining agreements, even towards less favourable dispositions for workers, except in four areas: MWs, classifications, vocational training and supplementary social protection. At the same time, three dispositions limited the recourse to such waivers. First, the law granted the majority organizations more opposition possibilities. Second, industry-level negotiators could 'lock-up' other topics and exclude them from company-level waivers. Third, waivers could eventually be cancelled by an industry-level joint committee. In the end, this arrangement reinforced the decentralization process of the collective bargaining system.
4. Bargaining possibilities were extended by law to companies without union representatives.

11.3.3 Wage bargaining: Lack of positive spillovers

The historical evolution of the French industrial-relation system shows a dual system between the central administration (the third-party arbitrator) and the company level, where executive managers advocate business negotiations. The decentralization of collective bargaining, strengthening solidarity among wage earners in the same professional field and preventing the social benefits gained by unions to spill over to the sector at large, has received strong political support. In quantitative terms, the number of sectoral CLAs is not a good indicator of the number of employees benefiting. Their development may give the illusion of a familiar system taken for granted by all, but the quality of the social benefits gained has always been questionable. While a first look at the statistics suggests satisfying outcomes, a closer look at contents dampens such enthusiasm.

Industry-level bargaining depends strongly upon government intervention and political willingness. This is true for employment-related policies and also for wage matters where the government intervenes through MW setting. Although industries differ widely in economic terms, about 4 per cent of sector-level CLAs cover 50 per cent of wage earners. At the same time, the political impulse for widening collective bargaining coverage has led to the duplication of many small subsectors. Here, the contents of CLAs simply reproduce the Labour Law on specific matters, leaving plenty of room for individual employers to manage human resources their own way. Coexisting side-by-side is the regulatory power of industry-wide agreements that are supposed to play a leading role. Central here are the metalworking industry, construction, the banking sector, automobile manufacturing and the oil and energy sector – all with huge variety (Jobert 2003). However, since the 1980s the balance between industry-level and plant-level agreements has tilted towards the latter and to large firms, in order to negotiate wage rates as low as possible and to review the compensation system through pay individualization (Barreau and Brochard 2003). The outcome is a widening wage gap

between high-tech companies and the corresponding industry agreements. Furthermore, the trend towards individualization of pay and the development of non-wage remuneration continues to increase the fragmentation of pay bargaining.

In the 1990s, MWs were diverted from their original purpose. For most low-qualified workers the base pay derived from the salary grids of CLAs was below the SMIC floor, with employers bridging the gap with tax-exempt additions and other allowances (Schulten and Vincent 2014). However, in many industries and in various occupations in the public sector, the lowest wage rates of CLAs set by job evaluation schemes were below the SMIC and many CLAs failed to increase these wages above the SMIC level (Gautié 2008). The declining influence of CLAs on the wage distribution has narrowed the range of negotiated earnings to the lower levels. In particular, levelling down to the wage floor has resulted in deviation from the collective bargaining norm. Thus, the MW has become a floor wage for all low-skilled blue-collar workers and unskilled employees in France (Rassu 1993, 61). By the end of the 1990s, wage data for the tail of the distribution displayed a much lower dispersion than could be derived from the salary grid of CLAs. The downward trend of all low wages towards the SMIC level has, in effect, squeezed the income dispersion across sectors and continues to undermine career opportunities for employees hired at low wage rates (CSERC 1999; INSEE 2005).

In the 2000s, human resources management strategies emphasized individualized pay. Bargained wages became locked between the SMIC lower bounds and the variable part of compensation: bonuses, profit-sharing schemes, company savings plans and the like. The variable part may have been subject to bargaining: 18.4 per cent of enterprise wage settlements signed in 2008 dealt with it, against 14.4 per cent in 2006. These agreements were typically negotiated by works council members, whereas the basic pay negotiations remained in the hands of union delegates. Given the standardization of individualized pay, the development of related allowances and the decline in bargaining power (Castel et al. 2012), trade union strategies focused mainly on general wage increases have become increasingly ineffective, in particular for those in the tail of the income distribution. Such changes revealed vulnerabilities in the French industrial relations system associated with mass unemployment and low union density. Collective bargaining currently takes place at more decentralized levels than in the past, although the scope of negotiations has narrowed as new management methods have been introduced. Unions are presently rather weak at the firm level and, as a consequence, their bargaining power is very low. The SMIC which in effect 'crowds out' wage agreements less favourable to workers, can be viewed as a compensating factor for a deficient bargaining process (Gautié 2008).

11.4 The minimum wage and wage inequalities

In the history of wage inequalities, basically two phases can be distinguished after World War II. The first is the period from 1950 to 1968, which showed an expanding gap followed by a sharp reversal from 1968 to 1982. Second, a new phase of rising inequalities could be seen from 1982 to 1999, that have continued into the 2000s where growing numbers of low-wage workers as well as a pattern of rising top incomes have been a feature.

11.4.1 The minimum wage: A powerful tool against wage inequalities

In the reconstruction years after 1944, double digit economic growth rates were recorded in France. The hierarchy of the domestic wage structure was initially reshaped by a combination of factors, largely the 'Parodi salary grid' that tied blue-collar employees to work station descriptions and the type of employee reward systems that were implemented. The way in which the SMIG, introduced in 1950, was disconnected from labour productivity ensured the guaranteed MW did not keep pace with the national median wage. For example, between 1951 and 1967 the purchasing power of the MW increased by 22 per cent while the median wage doubled. As a result, the Kaitz index (MW as a percentage of the median wage) fell from 0.68 in 1951 to 0.42 in 1967.

The events of 1968 marked the beginning of a new era for the MW. The Grenelle agreement provided for a substantial rise in the guaranteed MW but the overall impact of this agreement on the earnings distribution remained limited. What really made a difference was the replacement in 1970 of the guaranteed MW by the SMIC. This introduced a more favourable indexation system that took economic growth into account. As a result, the MW narrowed the gap with the higher paid between 1967 and 1982: against a 228 per cent increase of the MW in real terms, the median wage grew by 47 per cent and top earnings only rose 10 per cent. In 1981, the newly elected government granted permission for a final push before a long period of low inflation began. In 1982–83, the newly implemented policies of competitive disinflation started to reverse the SMIC trend towards wage equality. Real wages no longer increased, and between 1982 and 1989 the wage share in GDP suddenly fell (see Figure 11.4). The SMIC, however, did not benefit from government support any longer. Its purchasing power remained constant, while that of median earnings grew by 2.6 per cent and that of those in the ninth decile by 4.9 per cent (Figure 11.2).

Around the turn of the millennium, the reduction of the working week to 35 hours directly raised both the hourly and monthly MW. Although many working time reduction agreements planned a pay freeze for a while, overall, the Aubry law helped to underpin the adjustment of low wage rates while higher earnings brackets did not grow as fast. For example, between

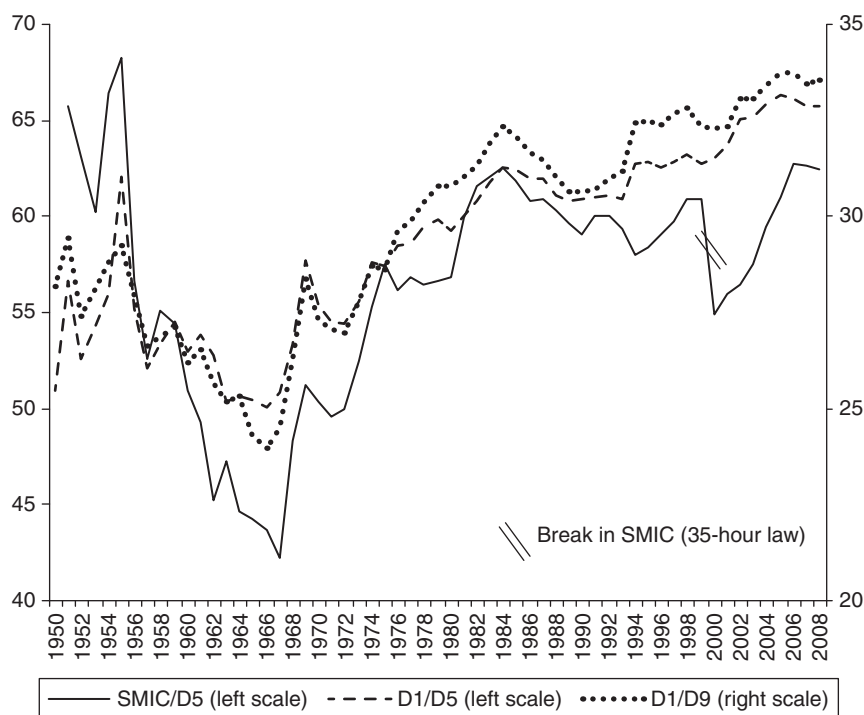


Figure 11.2 Development of three indicators of wage distribution, France, 1950–2008

Note: D1 = first (lowest) decile; D5 = median decile; D9 = ninth decile. Selection: Pre-tax wage income net of social contributions; full-time wage earners in the private sector.

Source: INSEE, DADS.

1999 and 2008 the real national median wage grew only 0.13 per cent annually, compared to 1.14 per cent between 1989 and 1999. In the latter period the real MW increased by 0.42 per cent annually, less than one-third of the growth in the first period (see Table 11.1). An effort to assess the impact of MW increases on other wages found that a 1 per cent rise in the SMIC in the early 2000s was almost entirely passed on to the SMIC-neighbouring wages (up to 1.1 SMICs), about half of it on to slightly higher wages (in the interval of 1.4 to 1.5 SMICs), and not at all to wages twice as high as the SMIC – pointing to strong wage compression (Koubi and Lhommeau 2007; Goarant and Muller 2011). Between 2006 and 2012, according to the OECD Minimum Wage Database the Kaitz index value for full-time workers stabilized at 0.50 (average wage) respectively at 0.61–0.62 (median wage) which, from a European perspective, were relatively high values. There are some serious caveats here though. The main one being that the share of those on the MW, at just over 12 per cent in 2013, was quite high relative to other countries.

Table 11.1 Growth rate of real wages (annual change in %), France, 1989–99 and 1999–2008

	1989–99	1999–2008
First decile	1.46	0.65
Minimum wage	1.34	0.42
Median wage	1.14	0.13
Ninth decile	0.91	0.23

Source: INSEE, DADS.

Moreover, a substantial proportion of MW earners could even be paid a basic salary below the SMIC, provided that their base pay was complemented by a varying share of compensation that in total exceeded the MW threshold.

11.4.2 Casualization of labour versus the minimum wage

As employment flexibility and casualization of labour have gained ground since the mid-1980s, the recruitment of part-timers has become the norm. It is overwhelmingly the case among low-skilled workers. According to the fiscal data used by INSEE, the share of low-wage earners was 85 per cent among those working less than 600 hours a year in 2006, whereas this share had almost disappeared among full-time employees. Women have been particularly exposed to this form of underemployment, and this nurtured the gender pay gap. According to Eurostat, in 2010 the gross hourly earnings of women in France were 15.6 per cent lower than those of men. Neither did the gender pay gap in France decrease between 1996 and 2010 (Tijdens and Van Klaveren 2012). Our interpretation of these outcomes is that the key determinants of wage differences between male and female workers – that is activity profile, job characteristics, the duration of work and working hours in particular – are stuck in the past and have failed to change. Without radical measures, further improvement is hardly expected. The combination of part-time work and short-term contracts has proved to be a powerful tool for employers to enhance numerical flexibility at company level. In 2006, 80 per cent of new appointments were on fixed-term contracts; two thirds of these (9 million) were for less than a month. In addition, 16 million contracts were issued by temporary employment agencies; again, 88 per cent of these lasted less than a month and 25 per cent just a day (Lagarenne and Lamarche 2008). This structural trend of the degradation of work that started in the 1980s has kept on spreading alongside French society's descent into mass unemployment.

It should be noted that taking part-time work into account drastically changes the most used wage inequality indicators. Officially, the low-wage indicator is published for full-time employees. Part-time work is converted into full-time equivalents (FTEs), so that annual earnings are equal to an

hourly wage rate multiplied by the number of working hours in a year. In this way, Eurostat identifies the low-wage earners *among full-time employees* as those earning less than two-thirds of the national median wage *per year*. Some 6.1 per cent were thereby considered low-wage earners in France in 2010 (6.1 per cent in 2010, the latest available year: Bezzina 2012). To take the duration of employment into account, annual earnings are defined instead. Unlike the definition based on hourly wages, *annual earnings (revenue salarial)* are the sum of all wages and salaries earned within a year or during the reference period. Thus, the latter indicator mirrors the impact of underemployment on low-wage earners. For example, in 2006 the low wage rate was no longer 7.1 per cent of full-time employees as registered by Eurostat for France, but 25.1 per cent of all workers in Metropolitan France (INSEE 2009, 24). Likewise, INSEE (2012, 82) reported that in 2009, the D9:D1 inequality ratio rose from 2.9 using the FTE method to 16.3 if the annual earnings aggregate was used.³ Such a gap reveals how much work duration and working hours matter in measuring wage inequality. Similar results appear using the Gini coefficient (Table 11.2). The benefit of raising the hourly MW is cancelled out by the loss of working hours.

By any yardstick, the outcomes since the turn of the century point to growing wage inequality in France, and particularly so if one takes the development of top wages into consideration. The share of the top 1 per cent, which was less than 6 per cent in the 1980s and 1990s, increased to 7.5–8 per cent in the early 2010s (Piketty 2014, 290). This surge in top wages, first emerging in the United States, is now also occurring in France. For instance, in 2007, the average net real wages of the top 0.01 per cent of earners were equal to about 120 years' worth of SMIC (Solard 2010). A sectoral approach shows that finance, accounting for just 3 per cent of private sector employees, is responsible for half the rise in inequalities at the top end of the wage distribution (Godechot 2011).

In the aftermath of the 2008 global crisis, the depressed labour market fuelled an increase in the share of low-paid workers from 14.9 per cent in

Table 11.2 Gini coefficient, annual personal earnings (wages and salaries), France, various years

Population units	OECD 2000*	EU-SILC 2007**	OECD2008***
Working full-time, full-year	0.28	0.29	0.30
Working both full-time and part-time(>6 months a year)	0.32	0.33	0.35
All wage earners(working at least one month in year)	0.31	0.33	0.40

Note: *OECD 2008. **European Union Statistics on Income and Living Conditions (EU-SILC) database using 2007 data for France (annual gross series of cash income, net of tax on social contributions, both employees and self-employed considered – authors' own calculations). ***Hoeller et al. 2012, Annex 2.

2007 to 16.1 per cent in 2011 (Demailly 2012). First, the jobs destroyed hit non-qualified males in the manufacturing industry, the construction sector, and temporary workers (*intérimaires*). As a result, the unemployment rate increased from 7.4 per cent in 2008 to 10.4 per cent in 2013. Second, the overall number of hours worked per person employed dropped sharply in response to the economic downturn. Through reduced working hours, the economic crisis directly affected labour earnings. Though the average monthly basic wage was little affected by the crisis, about 30 per cent of firms cut the variable components of compensation in 2009 (Gautié 2012, 213). A year later, large portions of the annual bonus and wage supplements were reduced, (if not fully eliminated), because of the crisis, especially the variable part of the pay-check related to company performance. In 2010, more than half of all workers did not receive any kind of variable pay (performance-based individual or collective bonuses, premiums or earnings from profit-sharing). Meanwhile, the decile of workers who most benefited from the variable component of compensation received 57 per cent of all amounts dedicated to it (INSEE 2013, 59).

11.5 Development of wages: The long-term dynamics

11.5.1 The overall picture

Taking a historical perspective enables a better understanding of how wages have evolved and anyway is necessary because new statistical evidence has rekindled the debate on how best to measure the wage share of national income. This approach is based upon a comparison between the long-term trends of real wages and labour productivity. First, we look at wage share, real wages and (per capita) labour productivity to reveal, the dynamics of overall income distribution (see Figure 11.3).

Four relevant periods appear clearly:

- From 1960 to 1974 real wages grew at the same pace as the productivity rate (5% and 4.9% yearly respectively), resulting in a fairly constant wage share trend.
- The 1974–75 worldwide recession opened a transitory period marked by a sharp slowdown in productivity, yielding an annual GDP growth rate of only 2.7 per cent. Real wages followed a similar but less marked pattern, so that the wage share reached its peak in 1982.
- The 1980s featured a sharp drop (by 8 percentage points) in wage share resulting from the combined effect of the sluggish growth of real wages (0.4% yearly from 1982 to 1989) and an annual labour productivity growth rate of 2.2 per cent.
- From 1989 until the crisis of 2008, the rate of growth of productivity slowed down again (1.2% yearly on average), whereas at 1 per cent the increase in real wages remained a bit lower, so wage share continued to decline slowly.

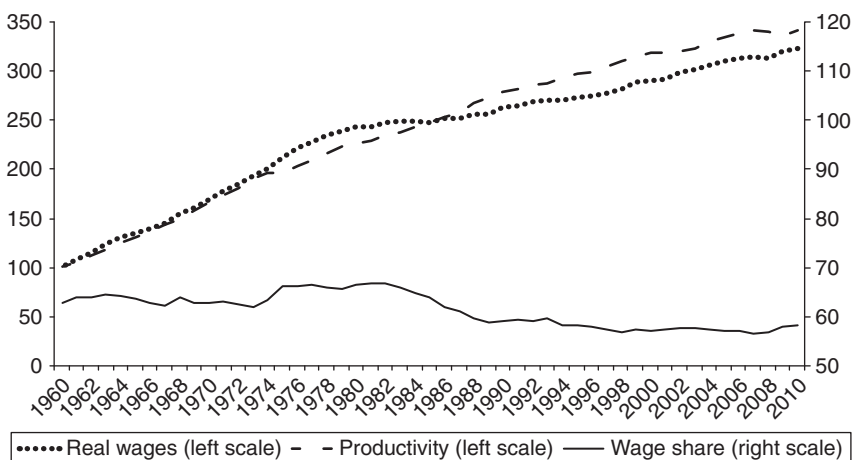


Figure 11.3 Development of real wages and productivity and wage share, France, 1960–2010 (1960 = 100)

Source: Ameco database.

The time intervals presented here are based upon data published by the European Commission (Ameco database) for the economy as a whole. An adjusted wage share is calculated by allocating an average wage to the self-employed workers. INSEE usually considers non-financial corporation data instead, which necessarily produces a different picture, but the historical pattern remains the same. This pattern while specific to France hardly differs from the long-term European average. The main difference relates to the 1975–90 period: here, the French wage share grew much faster than the EU15 average, before falling back to that average (see Figure 11.4).

11.5.2 Wages, demand and profits

Real wages evolve with labour productivity, but the linkages between the two are distorted by the unemployment rate. In a full-employment economy, real wages are strictly indexed to productivity; the two indicators disconnect whenever an increase in unemployment occurs. This hypothesis can be tested using the following econometric equation:

$$\Delta lw = a + b \cdot \Delta lprod + c \cdot Ulprod,$$

where lw is the log of real wages, $lprod$ is the log of productivity and $Ulprod$ is the cross product between unemployment rates and the log of productivity. The results for France (see Table 11.3) support evidence for the unemployment hypothesis, and capture effectively the overall trend of real wages in the economy as a whole as well as in specific sectors.



Figure 11.4 Development of adjusted wage share, France and EU15, 1960–2013

Note: Compensation per employee as percentage of GDP at factor cost per person employed.

Source: Ameco database.

Table 11.3 Regression results: Wages, productivity and unemployment in exposed, sheltered and public sectors, France, 1960–2010

Sectors	R^2	$\Delta prod$	t	$Ulp prod$	t
Exposed	0.579	0.126	1.5	−0.115	−7.3
Sheltered	0.579	0.165	1.1	−0.098	−5.4
Public	0.571	1.056	5.6	−0.056	−2.5
Total	0.656	0.066	0.5	−0.119	−6.4

Note: Authors' calculations.

Up to the 1980s, the Fordist model of production led to proportional changes in real wages and productivity. Yet, this model no longer holds. During the 'neoliberal' era that followed, real wages got disconnected from labour productivity under the pressure of rising unemployment. The French economy is strongly dependent upon private consumption, and consequently, on household demand. While the wage share has been more or less constant, consumption has been rising faster than GDP since the beginning of the millennium, boosting economic growth. Capital incomes and public transfers explain most of it. The story is entirely different in Germany

where the declining wage share caused private consumption to fall as well (see Figure 11.5).

The German economy appears to be 'export-led' while France shows 'consumption-led' or 'wage-led' growth. This fundamental difference between the two economies poses a problem for the economic coherence of Europe. Several studies have underlined the depressive effects of the sluggish domestic market in Germany on other European economies (see also Chapters 10 and 13). The decrease in labour costs in France is not fundamentally likely to alter the situation. Should Germany change its model and France keep its own to avoid a recessionary bias in the European economy? The debate is open.

11.5.3 Sector dynamics and firms' competitiveness

The wage level is a key component of competitiveness – though not the only one. Most international trade flows come from the manufacturing industry, and three sectors must be distinguished to illustrate the relationship between wages and competitiveness:

- the 'exposed' sector, that is, the manufacturing industry (except energy);
- the 'sheltered' sector, that is, includes market services and construction; and
- the 'public' sector refers to non-market services.

In France until the mid-1970s, the trend has been relatively uniform across sectors. The slowdown followed suit and affected in particular the public and the sheltered sectors. Real wages in the sheltered sector were almost frozen between 1980 and 2000. However, it is striking that this slowdown has been much less pronounced in the exposed sector, thus, in the late 1990s, its wages caught up with and overtook the wages of the sheltered sector (see Figure 11.6).

Over the last decade, the trends in wages were similar in the three sectors and for different categories of employment. They were though relatively disconnected from their typical long-term determinants. Linkages still exist between wage and the productivity cycle in the exposed sector, and between wage and unemployment in the sheltered sector but these ties have been loosening. Overall, the dynamics of wage fixing seem to have been following a new pattern where economic growth was no longer a key determinant.

In each sector wages must be compared to productivity gains but relative prices also matter. They affect the distribution of added value between sectors and impact on sectoral profit margins. The relative price of a given sector is inversely related to the productivity of that sector, as empirical evidence shows. The capacity of a given industry to capture productivity gains carried out at the national level not only depends on its own efficiency, but also on relative prices. Let us label pQ/N the national labour productivity,

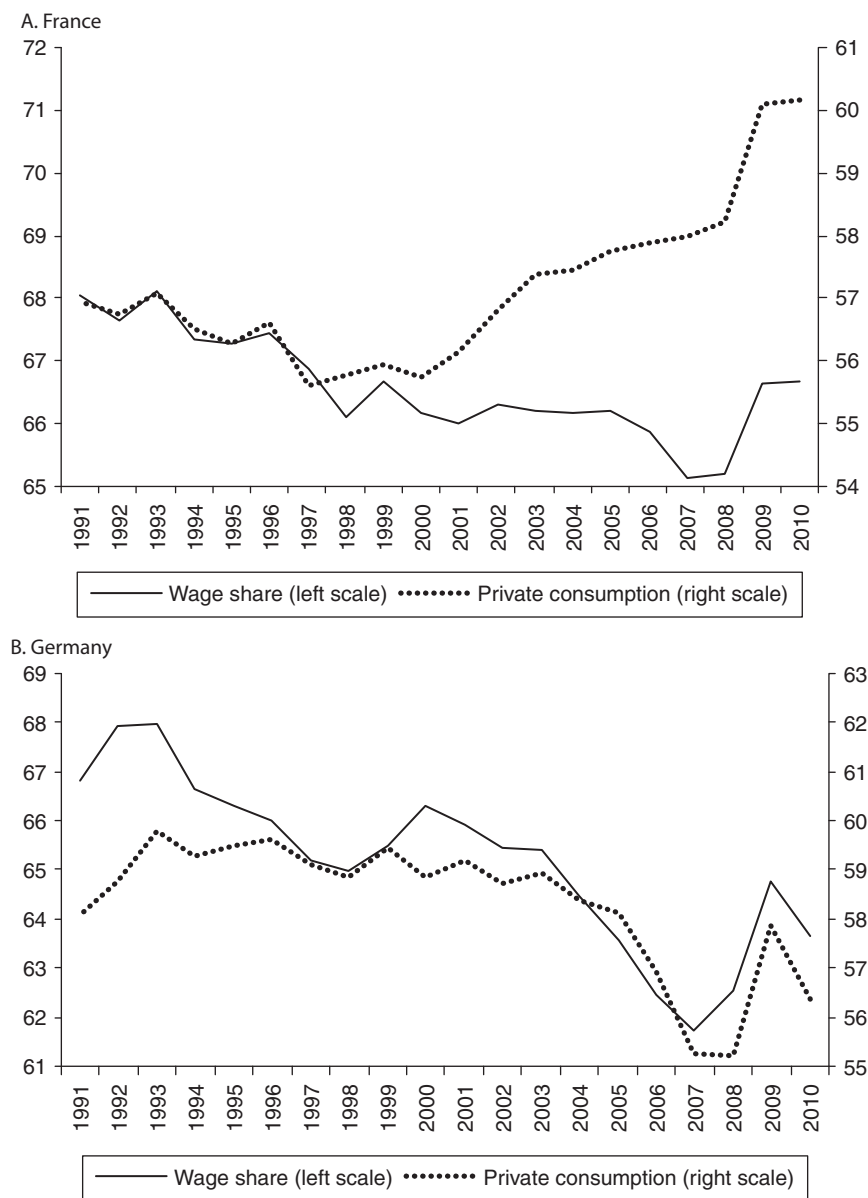


Figure 11.5 (A, B) Development of private consumption as percentage of GDP, France and Germany, 1991–2010

Source: Ameco database.

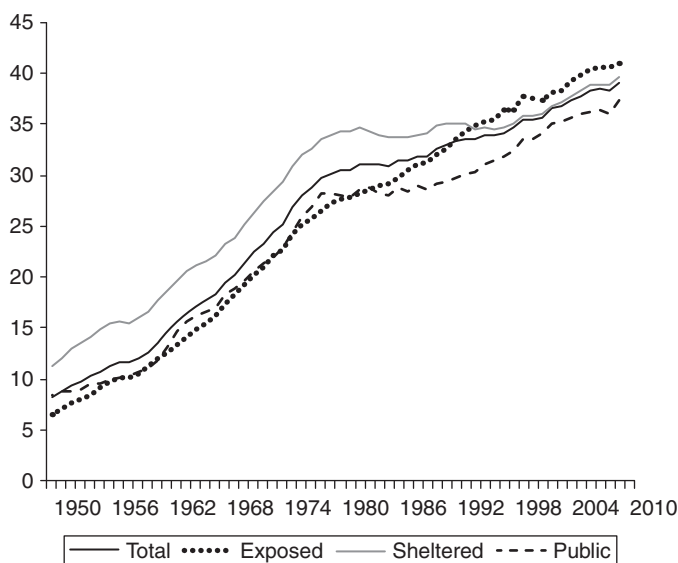


Figure 11.6 Development of real wages by sector, France, 1950–2009

Source: INSEE (in 2005 Euros \times 1,000).

where p is the price index, Q is the domestic output, and N a measure of employment. The productivity gains captured by sector i may be equal to the ratio $(p_i Q_i / N_i) / (pQ / N)$, which is an increasing function of the relative labour productivity of the i th sector $(Q_i / N_i) / (Q / N)$ and a decreasing function of its relative prices (p_i / p) . In comparison to other sectors, the wage share in a given sector – and therefore its profit share – depends upon labour costs, relative prices and productivity gains seized by that sector from others.

In France, the profit margin of the exposed sector has significantly deteriorated in the last decade because lowering relative prices have more than offset relative productivity gains. From this point of view, Germany evolved in the opposite direction in the pre-crisis period (see Figure 11.7). In France, productivity gains generated by the exposed sector have been captured by the sheltered sector. In Germany, the exposed sector kept its productivity gains, and for that reason its profit margins could reach high levels. Unlike Germany, France's competitiveness characteristically depends more on relative prices across sectors than on unitary labour costs.

11.5.4 Non-wage labour cost policies

In France, fiscal policies aimed at alleviating the social contributions based on salaries started to develop from 1993 onwards, with an impact growing over time. In 2011, these tax exemptions totalled EUR 28.3 billion (9.3% of all contributions), 90 per cent being offset by budgetary transfers (Acoss

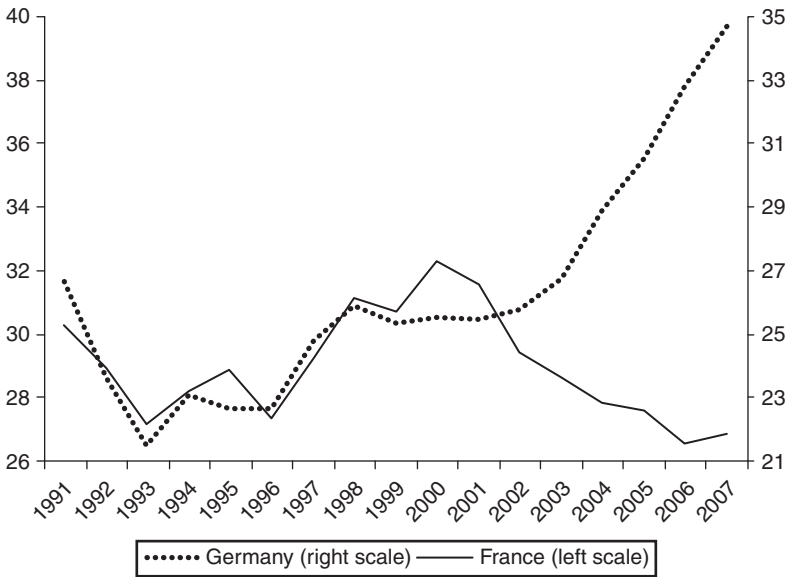


Figure 11.7 Development of profit margins in the exposed sector, France and Germany, 1991–2007

Source: OECD STAN database.

2012). From the employers' perspective, the share of social contributions in the overall wage sum has been steadily declining since the mid-1990s, from 27.5 to 24.5 per cent in 2012 (source: INSEE, non-financial firms).

Three arguments have been invoked to justify these policies. First, a higher degree of competitiveness could be achieved by reducing labour costs, since labour regulations were less stringent in competing countries. Second, the unit labour costs of low-skilled workers exceeded their productivity rate, which impeded their employment. Reductions of social contributions were, therefore, a means to close this social wedge. Third, the law on the 35-hour working week included cuts in social contributions to offset the rise of hourly wage rates resulting from the rule of maintaining monthly wages. These exemptions have always been calibrated in SMIC shares on a sliding scale up to 1.6 SMIC. Today, they apply to 55 per cent of French wage earners. The latter policy has widened the gap between labour costs for the employers and net wages, especially for the low-skilled workers. The evaluation of labour-cost policies has fuelled a controversy over each of the three arguments. As regards competitiveness, the under-representation of MW earners in competitive sectors explains why an official report highlighted that tax exemptions on labour mostly benefitted the service sector that does not directly face international competition – a real godsend (Liaisons Sociales

2006). Moreover, the reduced social contribution taxes provided by the 35-hour law have fully offset the cost of its application, ending up on a neutral effect on competitiveness (not a negative one). Thus, these policies did not promote human capital as a source of competitiveness. In terms of employment, there is no evidence showing decreasing unemployment in the sheltered sectors. Neither did these labour cost policies improve the mobility of low-skilled workers (Lhommeau and Rémy 2009), while triggering a downward spiral at median wage levels.

11.6 Conclusion

The role of the statutory MW in France has undergone profound changes as the socio-economic environment evolved around it. In the years of rapid economic growth, a powerful system of industry-level collective bargaining spread the sharp MW increases from one branch of activity to the other and from firm to firm. Since the mid-1990s this virtuous circle has been broken; wage inequalities appear within the same occupational status, blue collars and white collars alike. Today, the French MW is the last social shield for labour standards. Given the tremendous decline in industry-level agreements, the SMIC represents a gravitational pull for whatever minimum is negotiated. This results in downward pressure on the lower tail of the wage distribution (a growing share of MW earners along with the limited SMIC effects on other wages), and goes hand in hand with conservative fiscal policies lowering the social contribution taxes on labour. A major question remains: Is the French MW still a powerful tool improving standards of living through incentives to adjust qualifications and productivity gains, or, has it simply helped legitimize the low-paid jobs on offer in many companies?

Notes

1. Deviating from most comparable international low-wage data, based on hourly wage figures.
2. Assessing the number of trade union members is a tedious task in France. Besides the figures released by the unions themselves (known to be over-estimated), two data sources can be used: the continuous survey on households' living conditions published by INSEE and the decennial Census. The only data source evaluating the coverage rate of each union through a representative sample of firms is the REPONSE survey collected by the Statistics and Research Department (DARES) of the Ministry of Labour.
3. To the best of our knowledge, the low wage rate based on an annual measure of labour earnings regardless of employment status (in the working population) has not been updated since then.

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Italy

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12.1 Introduction

The Italian system of industrial relations has been undergoing a prolonged phase of transition. The numerous events which have hit it in recent times have rapidly and profoundly changed the traits that marked the Italian model. Reasons and causes are both exogenous and endogenous, economic as well as institutional. The main exogenous factors are globalization, the financial crisis and the economic downturn, as well as the role of the international and European institutions, with their interventions in national policies. This scenario is partially shared with other deficit countries and is currently exerting pressure on historically divergent models of industrial relations (Katz and Darbishire 2000) to converge with those dominated by neoliberal policies (Baccaro and Howell 2011). Among the endogenous factors, we include the structural weakness of the Italian economy, with its territorial and social dualisms, macroeconomic imbalances, stagnating productivity and declining competitiveness, inadequate development of human capital and segmented labour markets. Last but not least, there is the uncertainty attached to a model of industrial relations created by a degree of voluntarism and legal abstention unknown in other developed economies.

Collective bargaining has repeatedly been the subject of reforms and has been undermined either from the top, by European interventionism, like the Fiscal Compact and its national implementation, or from the bottom, as in the case of Fiat described in this chapter, offering employers a regressive exit strategy that could otherwise be defined as a model of 'organized decentralization' (Traxler et al. 2001). Recent Italian governments have been active in implementing the austerity measures required by the European Central Bank (ECB), adopting cuts in public expenditure, increasing taxes and using labour costs as a means of competitive devaluation. Also, in the last decade, considerable tensions have characterized the relationship between the central trade union bodies, as testified by agreements signed without the largest union confederation, the General Italian Confederation of Labour (CGIL).

This critical situation improved latterly when two new framework agreements were signed by the largest employers' association (*Confindustria*) and all representative union actors, including CGIL, in order to define who could be considered sufficiently representative to sit at the collective bargaining tables and sign agreements binding on affiliated employers and employees.

This chapter is organized as follows. First, we look at labour market developments, followed by major economic developments. In section 12.3, we examine the system of industrial relations, including the role of the state, that of trade unions and collective bargaining, including European interventions therein. Section 12.4 covers the development of wages and social security institutions: the system of minimum wage (MW) fixing, collectively agreed wages, wage and income disparities and the social security system and its coverage. The chapter ends with outlook and conclusions, focusing in particular on (challenges for) trade union policies.

12.2 Labour market and economic developments

12.2.1 Labour market developments

Between 1995 and 2008, in spite of stagnant productivity, more than 3 million jobs were created in Italy. However, most of these must be regarded as flexible work characterized by fixed-term contracts, involuntary part-time jobs and jobs for economically dependent self-employed. Moreover, during the crisis these workers have been the most affected by the reduction in employment. From 2007 unemployment doubled, from 6.1 to 12.2 per cent in 2013. The unemployment rate of young workers under 24 years of age even rose to a striking 42 per cent. In 2013, 3.25 million people were in search of a job. These figures should be viewed against the backdrop of the low Italian labour participation rate (LPR) of 56.8 per cent in 2012 and that of women in particular where the LPR of 46.6 per cent is one of the lowest in the EU (European Commission 2014a; ISTAT 2014). At 36.5 per cent (2013), the inactivity rate was not that low, but many discouraged workers are no longer searching for jobs and have also failed to meet the very selective eligibility criteria for unemployment benefits, thereby putting themselves outside the unemployment statistics. Thus, the already high share of 24 per cent of the population not in employment, education or training (NEET) may well underestimate the real situation. The share of those at risk of poverty or social exclusion rose from 26 per cent in 2007 to nearly 30 per cent in 2012 (EC 2014a).

The Italian labour market is very fragmented between insiders and outsiders. In the last 15 years, the country's rating according to the OECD employment protection legislation indicators has fallen, mainly as a result of the various labour market reforms including the liberalization of fixed-term contracts. While 46 different types of contract to hire workers are currently in existence, more than 4 million workers have no permanent contract (IRES

2013). The incidence of part-time, fixed-term and temporary agency work is about the EU average, however, atypical and precarious work has increased significantly. In the last decade, more than 70 per cent of new jobs have been based on fixed-term contracts. In 2012, independent workers accounted for 17 per cent of the workforce (or 24%, if employers are included), high by international comparison. Part of the self-employed are clearly 'bogus', in particular the economically dependent, such as the so-called 'coordinated and continuous assistants' or those described as 'on project' workers. Such workers tend to be low paid and excluded from labour and social law and related provisions. A final, peculiar trait of the Italian labour market is its large share of informal work. In 2012–13, the added value of the so-called 'underground economy' was estimated at about 20 per cent of the Italian GDP. In 2011, there were about 2.8 million irregular standard units of labour (ULA) covering nearly 13 per cent of all employees (ISTAT data warehouse).

12.2.2 Economic developments

The global financial crisis that began in 2007, followed by the more recent problems of the Eurozone, has prompted an acute economic and social crisis in Italy. While there was some respite in 2010 and 2011, for most of the period since 2008 economic growth indicators have shown a negative sign as Table 12.1 indicates.

The government debt-to-GDP ratio rose from 103 per cent in 2007 to 133 per cent in 2013, the world's fourth largest level, with a reduction not expected to start before 2015. Meanwhile, the government deficit fell from 5.5 per cent of GDP in 2009 to under 3 per cent in 2013. Stagnating productivity has been considered to be 'at the root of Italy's loss of external competitiveness and weighs on the sustainability of the high public debts' (EC 2014b, 23). However, there are other relevant factors. As Thomas

Table 12.1 Development of macroeconomic indicators (annual change in %), Italy, 2007–13

	2007	2008	2009	2010	2011	2012	2013
GDP	1.5	1.0	−5.5	1.7	0.6	−2.3	−1.9
Gross annual wages	2.2	3.4	1.8	2.8	1.3	1.0	1.4
Productivity*	0.4	−0.7	−2.3	2.4	−0.2	0.6	1.5
Inflation (HICP)	2.6	2.0	3.5	0.8	1.6	2.9	1.5
Consumption deflator	3.2	2.3	3.1	−0.1	1.5	2.9	1.3
Real average wages	−0.3	0.0	0.3	1.9	1.3	−1.6	−1.8
Employment (in FTEs)	1.8	1.0	−0.4	−2.9	−1.1	0.1	−1.1
Investment**	6.4	1.8	−3.7	−11.7	0.6	−1.8	−4.7

Note: *Value added per hour worked; **gross fixed capital formation.

Source: ISTAT 2013; GDP per capita: World Bank database.

Piketty recently (2014, 184–5) showed, in Italy between 1970 and 2010 public wealth decreased at the cost of a substantial growth of private capital. While in this period private savings reached a quite high level, more than a third of these savings were absorbed by government deficits.

Since 2000, Italy's export performance has remained below that of competing countries. Low labour productivity growth has been regarded as a factor here, as has the reduced price competitiveness of the Italian economy that seemingly followed the adoption of the Euro. Certainly Italy's share in international trade has fallen over this period. Productivity has hardly increased in the last 15 years, with negative consequences for wages, where growth rates have been among the worst in the industrialized economies. Data from ISTAT, the Italian National Institute for Statistics and Eurostat show that since 1992 the growth of aggregate demand has been much weaker in Italy than on average in the EU and particularly so in the last five years when demand fell by 12 per cent. The crisis has affected thousands of construction companies, manufacturers and services; only a few exporting firms have escaped posting red figures. The banking system has suffered from a lack of liquidity and has hardly been lending to businesses. While the mainstream narrative has emphasized the lack of labour market and wage flexibility, we contend that small firm size, low levels of innovation, low-skilled human capital and the inefficiency of public administration are more likely to be the main causes of the erosion of productivity and competitiveness.

The European austerity policy mantra holds that low inflation and strong exchange rates will contribute to the recovery of growth and employment in the Eurozone countries. The European Commission (2014b, 23) has argued that '[h]igh public debt is a major source of vulnerability for the Italian economy'. That debt certainly needs to be reduced but not at the speed and under the conditions imposed by the Fiscal Compact, which foresees harsh debt reduction measures estimated at EUR 40–50 billion per year. As can be seen elsewhere in the Eurozone, policies of monetary and fiscal rigor and the consequent rise in unemployment rates have put the brakes on the recovery in domestic demand. The negative effects of such policies have been particularly marked in countries already lacking competitive power – such as Italy. Public spending cuts, wage freezes and the liberalization of the labour market can neither offer a sustainable exit strategy nor a 'high road' to higher competitiveness. Even if assuming an improvement in the international macroeconomic context, employment and wages will take quite some time to recover to pre-crisis levels in Italy. If we take ISTAT forecasts and optimistically project the average annual growth rates of 2000–07, a recovery to 2007 levels would not occur before 2020. Moreover, even a modest recovery will require more than a simple reversal of trends: a paradigm shift in economic and social policies is needed to leave the crisis behind. The centrality of work in an economic policy designed to overcome the country's weak domestic demand growth must be recognized by the key players in the country's political economy.

12.3 The industrial relations system

12.3.1 The role of the state

The Italian system of industrial relations shows a high level of voluntarism in the private sector, contrasting with a more legalistic approach (in most aspects) in the public sector. The 1948 Constitutional provisions for the registration of trade unions, the attribution of bargaining capacity at sectoral level, the legal regulation of the right to strike and workers' rights to participate in company decision-making, have never been implemented. After their experience of the Fascist era, trade unions were naturally reluctant to have their internal organization subject to state control concerning rights to strike and collective bargaining. Hence they opted for collective autonomy whereby the state should not interfere with the autonomous and voluntary activities and self-regulation of social partners who had mutually decided to recognize each other. Nevertheless, as a result of the spectacular increase of union power after the 'hot Autumn' of 1969, legislation came into being with the Workers' Statute (Law No. 300, 1970) in order to strengthen union rights in the workplace, indirectly promoting the role of company-level bargaining.

There is though no Italian law prescribing a mechanism to measure and determine the level of union representativeness needed to sign agreements to be extended *erga omnes*. The exception is the public sector where, since 1997, a law has been in existence for the selection of representative unions entitled to bargain. This law prescribes that unions only need to reach a 5 per cent threshold to take part in national collective bargaining but that any final agreement is binding only if signed by unions representing at least 51 per cent of the relevant workforce. In the private sector, industrial relations have been fully regulated by tripartite and inter-confederal agreements. Since the early 1990s, for the best part of a decade, social pacts were signed yearly on practically all major social issues, from income policies to collective bargaining procedures and from workplace representation to pensions and labour market reforms. Tripartite social dialogue was also widespread at territorial level, through so-called negotiated planning and territorial pacts (Molina 2008).

Having been characterized for many years by their confrontational stance and attitude, Italian industrial relations have come to be regarded as an example of the 'revival of neo-corporatism' (Crouch 1998; Baccaro 2002). In truth though, social concertation in Italy has never assumed the institutional traits of what scholars have defined as 'neo-corporatism'. The political orientation of governments in office have, to a substantial extent, shaped the general climate of consensus around social dialogue: high during centre-left governments (1996–2001; 2006–08); low and controversial with the centre-right in charge (1994; 2001–05; 2008–11), who signed some important social pacts with the exclusion of CGIL (2001; 2009). The support for social dialogue has remained weak in recent times (2012–13), as the so-called

Monti technical executive have struggled with the prescriptions of the Fiscal Compact and ECB's 'secret' letter (see section 12.3.4).

12.3.2 The role and significance of trade unions

According to the Italian Constitution, 'trade union organisation is free' (Article 39, clause 1) though the law does not prescribe the prerequisites needed to be formally recognized as a union. Similar to other Mediterranean countries, the Italian system is based on the principle of trade union pluralism, rooted back in the ideological conflicts emerging from the ruins of World War II (Gumbrell-McCormick and Hyman 2013). Since the late 1940s, three central union organizations have been in existence: the General Italian Confederation of Labour (CGIL); the Italian Confederation of Workers' Unions (CISL) and the Italian Union of Labour (UIL). They represent different political orientations and union cultures. The CGIL has always been linked to the parties of the left (initially the former communist and socialist parties, PCI and PSI, that both disappeared in the early 1990s) and today is still identified with the new leftist parties (basically democrats and a minority referred to as the new-communist parties). The CISL, historically close to the Christian Democrat party (DC) that also disappeared in the 1990s, today includes members sympathizing with parties from the whole political spectrum. Since its birth in 1948, when it broke away from the unitary CGIL, CISL has taken inspiration from American business unionism and has focused on free collective bargaining and participatory approaches at firm level. The UIL was mainly associated with the non-communist, 'reformist' left (social-democrats, republicans) and is today nearer to the democrats. The three main confederations are all affiliated to ETUC and ITUC.

Compared to other EU member states, Italy has maintained a comparatively medium-high union density rate whose long-term decline has been less than in other industrialized countries (Bryson et al. 2011). In 2012 the rate of unionization was estimated at 35 per cent which, surprisingly, was slightly higher than the average 34 per cent prevailing in the 2000s (Birindelli and Leonardi 2012; Visser 2013). Showing constant growth year after year a crucial contribution to union membership has come from migrant workers; recently 8 per cent of all members and 14 per cent of active membership were migrants (Caritas e Migranti 2012). With over 12 million union members in 2013, Italy is the leading 'unionized country' in the EU. These figures include more pensioner-members than elsewhere accounting for almost half of all members in two of the three main confederations, but exclude the members of unions other than the three main confederations. According to the ITUC, in 2013 CGIL had over 5.5 million members, CISL had 4.5 million, and UIL had nearly 2.2 million. CGIL was the third largest union confederation in Europe, behind German DGB and United Kingdom's TUC, and CISL was the fourth largest (ITUC List of affiliates 2013). At workplace level, Unitary Unions Councils (*Rappresentanze Sindacali Unitarie – RSU*)

can be elected by all workers in every production unit with more than 15 workers. Two-thirds of a council is elected by universal suffrage from several competing lists, and one-third from the lists of unions signing the national sector agreement applied in the relevant production unit – though framework agreements signed with *Confindustria* in June 2011 and May 2013 were designed to change these partitions. The RSUs have exclusive information and consultation rights, but they share collective bargaining power at company level with sectoral and local unions.

Despite their diverging backgrounds and orientations the three union confederations have, since the mid-late-1960s, realized a sort of unity of action, temporarily interrupted by controversies, as in the mid-1980s on the reform of labour costs. More recently, divergences appeared concerning labour market flexibility and contractual decentralization, when CISL and UIL were ready to accept Berlusconi's reforms or in some cases derogations by companies (like at Fiat), while CGIL was opposed to both. In this new climate, the lack of binding and effective norms concerning the representativeness of unions and collective bargaining outcomes gave way to bitter disputes. Besides the voluntarism and pluralism of organizations, other characteristics of the Italian model of unionism have been the primacy of the confederations over a dozen medium-sized industry-wide federations; a significant role played by horizontal and territorial/local structures; the single channel system of workplace representation; a relatively high rate of industrial unrest; and a strong propensity for social concertation.

12.3.3 Collective bargaining

As stated, Italian industrial relations are largely based on social pacts and bipartite peak-level agreements. Collective bargaining is dependent on the mutual recognition of social partners; agreements are not legally binding and their contents are only formally enforceable by the signatories and their affiliates. They are considered to be acts of 'private law', expressions of the self-regulation capacity of the signatories. Rights and minimum standards fixed by the law cannot be worsened by collective bargaining, though recently the trend has been towards legally enlarging bargaining power, collective or individual, in terms of top-down delegation and bottom-up derogation. The lack of a legal extension mechanism has not impeded high collective bargaining coverage, estimated at 88–89 per cent for the economy at large throughout the period 2003–11 (Birindelli and Leonardi 2012).

Since the milestone framework agreement (Protocol) of July 23, 1993, Italian collective bargaining has been based on a two-tier system with, on the one hand, industry-level collective labour agreements (*Contratti Collettivi Nazionali di Lavoro*, CCNL) and, on the other hand, decentralized collective agreements (CLAs) at company or territorial level where companies are too small and unions too weak – as in agriculture, construction, retail, tourism and in many craft industries. Industry-level bargaining is the core

of the system. Through about 400 national industry-wide agreements, wage-earners in the widest possible range of branches and companies have their own agreements. This large number reflects the fragmentation of employers' associations, which are more numerous than in most European countries. They are associated according to size (large, small and medium) and typology (private, cooperatives, craft). In the mid-1990s, the organizations of public companies – very influential until the 1980s – were absorbed into *Confindustria* (Visser 2000).

The second level of collective bargaining is not compulsory and depends on the presence of works councils and on the power relations in each firm or plant. Recently, decentralized bargaining covered about 54 per cent of employees in private sector enterprises with more than 20 workers. These firms accounted for over 70 per cent of employees in manufacturing industry and almost 60 per cent in the non-financial services sector (Banca d'Italia 2013). Coverage is much lower if the majority of workplaces is considered, including the SMEs, especially in the Southern regions of the country; second-level agreements are almost completely absent among small enterprises (Tronti 2010).

The two tiers are organized hierarchically, according to principles of coordination and specialization. The national agreement establishes a basis of rights and standards, including MWs, for the industry workforce at large. Afterwards, social partners at company or territorial level have the possibility to improve pay and working conditions through second-level negotiations. Since national agreements fix minimum pay levels taking into account purchasing power, at company level the negotiated variable rise in pay depends heavily on local performance measures notably: productivity, profitability, quality and attendance. Since the 1990s the impact of second-level agreements has decreased. Combined with low or even negative productivity growth and the related variations in pay, this decrease provides a major explanation for the slow growth of average wages (Megale et al. 2011). The national industry-wide CLAs cover around 80 per cent of gross wages. The remaining share is composed by collectively or individually negotiated pay (*restricted wage-gap*) and/or other elements, such as overtime pay. The estimated share of wages paid at decentralized level was about 18 per cent of total wages for 2012 (Birindelli and Leonardi 2012).

In the last two decades the collective bargaining system, though rational and well designed in theory, has met practical limits as well as significant criticism. Since the end of the 1990s experts and social partners have been involved in a debate about the revision of the system. In spite of several bills in Parliament and reform drafts from the unions, nothing really happened until 2009. Then, with a centre-right government back in office, industrial relations deteriorated. On January 22, 2009, a tripartite Framework Agreement for the Reform of Collective Bargaining (FARCB) was signed without CGIL and against the view of this confederation. The new rules formally safeguarded the two-tier structure, with sectoral agreements continuing to

set basic protection nationwide. The new system aimed to strengthen and enlarge the second level of collective bargaining. Decentralized collective bargaining would last three years (previously four) and would cover topics defined by sectoral agreements or legislation and which did not concern those already regulated at other bargaining levels. A controversial aspect of the new system has been the possibility to introduce opening clauses. Before the FARCB came into being, an opening clause only existed in the sectoral agreement for the chemical-pharmaceutical sector. These clauses can be temporary and experimental and can partially or entirely derogate single norms or economic items, such as pay. Until recently, downward derogations were allowed only in territorial pacts to cope with economic underdevelopment and/or a high level of undeclared work however, they have, as yet, hardly been put into practice (Burroni and Pedaci 2011).

Recently, and in spite of the differences between the union confederations, quite some national agreements were signed jointly, although with some notable exceptions. In metal manufacturing and commerce and services, covering about 5 million workers in total, agreements were signed that excluded the sectoral federations of CGIL, for instance FIOM-CGIL in the metal trade. Concession bargaining dominated and rights *at* work were exchanged for the right *to* work. The unions tried to influence restructuring in order to avoid collective dismissals as much as possible. Overall, numerical and employment flexibility increased, while the wage guarantee funds (short time work/lower wage) were widely used. At company level, the most controversial were some agreements signed for Fiat plants (Pomigliano-Neaple and Mirafiori-Turin) in 2009 and 2010 (Leonardi 2010; Cella 2011) without the consent of FIOM-CGIL. They introduced downward derogations on breaks, working time shifts and overtime, as well as putting limitations on the right to strike. At Fiat Pomigliano a 'New Company' was virtually created; all workers had to re-apply for their jobs with FIOM members being discriminated against. In order to exclude FIOM from all its plants, Fiat even left the national employers' association and signed a first-level agreement separate from the national metal agreement. FIOM responded with a broad campaign appealing to public opinion and ultimately the Constitutional Court upheld FIOM's arguments. Eventually, the social partners gradually re-established cooperative relations, signing new framework agreements concerning collective bargaining and workplace democracy. The agreement of June 28, 2011 confirmed the two-tier system and the primacy of the industry-wide level, with the possibility to adopt 'modifying agreements' at company level but only when permitted by the sectoral agreement. Such modifications need to be signed by the majority of the works councils.

The key issue concerning the relationship between the level of union representativeness and the validity of CLAs was solved by a new bipartite agreement signed on May 31, 2013. Representativeness would henceforth be measured through a double system, using a mix of the number of members

and votes obtained in the works council elections. Once the weighted average passed the 5 per cent threshold, organizations would be admitted to the national negotiation tables. Moreover, national industry-wide agreements would be regarded as binding if signed by unions representing 50 + 1 per cent of the relevant workforce.

12.3.4 European interventions in collective bargaining

In the summer of 2011, Italy's economic situation appeared to worsen. The Berlusconi administration was weakened by internal cleavages and mistrusted by financial markets and European institutions alike. Private foreign capital withdrew and the country seemed to be in need of an IMF intervention. At that moment the country was at the top of the concerns of European policy makers. Then, on August 5, 2011 a 'secret' ECB letter asked the Italian government to reform (a) the pension system, in particular the eligibility criteria for seniority pensions and the retirement age for women; (b) the labour market, easing individual dismissal and (c) collective bargaining, allowing firm-level agreements to tailor wages and working conditions to the specific needs of individual firms. Clearly, despite the many and deep changes already introduced, the narrative from the EU institutions indicated these changes had been insufficient. They considered contractual wages to be over-centralized in Italy (though to date the European institutions seem less concerned about labour market conditions and productivity performance – EC 2014b).

The Italian government adopted an austerity package including all measures 'Europe' requested. In doing so the role of social dialogue was completely marginalized: the social partners were barely consulted and their opinions hardly considered. Surprisingly enough, social mobilization and unrest remained far below what might have been expected. For instance, there was just a three-hour strike over the reform of the pension system that postponed the retirement age. Concerning collective bargaining, Act No. 148/2011 (Article 8) was the governmental answer to the letter of the ECB. This Act established that 'specific agreements' may derogate on many issues, including the introduction of new technology and changes in work organization (including job classification systems), in contracts, in working time and in dismissal regulation. It also allowed working conditions to be established below legal standards. In this way derogations from national CLAs or even from the law became 'normal' rather than exceptional. Social partners for their part did not show much interest in adopting a model of radical decentralization of collective bargaining. While confirming the bipartite framework agreements of 2011 and 2013, they opted for maintaining the two levels and the important role of the national industry-wide CLAs. Although weakened by the new derogation options, the Italian way of decentralizing collective bargaining can still be described as coordinated and organized.

12.4 Development of wages and social security institutions

12.4.1 The minimum wage fixing system

Italy, jointly with the Nordic or Scandinavian countries (Chapter 15), belongs to the group of European countries where the MW is set through collective bargaining. According to Article 36 of the Italian Constitution, 'every worker has the right to wages in proportion to the quantity and quality of his work, and in any case sufficient to allow him and his family a free and dignified existence'. This 'proportionate' and 'sufficient' pay, as interpreted by the courts, consists of the minimum set by the particular national sector agreement which covers the individual worker. Although such contracts do not formally have a subjective *erga omnes* binding effect, thanks to case law, the MW as laid down in sectoral agreements is commonly extended to all workers. And though not necessarily a member of the signatory union, any employee is entitled to receive a MW equivalent to that envisaged by agreement and applicable in his or her sector for the same type of work.

According to a recent comparative study, Italy ends up as the European country with by far the highest level of the Kaitz index. Based on wages in 2007–09 and on 240 CLAs, the MW in Italy has been calculated at approximately 90 per cent of the corresponding median wages. For example, in 2009 the sectoral hourly MW was on average EUR 10.62, against a median hourly wage of EUR 11.72 (Kampelmann et al. 2013, 42–5). Thus, the Italian case may demonstrate that a system in which MWs are set through collective bargaining is not per se inferior to systems with statutory MWs. Indeed, a bargaining-based system may even be preferable from a workers' point of view. Yet, some caveats remain. First, in Italy large differences in MW levels are recorded across sectors. Second, the country is also at the top of the EU ranking concerning the share of persons not covered by any form of MW. The research just cited found in 2007–09, for instance, that 31 per cent of Italian workers were paid below the rates fixed by sectoral-level CLAs, implying that the high value of the Kaitz ratio should be interpreted with caution (Kampelmann et al. 2013, 69). That high ratio is probably (at least partly) also due to the comparatively low levels of median and average wages and that such levels are strongly compressed.

12.4.2 Collectively agreed wages

Between 1993 and 2009 wage dynamics were determined by the 'planned inflation rate', fixed in twice yearly tripartite sessions and regarded by the social partners as the ceiling for industry-wide collective bargaining in order to safeguard purchasing power. Gaps between the planned inflation rate and the real inflation rate could be recovered after two years in a new round of sector negotiations to fix new increases for the next two years. Other possible increases were left to the company or territorial level, related to productivity and profitability as collectively agreed targets. The variable

wage was the object of negotiation at decentralized levels, subject to criteria, parameters and objectives to be achieved. With the 2009 Framework Agreement a new indicator, the European Harmonised Index of Consumer Prices (HICP, excluding imported energy costs), calculated by ISTAT would replace the planned inflation rate. The significance of the gap between the HICP and the actual inflation rate would be assessed by a bilateral committee at multi-sectoral level and no longer at sectoral level. The recovery of the gap, where established, would be achieved within the duration of the industry-wide agreement. According to CGIL, however, the new system would erode real wages, as energy prices were excluded from the adjustment mechanism. It would also significantly reduce the autonomy of collective bargaining at sectoral level since the only possible wage increases would be those linked to inflation.

With the adoption of the Euro, currency devaluation as a variable for macroeconomic adjustment was no longer available for national political leaders. Since then, the Italian economy could have fostered 'high road' and innovative options in order to achieve structural adjustment of its production capacity. Instead, Italian companies have generally chosen adjustment paths based on the reduction of production costs and, in particular, labour costs. Reforms have mainly, although not exclusively, focused on the labour market, with a series of measures designed to increase labour market flexibility. Structural adjustment of product markets has remained modest, partly due to strong public intervention to ensure a fair (re)distribution of income. Inflationary pressures have remained high and despite strong wage moderation, Italian consumer prices have continued to rise faster than those of most other Euro countries. Along with changes in the distribution of the tax burden, leading currently to a tax burden on labour of 42 per cent (significantly above the EU average – EC 2014c), this has caused a strong compression of middle class incomes at the expense of domestic demand.

The dynamics of income distribution can be sketched as follows. During the 1980s, an increase in real labour costs, quite close to that of real value added and higher than that of productivity, led to a substantial stagnation of the wage (labour) share in Italy's GDP. In the first half of the 1990s, the slowdown in wage growth and falling employment produced an initial fall in that share. From 1993 until the outbreak of the crisis in 2008, collective bargaining, both national and decentralized, ensured an increase in gross wages in line with inflation (Megale et al. 2011). In these latter years, and in spite of low productivity growth and modest redistribution, purchasing power was basically preserved. In the pre-crisis years 2000–07, collectively agreed gross real wages grew, on average by a mere 0.3 per cent yearly and 0.4 per cent in manufacturing industry and in public administration.

During the crisis, however, collectively agreed wages could no longer keep up with inflation. As regards the annual change in gross agreed wages in 2008–13, we can see a progressive decline in actual increases, due primarily

to the exhaustion of old national CLAs. In the first phase of the crisis (2008–10), this led to modest real wage growth while most recently with the slowdown in collective bargaining real wages fell substantially. In 2012 in particular, the annual average growth in collectively agreed wages lagged behind inflation and resulted in the largest annual loss of purchasing power since 1995. According to ISTAT data, this decline may have continued until the end of 2013 generating a three years' cumulative loss of 3.6 percentage points. The downward rigidity of real wages – basically ensured by national bargaining – for a long time allowed a relative preservation of wages but over the past three years this mechanism has no longer been able to maintain purchasing power. As a result of growing unemployment and underemployment (related to the reduction of the number of hours worked) and connected with the failure of second-level wage bargaining, nominal wages since 2011 increased less than contractual wages marking a wage growth rate below inflation. Figure 12.1 illustrates these developments.

12.4.3 Wage and income inequalities

As noted, one of the most striking features of the Italian economy over the last two decades has been the poor productivity growth. In particular since

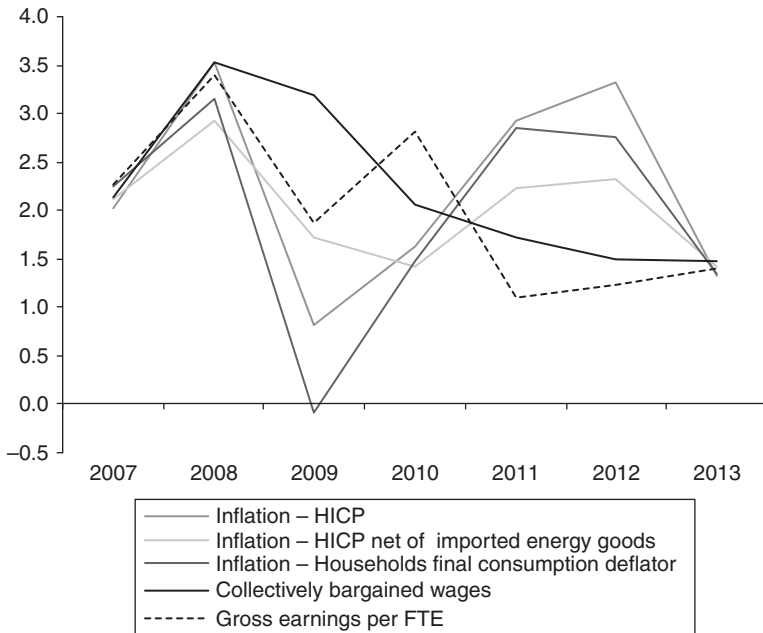


Figure 12.1 Development of wages and inflation (annual change in %), Italy, 2007–13
Source: ISTAT.

2005, productivity development has notably lagged behind Germany, France and Spain. The reasons for this bad performance are manifold: a low investment rate, an inadequate level of capital accumulation and a low rate of technical progress are all to the fore here. In addition, major constraints are likely to reside in the small average size of companies. Surveys have demonstrated that productivity and wages are higher in medium-large enterprises with over 50 employees and union representation. In this category, the average value added per employee in 2012 was EUR 53,440, and average gross earnings were EUR 24,690. In small enterprises, with less than 20 employees and no union representation, productivity and wages were remarkably lower in 2012. Here average added value was EUR 28,770, and the average gross wage was EUR 16,510 (ISTAT 2013). According to ISTAT data, from 1990 to 2012 rents rose by over 80 per cent, whereas the share of investment in relation to profits fell at the same time by about 40 per cent. These figures, alongside the picture provided by Piketty, reveal that growing profit rates have neither ensured greater investment, efficiency or productivity, nor produced more and better jobs or more inclusive social security. In Italy, more than any other industrialized economy, the alliance between profits and rents at the expense of the wage share was based on a progressive compression of the share of national income going to wages.

Furthermore, the huge amount of additional wealth accumulated in the three decades before the crisis has not been invested in productive activity. The large long-term decrease of the wage share, from an average 72.3 per cent in 1971–80 to 62.2 average in 2001–10, is an expression of this development (see Figure 12.2). (During the crisis, in line with the fall in productivity, the share recovered to 64% over 2011–13.) Also, in Italy income inequality, as measured by the Gini coefficient, is rather high: with 0.36 in 2010 showing as one of the highest among the EU member states (Statistical Appendix, Table A.4). This distributive injustice would have been more tolerable if the country had possessed an economic, fiscal and social system able to redistribute new revenues more fairly.

12.4.4 Social security system and coverage

The Italian social protection system is clustered in the Southern European family of welfare states. It reflects the centrality of the family and the importance of the male breadwinner. A universal minimum safety net is absent but priority is attached to length-of-service and old-age pensions. There is a low-level 'sense of state', yielding both inadequate administrative regulation and a state apparatus that is highly permeable to political patronage. Unemployment protection has been a key topic in political and academic debates for at least a decade and forms part of the more general debate about overall reform of the social security system. The system of social cushioning measures (*ammortizzatori sociali*) remains very complicated, incoherent and highly fragmented. For instance, types and levels of protection depend

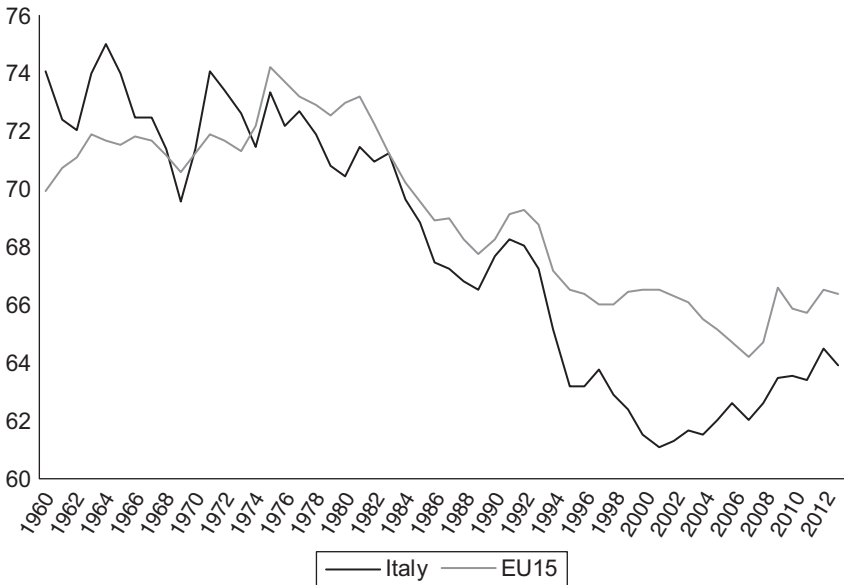


Figure 12.2 Development of adjusted wage share, Italy and EU15, 1960–2013

Note: Compensation per employee as percentage of GDP at factor cost per person employed.

Source: Ameco database.

on a host of eligibility criteria including employment contract, size of the company, sector of the economy, age of the beneficiary and the regional employment situation. Access to benefits and their funding and the degree of coverage of the system also vary considerably from one occupational category to another. All of which has depended on negotiating powers built up over decades and the ability to exert pressure on the government, itself keen to build and stabilize a social consensus.

The EU's employment strategies in the 2000s created a favourable climate to debate thorough reforms of the Italian unemployment protection system. Terms such as employability, activation and flexicurity loomed large but concrete outcomes have continued to be very limited. Italian labour market and social protection have adequately been caught by the term 'FlexInsecurity' (Berton et al. 2009): whereby the outcome of greater work flexibility has been less social protection. In 2011, Italy spent 1.7 per cent of its GDP on passive labour market policies, but active measures absorbed a mere 0.41 per cent (ISTAT 2013). Social fees (from employers only) have on average been low (normally below 2% of full wages), and public spending on labour market policies was very low. Meanwhile, because of EU pressure, the welfare state has come under attack. From 2008 to 2013, austerity policies led to cuts in public funds for family policies from EUR 347 million to only EUR 20 million

and in funds for social policies from EUR 930 million to EUR 344 million; equal opportunities funds fell from EUR 65 million to EUR 11 million. Local authorities, managing a large part of welfare supply, saw their financial capacities in this respect cut by 70 per cent (Budgetary Plan for 2013).

Given the flaws in the social security system, collective bargaining has functioned here as a 'stop-gap'. 'Bilateralism' (*bilateralità*) is one of the original forms of volunteer occupational welfare (VOW) provision that filled in some of the shortcomings in the universal arrangements for income protection in the event of temporary job losses (Leonardi 2009). In today's tough context, it is likely that social partners will be overloaded with demands for self-financed and self-ruled alternative services (Pavolini et al. 2013). Rather than reforming the system towards universal legal social protection, with the *Riforma Fornero* in 2012 the law makers chose to extend the model of bilateralism, making it mandatory for sectors until then excluded from the law on wages guarantee funds (basically small and medium-sized enterprises, tourism and various services).

Bilateralism is subject to a strategic and ideological dispute between the largest Italian unions. CISL argues that, in the context of the secular and ongoing crisis of contemporary unionism, bilateralism represents a possible exit strategy, with 'servicing' seen as the new and crucial vehicle for recruiting and organizing members. They see it as the best response to the need for welfare provision to be recast within a participatory and proactive approach to labour relations. CGIL is more sceptical, both concerning the model of unionism and the reform of welfare, and it has questioned whether bilateralism is the new mainstream. According to CGIL, Italian welfare has historically been an incoherent and highly fragmented system. Hence, the new emphasis on VOW may simply emphasize such incoherence and fragmentation thereby enhancing corporatist solutions, either at territorial and micro-firm level in a country already plagued by many and deep dualisms.

12.5 Outlook and conclusion

The difficulties of Italian trade unionism may be more qualitative (Carrieri and Leonardi 2013) than quantitative (decline of membership and collective bargaining coverage), compared to other countries, but significant problems can nevertheless be noted:

- marginalization experienced by social partners due to the new European and state interventionism in the main social issues, collective bargaining included, together with the gradual decrease of the role of the state in social expenditure, and economic policy has further weakened union influence;
- crisis of traditional voluntarism in the field of industrial relations, with subsequent legal uncertainty and conflicts leading to splits within the central union bodies;

- gap between the level of unions' general recognition and their resources (membership and mobilization capacity) and overall outcomes in terms of wages, employment levels, working conditions and welfare state provisions is significant; and
- opened up strategic divides among unions concerning their role and strategies in the new century.

For these reasons, the need to establish new shared rules – reliable, democratic and effective – is urgent, as traditional voluntarism finds itself in a dead-end street. The recent verdict of the Constitutional Court on the Fiat case indicates a law on such items cannot be postponed any longer. The way forward is quite clear and is marked out in the new framework agreement of May 31, 2013 which, from this point of view, needs only to be transposed into law. Once the basic rules on actors and procedures have been established, the question remains what kind of collective bargaining should be achieved? Looking at trends in Europe, we assume that decentralization is unavoidable. The issue here is: how much decentralization? In less than two decades, Italy went from the coordinated decentralization of the 1993 Protocol, via a weakly coordinated system, to completely disorganized decentralization (Carrieri and Leonardi 2013). Multi-employer bargaining remains a fundamental tool against the threats from global economic and political pressure, and it could prevent the further dismantling of collective bargaining or the growth of a new form of neo-micro-corporatism and inequality. In Italy, this path is already marked by the realistic model of coordinated decentralization contained in the agreement of June 28, 2011. This model only needs to be activated and fully respected. A related concern is the lack of a law on representation and collective bargaining which continues to spread uncertainty on whether social pacts will be fully respected.

Equally crucial is the need to change EU-level economic policies and to reverse the disastrous path of austerity measures. In this regard, CGIL has proposed a new national Plan for Jobs, designed to create jobs through a Keynesian economic growth policy supported by radical tax reform embracing: greater progressiveness, a shift away from taxing 'fixed income' to taxing unproductive wealth and a fight against disloyal fiscal behaviour. Another field concerns wage policy. As discussed in the section above on MW fixing, the Italian social partners seem to have good reasons to keep the basis of their industrial relations almost entirely ruled through collective autonomy. This also applies to MW fixing on which the Italian unions share the view that this subject must remain the prerogative of collective bargaining. That said, some major challenges remain for the union movement. The largest concerns how to deal with the growth of informal new forms of post-Fordist work and the clear preponderance of small and very small companies that are presently beyond the traditional reach of collective bargaining. Italy is affected by a historical and unsolved territorial dualism and the weight of (bogus) self-employment and informal work is comparable

with the less advanced economies of Europe. Because of these fragilities, collective bargaining – if it is to remain an alternative to the statutory MW – needs to become more inclusive and able to represent the interests of a fragmented and differentiated workforce. More union democracy, involvement and solidarity, may characterize the main road against union decline and marginalization.

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13

Germany

Thorsten Schulten and Reinhard Bispinck

13.1 Introduction

Until the 1990s, German capitalism was widely regarded as a successful synthesis of a highly competitive economy with high wage performance and relatively equal distribution of income. The economic backbone of the German political economy was a strong manufacturing sector specializing in high-quality production in sectors such as automobiles, electronics, chemicals, engineering and machine building, which promoted an export-oriented development model. On the other hand, relatively strong trade unions and a comprehensive collective bargaining system ensured the majority of German workers participated in the overall economic development. Notable too, was the fact that the domestic sector did not lag too far behind the export industries. During the last decades, however, German capitalism has undergone some fundamental transformations which have questioned the efficiency and equality achieved by the former social contract (Streeck 2009). Faced by new external challenges combining the unification of Germany in 1990 with European integration and growing internationalization, Germany entered a period of neoliberal restructuring of its traditional welfare state and labour market institutions. Among other things, this had a major impact on the development of wage policy in Germany leading to a partial erosion and fragmentation of collective bargaining (sections 13.2 and 13.3) as well – and more fundamentally – to a significant change in power relations and the weakening of trade unions (section 13.4). As a result of this, wage growth in the 2000s in Germany became extremely moderate with an increasing differentiation among sectors, a rising incidence of low wages and an overall decline of the wage share (section 13.5).

This moderate wage growth also influenced Germany's overall economic development model as it significantly dampened private demand and prompted a growing discrepancy between a flourishing export industry and a largely stagnating domestic sector (section 13.6). As Germany's economic development became increasingly export-led, it not only failed to

exhaust its domestic growth potential but it also promoted growing economic imbalance between countries within Europe as well as at a global level. The deep international economic crisis in 2009 and the following economic turbulence in Europe showed that economic development models, mainly dependent on export industries, were far from sustainable. A more balanced economic development requires a much higher degree of income equality as well as strong institutions and actors able to promote a more equal development.

More recently, there have been some indications that German wage policy might change again in a somewhat more expansive and solidaristic direction. These tendencies have been supported by a more favourable situation in the labour market as well as by trade unions who have at least regained some political strength and influence. The introduction of a national minimum wage (MW) and the strengthening of collective bargaining through a reform of extension procedures are notable here in that both have strong potential to push German wage policy in a new direction (section 13.7).

13.2 Collective bargaining: Partial erosion

In the 1950s, Germany developed a comprehensive system of multi-employer bargaining at sectoral level. Collective agreements (CLAs) between trade unions and employers' associations covered almost all sectors of the Germany economy. For more than four decades, German collective bargaining covered between 80 and 90 per cent of all workers. Against that background, the state played only a minor role in the regulation of wages. Although the possibility for an extension of CLAs already existed, this instrument has only rarely been used and was limited to a few domestic sectors such as construction, retail and other services (Bispinck 2012). Moreover, Germany never had a statutory minimum wage (SMW), since the notion was seen as being in contradiction to the principle of 'collective bargaining autonomy' (*Tarifautonomie*). As a result, MWs in Germany were exclusively determined by CLAs.

From the mid-1990s on, however, German collective bargaining entered a stage of profound change which led to the increasing fragmentation and partial erosion of collective bargaining (Bispinck and Schulten 2010; Haipeter 2013). The most obvious expression of these changes has been the continuous decline in bargaining coverage (see Figure 13.1). Between 1998 and 2013, the proportion of workers covered by CLAs in West Germany decreased from 76 to 60 per cent. In East Germany, where after unification a full adoption of West German bargaining institutions never took place, bargaining coverage fell even further from 63 to 47 per cent. For the whole of Germany, overall bargaining coverage in 2013 was estimated to be around 58 per cent (Ellgut and Kohaut 2014), although other sources had shown the somewhat lower coverage of 55 per cent as early as 2010 (Destatis 2013).

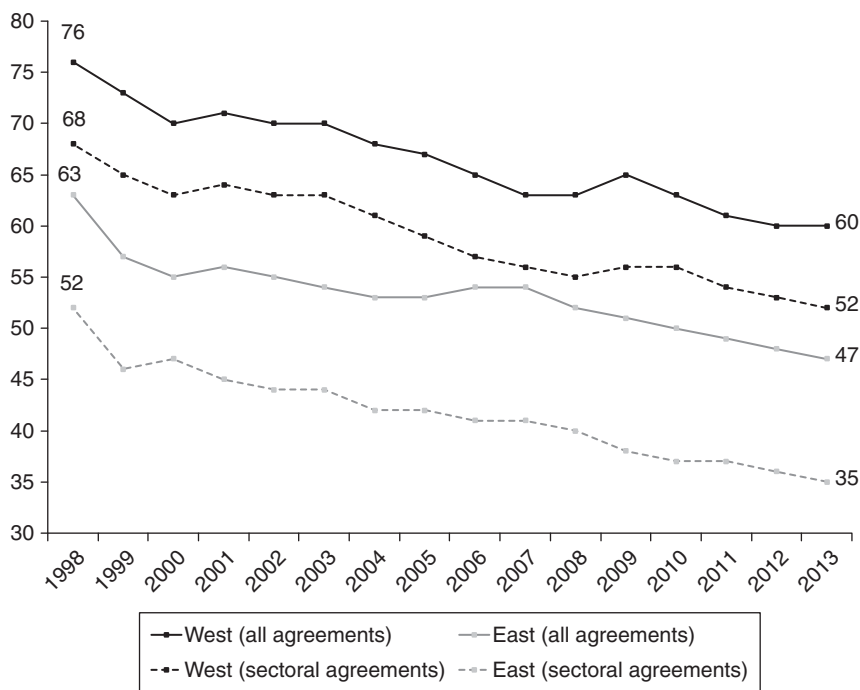


Figure 13.1 Development of collective bargaining coverage (in % of all employees), Germany, 1998–2013

Source: IAB Establishment Panel.

The partial erosion of German collective bargaining is even more obvious if we focus on the core of sectoral bargaining. Recent data show that in West Germany just over half of all workers (53 per cent) are covered by a sectoral agreement, while in East Germany only 36 per cent are covered. In addition to that, a further 7 per cent of West German and 12 per cent of East German workers are covered by company agreements signed by trade unions and individual employees. There has always been a significant number of companies not formally covered by an agreement but who nevertheless used existing agreements as an ‘orientation’ for their own in-house wage setting. However, recently most of these companies have paid less than the collectively agreed wage standards (Addison et al. 2012).

Concerning collective bargaining coverage, there are large differences across sectors (Figure 13.2). In some such as public administration, education, financing, energy or postal services, a vast majority of workers (80% and more) are still covered by CLAs. The same holds true for some core manufacturing industries such as the automobile or chemical industries, where

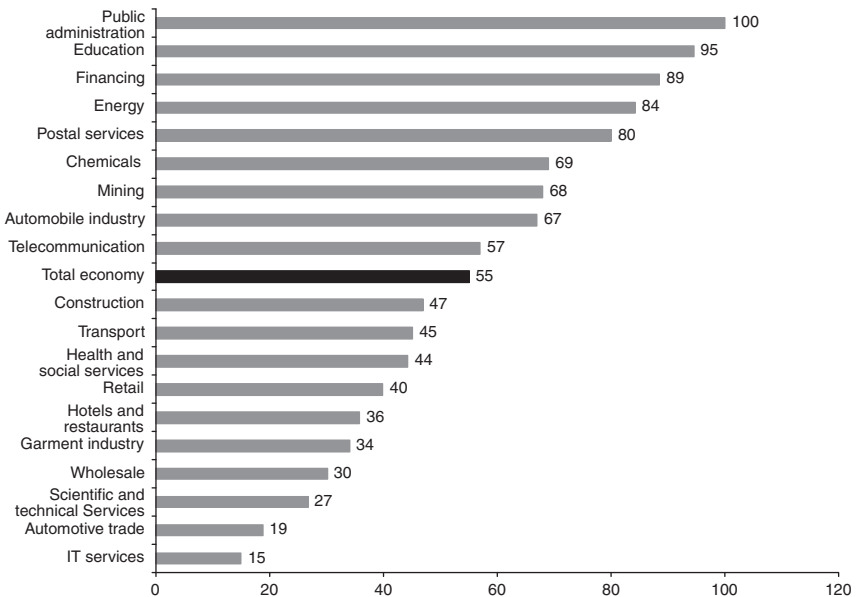


Figure 13.2 Collective bargaining coverage (in % of all employees), Germany, 2010
Source: Destatis 2013.

over two-thirds of workers are still covered by agreements. Sectors such as construction, transport, health and social services and retail show bargaining coverage between 40 and 50 per cent. However, in a large number of service sectors (e.g. hotels and restaurants, wholesale, scientific, technical and IT services or automotive trade), only a minority (about one-third or less) of the workforce is covered by CLAs.

Finally, there is a close relationship between collective bargaining coverage and wage levels. Compared to other European countries, Germany has shown a rather unusual pattern whereby bargaining coverage increases with wage levels. Among the workers in the lowest wage 20 per cent (quintile) in 2010, only one third were covered by an agreement. By contrast, bargaining coverage in the highest wage quintile was 66 per cent (source: WSI LohnSpiegel database). Moreover, the partial erosion of German collective bargaining has been particularly marked in the low-wage sector where only a minority of workers is still covered by CLAs. In the German collective bargaining system, sectoral differentiation has also been growing, with sectors in public services, utilities and some core manufacturing industries showing a rather high and relatively stable bargaining coverage whereas many other service sectors have faced a continuous decline.

13.3 Collective bargaining: Decentralization and fragmentation

In addition to this partial erosion, the German bargaining system has also undergone a process of internal transformation best described as decentralization and fragmentation (Bispinck and Schulten 2010, 2011a). From the mid-1990s onwards, the German system of sectoral collective bargaining came under growing employer criticism for being 'too rigid' and restricting flexibility at company level. Originally, the demands for derogations from sectoral agreements came particularly from those companies in severe economic difficulties. Some of these companies started to make in-house agreements, occasionally openly contravening valid CLAs as they undermined collectively agreed standards. According to the so-called 'favourability principle' laid down in the German Collective Bargaining Act (*Tarifvertragsgesetz*), companies usually covered by a sectoral agreement can only have company agreements that lead to the improvement of employment conditions, not their deterioration. However, the Act also provides the opportunity for trade unions and employers' associations at sectoral level to agree opening clauses which, under certain conditions, allow companies to achieve temporary downward derogations.

Against the background of increasing unemployment in Germany, sectoral agreements from the mid-1990s increasingly included 'hardship clauses' whereby companies got the option to undermine sectoral standards in exchange for the safeguarding of jobs. At first, such deviations were only possible under relatively strict conditions. However, over time, the criteria for opening clauses were no longer restricted to the danger of bankruptcy and were widened to embrace all kinds of situations and motivations even including the 'improvement of competitiveness'. By the mid-2000s, almost all major industry-wide agreements included opening clauses which gave far-reaching opportunities for deviations at company level (Bispinck and Schulten 2011a). As a result, concluding 'employment pacts' at company level became widespread leading to a broad wave of concession bargaining, especially in the manufacturing sector and in public utilities (Hassel 2014). On the workers' side, major concessions were made in the

- extension of working time (with only partial or even no wage compensation);
- reduction of working time and more flexible working time arrangements;
- postponement of agreed wage increases;
- reduction of special company payments above the collectively agreed rate;
- reduction of collectively agreed bonus payments; and
- reduction of collectively agreed basic pay.

In exchange for the workers' concessions, the companies usually had to agree to make no compulsory redundancies for a certain period of time. In some

cases, the companies also agreed concrete funding for new investment projects (Bispinck and Schulten 2011a).

Experience with this far-reaching process of decentralization has been rather ambiguous. On the one hand, the deviations from sectoral agreements through employment pacts have proved to be a successful way to safeguard jobs, at least for the core workforce of the respective company. Furthermore, some unions have even used deviations to strengthen their role at shop-floor level through their involvement in a more company-oriented bargaining policy (Haipeter 2009; Kocsis et al. 2013). On the other hand however, the decentralization process has undermined the effectiveness of sectoral CLAs and their basic function namely to take wages and other conditions out of competition. Moreover, most works councillors (the employee representatives at company level) have been rather sceptical regarding the trend towards decentralization as it has led to a further power shift in favour of the company (Bispinck and Schulten 2011a). Quite often works councillors have felt 'blackmailed' by their companies to accept concessions, and, as they could no longer refer to binding standards at sectoral level, they lost an important instrument of resistance.

Finally, the decentralization of collective bargaining has promoted a growing dualism in German labour relations, increasing the division between a relatively well-protected 'core' workforce and much more precarious 'peripheral' groups of workers (Hassel 2014). This dualism has become even more pronounced through a growing fragmentation of collective bargaining. The latter, being the result of cost-oriented restructuring within companies, has at least four major implications for collective bargaining (Doellgast and Greer 2007; Flecker 2010). First, there is the strong trend towards outsourcing of (especially) service activities which usually involves a shift from a bargaining area with higher wages to one with lower wages. Sometimes the outsourced activities even shift to companies not covered by any agreement at all. In such cases, outsourcing directly contributes to the decrease of bargaining coverage. Second, many companies have reorganized their activities through the creation of subsidiaries which were usually covered by different CLAs. This particular form of 'in-house outsourcing' can be found both in manufacturing and in services industries. It is widespread, for example, in the healthcare sector where hospitals, in particular, have created their own service companies in order to hire their service staff under conditions that differ from those of the hospitals core workforce. As a result, different CLAs came into being within one company leading to the creation of a two-tier workforce.

Third, the fragmentation of collective bargaining has been further pushed by the increasing use of temporary agency and contract work. The German automobile industry has been in the forefront here transforming regular jobs into non-standards types of employment. According to the Metalworkers Union IG Metall, in 2013 the car industry had a core workforce of around 763,000 employees together with 100,000 temporary agency workers and

250,000 contract workers. This implies that over 30 per cent of automobile workers were no longer covered by the metal industry CLAs (IG Metall 2013). Fourth, fragmentation of collective bargaining, particularly in the public sector, has been promoted by privatization and liberalization. While privatization usually involves withdrawal from the (formerly all encompassing) public sector agreements, liberalization has often led to the creation of a rather divergent bargaining landscape, whereby strong collective bargaining within the former incumbent or remaining public companies is pitted against rather weak bargaining structures in the newly competing private companies. The latter process could be observed in sectors such as telecommunications, postal services, public transport or health and social services (Brandt and Schulten 2008; Schulten and Brandt 2012).

13.4 Changes in power relations and the role of trade unions

More than anything else, the changes in German collective bargaining can be interpreted as a shift in the power relations between labour and capital, leading to a significant loss of trade union power (Dribbusch and Birke 2012; Brinkmann and Nachtwey 2014). To some extent, they also reflect more fundamental changes in the structural features and dominant politics of German capitalism (Streeck 2009). After a short-term unification boom in the early 1990s, Germany for more than a decade experienced a period of relatively weak overall economic development. Because economic growth was rather low in comparison to its neighbouring countries and unemployment high, the country was even called ‘the sick man of Europe’ (Dustmann et al. 2014). Unemployment (using Eurostat definitions) increased continuously until it peaked in the mid-2000s with over five million officially registered giving an unemployment rate of 11.5 per cent. Under these conditions, German trade unions witnessed a significant shrinkage of their power in the labour market while employers successfully used the threat of job losses to wrestle concessions from the workers’ side. The situation for the unions worsened as German politicians increasingly endorsed policies that cut social welfare and relaxed employment protection. It was the social-democrat-led administration in the mid-2000s, in particular, that adopted the notorious ‘Hartz-Laws’, aimed at promoting a more comprehensive reorganization of the German labour market (Knuth 2014). One major effect of these reforms has been an acceleration of various forms of precarious employment which now includes up to 40 per cent of the German workforce (Bispinck and Schulten 2011b).

Finally, German unions also faced a further significant loss of organizational power (Dribbusch and Birke 2012) as net union density was cut from 36 to 18 per cent between 1991 and 2011. This not only reflected the changing economic framework conditions but also the political image and media discourse whereby unions were often pictured as old-fashioned

and backward looking. The strong decline of unions' structural and organizational power has inevitably led to a significant weakening of their institutional power, as the changes in the German collective bargaining systems attest. The high unemployment rate, in particular, prompted unions to accept a significant decentralization of collective bargaining and the conclusion of numerous concession deals. At the same time, in many sectors, and especially in services, the organizational power of unions became too weak to prevent employers from withdrawing from collective bargaining.¹ Finally, the dominant policies in Germany were, for a long time, quite anti-union and prompted the growing incidence of precarious work that further weakened the unions' structural power and indirectly contributed to the erosion of collective bargaining.

Since the late 2000s, however, the political and economic situation in Germany began to change and became somewhat more favourable to the unions. There were at least two major developments behind this (Dribbusch and Birke 2014): First, the unions played a major role in tackling the economic crisis of 2009. Drawing on the traditional institutions of German industrial relations, a new form of 'crisis corporatism' emerged whereby the unions actively helped companies to survive and to maintain employment (Urban 2012). They did this not only by concluding innovative short-time work arrangements at company level but also by successfully lobbying with the employers for economic support from the state. As a result, the unions became widely regarded as successful crisis managers that helped Germany to overcome the crisis without major social disruptions. Second, there has latterly been a broad view in Germany that during the last decade, the trend of growing inequality and precariousness has gone too far, highlighting the need for revisions to restore social justice. The unions were able to address these notions by calling for a 'new order in the labour market' (DGB 2013) and to organize successful campaigns against precarious employment (Bispinck and Schulten 2011b). It was the comprehensive campaign for the introduction of an SMW, in particular, which gained widespread support among the German public and helped restore the unions' reputation as an important societal agent. Altogether, these developments have contributed to a 'comeback' of German trade unions (Schmalz and Dörre 2013) and led to a remarkable shift in their public image (Figure 13.3). While in 2003, only 23 per cent of the German population had perceived unions as 'positive', by 2012 this had grown to 41 per cent. During the same period the proportion with a 'negative' assessment declined from 45 to 20 per cent.

More recently, the change in the public reputation of trade unions has also helped to halt the long-term trend of declining membership. In 2013, five out of eight DGB-affiliated unions (among them the two largest, IG Metall and ver.di) noted a slight increase in membership (Dribbusch and Birke 2014). Although membership retention and recruitment to German

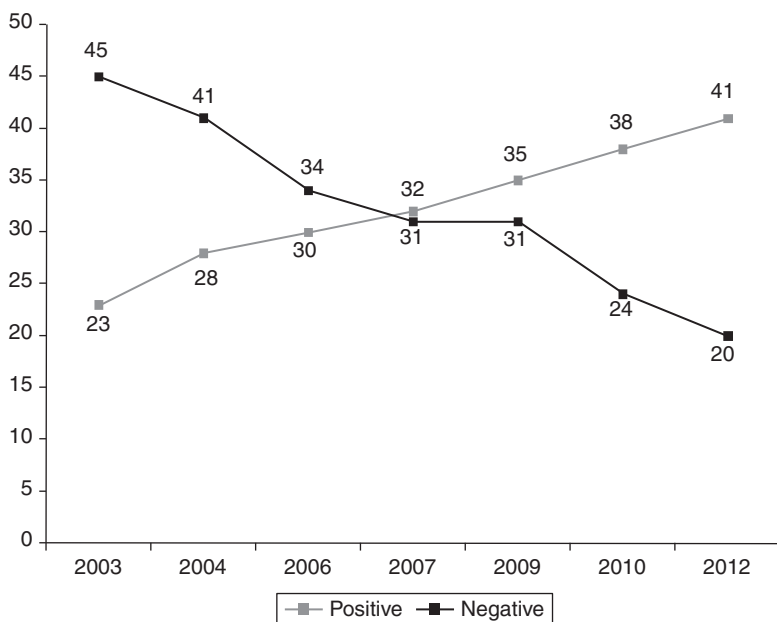


Figure 13.3 Development of public image of trade unions (as % of all persons surveyed), Germany, 2003–12

Note: Missing figures to 100 per cent = undecided.

Source: Allensbach Institut für Demoskopie.

unions have significantly improved, it is still too early to talk about a real turnaround in union membership and it remains to be seen whether unions will be able to stabilize this positive development.

13.5 Wage developments

13.5.1 Collectively agreed and actual wages

The fundamental shift in capital and labour power relations and the changes in the collective bargaining system outlined above have all had a major impact on the development of wages in Germany. Since the mid-1990s, three main trends could be observed. First, average wages grew only very moderately and often below the rate of inflation so that real wages went down. Second, wage developments were increasingly differentiated across sectors. Third, and related to the second trend, the incidence of low wages rapidly increased. All in all, such wage developments contributed to a strong increase in profits and a declining wage share, indicating significant income redistribution from labour to capital.

During the last decade, the growth of collectively agreed wages has been extremely moderate. Adjusted for consumer price movements, collectively



Figure 13.4 Development of real collectively agreed and actual wages (deflated by CPI), annual change in per cent, Germany, 2000–13

Source: Destatis (Federal Statistical Office); WSI Collective Agreement Archive.

agreed wages in the 12 years since 2000 have increased in real terms by only about 0.7 per cent on average (Figure 13.4). Taking the period between 2004 and 2008 in particular, agreed real wages were almost stagnant. The same holds true for the years 2001 and 2011, while in the other years the growth rates in real terms fluctuated between 0.7 and 1.4 per cent. Ironically, the crisis year 2009 saw the highest increase of agreed real wages, due mostly to an extremely low inflation rate. Comparing collectively agreed wage growth with actual wage growth (as calculated through the national accounts), German wage development has been characterized by a strong negative wage drift implying that, on average, actual wages grew much more slowly than agreed wages. With the exception of the recent years 2010 to 2012, wage drift was negative for 12 years. Moreover, between 2000 and 2009, actual wages showed a significant decrease even in real terms, returning to positive growth only from 2010 onwards. These figures show that German workers have faced a rather extraordinary development, namely that Germany in 2010 was the only country in the EU where workers, on average, earned less in real terms than they did a decade earlier (Schulten 2011; European Commission 2014a).

The negative wage drift in Germany has pointed to some other fundamental problems with the country's collective bargaining. It showed that German workers on average have only partially benefitted from the higher wage growth determined by CLAs. Obviously, the decline of collective bargaining coverage is one reason for negative wage drift as wage increases in the non-covered sector were much lower. This holds true, in particular, for the non-covered workers in the low-wage sectors where workers suffered the biggest decrease in real wages (see section 13.5.3). The decentralization of collective bargaining has also contributed to the negative wage drift, since a growing number of companies have sought to derogate from sectoral CLAs by freezing or even (temporarily) cutting agreed wages. Finally, changes in working hours have also influenced wage drift as a growing number of workers were employed part-time, contributing to the slower growth of the average wage per employee. The latter was particularly the case for the growing number of so-called 'mini-jobbers', performing low wage, marginal part-time jobs usually not covered by CLAs.² It is as yet unclear to what extent the return of positive wage drift in the years 2010 to 2012 may represent a new trend. Normally in Germany actual wage developments react much faster to the business cycle than agreed wages, because CLAs often have duration of two years or even longer. Therefore, a time lag between the development of agreed and actual wages may well explain the positive wage drift seen recently.

13.5.2 Growing differentiation

Before 2000, German collective bargaining was a typical example of a pattern bargaining system, whereby a major sector (usually the metal industry, sometimes also chemicals) acted as the trend setter for bargained wage increases. In this system, within a certain range, wage increases were similar for all sectors. Since the 2000s, however, the system of pattern setting has weakened, leading to a growing differentiation of wage developments, in particular between the manufacturing and services sectors (Figure 13.5). Between 2000 and 2013, the highest growth rates of collectively agreed wages could be found in metalworking and the chemical industry with around 40 per cent, while during the same period growth was only 30 per cent in the public sector and around 27 per cent in retail. In an increasing number of service industries wages have no longer followed the benchmarks set in manufacturing, but instead have become more and more decoupled from overall wage trends.

13.5.3 Increasing low-wage incidence

The growing differentiation of wage developments between manufacturing and services industries has also been closely linked to another feature of German wages, namely, growing wage and income inequality shown especially by the strong increase in the incidence of low wages. In the

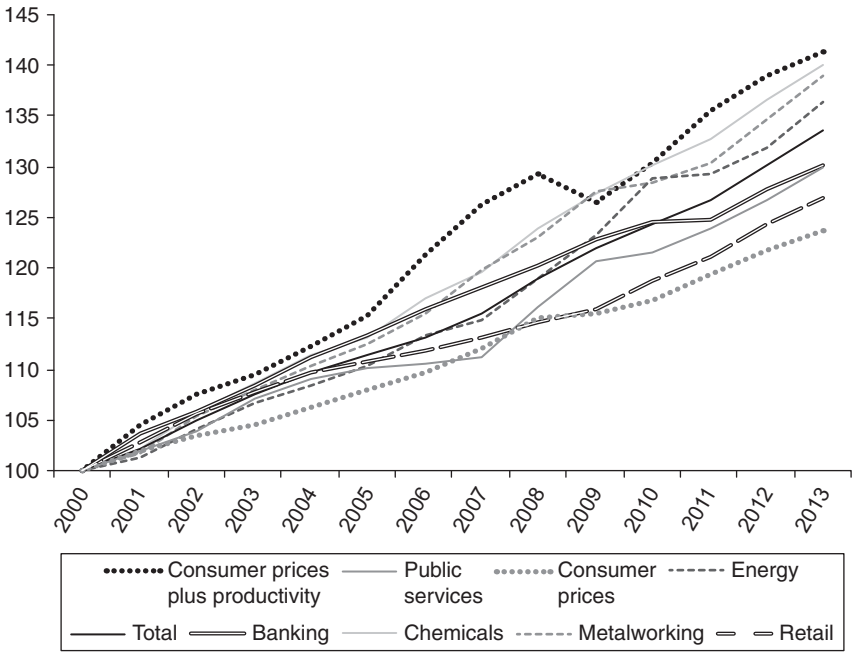


Figure 13.5 Development of collectively agreed wages (various sectors), Germany, 2000–13 (2000 = 100)

Source: WSI Collective Agreement Archive.

2000s, Germany's Gini coefficient grew by 0.036 percentage points to reach 0.30 in 2008. With the exceptions of the United Kingdom and Italy, this was a rather high rate among Western European countries (see Statistical Appendix, Table A.4). From the mid-1990s onwards, real wages of the lowest 15 per cent of the wage distribution fell dramatically, while wages at the top of the distribution continued to rise in real terms (Dustmann et al. 2014). Between 1995 and 2012 the percentage of low-wage workers, defined as those earning at or less than two-thirds of the median hourly wage, increased from 18.8 to 24.3 per cent. In absolute terms, the number of low-wage workers in Germany between 1995 and 2012 grew from 5.9 to 8.4 million, or by 48 per cent. Over-represented among low-wage earners were workers without vocational education (46.6% low-waged in 2012), females (30.8%), younger workers less than 25 years of age (56.7%), migrant workers (34.5%) and in particular those with mini-jobs (of which 78.6% were low-waged in 2012) (Kalina and Weinkopf 2014). Today, Germany has one of the largest shares of low-wage workers in Europe (Schulten 2014). Large numbers of such workers can be found in service sectors such as hotels and restaurants, retail, security services and hairdressing (Bosch and Kalina 2008; Amlinger et al. 2014).

This strong increase in the incidence of low-wage workers has been closely related to the decline of collective bargaining coverage resulting, as already mentioned, in only one-third of wage-earners at the lowest quintile being covered by CLAs in 2010. As Germany at that point had no SMW, more than two-thirds of German low-wage workers could only rely on their individual bargaining position which was obviously not that strong. The low bargaining coverage among low-wage workers has emphasized that union density is extremely low in many service sectors. Moreover, since unions have not had the bargaining power to enforce higher wages, they have often either had to accept rather low-wage levels in CLAs or go without an agreement at all.

13.5.4 Development of the wage share

Considering the dominant trends in German wage developments outlined above, it is no surprise that the wage share declined sharply during the 2000s. As Figure 13.6 indicates, between 2000 and 2007, the wage share dropped from 67 per cent to a historical low of 61 per cent. As in other EU member states, the sharp decrease in profits in the crisis years 2008 and 2009 wage share prompted a temporary increase before reverting to a rather volatile picture. Technically speaking, the wage share will always decline if nominal wage growth is below the combined growth of consumer prices and productivity. Traditionally, German trade unions have regarded price

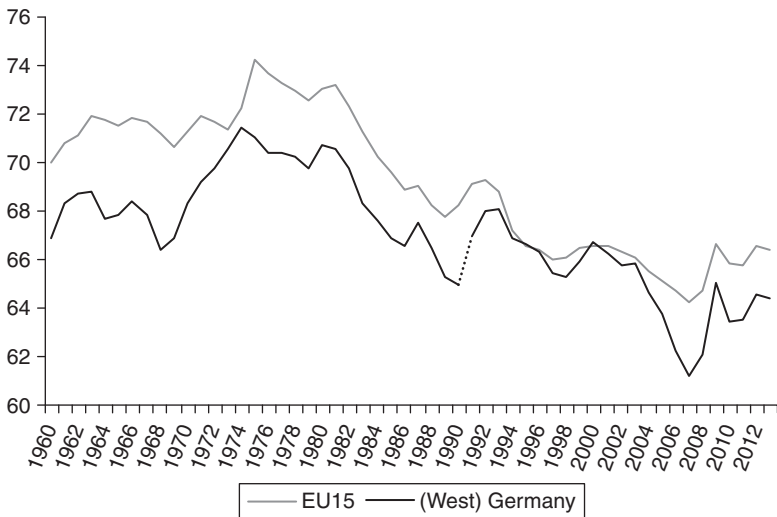


Figure 13.6 Development of adjusted wage share, Germany (1991–2013)/West Germany (1960–90) and EU15

Note: Compensation per employee as percentage of GDP at factor cost per person employed.

Source: Ameco database.

and productivity growth as the ‘neutral margin of distribution’ (*neutraler Verteilungsspielraum*), setting the minimal requirement for wage increases in order to prevent a further decline of the wage share. The unions have often demanded a more expansive wage policy that aimed at redistribution in favour of labour income. In practice however, except for a few years in the 1970s, they were not able to enforce such a wage policy. Moreover, since the 1980s, the trend towards a decreasing wage share has only ever been temporarily interrupted and mostly in years of crisis. During the 2000s, this trend accelerated due to extremely moderate wage growth.

13.6 Wages and economic development

Traditionally, a relatively strong manufacturing sector that pursued export-oriented business strategies has been the backbone of Germany’s economic model. During the 1970s and 1980s, export industries accounted for between 20 and 30 per cent of German GDP – already a rather high value for a large economy such as Germany. After decreasing somewhat in the 1990s due to the economic effects of German unification, the importance of the export sector increased sharply in the 2000s, growing to more than 50 per cent of the country’s GDP in the years 2011 to 2013 (all data from Destatis 2014). While Germany developed in absolute terms into ‘the world champion of exports’, it became ever more dependent on demand from abroad. Moreover, in the 2000s, the German economy was increasingly characterized by the dualism of a flourishing export industry against an almost stagnant domestic demand (Joebges et al. 2009). As Figure 13.7 shows, German exports between 2000 and 2013 increased in real terms by over 90 per cent, while at the same time private consumption grew by only 9 per cent. Imports also grew significantly, promoted in particular by intra-company trade and related imports of intermediate products, as many German manufacturing companies (re)organized their value chains both increasing investment in and subcontracting to other European countries. Yet, the weak development of domestic demand meant the growth of imports has not kept up with export growth, thus leading to an increasing export surplus.

Germany’s one-sided export-led growth model has, thereby, proved rather problematic in two respects. First, it has led to strong economic underperformance with negative effects for growth and employment. Although the country obviously gained from its flourishing export industry that created and secured many well-paid jobs in manufacturing, weak domestic demand has, in contrast, undermined the economy’s ability to realize its full growth potential. In consequence, it has not been able to create sufficient jobs especially in labour-intensive services. The second, even more fundamental problem with the German growth model is that it has relied heavily on increasing export surpluses, leaving other countries with corresponding deficits. In fact, in the 2000s, Germany’s economic development

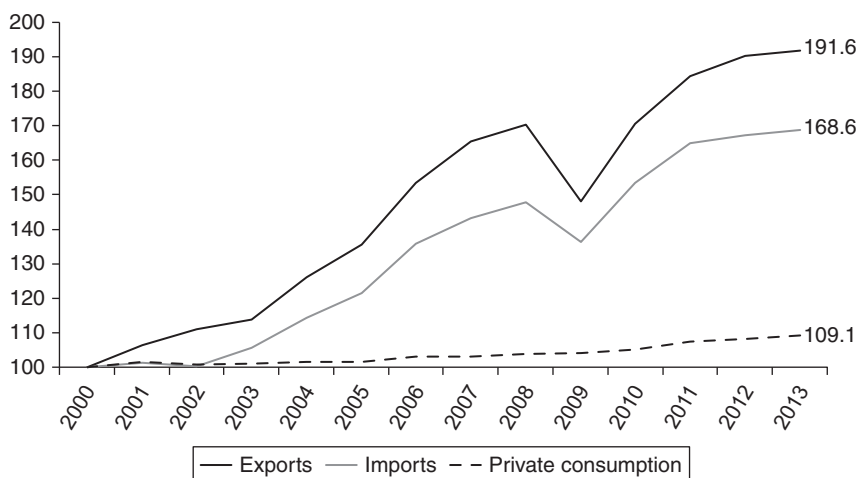


Figure 13.7 Development of exports, imports and consumption, Germany, 2000–13 (2000 = 100)

Source: Destatis, National Accounts.

has substantially contributed to growing macroeconomic imbalances both at the European and global levels, with strong negative economic consequences especially for the deficit countries (Joebges et al. 2009; Herzog-Stein et al. 2013a).

It is a widely held view that Germany's export-led growth model has largely been promoted by the country's very moderate wage growth. Basically, there are two channels through which wages have been influencing economic development, reflecting their double function as both a demand and a cost factor. The long-term decrease in median real wages and growing income inequality have obviously had a strong dampening effect on the development of consumer demand. The same holds true for the comparatively weak development of imports into Germany. As a core factor of aggregate demand, moderate German wage growth has clearly contributed to increasing international economic imbalances (cf. Sturn and Van Treeck 2013). A number of observers have argued that the core reason for Germany's strong export performance since the early 2000s can be found in the fact that German wages grew much more slowly than those in most other industrialized countries (e.g. Dustmann et al. 2014). From a more critical perspective, Germany has even been accused of following a strategy of 'wage dumping' whereby its economic success has only been achieved at the expense of other countries (e.g. Flassbeck and Lapavistas 2013). The extremely modest wage growth and the related development of unit labour costs have indeed led to a significant improvement of Germany's price competitiveness. This has

become even more important as Eurozone membership has pre-empted the improvement of price competitiveness through a currency revaluation.

Competitiveness, however, is not just a matter of prices but includes a range of other non-price factors such as producing innovative and specialized products, the quality of goods and services, the accuracy and engagement of business relations, et cetera. Looking at some of the most developed sectors of the German export industry, such as machine building, chemicals or luxury cars, we can see that labour costs have only played a minor role. Indeed, according to studies by the European Commission, the growth of the German export industries could be explained only partly by the increase in price competitiveness. In addition to that, it was mainly the rapid development of demand in some of Germany's main trading partners combined with the high non-price competitiveness of many German industries, which were the main factors behind Germany's extraordinary export performance (European Commission 2014a; Kollmann et al. 2014). The fact that during the 2000s many German companies did not pass moderate wages onto lower prices but instead used wage moderation to increase their profits is further proof of the relative importance of price competitiveness for the German export industry (Herzog-Stein et al. 2013b). Finally, wages in the German manufacturing sector have clearly developed above the average of the German economy as a whole. Moreover, the manufacturing sector has paid relatively high wages to their core workforce compared to most foreign competitors. Thus, although this sector has profited from the fact that wages in other sectors in the German economy lagged behind, it cannot be concluded that its success in foreign markets was mainly caused by low wages.

To sum up, there is a widespread myth about the 'German model', whereby its current relatively good economic performance has been perceived mainly as a result of Germany's labour market reforms and changes to its collective bargaining system (Duval 2013, for an excellent deconstruction of that myth). The German economy has been highly dependent on its export industry, for which wage costs have been just one and not the only core factor of competitiveness. The export-led growth model has, however, not proved to be at all sustainable depending as it does on strong international macroeconomic imbalances. It may also be highly vulnerable to future changes in the world economy. In addition, extremely moderate wage growth and increasing income inequality have also contributed to the strong underperformance of Germany's domestic demand and the growing imbalances.

13.7 The future of wage policy

The current international perception of the German economic model is rather contradictory. On the one hand, in particular in Europe, it has been

seen as a model to promote the labour market reforms in other countries that were seen by some as the key to Germany's current economic success. On the other hand, there is a growing international awareness that to overcome macroeconomic imbalances not all countries can maintain surpluses and the surplus countries themselves must reconsider their economic development strategy. The International Monetary Fund (IMF), for example, has recently argued that 'given the size of Germany's economy and its large external imbalances, stronger and more balanced growth in Germany is critical to a lasting recovery in the Euro area and global rebalancing' (IMF 2013, 2). Even the European Commission has recommended that 'the policy priorities should be on strengthening domestic demand in Germany' (European Commission 2014b, 8). However, neither the IMF nor the Commission has yet made any recommendation for the future of Germany's wage policy. This is surprising insofar as there are only two major ways to strengthen domestic demand. One is the increase of public investment, which has been comparatively low in Germany for a long time (Rietzler 2014). The other is, of course, the promotion of higher wage growth and a more equal income distribution in order to strengthen private consumption. A more expansive wage policy in Germany, however, requires first of all a restoration of wage regulation and collective bargaining.

Indeed, in July 2014, the German parliament adopted a new law on the 'strengthening of collective bargaining autonomy' (*Stärkung der Tarifautonomie*) to become effective from the beginning of 2015 (Bundesregierung 2014).³ This new law could be seen as a major shift in German labour market regulation away from the former neoliberal agenda of deregulation and flexibilization towards a strengthening of the position of the workers. The main elements in this new legislation are the introduction of an SMW and stronger political support for sectoral collective bargaining through a reform of the extension mechanism.

13.7.1 The introduction of a statutory minimum wage

As long as Germany maintained a high bargaining coverage of 80 per cent plus, an SMW was not a topic at all. German trade unions, for example, were for a long time opposed to statutory wage regulation, since they felt strong enough to ensure equitable wages through the conclusion of CLAs. The situation started to change in the late 1990s when some unions began to recognize a growing incidence of low wages especially in some private service sectors. It was the small Trade Union of Food, Beverages, Tobacco, Hotel and Catering Workers (NGG), which was the first German trade union to call for the introduction of an SMW at their congress in 1999. Later on, this demand was taken up by the much larger United Services Union (ver.di). By contrast, the unions representing the manufacturing sector such as the German Metalworkers' Union (IG Metall) and the Mining, Chemicals and Energy Industrial Union (IG BCE) were initially rather sceptical and

considered an SMW to be in contradiction to the principle of collective bargaining autonomy. After long and controversial debates among the unions, a large majority voted in favour of a national SMW at the Confederation of German Trade Unions (DGB) congress in 2006.

Mobilizing support for the introduction of an SMW was one of the most successful trade union campaigns ever seen in Germany. The unions managed to gather support from large parts of the population and from almost all major political parties, including the conservative Christian Democratic Party (CDU) whose leadership opposed it to the last. After the general election in 2013, it was finally clear that a new 'great coalition' government of CDU and the Social Democratic Party (SPD) could only be formed if the CDU agreed to an SMW. Thus, in autumn 2013, the principal decision for the introduction of an SMW was taken despite the resistance of most German employers and the opposition of mainstream German economists, who mostly still clung to the neoclassical view that an MW would only lead to an increase of unemployment.

The new minimum wage law adopted in July 2014 foresaw the introduction of an SMW of EUR 8.50 per hour from January 1, 2015 (Bundesregierung 2014). It will be adjusted every two years based on the recommendation of a 'Minimum Wage Commission' composed of representatives of employers and trade unions. Under normal economic circumstances, the development of the SMW should follow the average increase of collectively agreed wages. The SMW will be available for all employees with a few exceptions such as 18 years of age or the long-term unemployed. For a transitional period of two years, there will also be the option to pay below the SMW of EUR 8.50 if a lower wage rate has been agreed by a nation-wide CLA. All in all, it is estimated that the SMW will have a direct effect on the wages of up to five million employees (Amlinger et al. 2014).

13.7.2 Re-strengthening of collective bargaining

The unions' campaign for the introduction of an SMW was, from the beginning, accompanied by demands for a strengthening of collective bargaining. From a union perspectives there are in principle two ways to secure a high bargaining coverage. Either the unions have the organizational power to force employers to conclude CLAs or there are (direct or indirect) forms of state support whereby CLAs become generally applicable. With the exception of Denmark and Sweden, all other European countries with a high bargaining coverage of 80 per cent plus have made extensive use of the extension of CLAs or other forms of state support (Schulten 2012).

In Germany, there are two legal opportunities to extend CLAs. The first is based on the German Collective Bargaining Act which allows extension if 50 per cent of the workers in a certain sector are already covered by CLAs. Since the 1990s though, the number of CLAs which were extended on this legal basis has shown a steady decline and currently counts for

only 1.5 per cent of all main agreements (Bispinck 2012). The second possibility is based on the German Posted Workers Act (*Arbeitnehmer-Entsendegesetz*). It has the advantage that in comparison to the first option it does not rely on a certain minimum bargaining coverage threshold. However, extension on the basis of the Posted Workers Act has at least two major disadvantages. First, it has been restricted so far to a limited number of sectors. Currently, this involves about 13 sectors covering mainly construction, construction related trades, industrial cleaning, security and care services. Secondly, the extension has some limitations regarding the content of the agreements. While extension on the basis of the Collective Bargaining Act can cover the whole spectrum of wages, extension on the basis of the Posted Workers Act usually covers only sectoral minimum wages.

Recognizing these failings, the new law on 'strengthening of collective bargaining autonomy' includes reforms of both these legal procedures in order to facilitate the possibilities of extension (Bundesregierung 2014). The strict threshold of 50 per cent bargaining coverage in the Collective Bargaining Act has been abolished and replaced by the vaguer criterium of a 'predominant meaning' of the agreement. This will give the state much more flexibility to extend an agreement even where the coverage is below 50 per cent. Furthermore, the state also gains much greater freedom to declare an agreement generally binding if it is in the public interest. Regarding the Posted Workers Act, the new law abolishes all sectoral restrictions, so in future all sectors will have the option to agree sector-specific minimum wages on the basis of extended CLAs.

13.7.3 Towards a more expansive and solidaristic wage policy?

The most recent changes in the German system of wage-setting all have a strong potential to promote a more expansive and more solidaristic wage policy. The introduction of an SMW will not only reduce the level of wage inequality by setting a universal wage floor, it will also strengthen the bargaining position of those at the bottom of the wage scale and positively influence the overall wage dynamic. In addition to this, the reform of extension procedures could help to restore collective bargaining and reverse the trend of declining bargaining coverage. However, none of these effects will come 'automatically' and will depend on strong actors able and willing to use these new wage institutions. It will depend notably on the trade unions and their ability to further strengthen their different power resources. This holds true for their organizational power where unions still have to meet the challenge of transforming their more positive public reputation into a higher degree of membership. It also holds true for their institutional power where the introduction of the SMW is only a first step to establish a 'new order at the labour market' (DGB 2013) which further restrict different forms of precarious employment.

Finally, it is the structural power determined by the economic development in general and the situation of the labour market in particular which will basically decide the strength and bargaining position of the trade unions. Therefore, the unions have a strong interest in shifting Germany's one-sided export-oriented development into a more balanced development between export and domestic sectors. At this point, the circle will be closed as a move towards a more sustainable economic development model in Germany requires – among other things – more expansive and more solidaristic wage developments.

Notes

1. To a certain extent, the same applies to the German employers' associations (Behrens 2011). In order to prevent membership losses, they created a special form of membership whereby the companies were no longer bound by CLAs (OT-Mitgliedschaft; OT = ohne Tarifbindung). As a result, the employers' associations have contributed to, or even accelerated, the decline of collective bargaining coverage.
2. 'Mini-jobs' are a special form of marginal employment whereby the worker can earn up to a maximum of (currently) EUR 450 per month without paying taxes or social security contributions. Moreover, the employer only has to pay a lump sum of 30 per cent for taxes and social security. Since mini-jobbers have no limitations in terms of working time, they often have long working hours and therefore earn low hourly wage rates. More than three quarters of all mini-jobbers are in low-wage employment (Kalina and Weinkopf 2014).
3. For detailed analysis and comments on this law, see Schulten and Bispinck (2014).

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14

The Netherlands

Maarten van Klaveren and Kea Tijdens

14.1 Introduction

The Netherlands is a densely populated country with a small, open economy, heavily dependent on services and trade. For example, in 2014 some 86 per cent of its 16.8 million inhabitants lived in urban areas. With a GDP per capita of USD 47,617 in 2013, it is a relatively rich country. Though the country is home to industrial multinational enterprises like Philips, Shell, Unilever, Akzo Nobel and Heineken, manufacturing has remained comparatively limited. In 2012, the share of employment in the services sector was at 81.7 per cent, the second highest in the EU (Statistical Appendix, Table A.3B). Four trade-related clusters have latterly developed into economic powerhouses: commercial services; chemicals; food industry (agri-business) and the 'gateways' to Europe where Rotterdam seaport and Schiphol airport connect with the important transport and logistics sector. The country is dependent on exports. The share of its value added created through production for exports grew slowly during the period 1995–2011 and reached 38 per cent in 2011 which, except for Belgium, was considerably higher than that of other EU countries (CBS 2013, 56).

The worldwide crisis hit the Dutch economy seriously, not least because of its high level of integration in the world economy and the high export share. GDP per capita in 2009 fell 4.2 per cent, followed by two years of anaemic growth. Thereafter, the Netherlands went into the much-feared 'double dip' recession, with its GDP falling in 2012 and 2013. The country's relatively large financial sector, in particular, has been through hard times. In 2008, the state nationalized two major banks and injected billions of Euros into these and other financial institutions (in 2013, a third bank followed). In 2009–10, the government embarked upon successive stimulus programmes. The first two bank bailouts, combined with these programmes resulted in a government budget deficit of 5.3 per cent of GDP in 2010; the administration in charge reacted by opting for a policy of economic austerity and implementing expenditure reductions.

The chapter is organized as follows. First, we go into the characteristics of the Dutch labour market (section 14.2). In Section 14.3, we review wage and social security institutions. In so doing, we deal with the system of minimum wage (MW) fixing, collective bargaining and trade unions and workers' representation. Section 14.4 concentrates on developments in wages and social security: first, in MWs; second, in collectively agreed and actual wages alongside consumer price movements and productivity development, before focusing on income and wealth inequality. The chapter concludes with a discussion of the policy options available for the recovery of the Dutch economy, in particular questioning the logic of continuing with the current export-led growth and wage moderation path.

14.2 The labour market

In the Netherlands, the 2012 labour force participation rate (LPR, headcount measured) was high, with a fairly small disparity between the rates of men (79.7%) and women (70.4%), though it should be noted that when measured in FTEs, the LPR fell to 57.3 per cent because of the large proportion of part-time workers (EC 2014). Until the early 1970s, the Netherlands had a very low LPR due to the fact that married women withdrew from the labour market. From then on, however, the re-entry of married women into the labour market moved strongly in the other direction, which included (somewhat later) the emergence of a trend for women to continue working while raising young children. This female influx was a major contribution to the Dutch 'employment miracle' whereby between 1982 and 2010, the number of persons employed increased by 2.5 million, or 48 per cent, of which 2.1 million were in part-time jobs.

Table 14.1 documents the changes in the labour market structure of the Netherlands over the period 1947–2012. The table displays the rapid decrease of the share of employment in the manufacturing industry, in the 1990s in particular. Services expanded simultaneously. The second to last row indicates the massive increase of the part-time (less than 35 hours per week) share in employment that reached 49.8 per cent in 2012 (77.0% for females and 26.4% for males – EC 2014).

A major change not covered by this table has been the substantial rise in the level of flexibilization in the Dutch labour market after 2000. According to Statistics Netherlands (CBS, *Statline*), the percentage of all flexible employed increased from 24 per cent in 2001 to 33.0 per cent in 2008, reaching 37.4 per cent in 2013. The proportion of employees with flexible contracts grew particularly in 2006–07 before remaining stable until 2012, when it rose again and reached 21.7 per cent in 2013. Similarly, from 2001 until 2013, self-employment (the second biggest flexible category) grew continuously and reached 15.7 per cent in 2013. In the crisis years 2008–13, the number of employees with permanent jobs fell (by 7.6%), whereas the

Table 14.1 Development of employment shares by sector, employees, The Netherlands, 1947–2012 (headcount)

	1947	1960	1975	1990	2000	2010	2012
Agriculture, fishing, mining	16.2	12.1	9.8	4.4	3.0	2.6	2.5
Manufacturing	31.8	30.7	25.9	20.4	13.3	11.8	10.9
Construction	8.3	9.1	8.9	7.4	6.3	4.9	5.0
Commercial services	22.6	27.6	29.2	36.3	46.9	49.0	48.5
Community, social and personal services	21.1	20.5	26.2	31.5	30.5	31.7	33.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Of which private sector	74	72	71	71	71	67	68
Of which full-time employees	*	94	85	71	58	51	50
Total × 1,000	3,612	4,169	4,683	5,626	6,998	7,860	7,872

Note: * = unknown.

Source: Author's calculations based on CBS, Statline; EC 2014.

numbers of those with flexible jobs and the self-employed increased (by 12.4% and 12.1% respectively – authors' calculations based on *Statline*). There is evidence that this flexibilization cannot be separated from the growing importance of short-term, shareholder-value based goals in the decision-making of many firms. In addition, the related rapid shifts in business strategies and the rise of outsourcing practices were all shifts that lawmakers and trade union leadership alike seem to have underrated in the 1990s. Various Dutch researchers have warned that large flexible employment shares may well weaken the country's competitive strength, especially as many employers have hardly invested in the training and employability of non-core workers (Muffels and Wilthagen 2011; Heyma and Theeuwes 2012).

14.3 Collective bargaining and social security institutions

14.3.1 The minimum wage fixing system

After World War II had destroyed over a quarter of the economic capacity of the Netherlands and had thrown a large part of its population into poverty, the Dutch government promised to offer social security along the lines set out for the United Kingdom in the Beveridge Report (1944). An industrialization strategy based on low wages was to be the cornerstone for rebuilding the country. When the Netherlands, in 1949, had to accept the independence of Indonesia, the need for such a strategy was felt even more strongly. The state took on major role and, for longer than any other western democracy, the Netherlands ran a statutory wage policy. From 1945 onwards, collective labour agreements (CLAs) needed prior approval of a government-appointed

board. In 1945, one of the first recommendations of the newly established Labour Foundation (STAR), the top-level platform of employers' associations and union confederations, was about the introduction of a 'social MW'. They followed this with a recommendation that the approval procedure of CLAs must include the checking of the MW income available to a full-time, unskilled breadwinner and his family. These recommendations fitted into a pattern of wage restraint, decreasing wage inequality and the achievement of substantial GDP growth: from 1951 to 1960, GDP increases averaged 4.7 per cent yearly and from 1961 to 1970, 4.4 per cent (CBS *Statline*). In 1963–65, the system of statutory wage control broke down under pressure from tight labour markets and concomitant strikes (De Rooij 2001; Van Klaveren and Sprenger 2004).

With the threat of social unrest in the background, employers' associations and union confederations agreed in 1964 that CLAs should respect a national (statutory) MW, albeit only for breadwinners aged 24 and over. In 1968, a MW was established by law, applicable to anyone age 24 or older, irrespective of their household position. A few years later, the threshold was lowered to the age of 23. In 1974, a provision was added setting a MW for young people between 15 and 23 years. Whereas initially the youth MW was set at 40 per cent of the adult MW for 15-year-olds, during the 1980s it was lowered to 30 per cent thus extending the 'tail' of the wage distribution. From there, the MW increases stepwise by 7.5 per cent per age year to 85 per cent for 22-year-olds. Across European countries, the Netherlands has by far the lowest youth MW rate and the highest age at which the full MW is granted. Finally, in 1993, the government dropped the 'working at least 13 hours a week' qualifying condition for the MW (Salverda 2008).

Three features of the Dutch MW fixing need special attention. First, the MW is defined on a weekly or monthly basis for what is termed the 'normal working week' laid down in the relevant CLA. Actually, that week varies from 36 to 40 hours. As a result, the *hourly* MW depends on the CLA and differs across industries and employers. In 2011, the Minister of Social Affairs and Employment (SZW) decided to intensify and simplify the enforcement role of the Labour Inspectorate. In order to ease controls, the Inspectorate would in future calculate hourly wages based on a 40-hour week¹: a regulation that disadvantages those with a contractual working week of between 36 and 39 hours as their hourly MW rate would be higher. The Inspectorate, however, could now force employers to pay MW arrears and could claim non-compliance penalties.

Second, the intricacies of the Dutch uprating mechanism should be noted. Formally, the MW is supposed – with some time lag – to follow automatically the general trend of negotiated and actual wages. Negotiated wages are monitored at half-year intervals and the development of actual wages is reviewed every four years. However, the government has the discretion to set aside up-ratings, thus, to freeze the MW. The main impetus for such freezes

resulted from the third distinctive feature of Dutch MW fixing. Between 1969 and 1974, the minimum benefits of all social insurance provisions (unemployment benefits, disability schemes, social assistance and the state old-age pension scheme) were linked to the MW, based on net amounts. Between 1969 and 1979, strong wage growth induced equally strong MW and social benefit increases, yielding what appeared to be tangible advantages for workers over this period. However, in the recession that followed, the disadvantages of this coupling for MW earners became clear; decision-making on the MW level has been repeatedly mixed up with public finance considerations. Finally, in a 2003 Central Accord, government, employers' associations and trade unions decided to de-link wages and social insurance benefits.

14.3.2 Collective bargaining

Basically, Dutch industrial relations were shaped in the early 20th century, with national-level bargaining between trade unions and employers' organizations as a main feature. The Dutch union movement was 'born outside the factory gates' and its mainstream has remained highly centralized. Currently, collective bargaining is framed under the law of 1927 which prioritized collective over individual labour agreements. Additionally, a 1937 law allows the government to extend a CLA and declare it binding on all employees in the same sector, the so-called mandatory extension (ME). Extension can take place if the CLA covers 55 per cent of employees, which is mostly the case as 85 per cent of employees work for employers organized in industry associations. The high employer density and the latent pressure of ME largely explain the high collective bargaining coverage in the Netherlands which after 2000 fluctuated between 82 and 86 per cent and reached 85 per cent in 2013 (Van Klaveren and Tijdens 2012; authors' calculations based on Ministry of SZW 2013, 2014). At the same time, the gap between coverage and union density, already large, has been growing.

Since 1945, Dutch industrial relations have been dominated by consensus between government, employers and the mainstream of trade unionism. This 'Polder Model' was prepared during World War II in illegal meetings of union leaders and employers, resulting in the foundation of the bi-partite STAR. The institutional infrastructure was completed in 1950 when the tri-partite Social and Economic Council (SER) was created, with unions, employers and independent members appointed to advise the government on a broad range of policy issues. In 1945–50, unions and employers had clear power bases. The propensity to strike was quite high, and union membership grew to reach 43 per cent density in 1950. For their part, employers' associations covered a clear majority of firms. A trade-off in the STAR gave the unions a position at the bargaining tables at national and industry levels in exchange for the promise of industrial peace at company level (De Rooij 2001). The three 'recognized' trade union

confederations, namely, Social Democratic (NVV), Catholic (KAB/NKV) and Protestant (CNV), formed stable elements in industrial relations. They supported the official industrialization strategy based on state-set yearly wage rounds.

In the 1960s, processes of deregulation emerged. The Wage Formation Act of 1970 handed wage-setting back to unions and employers, although the government could order temporary wage freezes. This it did repeatedly, for instance in order to mitigate the negative employment effects of the first oil crisis (1973–74). These freezes fuelled the more autonomous positions the NVV and NKV union centres and their affiliates took at this time. As a result, the 1970–82 period became a relative conflict-prone intermezzo in Dutch industrial relations. Simultaneously, the three glorious decades of the Dutch 20th century economy came to an end. The second oil crisis (1980) effectively ended the heyday of economic growth and gave way to a recession that was deeper than in many European countries. Again, successive administrations took refuge in wage freezes. From 1981 until 1989, the MW was subject to freezes and after a 3 per cent nominal lowering in 1984, public sector wages were frozen for years to come (Salverda et al. 2008). Under these conditions, income inequality rose substantially.

The period of considerable real wage increase ended in 1982 with the Wassenaar Accord, the first central agreement of unions, employers and the government. The trade unions exchanged wage restraint and gave up wage indexation for an emphasis on job creation and working time reduction; the Accord stimulated the development of the ‘first part-time economy in the world’. Under pressure from union women’s groups, the FNV unions demanded that part-time workers should be granted the same rights as full-timers. Later, part-time work was formally de-marginalized through the adoption of equal treatment legislation (Tijdens 2005). The Wassenaar Accord had in effect prevented another government intervention in wage-setting and in 1987, the law was changed enabling the social partners to regain substantial wage autonomy. In 1993, the New Course social pact paved the way for the broadening of collective bargaining to issues like training, career development, working-time scheduling, child care, et cetera (Visser and Hemerijck 1997). In between, real negotiated wages, while increasing on average by 2.6 per cent yearly in 1971–80, decreased by, on average, 0.8 per cent in the decade 1981–90 (authors’ calculations based on CBS, *Statline*).

In the recent Great Recession, Dutch collective bargaining patterns have been remarkably resilient, at least in the private sector where few employers have tried to escape from the regular negotiation patterns. Neither has there been a substantial shift in the last decade from sector to company agreements, the main moves in this respect having taken place between 1996 and 2002. In 2013, industry agreements still accounted for 91 per cent of all those covered by CLAs (Ministry of SZW 2013). In the public sector, by

contrast, a different story unfolded as government and local authorities de facto took refuge in a freeze of nominal wages, lasting more than two years. In the crisis, the unions in the market sector aiming to preserve jobs moderated their wage claims even more firmly than before. In doing so, union negotiators met only weak opposition from their rank-and-file. At the same time, employers and their associations made no efforts to negotiate opening clauses in CLAs (as had happened in Italy and Germany, see Chapters 12 and 13) nor were CLAs renegotiated during their agreed timescale. On the other hand, shortening the duration of agreements with mutual consent, like at the Tata steel works from two years to six months, created opportunities to reconsider and renegotiate the CLA (AIAS-ETUI 2009–13).

14.3.3 Trade unions and workers' representation

In the 1970s, the Dutch union landscape went through major changes. The Social-Democratic and Catholic confederations merged in 1976 to become FNV, currently representing two-thirds of all union members. The Protestant CNV centre stayed apart, whereas MHP, a federation of white-collar unions, was founded and gained seats in STAR and SER. At the industry or company levels, cooperation between the unions affiliated with these three confederations has mostly proceeded smoothly and demarcation conflicts have been rare. Within FNV and CNV, subsequent mergers have resulted in large conglomerate unions. In the FNV confederation in 2012, for example, two major conglomerates organized two-thirds of the membership, FNV Bondgenoten covering the largest part of private industry and AbvaKabo FNV similarly covering the public sector. In 2011, these two unions refused to sign the accord on pensions (lifting the pension age from 65 to 67 in 2020) that the three confederations had agreed upon with the government and the employers' associations. This fuelled an internal crisis in the FNV, followed by an effort to 'redesign' the confederation and create smaller union entities.

Their weakness at company and shop floor levels continues to be the Achilles heel of the Dutch unions and may help to explain widespread non-compliance concerning non-wage issues like working time. As regards wages, the shop-floor union weakness has been mitigated by the solidity of 'wage building'. Nearly all CLAs contain a grid that links detailed wage scales to jobs irrespective of the occupant and, in most CLAs, the wage scales are connected to job evaluation schemes down to the lowest job levels. These schemes act rather effectively as a shield against employer's arbitrariness in individual wage-setting. All in all, it remains a drawback that Dutch politics has denied union delegates a legal status at company level. This has only been partly compensated by the development of a dual system of industrial relations. Under the 1950 Works Councils Act, employees were entitled to representation in joint Works Councils, initially chaired by the employer. A 1979 revision of this act provided for mandatory councils elected by and from the workforce, independent of the employer. The councils are endowed

with information and consultation rights as well as co-determination rights on personnel policy regulations but without wage-bargaining powers. Lay trade unionists dominate the Works Councils, and an estimated 65 per cent of all councillors are unionized. Nevertheless, many councils have encountered problems in functioning properly and recruiting new councillors (cf. Van het Kaar and Smit 2007).

The available figures point to a long-term fall in union density. In 1980, density was 34 per cent; in 1990: 24 per cent; in 2000: 23 per cent, with a further fall to 19.7 per cent in 2008 and 19.0 per cent in 2011 (Visser 2013). By March 2013, compared to mid-2011, trade unions lost another 5 per cent of their membership (CBS, *Statline*), bringing density to 18 per cent. This negative trend puts the union confederations at risk because their representativeness may be questioned, both in terms of the ME mechanism and more generally in the national political arena. Clearly, the need for unions to recruit young workers as members is most urgent, given their heavily ageing rank-and-file. For example, in 2011 only 6 per cent of the workers aged 15–24 were organized. The unions should also be aware that currently half of all workers in this age group have a flexible employment contract (Driessen and Lautenbach 2014). This is the more important since young workers with permanent contracts have tended to be more unionized – 21 per cent were members – than those in flexible employment where just 9 per cent were members in 2011 (Ter Steege et al. 2012).

14.4 Development of wages and social security

14.4.1 The minimum wage

As said, although the MW in the Netherlands is supposed to follow the general wage trend, it has, notably in the 1970s and 1980s, been subject to freezes by successive administrations. Governmental MW freezes have covered 13 of the 36 years between 1979 and 2014. Remarkably, in the crisis years 2008–13, successive administrations abstained from freezes. Nevertheless, the government has not made up for the arrears caused by the earlier freezes either, and as a result, over a longer time span the ‘bite’ of the MW has declined considerably. For instance, compared with its 1979 value, the *adult* MW by 2012 had fallen 37 per cent below average adult hourly earnings. Its ratio to the *average adult* full-time hourly wage (the Kaitz index) decreased by one-third from 0.64 in 1979 to 0.42 in 2005, to remain from then on at about the same level (Statistical Appendix, Table A.5). Relative to its 1979 value, the adult MW had lost 23 per cent of its purchasing power by 2012. The estimated real MW per hour fell less, by some 19 per cent for adults over 1979–2012, when the reduction in average full-time working hours in this period of time is taken into account (Salverda 2008; additional calculations by the authors). Simultaneously, the position of the MW in the Dutch wage distribution deteriorated, most obviously between 1979 and 2005, although

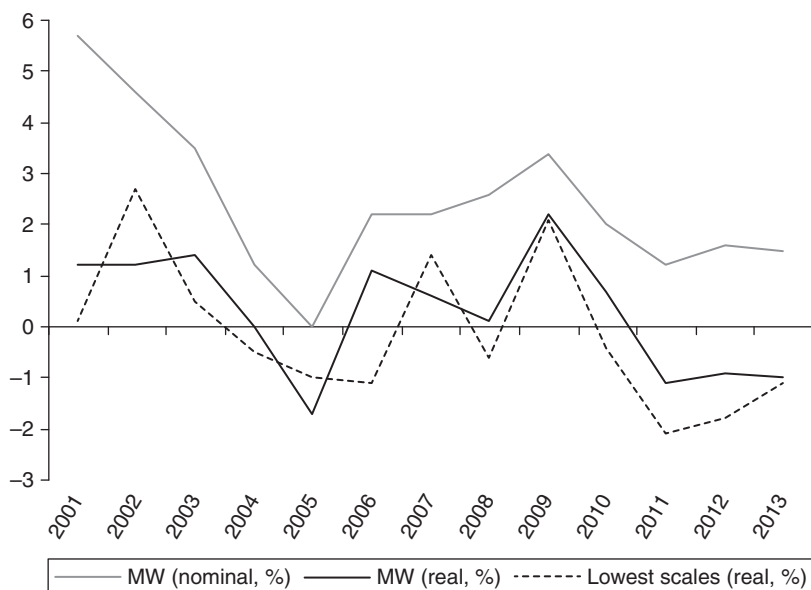


Figure 14.1 Development of nominal and real adult MWs and development of real lowest pay scales in collective agreements, hourly wages (annual change in %), The Netherlands, 2001–13

Source: WageIndicator database; CBS, Statline; lowest CLA scales: Ministry of SZW.

neither has it improved after 2005. In 1979, the MW level was 27 per cent above the lowest decile of the hourly earnings distribution, but by 2005 it had fallen to exactly the level of that decile. If the MW had kept its relative position, the first decile would have moved up more and wage inequality would have grown less (Salverda 2008, 305–06).

Figure 14.1 shows the nominal and real development of the adult MW in the 2000s year-on-year, based on hourly wages. A freeze in 2003–05 led to a decrease of purchasing power attached to the MW in 2005. That was repeated in 2011–13 due to the low collectively agreed wage increases on which MW fixing is based. Over 2001–13, the real value of the MW increased on average by only 0.2 per cent yearly, while during the crisis years 2008–13 it ended up at exactly zero (see Table 14.2).

The figure also illustrates the relationship between the development of the lowest pay scales in the CLAs and that of the adult MW; the dotted line indicates the development of the real average value of starting wages attached to these scales. The impact of government intervention in collective bargaining through MW fixing partly depends on whether CLAs endorse the MW or lay down higher wage levels. In the 1970s and 1980s, the lowest CLA scales had followed the average wage trend, and in the early 1990s

Table 14.2 Average annual change (in %) of real minimum wages, collectively agreed wages and actual wages, consumer prices (CPI) and labour productivity, The Netherlands, 2001–10, 2001–13 and 2008–13

Year	Real wages			CPI (%)	Labour product (%)
	MW (%)	Collect. Agr. (%)	Actual (%)		
2001–10	0.68	0.15	0.88	1.93	0.71
2001–13	0.29	0.16	0.54	2.15	0.55
2008–13	0.00	–0.31	–0.03	2.05	–0.19

Source: Wages: WageIndicator database and CBS, Statline; labour productivity: OECD database (output per unit of labour input).

they diverged on average 11 per cent from the MW. The government pressed unions and employers to bring these scales down to the MW level, arguing that this would stimulate employment opportunities for disadvantaged and low-waged groups. SER and STAR produced similar recommendations. Consequently, in 1993–97 the social partners narrowed the gap with the MW to 6 per cent, with a further decline to 3 per cent in 2012–13 (SZW 2013). Initially, this move may largely have been an academic exercise. In the 1990s, many companies due to skill-biased technological change and offshoring of activities had already ‘emptied’ their lower pay scales of employees and hardly employed anyone at these levels. Hence, a large majority of companies did not use the new, lower scales. Thus, the relative decline of the MW lacked a direct effect on low-wage employment. The latter, in effect, replaced MW employment, ending up with wage levels somewhat above the lowered MW. It can be argued that the content attached to the MW as an institution gave room for the increase of low-wage employment in the Netherlands (Salverda et al. 2008, 79, 83–4).

According to Statistics Netherlands data, the share of those at or below the MW in total employment has increased slightly during the crisis, from 5.9 per cent in 2008 to 6.2 per cent in 2012. In line with their deteriorating labour market position, this increase was greater among 20–30-year olds. At 16 per cent, the MW incidence was at its highest for young workers in both the 15–19- and 20–24-year-old age groups. The data also showed both gender and sectoral effects. In 2012, female employees were more likely to earn the MW (7.4%) than males (5.1%). Across industries, the highest percentages of MW earners were found in hotels, restaurants and catering, for females (14%) and males (13%) alike, and in transport and storage where 12 per cent of females were on MW (authors’ calculations based on CBS, *Statline*).

A minority of the MW earners may in fact be earning *below* the MW, though statistical data on under-payment (i.e. non-compliance with the statutory MW) is rather outdated. Over 2008–13, both the Labour

Inspectorate and trade union officers reported non-compliance with the SMW, often combined with sub-standard working conditions, mainly from seven industries: food processing (in particular meatpacking); construction; hotels, restaurants and catering; agriculture (and in particular horticulture); transport (particularly road haulage); industrial and related cleaning and domestic work. In 2013, the Minister of Social Affairs and Employment complained that employers used more and more creative ways to evade the MW, such as paying expense allowances instead of wages and using bogus international constructions (Second Chamber of Parliament No. 17050, letter of April 11, 2013).

14.4.2 Wages, prices and productivity

The available statistics for the Netherlands do not confirm the textbook view that collectively agreed wages are the main determinant of wage growth. The real increase of collectively agreed wages has been quite small or non-existent, for instance over the period 1981–90 an average annual decrease of 0.8 per cent was posted, 1991–2000 saw a tiny 0.1 per cent yearly growth; a similar 0.2 per cent annual growth was recorded in 2001–10 and an average 1.3 per cent decrease took place between 2011 and 2013. Overall, this yields around 0.3 per cent annual average decrease over 33 years (authors' calculations based on CBS, *Statline*).

Figure 14.2 shows the real (adjusted for inflation) development of both collectively agreed and actual wages since 2001. In five of the 13 years, agreed wages fell. In the period 2011–13, this was also the case for actual wages, partly due to increases in taxes and social insurance contributions (Eggelte et al. 2014, 25). In the early 2000s, nominal agreed and actual wage increases were substantial but so was inflation. Even with the much lower inflation in later years, the real growth of collectively agreed wages was either very low or negative.

In contrast to Germany, where wage development has been characterized by a strong negative wage drift, actual wages in the Netherlands nearly always rose above collectively agreed wages. In other words, there has mostly been a positive wage drift, albeit limited. For 1990–2000, on an hourly wage basis, wage drift averaged 0.5 per cent for this period, while for 2001–10 it rose to 0.7 per cent, before falling to 0.3 per cent in the crisis years 2008–13, with 2008 proving to be an exceptional year posting negative wage drift. Also, unlike Germany, differentiation in *collectively agreed* wages across industries has remained limited in the Netherlands. In the 2000s the longer-term variation continued to be small: over 2001–10 a spread of just 0.6 percentage points between the highest nominal yearly average (construction, 2.6%) and the lowest (public administration, 2.0%). However, differentiation in *actual* wages was, on average, larger over 2001–10, with a spread of 1.4 percentage points between the highest nominal yearly averages (construction and finance, both 3.6%) and the lowest (retail, 2.2%), although such differences were almost wiped out during the financial crisis between 2009 and 2012

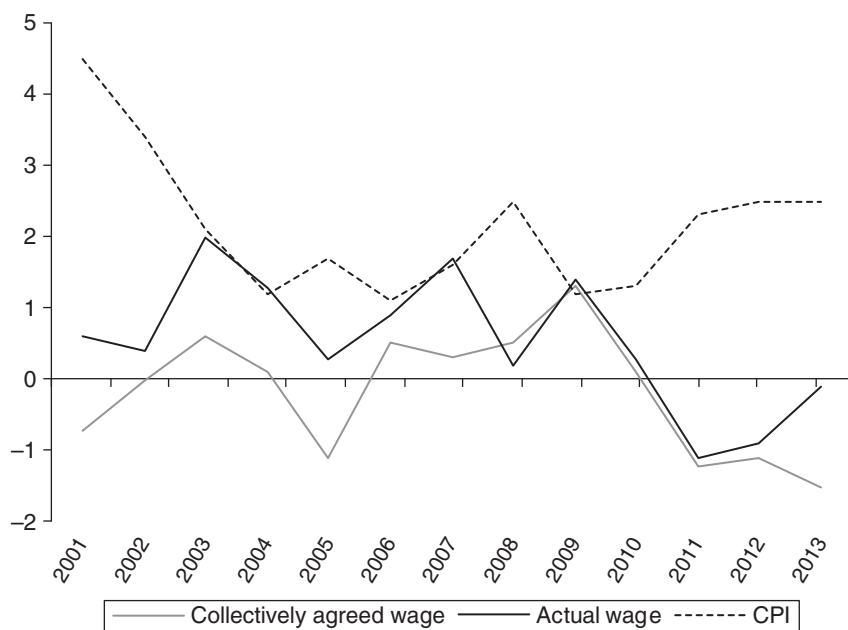


Figure 14.2 Real development (deflated for CPI) of collectively agreed and actual hourly wages (annual changes in %), The Netherlands, 2001–13

Source: CBS, Statline.

(Eggelte et al. 2014, 27). Before 2009, the business cycle played a major role in determining earnings in the finance industry. Boom periods tended to see a strong increase in additional pay (bonuses et cetera) and in overtime compensation leading to positive wage drift, whereas in years of contraction negative wage drift tended to show up. At the other end of the wage spectrum, the retail industry has also showed a volatile pattern, with tight labour market conditions inducing extra payments for shop-floor staff alternated by negative drift due to the influx of younger workers with lower wage rates (Van Klaveren and Tijdens 2012). The various forms of additional pay were and are mostly outside union control and remain a risk factor in wage moderation as a trade union policy.

Now we turn to labour productivity. As in other countries, keeping wages up with consumer price and productivity increases is a declared goal of Dutch trade unions in order to at least maintain the economy's wage share. Dutch labour productivity, while still comparatively high (in 2012 the sixth highest in the world), has since 1980 seen its growth gradually falling away. Whereas in the 1970s annual growth averaged 3.4 per cent, it fell in the 1980s to 2.0 per cent and in the 1990s to 1.7 per cent

(WRR 2013, 192). Nevertheless, this growth remained higher than wage increases and in 1981–2000, the gap between nominal wages and productivity increased by 26 per cent (Salverda et al. 2008). In the 2000s, the growth of labour productivity declined further, to an annual average of 1.2 per cent between 2001 and 2007, followed by a fall of 0.2 per cent annually between 2008 and 2013 (authors' calculations based on OECD data). As a result, since 2005 the productivity performance of all major industrial economies has surpassed that of the Netherlands. The assumption that wage moderation in the Netherlands by depressing aggregate demand has induced slower investment and has lowered labour productivity in the long run has convincingly been supported by the evidence (cf. Storm and Naastepad 2013).

Figure 14.3 shows the development since 2000 of the MW, collectively agreed and effectively paid wages (all in real terms taking the CPI into account) and of labour productivity. Table 14.2 already indicated that over the 2001–13 period, the comparable MW increases and those of collectively

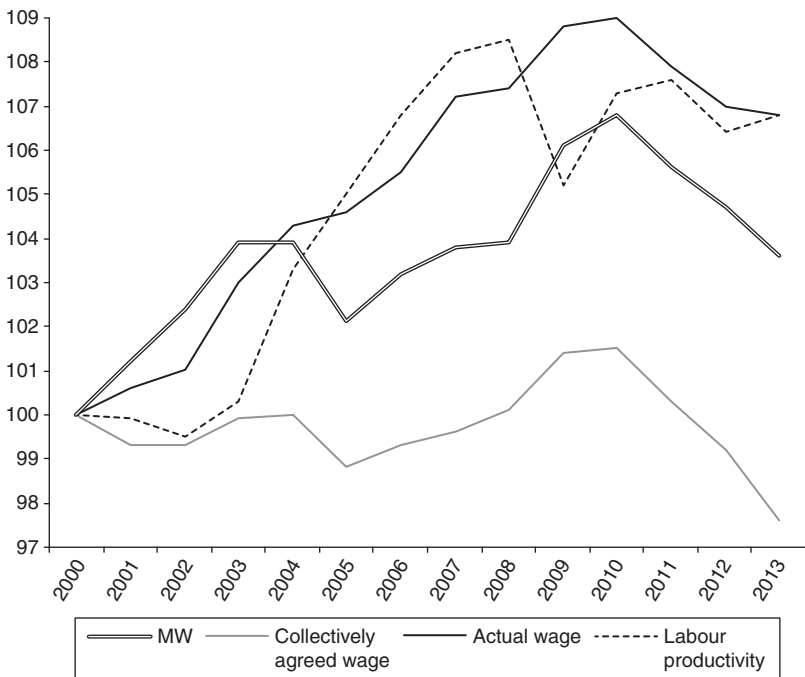


Figure 14.3 Real minimum wages, collectively agreed wages, actual wages and labour productivity, The Netherlands, 2000–13 (2000 = 100)

Sources: wages: CBS, Statline; labour productivity: OECD database (output per unit of labour input).

agreed wages remained lower, that is, close to zero, while the actual wage increase was at the same level.

14.4.3 Wage, income and wealth inequality

As stated, in the Netherlands the existence of the SMW has not counteracted the long-term growth in wage inequality. The low-wage share of employment grew significantly, from 11 per cent of all hours worked in 1979 to 16 per cent in 2004. Measuring headcount, the proportion of low-wage earners increased further to reach 18.1 per cent in 2010 – across Europe this was an upper-middle ranking score (Salverda et al. 2008; Bezzina 2012). The incidence of low pay among full-time workers remained virtually stable at 10 per cent. However, part-timers, who already had a higher incidence in 1979 (17%), saw that proportion increase to about 30 per cent in the second half of the 2000s. As for demographic categories, low-wage work has been concentrated among adult women and young workers. In 2010, the proportion of low-wage earners among women (21.2%) was higher than among men (15.1%), though the gap was less than the overall EU27 average (21.2% versus 13.3% for men), implying that the Netherlands had a relatively high proportion of low-paid men. Certainly, with 46.1 per cent of all young workers (below the age of 30) in 2010 listed as low-paid, the Netherlands in this respect performed the worst in the EU (average 27.5%). This was also the case for those with fixed-term contracts, 47.9 per cent of whom were low-paid in the Netherlands compared to 31.3 per cent average for the EU (Bezzina 2012). These adverse comparisons cannot be separated from the Dutch youth MW and the widespread use of fixed-term contracts. Already before the crisis, young labour market entrants were disadvantaged by the combined effects of the low youth MW rates and the near-impossibility of obtaining permanent contracts, and during the crisis this disadvantage has grown (cf. Salverda et al. 2008; Driessen and Lautenbach 2014).

Recently, a debate has arisen about whether or not income inequality has increased in the last three decades in the Netherlands. One group of researchers has emphasized that the large and growing redistribution effects through progressive taxation and social transfers have countered rising inequality in gross incomes. These researchers suggested for the period 2001–12 an average near-constant Gini coefficient of 0.275 after redistribution (that is, below the Gini ratio of about 0.29 the OECD presented for the Netherlands over 2000–10). They found a similar result for 1990–99, although, due to a time series break in 2000, the outcomes were not fully comparable (Caminada et al. 2014). Through the use of various inequality measures, another research group has pointed to an increase of inequality, though that increase has been concentrated in the period 1985–90 (Salverda et al. 2013). The use of inequality dispersion ratios makes clear that between 1977 and 2011, significant changes have occurred that were not captured

by the Gini coefficient. The S10:S1 ratio² calculated over gross (primary) incomes increased from 10.5 to 14.0, again, most strongly between 1980 and 1990 but also in the years afterwards. Between 1977 and 2011, the real gross incomes in the lowest four deciles (in Euros at 2011 prices) fell between 3 and 7 per cent, whereas they increased in the upper half of the distribution, topped off by the 28 per cent rise in the highest decile (Salverda 2013, 2014). Moreover, the distribution of private wealth although rarely debated (until Piketty's recent book) seems highly relevant in the Netherlands. For 2011 and 2012, the wealth Gini coefficient has been calculated at 0.83 (including value of housing property and mortgage debts, excluding pension rights; Van Bavel and Salverda 2014; Pouwels-Urlings and Van den Brakel 2014), implying that the Dutch wealth distribution is highly unequal. However, the relationship between wealth and income inequality still needs to be clarified for the Netherlands.

The development of the wage share in the Dutch GDP reflects in particular the fall of wages relative to GDP from the early 1980s. Earlier, in the course of the 1970s, the Dutch wage share had caught up with those of other advanced European countries. As Figure 14.4 shows, following a modest peak in 1993, the wage share fell in the 1990s, accelerating between 2003 and 2007 before, as elsewhere, the 'crisis recovery' pushed the share up to 67.9 in 2013.

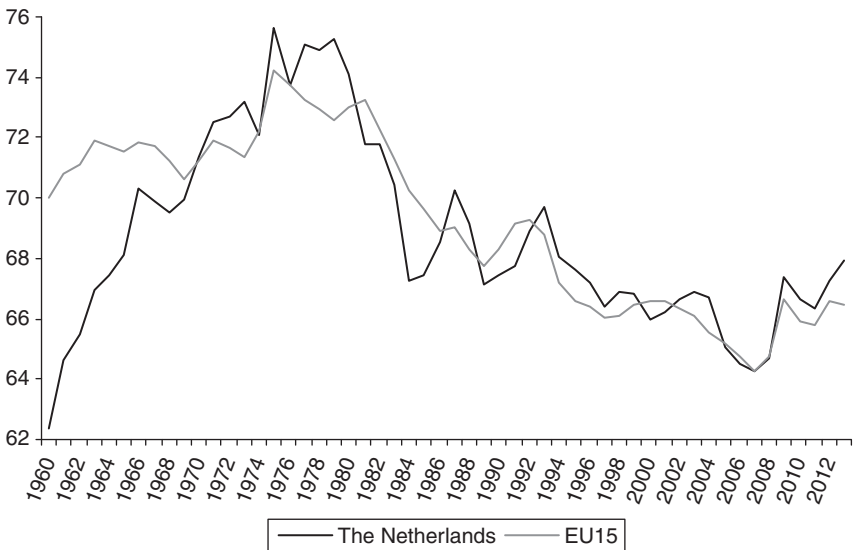


Figure 14.4 Development of adjusted wage share, The Netherlands and EU15, 1960–2013

Note: Compensation per employee as percentage of GDP at factor cost per person employed.

Source: Ameco database.

14.4.4 Social security

After 1945, broad parliamentary support for the expansion of the welfare state resulted in a number of social insurance provisions: for the population in general (1958: General Old Age Pensions Act (AOW), 1965: Act on Welfare) and for employees only (1945: dismissal protection; 1949: Act on Unemployment Insurance; 1966: Labour Disability Insurance Act, WAO). Until the 1980s, taxation and social insurance provisions were committed to the preservation of traditional family life. However, save for a short period in the 2000s and most recently, day-care facilities have been expensive and in short supply; the same holds for related facilities and arrangements – pushing women towards part-time work to cope with work-life balance problems (Tijdens 2005).

Since 1980, there has been a cumulative dismantling of the social insurance provisions (entitlements as well as levels) gained in the three preceding decades under the welfare state regime. Overall, this has exerted a clear negative effect on the purchasing power of those dependent on social assistance. For example, unemployment insurance was reduced in 1987, when the benefit-to-previous-earnings (replacement) ratio fell from 80 to 70 per cent. Since 1990, the entitlement criteria for the other benefits have also been tightened several times and benefit durations shortened. As those qualifying for social assistance are, by definition, at the bottom of the income distribution, the net effect of these measures has been a growing gap between the median income and the lowest decile (Salverda et al. 2013).

14.5 The recovery: Export-led or wage-led?

Recent trends in key macroeconomic variables such as wages, private consumption, imports and exports for the Netherlands show a remarkable resemblance with those for Germany as discussed in Chapter 13. While the Dutch growth of exports was somewhat less spectacular, Figure 14.5 shows that between 2000 and 2013 exports increased in real terms by 64 per cent, against just 6 per cent for private consumption. The Dutch current account surplus had grown by 2013 to nearly EUR 47 billion, or over 9 per cent of GDP; the export surplus vis-à-vis the EU member states had by then even reached EUR 115 billion (CBS, *Statline*). The European Commission forecasts a further increase of the current account surplus to around 10 per cent of GDP in 2015 (EC DG ECFIN 2014, 21).

This export-led growth model is, like that of Germany, problematic in two ways. First, as argued in Chapters 10 and 13, the heavy reliance on export surpluses contributes to growing international imbalances. The second problem is domestic. The stagnating development of private consumption has,

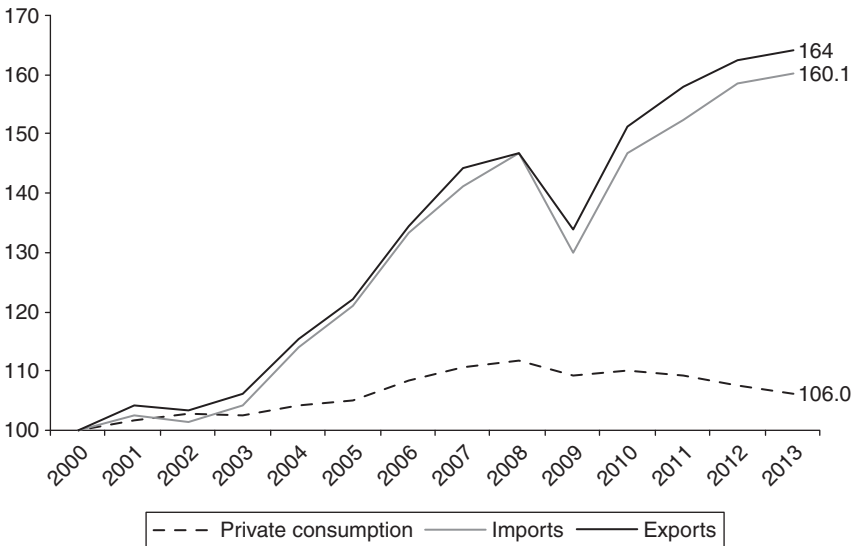


Figure 14.5 Development of exports, import and private consumption (deflated), The Netherlands, 2000–13 (2000 = 100)

Source: CBS, Statline.

in combination with a housing bubble, frustrated the recovery of the Dutch economy. From the early 1990s, house prices in the Netherlands rose massively, stimulated by mortgages exceeding property market prices and the system of tax rebates on the marginal rate of interest paid on mortgages. However, after their peak in 2008, house prices have dropped by over 20 per cent. Currently, one in three Dutch households have so-called ‘negative equity’ where their mortgage debt is higher than the market value of their home. In 2008–13, the fall of real wages combined with the widespread uncertainties related to house prices together with expected changes in the fiscal treatment of mortgages and unemployment have all increased income uncertainty and put substantial downward pressure on domestic private consumption (Mastrogiacomo 2013). In these six years, Dutch private consumption deflated for CPI fell by 5.1 per cent, whereas in neighbouring countries (modest) real consumption growth was maintained (Jonkers and Notten 2013; Eggelte et al. 2014). Worst still, unemployment, which until 2012 had remained at less than 5 per cent, rose quickly and reached a rate of 7.0 per cent in the second quarter of 2014. As shown in Chapter 10 (Figure 10.2), Dutch unemployment had long been far below that of most of its peer countries. This changed in the second phase of the crisis and Dutch unemployment is currently on par with or even above that of its peers.

Many economists have concluded that the continuation of traditional wage moderation in current conditions would cause negative effects, notably on domestic demand but also, as argued earlier, on the country's labour productivity and growth potential. They have also cautioned that this might spill over to its export performance (cf. EU DG ECFIN 2014, 15). It is broadly recognized that compared with the recession of the 1980s, current macroeconomic conditions have fundamentally changed. Under present conditions, simply repeating the old mantra 'jobs before wages' may not be conducive to a sustainable and equitable recovery. All in all then, there are good reasons to defend a wage-led recovery strategy in the case of the Netherlands. Moreover, the dominance of the wage moderation discourse has hampered the development of a broader debate on the importance of innovation for the Dutch economy. In this field, there are weaknesses that should be addressed. Hausmann and Hidalgo (2013), for instance, have argued that since current Dutch strongholds, notably the agri-food business, rely on lower-complexity productive knowledge, they will inevitably meet stiff competition. They add that the traditional orientation of the Dutch economy towards European and US markets is changing into a principal source of vulnerability. The European Commission noted that in 2013, re-exports accounted for roughly one-half of the Dutch goods balance compared to one-third in 1995 and that domestically produced exports have relatively underperformed (EU DG ECFIN 2014, 21–2). We should add that the Netherlands may have lost its attractiveness for foreign investors in technologically advanced activities. In recent years, a number of foreign-based multinationals divested their Dutch R&D and laboratory facilities (WRR 2013). Thus, the country seems in urgent need of a reorientation in manufacturing, servicing and exports.

We conclude that wage policies in the Netherlands have played a major role in linking a deliberate strategy of wage moderation with a macroeconomic governance model that has been instrumental in keeping real actual wages at or slightly above the 'zero growth line' and mostly below productivity growth. The SMW has not been able to counteract the long-term growth in the incidence of low pay due to the existing MW setting mechanism. The majority of trade unionists have tended to accept the wage moderation strategy as long as they perceived tangible advantages from the underlying trade-off, namely: (preserved) jobs, improved working conditions and the adjustment of individual working hours to their preferences. However, in the last six years and against the backdrop of stagnant real wages, substantial unemployment and cuts in social insurance and care provisions, a strategy of wage moderation does not appear to be delivering anymore. Under these conditions, the already questionable proposition that such moderation would improve the competitive position of the Netherlands has altogether lost its credibility.

Notes

1. The MW figures in the figures and tables included in this Chapter take a 38-hour week as the starting-point.
2. Differing from the D9:D1 ratio as it is not based on the threshold above which the top decile incomes are earned (D9) and below which the bottom decile incomes are earned (D1). Rather, it is based on the average incomes of the top and bottom deciles.

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15

The Nordic Countries

Line Eldring and Kristin Alsos

15.1 Introduction

Denmark, Finland, Iceland, Norway and Sweden are commonly grouped together as the Nordic countries. This is not only due to their geographic proximity but also because they share important characteristics, such as being small and relatively prosperous economies with highly organized labour markets and well-developed welfare states. Three of these countries – Denmark, Finland and Sweden – are members of the European Union (EU), while Iceland and Norway have opted for a ‘quasi-membership’ through the agreement on the European Economic Area (EEA). In practice, this means they are part of the EU common market and obliged to implement EU regulations. At first glance, the similarities between the five countries are more striking than the differences. When observed more closely, however, considerable differences show up concerning the organization and regulation of their labour markets.

The European financial crisis, to a varying degree, also affected the Nordic countries. Iceland experienced an almost total meltdown in 2008 (but has since made a remarkable recovery), and the Danish economy also suffered considerably. Sweden and Finland were to some extent affected too, while Norway, with its oil-based economy, recovered very quickly. A common characteristic of all Nordic countries is the significance of collective bargaining for setting wages and working conditions. Throughout the crisis their collective bargaining systems have proved to be robust in providing viable institutional responses within a tightened economic framework. However, the crisis and even more the Eastern enlargement of the EU have put pressure on these national collective bargaining systems (Andersen et al. 2014).

The main focus of this chapter is on the mechanisms and outcomes of the current minimum-wage-setting regimes in the Nordic countries. We outline their basic features as well as recent developments and look more specifically into some of the factors that may threaten the sustainability of the current regimes.

15.2 Wage-setting institutions and minimum wage regulations

15.2.1 Union density and collective bargaining coverage

The Nordic countries have been, and still are, characterized by high union density and collective agreement coverage. Yet, as elsewhere in Europe, the major challenge facing the Nordic trade unions is to maintain their position. In spite of relatively high union density, the Nordic trade unions have lost some of their strength over the last 15 years. In the last decade, Denmark, Finland and Sweden have all changed their traditional model of unemployment insurance (the Ghent system). The decoupling of the link between membership of an unemployment insurance scheme and union membership has caused the union density to decline considerably in these countries. In Iceland and Norway the state has managed the unemployment insurance system; however, in Iceland other benefits, pensions for instance, are linked to trade union membership. The fact that the union density has remained stable in Norway over the same period, while it declined heavily in Denmark, Finland and Sweden, confirms the fact that the Ghent system has contributed greatly to high trade union membership density in those countries that had this scheme (Due et al. 2010; Nergaard 2010).

The decline in union density is clearly shown in Table 15.1, with three Nordic countries in particular losing union density. The effect of the changes in the unemployment insurance schemes, however, appears to have stabilized, so future losses in membership will most likely be associated with more general developments in the labour markets (Nergaard 2010). Moreover, figures for Norway may give grounds for some optimism, since the decline observed there during this 15-year period has been relatively insignificant. Nevertheless, the challenge for all Nordic trade union organizations is to be found in maintaining unionization, recruitment and successful bargaining. These are the core elements of the Nordic model, and successes in this field will be decisive with regard to the effectiveness of the collectively agreed minimum wage (MW) regimes, particularly for Denmark and Sweden, who do not have supplementary statutory mechanisms.

Table 15.1 Development of trade union density, Nordic countries, 1995–2010

Year	Denmark	Finland	Iceland	Norway	Sweden
1995	77	80	87	57	87
2000	74	75	89	54	80
2005	72	72	96	55	76
2010	69	70	85*	55	69
1995–2010 (in % points)	–8	–10	–2	–3	–18

Source: Visser 2013. *2011 (Eldring and Alsos 2012).

Looking at the employers' side we find, by contrast, a somewhat different development pattern. Here the share of organized business in the private sector has been stable or even increasing in the last decade. The most recent figures indicate that between 55 (Denmark) to 79 per cent (Sweden) of all employees in the private sector work in a company organized in an employers' federation (Andersen et al. 2014).

While Denmark and Sweden use collective agreements (CLAs) as the only mechanism for the regulation of MWs, Finland, Iceland and Norway also use *erga omnes* instruments (extension of CLAs) here. None of the Nordic countries has a statutory MW and it seems unlikely that any of these countries will envisage an introduction of such schemes in the near future. The Nordic trade union organizations vehemently oppose the introduction of a statutory MW and the employers' associations have provided only occasional support for steps in this direction. These social partners have had the main responsibility for wage regulation in all these countries, but only in Sweden and Denmark has this arrangement been exclusively applied. In all Nordic countries bargaining for MW floors has taken place mainly at industry level. Such agreements determine a floor, often differentiated by age, skill or seniority, that cannot be underbid by the partners locally. Furthermore, a two-tier model of bargaining has developed in many sectors, whereby sectoral agreements prescribe national standards and nationally agreed wage increases but also give procedural and economic guidelines for local or firm-level pay arrangements (Stokke 2008). Thus, individual wages will vary between enterprises and among employees. As a result, average wage levels will be somewhat above the minimum rates defined by CLAs. In principle, CLAs are binding only on those parties that have signed them. However, in all Nordic countries rules exist that oblige employers bound by the agreement to apply its terms to non-unionized workers.

In addition, as a result of the EU enlargement in 2004, MW regulations in Norway, which had traditionally been left to the autonomy of the social partners, were supplemented by an extension of the collectively agreed wage rates in industries with a large number of labour migrants from the new member states, that is, construction, shipbuilding, agriculture and, from the autumn of 2011, cleaning. Nevertheless, these extended agreements still only covered a small proportion of the Norwegian labour market. A decision on extension is made following a request from one of the partners, in practice the Norwegian Confederation of Trade Unions (thus, LO Norge). A government-appointed commission (*Tariffnemnda*) subsequently decides on the basis of the Act relating to the general application of wage agreements and so on. In order for the commission to extend a CLA, documentation must prove that *foreign workers* undertake, or are suspected of undertaking, work on conditions that are less beneficial than those stipulated by the applicable agreement. The commission decides which conditions to extend. In practice, these have tended to be the minimum wage; food, lodging and

Table 15.2 Mechanisms for wage determination, Nordic countries, latest available years

	CBC in private sector	Extension of CLAs	Regime
Denmark	74% (2012)	No	Autonomous collective model
Sweden	85% (2012)	No	
Norway	50% (2013)	Yes, some	Mixed model
Finland	85% (2008)*	Yes, widespread	Statutory regulations (and strong unions)
Iceland	90% (2011)*	Yes, widespread	

Note: *Numbers from Iceland and Finland include employees covered by generally applicable CLA. In Finland, the coverage in the private sector excluding extensions was 73 per cent in 2008 (Ahtiainen 2011).

Sources: Denmark: Dansk Arbejdsgiverforening 2014; Sweden: Medlingsinstitutet 2014; Norway: Stokke et al. 2013; Finland: Ahtiainen 2011; Iceland: Eldring and Alsos 2012.

travel expenses and, in some cases, also working hours. The commission consists of five members, one from each social partner and three independent members. Decisions are by simple majority. In Finland and Iceland, most agreements are extended more or less automatically, in effect ensuring almost all workers are covered by CLA.

As with union density, collective bargaining coverage (CBC) has been somewhat lower in Norway than in the other Nordic countries. All five countries exhibit almost 100 per cent coverage in the public sector but show large variations in the private sector. As Table 15.2 indicates, collective bargaining coverage in Norway was 50 per cent in the private sector, compared to between 74 and 90 per cent in Denmark, Sweden, Finland and Iceland.

The Norwegian Act on the extension of CLAs differs from corresponding European schemes including those in Finland and Iceland, in several respects. Finland extends all national CLAs that have a coverage exceeding 50 per cent and, an expert commission here consisting of three members determines what agreements should be extended. Decisions can be appealed at the labour court (*Arbetsrättsdomstolen*). As of late 2009, a total of 198 national agreements had been extended. Such extensions comprised all individual entitlements in CLAs (Seip 2010). In Iceland, a law of 1980 stipulates that wages and labour conditions negotiated between the social partners should also apply as a minimum to all employees who perform work of the same type as that covered by the CLA. This extension also applies to provisions pertaining to the settlement of disputes over whether the conditions are being fulfilled.

In Norway and Finland, the labour inspectorates are responsible for the enforcement of extended agreements. In Norway, moreover, contracting enterprises and their union representatives play a particular role in the enforcement of extended agreements. A contracting enterprise is obliged to

ensure that subcontractors abide by the agreements, while the employees of subcontractors can hold the contractors liable for missing wage payments in areas that fall under the extended CLA. In addition, in Norway and Iceland statutory rules ensure that trade unions have the right to inspect wages and labour conditions. In Norway, this applies to the employees of subcontractors in areas covered by the extended agreements, whereas in Iceland this applies in general (Alsos 2007). Furthermore, in Norway, contractors are jointly and separately liable for the obligations of contractors further down the chain of subcontractors to pay wages pursuant to regulations in generally binding CLAs. This means that workers can claim payment of the minimum wage by any of the contractors in the chain if their own employers fail to pay (Alsos and Eldring 2014).

Summarizing, we can point both to major similarities and to certain variations between the Nordic countries when it comes to wage regulation mechanisms. A key point to note, however, is that although the extension of CLAs is being used in some of these countries, the statutory regulations are always based on agreed rates emerging as a result of collective bargaining.

15.2.2 Minimum-wage levels and low-wage incidence

A central issue concerns the extent to which the collective bargaining system has succeeded in ensuring a decent minimum-wage level. In the following discussion, we provide an overview of wage levels in selected industries in the Nordic countries. The purpose is first to examine the level of the minimum rates determined by the CLAs and then to compare these with average wages in the industries concerned and with national averages. Thus, we can assess several aspects, primarily, whether the Nordic bargaining systems have produced MW levels on a par with the proposed European rates, for example, within 50 per cent of the national average (Kaitz index). In addition, we can gain an insight into the variations in Nordic wage levels, in absolute and relative terms, and finally, we can assess the consequences of a possible statutory MW equivalent to a Kaitz index of 50 or 60 per cent (the latter proposed as a goal for EU countries: Schulten et al. 2005).

We have selected industries where we assume the pressure on collectively agreed wages to be considerable because of the increasing labour immigration from the new EU member states. Specifically these are: construction, metalworking, hotel/catering and cleaning. The figures show collectively agreed rates/normal wage rates for these selected industries in the Nordic countries in 2011. The rates are based on information from the trade union confederations and apply to monthly wages for skilled labour (to the extent that this rate is specified in the CLAs). Hourly rates have been recalculated to give monthly rates. Only basic wages are included, not variable supplements. In order to show how the level of the prevailing minimum rates compares to the average, we have included information on both national- and

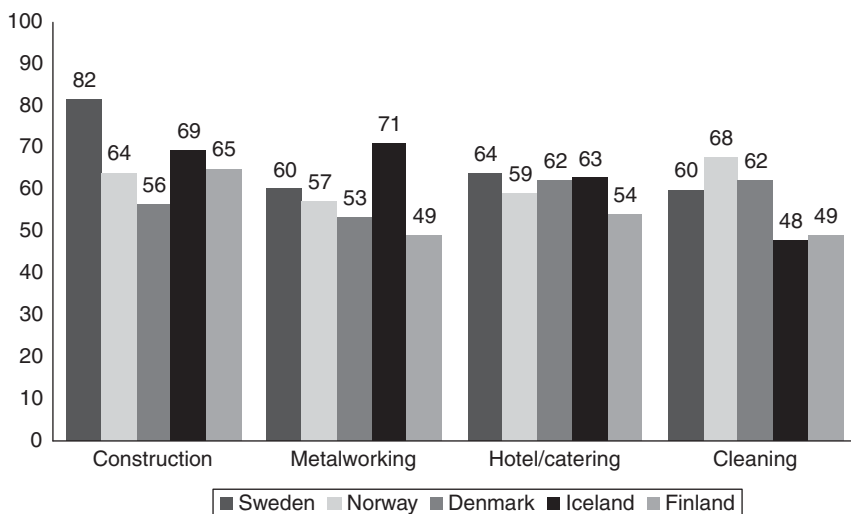


Figure 15.1 Minimum wage rates in national collective agreements in per cent of national wage levels, four industries, Nordic countries, 2011

Source: Eldring and Alsos 2012.

industry-level averages for 2010. Rates are given in Euros, recalculated from national currencies in January 2012, with the exception of Iceland, where the exchange rate is that for June 2011. The figures summarize the nominal values by showing wage rates by country and industry as a percentage of national and industry averages (Figures 15.1 and 15.2).

Nominal wage rates (in Euros) vary considerably between the countries in all industries included here, as do industry and national averages. For example, the minimum rate in the Norwegian construction industry amounts to EUR 3,027 per month, followed by Sweden at EUR 2,622, Denmark at EUR 2,425, Finland at EUR 2,027 and Iceland at EUR 1,629. In terms of average wage levels (industry and national averages), Norway and Denmark are at the top end. As regards the minimum rates, their distance from the average has varied between industries and countries. All industries have shown average wage levels above the minimum rates in the CLAs, reflecting local wage formation and high collective agreement coverage as well as the spillover effects from the CLAs. In Denmark and Norway, the industry averages for the construction and metalworking industries, in particular, have been far above the minimum rates for these industries. In service industries such as hotel/catering and cleaning, the distance between the agreed rates and the industry average has been relatively small in all countries, most likely because many of these agreements defined normal wages, and no local supplements were foreseen.

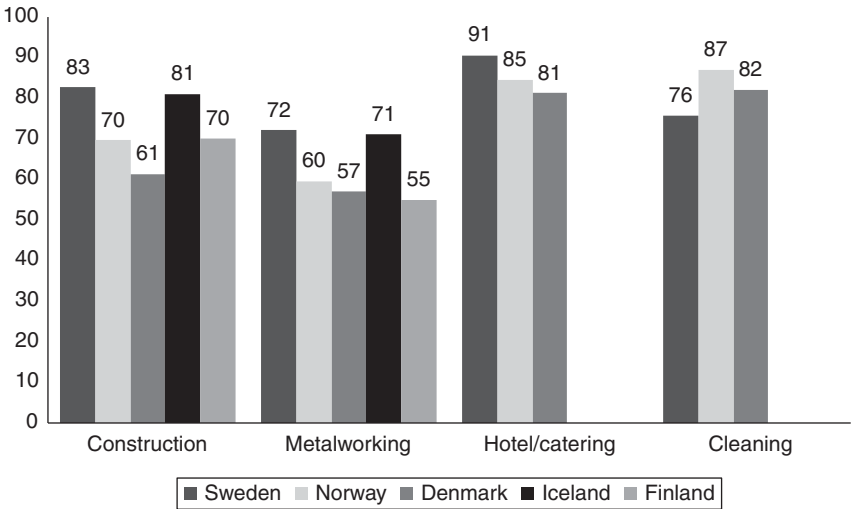


Figure 15.2 Minimum wage rates in national collective agreements as per cent of industry averages, four industries, Nordic countries, 2011

Source: Eldring and Alsos 2012.

In all these industries across the Nordic countries, the minimum rates amounted to more than 50 per cent of the national average, with the exception of the minimum rates for the metalworking industry and cleaning in Finland, both at 49 per cent, and cleaning in Iceland, at 48 per cent. Most rates amounted to 50–70 per cent of the average. This means that the collectively agreed MW regulations in these industries would comply with a norm of 50 per cent of the average level, but not necessarily with a 60 per cent norm. This also indicates that a statutory MW set at the 60 per cent level would most likely be unrealistically high (even) in the Nordic context. Kampelmann and others (2013) produced a simulation of the consequences of a statutory minimum wage (SMW) set at 60 per cent of the national median wage for a sample of European countries, including Denmark and Finland. Their findings partly support the contention above. A statutory MW at this level would increase the MW in all the sampled countries, except Denmark – but even there, some of the sectors would benefit from a statutory MW at 60 per cent of the national median wage.

At this point comparative information on the incidence of low wages and in-work poverty may be useful. European statistics on low-wage earners (defined as earnings at or below two-thirds of the national median gross hourly wage) show a somewhat better situation in the Nordic region than in most European countries. Eurostat data indicate that the proportion of low-wage earners in all five Nordic countries remained below 10 per cent

in 2010 (Denmark 7.7%; Finland 5.9%; Norway 7.3%; Sweden 2.5%; Iceland 6.7%). Yet, admittedly the incidence of low pay among women in the Nordic countries is mostly about double that of male workers, with the exception of Norway (females 8.6%, males 6.0%) (Bezzina 2012).

The proportion of working poor ('in-work at-risk-of-poverty') in the Nordic countries has increased slightly until 2010, but remained about constant or fell (Denmark and Iceland) in 2011–12. On average, for the EU27 countries, a total of 9.1 per cent of the employed could be characterized as poor in 2012, compared to an estimated 8.1 per cent in 2005, an upward trend located mostly in the last two years (see Figure 15.3). Whereas the Nordic countries as a whole kept the share of working poor at a low level (5.3% in 2005 as well as in 2012), within the Nordic group different positions are notable. Sweden displays a somewhat higher proportion of working poor (6.7% in 2012), and Norway (5.1%) and Finland (3.8%) somewhat lower. Elsewhere in Europe some variation across countries could also be noticed. In Germany, France and United Kingdom the share of working poor

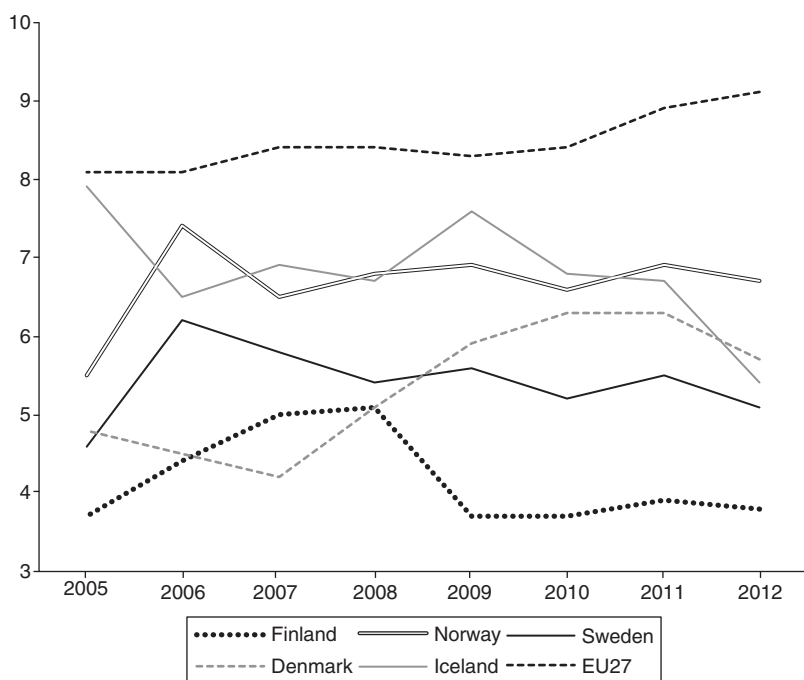


Figure 15.3 Development of shares of working poor in totals employed, Nordic countries and EU27, 2005–12

Source: European Union Statistics on Income and Living Conditions (EU-SILC).

increased from 2009 to around 8 per cent in 2012, while in the Netherlands and Belgium the proportion of working poor remained at a level similar to that of the Nordic countries (both 4.6% in 2012) (data: European Union Statistics on Income and Living Conditions (EU-SILC)).

15.2.3 Free mobility of labour and the Nordic minimum-wage regimes

A major challenge to the Nordic MW regimes has arisen in the wake of EU enlargements in 2004 and 2007. The influx of labour migrants and service providers from the new CEE member states (EU10) has challenged the Nordic labour-market model. In particular, it has questioned whether existing schemes and CLAs can succeed in halting low-wage competition and social dumping, or whether supplementary measures will be required. Most Nordic countries have received large amounts of labour from the 10 new EU member states; for example, between 2004 and 2013 over 450,000 citizens in total moved to the Nordic countries from the EU10 countries. In addition, numerous service providers and posted workers have entered the labour markets here – probably constituting around 30 per cent of total labour migration (Eldring and Friberg 2013). Inflows have been particularly large into Norway, which received almost 40 per cent of the total migration from the EU10 in this period. In 2003 about 6,000 citizens from these countries were registered as residents in Norway, a number that increased to over 158,000 in 2013 (Statistics Norway 2014).

This large inflow into Norway provided an immediate rationale for introducing the extension of CLAs as an instrument to combat low-wage competition. However, these extensions have focused on industries with a high number of labour immigrants and have presupposed that the social partners wished to extend the agreement to all employees of the industry in question. To date, very few agreements have been extended, leaving room for industries with low collective agreement coverage and without mandatory MW rates. Norway has the highest wage levels among the Nordic countries and as such has the largest scope for low-wage competition. A survey among Polish migrants in the area of Oslo, the Norwegian capital, in 2010 showed that the extension of CLAs and other measures, introduced through two consecutive government action plans against social dumping, had had some effects. The majority of Polish construction workers had wages in line with the extended minimum rate, although they only earned 73 per cent of the average for the sector. However, 19 per cent earned *less* than the statutory minimum, of which most were posted workers and/or worked on the black market (Eldring 2011; Friberg et al. 2014).

Similar surveys from Copenhagen (Denmark) and Reykjavik (Iceland) showed that, as in Oslo, the labour market in Copenhagen for Polish migrant workers had been structured into different segments, where casual employment, temporary staffing, transnational subcontracting and

household service provision functioned as drivers of low-wage competition and precarious working conditions. In Copenhagen, however, being inside or outside the system of collective bargaining had a much stronger bearing on outcomes than was the case in Oslo. In Reykjavik, outcomes were structured differently, and few of the variables that explained wage variation in Copenhagen or Oslo had any significant effect in the Icelandic capital. Instead, it seems the relatively flexible and universal Icelandic regime had placed Polish migrants more uniformly at the bottom of the wage scale, although with far better protection against exploitative conditions (Friberg et al. 2014).

The Swedish and Danish systems have also been challenged by EU enlargement. Initially, the social partners here did not want the government to interfere in the regulation of wages for posted workers, and the implementation of the Posting of Workers Directive in these countries did not include references to Clause 3.8, which enables MWs to be set by generally binding national agreements or by accords signed by the most representative social partners. Decent wage standards were foreseen to be ensured through regular procedures, compelling foreign service-providers to sign CLAs with the aid of boycotts and industrial action if needed (Malmberg and Siegemann 2008). When the Laval case was brought before the EU Court of Justice (ECJ), it transpired that Sweden's implementation of the directive was flawed. As a result, the form of industrial action taken by the Swedish construction workers' union was deemed to be in violation of EU regulations (Dølvik and Visser 2009; Evju 2009).

As a result of the ECJ verdict, both Sweden and Denmark judged it necessary to amend their national legislation. They faced the same challenge, but found different solutions. Both countries focused on Section 3.8 of the Posting of Workers Directive, which regulates the manner in which countries that have no schemes for extension of CLAs may ensure collectively agreed provisions will also apply to posted workers. Sweden chose the first alternative provided by Section 3.8, deciding that CLAs that are generally applicable to corresponding enterprises in Sweden could be made mandatory for foreign service-providers. Denmark chose the second alternative, that the agreement had to be signed by the most representative partners at the national level and be applicable nationwide. Moreover, both countries presupposed that the requirements applied to conditions that were within the core area defined by Section 3.1 of the Directive. However, Sweden assumed that industrial action was allowed only if the conditions to be enforced were better than those defined by statutory provisions or those that the employees were already entitled to. Denmark took a more radical approach and determined a separate MW definition that included a number of performance-related supplements (Dølvik and Visser 2009).

15.3 The future of Nordic minimum-wage regulation

Since the introduction of statutory MWs has not been on the agenda of the Nordic countries, there are no well-developed scenarios to indicate the plausible consequences for the collective bargaining system. The Nordic union organizations obviously fear that the consequences would be adverse. To the extent that the issue of a statutory MW has been debated in the Nordic countries, the concept of a statutory MW has arisen most frequently in Norway, especially as a possible alternative to the extension of CLAs. The reactivation of the long dormant Act relating to the extension of CLAs has been controversial, with conflicting interests emerging within and between the employers' organizations and the trade unions (Eldring et al. 2011). In the Norwegian context, a statutory MW does not appear as a supplement to extensions (as in many other European countries), but as an (unwanted) alternative. The employers have used the proposal for a statutory MW almost as a threat and as a response to various trade union initiatives to improve and activate the existing extension scheme for CLAs.

Extended CLAs have become a key instrument for the prevention of wage dumping in industries with low collective bargaining coverage and many labour immigrants. Union officials in the construction industry have reported that recruitment of labour immigrants as members has become far easier, since they can now provide support for claims for collectively agreed wages, even though they are not party to a CLA. On the other hand, experience indicates that the extension process itself can be cumbersome and conflict-ridden. Parts of the central-level employers' organizations are definitely opposed to reinforcing a scheme that will help extend collective bargaining coverage. They therefore argue in favour of a national MW scheme that most likely will define rates below the existing, extended collectively agreed rates, and thereby help undermine the bargaining strength of the unions in the long term.

The Nordic opposition to European initiatives related to MWs is primarily based on the fear that this will entail further European regulations, as well as a fear of their consequences. Accordingly, any European measures and campaigns that aim at a statutory regulation of wages in the member states are met with profound scepticism. It is our impression that the Nordic perspective is being heard in Europe, but is not necessarily being understood. The Nordic unions, and the employers' organizations as well, have not refrained over the years from advertising the positive aspects of the Nordic labour-market model. Strong organizations, high union density, high collective bargaining coverage, well-developed bargaining relations and cooperation between the social partners are core elements of that model, even though the countries may vary in some respects. The Nordic position must be seen in light of several factors. Crucial here are partner autonomy, spillover effects of CLAs and the power of the organizations. First of all, the

principle of autonomy of the social partners is well established in the Nordic countries. In consequence, European regulations that impinge on the partners' freedom to conclude independent agreements invariably meet with resistance. A statutory MW, then, is seen to represent strong interference in the freedom to bargain wage levels and wage growth.

While the Nordic countries have a diverging degree of collective bargaining coverage, they also exhibit average wage levels above the collectively agreed minimum even in industries that have low coverage rates. This is because CLAs have a strong spillover effect beyond the unionized parts of the labour market. A statutory MW could represent a strong competitor to CLAs. Moreover, it could become acceptable to relate to the statutory rather than to the collectively agreed minimum rates. Often, enterprises that are not covered by CLAs will pay somewhat more than the SMW, provided there is sufficient supply of labour. In a situation with high labour immigration – and thus a broad supply of workers accepting low pay – two labour markets may develop: one covered by CLAs and another relating exclusively to the SMW. This situation may give rise to considerable pressure on the CLAs, since the employers will attempt to break free of their collectively agreed commitments. This type of behaviour has, so far, not been observed in the Nordic countries to any extent, but it has the potential to give rise to major disturbances in their labour markets.

Another factor is associated with the power and position of the Nordic social partners. They are strong and well organized, but there is a widespread fear that they will be weakened if they lose their control over wage formation. When the partners no longer 'own' this issue, motivation for being organized could decline among employees as well as employers, and if collective bargaining coverage declines, part of the rationale for joining a union will disappear. Centralized wage settlements, holistic solutions and competing-sector primacy (*'frontfag'*) would thus become less normative for wage formation. In the longer term, this could erode the basis of the Nordic model. MW regulation would, in the end, be made by politicians and would introduce a strong and distracting signal with regard to wage settlements. Inflation could play a considerably more prominent role than today and regulation might become the object of political struggle rather than of bargaining between social partners.

These objections notwithstanding, it should be added that establishing a common national wage floor would also have a number of positive aspects even in the Nordic context. A national SMW could provide protection for vulnerable groups in weakly unionized areas, where collectively agreed regulations in the form of extensions are not really possible. Furthermore, the establishment of a national MW floor could prevent the emergence of new low-wage strata and ensure that all workers receive an income sufficient for subsistence. In addition, setting a SMW could be regarded as a simple regulation easily communicated to employers and workers, offering a particular

advantage with regard to labour immigrants and foreign enterprises. The current Nordic systems are far from perfect, but the question remains whether the introduction of a SMW will, in the long term, undermine the present solutions and provide less protection for workers than on the whole they enjoy today.

There are signs that the debate on (and the desire for) a European MW scheme will continue, but in the current economic and political climate it seems unlikely to materialize in the near future. Actors from other European countries appear to have a varying degree of understanding of the positions taken by the Nordic trade unions. One could perhaps say that the Nordic scepticism with regard to a European MW policy is interpreted as a concern for internal, national affairs, even though statutory regulation could have great importance for other countries, in particular in terms of the cross-border movement of labour. The fact that a European MW scheme may have the most negative effects in the countries that need it least seems to some extent being ignored. The Nordic challenge is thus to act in solidarity with the trade unions in other countries, while seeking to avoid general solutions that could lead to an erosion of the system of CLAs.

Even though the Nordic countries can boast low proportions of low-wage earners and the working poor, none of these countries has a watertight MW floor. If companies do not have CLAs and there are no legal extensions, wage setting will be free. This applies to Norway in particular, where just over half of all employees are covered by CLAs and only a minor proportion by extended agreements. So far, the normative effect of CLAs has gone a long way, though this situation is being challenged by the influx of labour migrants willing to accept low pay. This is compensated by extensions of CLAs in Finland, Iceland and Norway and, even though the Swedish and Danish trade unions still perceive extensions as an alien concept, no doubt, there is an interest in using this instrument as clearly preferable to a statutory MW.

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16

Central and Eastern Europe

Bela Galgoczi

16.1 Introduction

This chapter provides an overview of wage developments and their drivers during the first two decades of the transformation process in Central and Eastern Europe (CEE). It puts the experience of CEE countries in the context of the current European situation and draws some lessons for Asia.

The systemic change in 1989–90 and the subsequent economic integration of the CEE region into the European and world economy had far-reaching consequences on wage developments and wage-setting mechanisms. It is important to bear in mind that the *de facto* economic integration (free trade, free capital movements) of the CEE region took place right after it opened up during the early 1990s. The accession of 10 CEE countries to the European Union (eight countries in 2004, Romania and Bulgaria in 2007) can be seen as a political–institutional act that completed this process by drawing these countries into the EU legislative framework. Freedom of services was extended to the CEE region at the time of the accession, while free labour mobility has been granted in a gradual process (completed in 2011 for the 2004 accession countries and partially available – with restrictions up to 2014 – for 2007 entrants).

We examine wage developments in the CEE region over the past 20 or so years both in terms of nominal and real wages in national currency and also in foreign exchange. The chapter addresses some of the contradictions arising from the dynamic catching-up process to which wages were subjected. Drivers behind wage convergence will also be dealt with, in particular the impact of foreign direct investment (FDI) and labour mobility. It also sketches the role of legislation especially that concerning the statutory minimum wage (SMW). The chapter also highlights the paradox whereby wage dynamism has gone hand in hand with declining union density rates and (often) declining collective bargaining coverage rates. The ongoing economic crisis has questioned one of the fundamental pillars of the European ideal, namely, promoting convergence of the income of poorer countries with that of their rich counterparts. Much of the wage convergence by CEE

countries that had taken place up to the start of the crisis has latterly been questioned, as wage cuts and wage moderation became common features for CEE countries in the postcrisis period.

Further, we go on to discuss the main trends in wage developments (section 16.2), followed by the crisis and the effects of austerity policy on wages (16.3), the drivers of wage increases in CEE countries (section 16.4) and wage setting and collective bargaining, including minimum wages and related policies (section 16.5). In section 16.6, we draw conclusions, notably on the sustainability of the economic transformation processes in CEE countries.

16.2 Main trends in wage developments

After an initial drop of wages due to the transformation crisis in the early 1990s, wages in CEE started to grow dynamically from the mid-1990s, although it still took at least seven or eight years before wages in real terms reached their 1990 level. Figure 16.1 illustrates this trend using the examples of the Czech Republic and Hungary. During the process of transformation from a closed (or sheltered) planned economy towards an open market

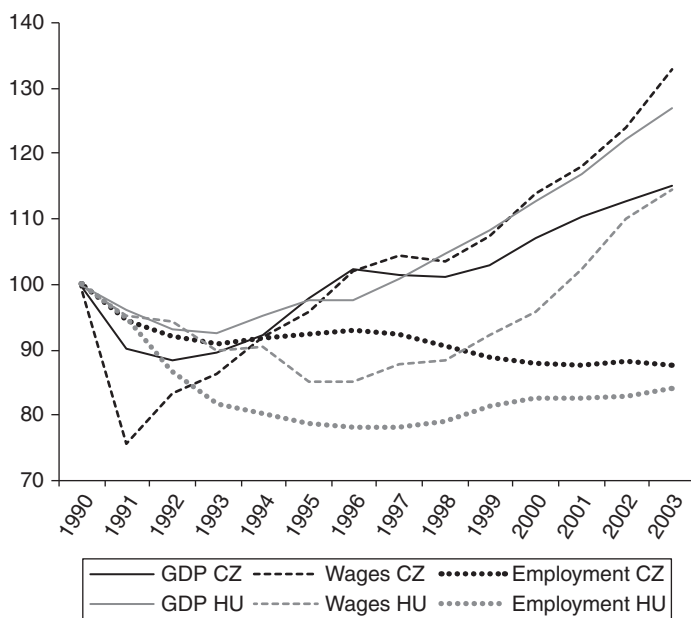


Figure 16.1 Development of real GDP, real wages (compensation per employee) and total employment in Czech Republic (CZ) and Hungary (HU), 1990–2003 (1990 = 100)

Sources: Ameco database; ILO KILM database; Czech Statistical Office; Hungarian Central Statistical Office.

economy, developments in Hungary were turbulent rather than linear. The Czech Republic, by contrast, shows a comparably balanced development in the sense that employment was rather resistant to big disturbances, even though there was a long-term erosion in employment levels. Wages were subject to the most radical change with a 25 per cent drop in the initial phase, followed by a dynamic recovery in the following ten years (in that phase wages grew at a higher pace than GDP), while employment fell less and stabilized at 87–89 (1990 = 100) over a decade between 1995 and 2005. Hungary shows a different pattern, in that real wages did not show such a dramatic and abrupt initial decline. Initially real wages in Hungary fluctuated at around 90 per cent of the pre-transformation level until 1994. Thereafter, they fell deeper to reach their lowest level in 1996, and it was not until 2001 that real wages recovered to the 1990 level. Hungarian employment, by contrast, suffered a more serious and durable setback, declining to below 80 per cent of the 1990 level by 1993 with the low point reached in 1997, thus by 2003 employment in Hungary had lost one-sixth of its pre-transition level.

It is true that overemployment characterized all post-communist countries during the period of state socialism (work was compulsory, unemployment did not exist officially and state enterprises had a social function), and with the transformation into a market economy a loss of employment was unavoidable. The big difference between Hungary and the Czech Republic can be attributed to different policies of marketization and privatization. Hungary had a radical and market-based privatization policy from 1990 onwards, where a large number of enterprises were sold to private, mostly foreign, owners, and this was accompanied by a market-based bankruptcy law. The Czech Republic, on the other hand, launched a coupon privatization programme where actual new owners and managers appeared only with a time delay of several years in the secondary privatization wave. In this way, restructuring was more prolonged and less radical. All CEEs, though, have had a common experience of high turbulence (Keune and Galgoczi 2008). The Czech Republic may be seen as a case for balanced development, while Hungary showed more employment losses and others, like Bulgaria, exhibited severe and durable real wage losses.

Plainly it matters a lot how wages in a dynamic environment are measured and compared. Examining real wage developments in national currencies (as Figure 16.1 did) is most important for the national context, for workers and trade unions. Real wages are decisive for purchasing power, that is, what workers can buy from their earnings. For international comparisons, wage levels of different countries are compared in a common denominator foreign currency (in Europe mostly in Euros). This can be done at market exchange rates (the most common) but also at an exchange rate that takes into account price differences between countries (exchange rate at purchasing power parity [PPP]). If we want to illustrate differences

Table 16.1 Wage catch-up of Hungary and the Czech Republic with Germany (% in Euro terms), 1993–2010

	1993	2003	2010
Hungary	10.5	19.6	34.5
Czech Republic	7.1	19.5	44.0
Germany	100.0	100.0	100.0

Source: European Commission 2011.

between living standards in different countries, the best way is to compare wages in terms of PPP. When comparing international competitiveness of countries, however, comparisons with market exchange rate are relevant. Wages of CEE countries expressed in Euros are indicative for foreign investors because this determines labour costs or, more precisely, the labour cost advantage from which they can benefit. This is where the differences between Western European countries and their poorer Eastern counterparts appear to be the greatest, as Figure 16.4 indicates. Also, the dynamism of relative wage increases is highest in foreign exchange at market rate, as Table 16.1 illustrates. It needs to be understood that an important feature of CEE countries, when drawing international comparisons, is that they do not fit easily into the traditional models which delineate high- and low-income countries. The divide between high wages, high skills and high productivity which characterize the former and the low wage, low skills and low productivity of the latter proves to be too simplistic. The skill levels of the labour force in CEE countries were, for example, comparable with those in Western European countries, albeit with structural differences due to the lack of market-economy experience and management know-how.

The rate at which wages caught up to Western European levels is especially spectacular when expressed in Euro (instead of national currency). Besides real wage increases, there was also the impact of an appreciating exchange rate and higher inflation in CEE. Table 16.1 shows that for the Czech Republic, this resulted in an increase of its relative wage level (in Euros) compared to Germany, from 7.1 per cent in 1993 up to 44 per cent in 2010. The catch-up rate of Hungary was slightly lower but also striking.

The second decade (2000–10) brought a clear convergence between CEE and core Western European countries in terms of wages. Figure 16.2 shows real wage developments in all CEE countries compared to Germany. Germany, because of its importance as a major trade and investment partner in Europe, can be regarded as a model case. However, it has to be added that stagnating German real wages and falling unit labour costs have been a burden on the whole of Europe (see Chapters 10 and 13). While average real wages practically flatlined in Germany between 2000 and 2013, in CEE countries they grew in a range between 20 and 30 per cent (Hungary,

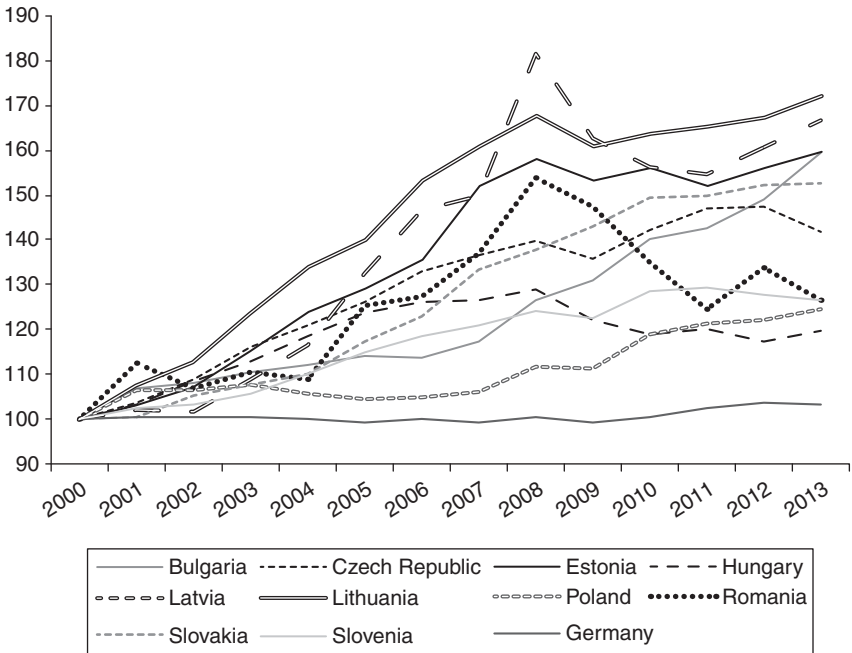


Figure 16.2 Development of real wages in CEE countries and Germany, 2000–13 (2000 = 100)

Source: Ameco database.

Poland, Romania and Slovenia) and 55 and 75 per cent (Bulgaria and the Baltic countries). Real wages grew dynamically up to 2008 and, even allowing for the downward correction in the five years following the global financial crash, the increase (except for Poland and Slovakia) remained substantial. That said, the reversal of the catch-up process taking place from 2008 onwards has latterly raised serious questions about convergence, in particular the wage convergence between richer and poorer countries that has hitherto always been seen as one of the major strengths of the European integration project.

Figure 16.3 shows the absolute levels of employee compensation for 2013 across EU member states, including Croatia (a member from 2013) and Norway. Even if ‘compensation’ also includes social security contributions paid by employers on the basis of gross wages, the figure shows major wage dispersion in Europe. On average, CEE countries had wage levels at approximately 35 per cent of the EU28 average.

As said, from the point of view of international competitiveness unit labour costs are most commonly used when comparing national economies. They include the effect of productivity and indicate how wages relate to productivity. Figure 16.4 shows the development of unit labour costs for CEE

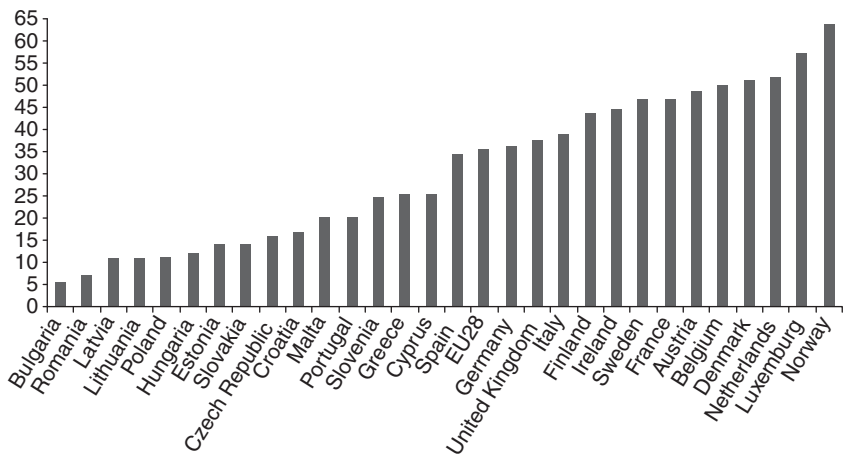


Figure 16.3 Average annual compensation per employee in EU28 member states and Norway, 2013 (in EUR 1,000)

Note: compensation includes wages and employers' social contributions.
Source: Ameco database.

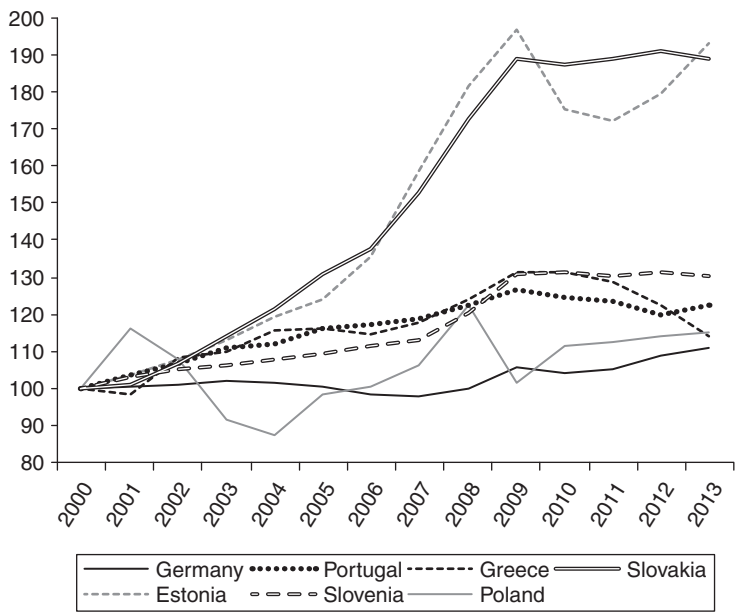


Figure 16.4 Development of total nominal unit labour costs in South and East Europe with Germany as reference, 2000–13 (2000 = 100)

Source: Ameco database.

Eurozone member counties (Estonia, Slovakia and Slovenia) and Poland, on the one hand, and Germany with two Eurozone crisis countries (Greece and Portugal), on the other. In the current Eurozone crisis it is argued that a divergence in nominal unit labour costs (NULC) between Germany and countries like Greece and Portugal has widened to unsustainable levels and thereby contributed to the current crisis. While NULCs grew by 15–20 per cent in Greece and Portugal compared to Germany, in CEE countries they showed an increase between 80 and 90 per cent, and in Estonia and Slovakia, by as much as 150 per cent. This may point to the uncomfortable conclusion that if Greece and Portugal have major competitiveness problems, these CEE countries with a much higher increase of unit labour costs must have had their competitiveness wiped out. We will show later in this chapter that to some extent the European Commission believes this and has been exerting pressure for wage cuts in many CEE economies. On the other hand, we will demonstrate that there is not necessarily a competitiveness issue. CEE countries have some specific features, and we also show that unit labour costs are not the only general measure of competitiveness (Felipe and Kumar 2011).

In the 2000s no comparable loss of competitiveness of the CEE countries occurred, as shown by the 2011 Annual Growth Survey of the Commission (EC 2011), at least in terms of export performance and market shares. Part of the reason for this comes from the nature of transformation economies. Economic transformation and structural change in CEE countries have fundamentally changed the industrial base of these economies. Low productivity and loss-making enterprises went bankrupt or in most cases have been transformed. As we will explain, FDI has largely contributed to the emergence of a competitive, exporting and high productivity sector within these economies. While wage levels are still a fraction of that of the EU15, productivity increases, especially in exporting manufacturing branches, have provided a 'productivity reserve' and thus some room for upward wage convergence.

As discussed in Chapters 1 and 10, wage shares in GDP are an important measure of how wealth created is being distributed between labour and capital. Although in most Western European countries wage shares were falling during the last two decades, the development in CEE countries gives a more mixed picture without a clear downward trend. Nevertheless, Western European countries still clearly display higher shares than CEE countries, as Figure 16.5 shows. The latter countries not only have on average about one-third of EU28 wage levels, but also mostly have 6–9 percentage points lower wage shares than the EU28 average (and 8–10 percentage points lower than a group of nine highly developed EU countries in Western Europe and Scandinavia [WNE9]). Thus, their wage levels are even lower than their economic development would indicate. This is one reason why these countries do not have a fundamental cost-competitiveness problem in spite of substantial wage increases. In the next section we will also show that when the effect

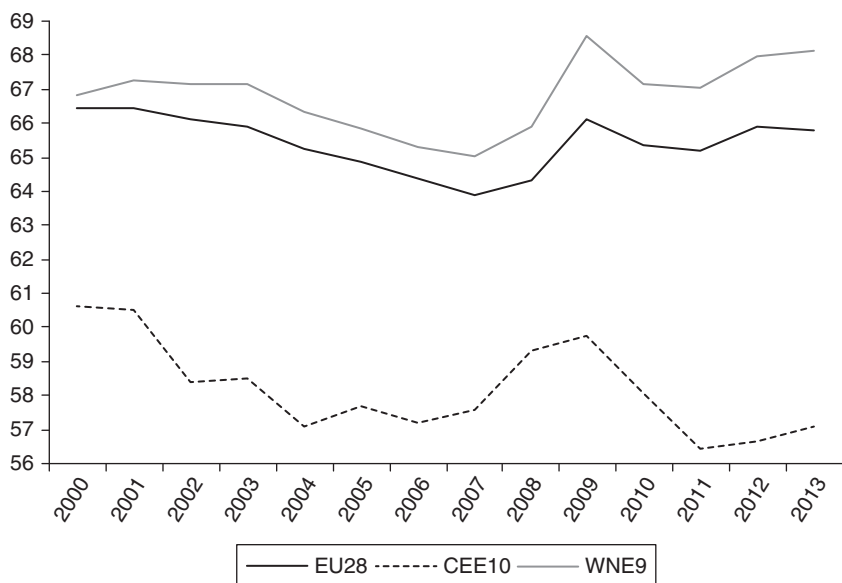


Figure 16.5 Development of adjusted wage share in GDP, EU28 and groups of EU countries, 2000–13

Note: WNE9 = Austria, Belgium, Denmark, Germany, Finland, France, Netherlands, Sweden, United Kingdom.

Source: Ameco database.

of productivity is taken into account, we similarly do not find a competitiveness problem. The section will also show that the European Commission's 'mechanical' use of yearly unit labour cost changes on the level of the whole economy as a measure for competitiveness is mistaken.

16.3 The effects of austerity policy on wages

There are new risks for the wage convergence process that took place in Europe prior to the current crisis. Paradoxically it was less the effect of the acute crisis in 2009 and 2010 that marked a turning point, but more the austerity policy applied in the European Union and the accompanying macroeconomic surveillance mechanisms that put wages under pressure. According to these policy recommendations (which appear as hard constraints for national policy makers), wage increases in the past were not sustainable and CEE, similarly to the southern periphery of the Eurozone, had lost its competitiveness. Thus, a downward wage correction was on the agenda. In the case of countries where financial help through an International Monetary Fund and European Union (IMF-EU) bailout had been provided (in the CEE in Latvia, Hungary and Romania), wage cuts were often

among the conditions of providing the standby credit facility. In other countries, the pressure appeared in a more indirect way but most of them were subject to wage corrections as well.

Against this policy background, we now discuss whether cost competitiveness is indeed an issue for CEE countries. Plainly wages in CEE countries have risen dynamically in the decade before the crisis, but this does not automatically mean these wages were too high and needed to be cut back. Although in 2009, when world trade and investment suffered the shock triggered by the global credit crunch, CEE exports and GDPs were hit hard and export dependence was suddenly perceived as a risk factor. The question of whether CEE wage increases had gone too far was not raised initially and the associated 'lack of competitiveness' was not (yet) part of the 'diagnosis'. The situation of Southern European countries in the Euro-area crisis from 2010 on, however, showed that the lack of such an export potential could indeed lead to longer-lasting problems. Apart from the fiscal element of their difficulties, Greece and Portugal have been suffering from a longer-term lack of export competitiveness that has also been apparent from their accumulating current account imbalances within the rest of the Euro area. During the last ten years these two countries were notably losing competitiveness *vis-à-vis* Germany, as their unit labour costs rose substantially higher than those in Germany, and their wages increased faster than their productivity. Hence, EU crisis management identified dynamic wage increases as one of the core problems that needed to be solved. Although this was a simplification, as the lack of competitiveness had more to do with their economic structure (lack of export potential in the cases of Greece and Portugal, real estate bubble in Spain) than with wage increases, this remained the main narrative. As we saw in Figure 16.1, the new CEE member states witnessed even greater increases in their relative unit labour costs compared to Germany, so the 'one size fits all' approach of EU crisis management had its answer ready: CEE countries would also have a competitiveness problem (due to persistent unit labour cost increases) and their wages would also need to be cut.

However, while some Southern European countries may have long-term competitiveness problems, this is not the case for most CEE countries. Table 16.2 shows some key competitiveness indicators for three of the latter countries (Czech Republic, Hungary and Slovakia) and two Southern European countries, Greece and Portugal, based on European Commission and Eurostat data. It focuses on the relationship between gross wages in the private sector¹ and productivity at the level of the economy as a whole (both measured at purchasing power standards, PPS), and it puts these figures in relation to Germany. These comparisons reveal that wage levels relative to productivity are lower than in Germany in all the examined countries (i.e. their relative wages are lower than their relative productivity). The real effective exchange rate – the key indicator of competitiveness according to the European Commission – shows the combined effect of exchange rate,

Table 16.2 Key indicators for selected CEE and Southern European countries (Germany as reference), 2010

	Gross annual wage per employed, business sector (Euro, PPS)	Wage level in business sector at PPS in % of Germany	Labour productivity, total economy, Germany = 100	Real effective exchange rate (REER), % difference from long-term average
Czech Republic	15,575	38.5	68.5	41.5
Hungary	16,737	41.4	67.1	13.0
Slovakia	16,316	40.4	75.2	54.2
Greece	31,784	78.7	93.6	12.8
Portugal	20,371	50.4	70.7	8.7
Germany	40,364	100.0	100.0	-5.8

Source: European Commission 2011; Eurostat.

inflation, nominal wages and developments in productivity; a higher positive figure shows a loss of competitiveness. What we see here is that Slovakia and the Czech Republic seem to have lost *cost* competitiveness on the largest scale, followed by Hungary. Greece and Portugal, which, according to this indicator, also show a loss of competitiveness but to a smaller extent.

A further caveat is that all of the European Commission's analyses of competitiveness only take yearly changes into account, assuming that the year of reference (usually 2000) was a 'golden year of harmony' and equilibrium. In terms of year-to-year changes in the real effective exchange rate (REER), both the Czech Republic and Slovakia indeed lost cost competitiveness to a certain degree, but this does not necessarily mean that they became non-competitive, given that their wage levels related to productivity are also still low. Indeed, both their trade balances and increases in market shares show that this was not the case. Table 16.3 offers an alternative indicator of wage-adjusted productivity across EU member states, taking the ratio of apparent labour productivity and average personnel costs in manufacturing in cross-country comparison. First, it shows that the divergence in levels is much smaller here than the evidence based solely on unit labour cost developments over time would suggest. The second interesting result is that Germany shows the lowest value in wage-adjusted productivity compared to the countries examined here. This implies that in German manufacturing EUR 1,207 value added was produced with EUR 1,000 wage costs, while in Hungary the related value added was EUR 1,996 and in Greece EUR 1,506. Combining these two factors into the wage-adjusted labour productivity ratio shows that value added per person employed was EUR 1,321 per EUR 1,000 wage costs, or equivalent to 132.1 per cent of average personnel costs per employee in manufacturing in the EU27.

Table 16.3 Key indicators for selected CEE and Southern European countries, Germany and EU27, 2009

	Apparent labour productivity*) (EUR 1,000 per employed)	Average personnel costs (EUR 1,000 per employed)	Wage-adjusted productivity (%)
Czech Republic	22	14.0	154.6
Hungary	23	11.7	199.6
Slovakia	17	12.3	134.7
Greece	42	28.0	150.6
Portugal	23	15.8	146.7
Spain	48	35.1	137.2
Germany	57	47.2	120.7
EU27	46	34.5	132.1

*Value added at factor costs divided by the number of persons employed.

Source: Eurostat 2012.

One of the lessons that can be drawn from the above evidence is that, while these ‘peripheral’ countries were, due to increasing labour unit costs, gradually losing cost competitiveness over time, this did not necessarily imply that their competitiveness was dwindling to nothing. Rather it suggests they have remained competitive by virtue of their relatively low income (and wage) levels, and this is particularly true of CEE countries. Although Slovakia has, in recent years, been losing cost competitiveness at a record level (see REER in Table 16.2) within the EU, the country, nonetheless, retains a reasonable level of competitiveness, as can be seen from its relative wage-adjusted productivity levels and also from its trade surplus and its export performance. Although some Southern European countries undoubtedly show signs of lack of competitiveness, the data on relative wage and productivity levels at least suggest that there are a number of underlying structural reasons in play over and above mere cost factors. Although tackling these structural problems through cost adjustment (wage and spending cuts) can deliver temporary results in cost competitiveness (at the price, of course, of a dramatic increase in poverty and unemployment), in the end these inevitable side-effects also jeopardize the success of the entire adjustment. Cost adjustment is simply not an adequate way of addressing the longer-term structural problems such as the share of manufacturing in the economy, export shares, the qualitative composition of exports and the position of the respective countries in the international division of labour. As shown, these countries are not competing on export markets with Eastern Europe or Germany. The problem, to put it bluntly, was not that consumers in the surplus countries had been buying less olive oil and port wine due to rising unit labour costs in Greece or Portugal. In other words, the cure

chosen to date by the European authorities only tackles the symptoms but not the root causes of the problems at issue.

16.4 Drivers of wage increases

When looking for an explanation of the wage dynamics observable in the CEE countries, we cannot point to a single well-identifiable factor. Examining the economic drivers of wage increases we can see in the longer term that economic integration between regions with huge income and wage differences induces a levelling-out process. In the CEE countries, this process has resulted in a strong drive for wage increases through two major channels, namely FDI and labour mobility.

Figure 16.6 shows that FDI stock has made up a high share of the GDP of the 10 CEEs as a group, considerably higher than the EU27 total, and even increasing from nearly 58 per cent in 2008 to over 66 per cent in 2011, which was considerably higher than the EU27 averages (41.1 % in 2008 and 42.0% in 2011). Bulgaria had the largest of FDI stock in its GDP (124% in 2011), followed by Estonia (103% in 2011). With FDI stocks making up 85 per cent and 81 per cent of their 2011 GDPs respectively, Hungary and the Czech Republic also showed a considerable influx of FDI. Poland, on the other hand, with its 53 per cent FDI share in 2011, remained closer to the EU27 average. The size

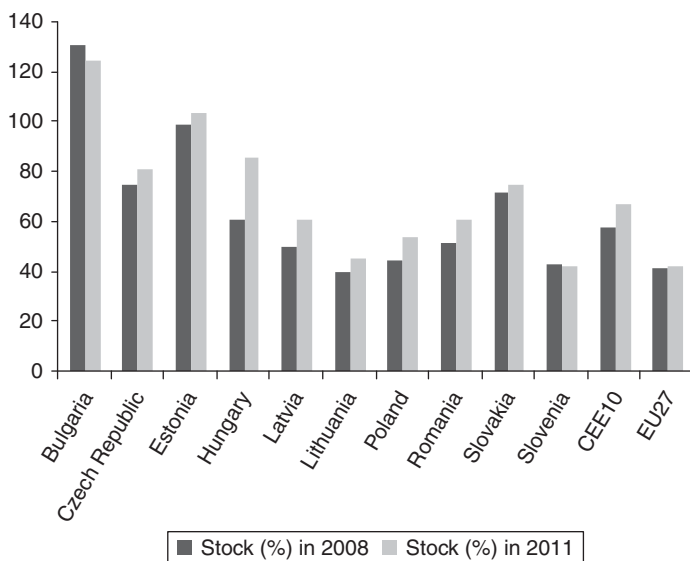


Figure 16.6 Inward FDI stock (in % of GDP), EU27 and CEE countries, 2008 and 2011
Source: UNCTAD 2012 (FDI stock); Eurostat (GDP).

of the Polish economy and its population yielding a relatively large domestic market probably furnishes the explanation for this. This does not imply, however, that Poland may be less integrated into European value chains than the Czech Republic or Hungary. Regarding FDI stocks Romania, with the second biggest population among the CEE countries, was in the same league as Poland.

FDI, especially in the exporting manufacturing sector, has clearly played a key role in modernizing the industrial base of CEE countries. These investments have brought new technology and work organization, on the one hand, and have driven the need for qualified labour, on the other. Geared by high productivity and large scale, foreign-controlled or foreign-investment enterprises (FIEs) paid substantially higher wages than domestic firms (Van Klaveren et al. 2013); with the shortage of qualified labour, wages of skilled workers rose rapidly. Figure 16.7 shows the share of FIEs in total private employment in the CEE countries. For nine of the ten countries, these shares correlated highly with the FDI stocks in GDP, as shown in Figure 16.6.² In the 10 countries at stake, the joint employment share of FIEs, already rather high, grew from 20.3 per cent in 2008 to 23.2 per cent in 2011, or 9 percentage points over the EU27 average (14.1% in 2011). While in the EU28

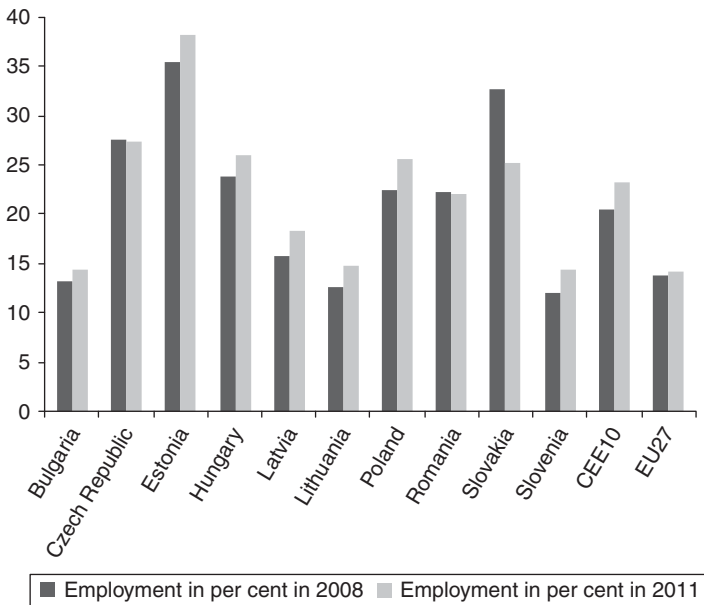


Figure 16.7 Employment in FIEs (in % of total private employment, excluding finance), EU27 and CEE countries, 2008 and 2011

Source: Eurostat Annual enterprise and FATS statistics.

about one in seven privately employed workers were in foreign-controlled firms, for CEE it was nearly one in four. With such a large share in private employment, FIEs had a pull effect on general wage levels in the CEE countries. Developments in employment indicated a continuing dependence on FDI. Moreover, between 2008 and 2011, the share of FIEs in employment of important industries, with only a few exceptions, showed overall growth. In metal and electronics manufacturing, calculated over the 10 countries, FDI was dominant, and the share of FIEs grew from 46.4 per cent in 2008 to 49.2 per cent in 2011; in the retail industry, in 2008–11 the FIE share went up from 15.4 to 18.2 per cent, and in transport and telecom from 11.4 to 13.5 per cent (Van Klaveren et al. 2013; additional calculations by Maarten van Klaveren, based on Eurostat Annual enterprise and FATS statistics).

During the 2008–09 crisis the high share of FDI in Central Eastern Europe appeared as a risk factor, and doubts were raised about the sustainability of these countries' export-based and FDI-driven growth model. At the time, the narrative was dominated by terms such as 'FDI dependence' and 'export dependence'. Concerning exports, though, the times are changing. From 2010 onwards exports of nearly all CEE countries have started to surge, in particular as the German economy – with which the CEEs are closely inter-linked (through subcontracting chains via German manufacturing FDI in particular) – started to exert a strong pulling effect. In 2011–12, except for Hungary, Slovenia and Croatia, the value of exports of individual CEE countries grew by over 4 per cent, which was in all cases more than their imports increased, thus improving their trade balance (Source: Eurostat, International trade statistics).

At the same time, many of the economic problems of Southern European countries during the intensifying Eurozone crisis proved to be linked to low levels of export potential and productive FDI penetration (see also Chapter 12, on Italy). The lesson for CEE countries has been that although high FDI shares and reliance on exports can be seen as a risk factor during turbulent times, for small countries that lack capital and natural resources (and that were cut off from the European and world economies for four decades), a better alternative does not seem to exist. The major lesson from the crisis, however, has been that what matters most with FDI (and in broader terms with the external financing of the economy) is what role it plays. Productive FDI in the manufacturing industry that creates an export potential is seen as an advantage and as a driving economic force, though in most CEEs spillover effects strengthening the role of domestic firms remain rather weak. Nevertheless, FDI targeted at the exploitation of the domestic market (finance, retail chains and real estate) is more controversial and may well be regarded as a continuous risk factor.

The increase of labour mobility to Western European countries after the EU enlargement of 2004 has been a second important factor exerting an upward effect on wages in CEE countries. Since 2004, when eight CEE countries

joined the EU and old member states gradually opened their labour markets, millions of CEE citizens found employment in Western Europe (Galgoczi and Leschke 2012). The existence of higher wage levels in the West was the most important pull factor. Large-scale outward migration from some countries, particularly from Poland, Romania and the Baltic states, has resulted in labour market bottlenecks in certain sectors. Teachers, doctors, nurses and bus drivers, in particular, were often hard to recruit in home countries. As a consequence, wages in these sectors started to grow, often also due to political intervention. For instance, in 2002, the then governing socialist administration in Hungary announced a rise in the wages of teachers and nurses in the public sector by 50 per cent. The general idea was to provide compensation for these key professions for the wage moderation of the previous decade.

It has, however, also been an objective to curb the outflow of qualified labour (at the time), as teachers and nurses often abandoned their careers to pursue new opportunities mostly in the business sector. A number of Polish municipalities enacted massive wage increases for bus drivers with the explicit aim of slowing down their migration to the United Kingdom. In later years, in the Baltic states several rounds of double-digit wage increases took place, mostly for doctors, nurses and teachers. Trade unions saw more opportunity for bargaining for higher wages. At the same time, wages in certain public sector professions were also raised by the state to offer migrants attractive incentives to return. For instance, in Hungary the right-wing government in 2011 announced a wage increase of over 50 per cent for doctors, with the explicit aim of holding them back from migration. This move was, though, also accompanied by a requirement whereby doctors had to sign a contract to confirm they would not leave their jobs to work abroad for at least five years. Breaking this contract would mean the pay rise had to be paid back. (See for these and similar messages from 2008 on, *AIAS/ETUI Collective Bargaining Newsletter*.) Thus, increased labour mobility has led to dynamic wage developments in the respective labour markets of the CEE countries. This was the dominant trend up to the crisis. In the course of the crisis, however, and often as a result of IMF-EU demands, wages, particularly in the public sector, were cut in CEE countries, with the hardest cuts carried through in the Baltic states.

16.5 Wage setting and collective bargaining

16.5.1 Collective bargaining

Collective bargaining structures in CEE are rather weak, and, with the exception of Slovenia, collective bargaining coverage rates are low. Autonomous collective bargaining was a new phenomenon in CEE after the systemic change in 1989–90. In the previous system of ‘state socialism’, trade unions were characteristically acting as a ‘transmission belt’ for the policy of

Communist parties (although with a weakening trend in the 1980s in Hungary and Poland). The democratic changes swept away this structure and the institutional basis for autonomous collective bargaining was created. Yet, this was a top-down process, in contrast to the long organic development of unionization and collective bargaining that has taken place in post-World War II Western Europe. As a consequence, the legitimacy of trade unions has remained low and collective bargaining did not develop into a stable institutional anchor in these societies.

Trade union density in CEE is characteristically lower than the EU27 average of 32–33 per cent over 2004–11. Slovenia had a higher union density in 2004–07, but in the period 2008–11 its unionization also fell below the EU average. Union density rates have recently been between 15 and 20 per cent in the Czech Republic, Slovakia and Hungary, at 15 per cent in Poland and Latvia and below 10 per cent in Lithuania and Estonia. The general trend also indicates an erosion process, with the greatest setbacks between the two periods recorded in Slovenia, Slovakia and Poland (Visser 2013a).

The structures and institutions of collective bargaining were inevitably shaped by the transformation in 1989–90. Tripartite national-level institutions became dominant, with trade unions, employers' organizations and the representatives of the government set up to play a central role in the socio-economic transformation process. Corresponding legislative frameworks were also set up (Labour Code, labour market and social policy institutions). Trade union presence in national-level interest reconciliation bodies provided some legitimacy and support and kept the erosion of union influence within limits. However, this political role (often also appearing in the form of alliances with political parties) made unions and bargaining structures dependent on the benevolence and the willingness for cooperation of the political constellation. It also gave the system a cyclical nature. This process has led to a different structure of industrial relations than that of Western Europe, where bilateral (employer/trade union) bargaining on industry level has been dominant. By contrast, industry-level, multi-employer bargaining (with the exception of Slovenia) has remained weak in CEE, whereas a relatively strong national tripartite negotiation level, on the one hand, has prevailed over weaker company-level negotiations, on the other hand.

A general framework for wage developments set at national level (MW and a national wage recommendation) and applied at company level (assuming union organization at that level) has been the practice of most CEE countries. Since trade unions are not represented in the majority of enterprises and branch-level bargaining is patchy (again, with the exception of Slovenia), collective bargaining in CEE, already rather weak, has further eroded. While collective bargaining coverage rates in the old EU15 member states were on average 79 per cent in 1997–99 and 75 per cent in 2007–09, in the new CEE member states these averages were 46 and 47 per cent, respectively. Slovenia, was a major exception, with 100 per cent coverage in the

first period (down to 92% in 2009–11), whereas other CEE countries characteristically had coverage rates below 40 per cent (albeit with Romania as a further exception, maintaining 70% coverage). The three Baltic states have exhibited the lowest bargaining coverage rates, with Latvia and Estonia at around 20 per cent and Lithuania at 15 per cent. Although bargaining coverage rates have tended to be more stable than union density rates, erosion can similarly be observed for some CEE countries. The largest drops between the two observed periods were seen in Slovakia and Bulgaria (from 52% to 40% and from 40% to 30%, respectively), but the decrease in Slovenia (from 100% to 92%) was also substantial. On the other hand, two CEE countries with low coverage rates experienced an increase between the two periods; collective bargaining coverage rates increased from 18 to 26 per cent in Latvia and from 10 to 15 per cent in Lithuania (all data: Visser 2013a, b).

The weak role of collective bargaining in wage setting in CEE countries can also be demonstrated by the persistent positive wage drift between collectively agreed and actual wages in these countries. Actual wage increases have tended to be higher than wage increases settled through bargaining, indicating that other factors than collective bargaining have also played a role.

16.5.2 Minimum wages and related policies

Each of the CEE countries has a statutory national minimum wage. Due partly to the general weakness of collective bargaining, SMWs play important roles and are central in the wage-setting mechanism of these countries. Moreover, the SMW also acts a reference value for welfare allowances, and unemployment benefits, unemployment support or social pensions. Governments often have an interest in maintaining a certain MW level, as the MW in a number of free professions is the minimum basis for taxation. Governments have a further fiscal interest to maintain a solid MW, because in various CEE countries some employers declare their employees at the MW and then pay the rest of their wages in ‘envelopes’ so as to circumvent social security contributions.

The SMW is settled in tripartite national negotiations at national level and enacted by a decree or law by government or Parliament. The role of the government varies among countries and over time. In some cases the government plays an observer role and accepts the bargaining result reached by employer federations and trade unions, as was the case in Poland, Estonia, Latvia, Slovenia and Hungary between 2002 and 2010. In some countries, though, the government has the right to fix the MW if social partners are not able to reach agreement before a fixed deadline, as in Hungary before 2002, and currently in the Czech Republic and in Bulgaria. In Hungary, the government has determined the level of the SMW since 2010.

MW policies played a substantial role in determining general wage levels in a number of CEE countries, notably in Hungary, the Czech Republic and the Baltic states. In these cases, greater MW increases were repeatedly decided

upon (often inspired by the government) to ease social tensions and to push wage scales up and so increase state revenues. Significant examples could be when the Hungarian government decided MW increases of 50 and 40 per cent in 2000 and 2001, respectively, that were larger than the trade unions had demanded in the tripartite negotiations. In the early and mid-2000s, in the Czech Republic and the Baltic states, MWs were substantially increased with a proactive role played by the government. There have also been controversial cases concerning the role of the government in intervening in MW agreements in the other direction. In 2010 and 2011, for example, the Polish government took a unilateral decision on MW fixing as it judged the outcome of the agreement of social partners to be too high. In Romania, the government suspended the effect of the 2008–14 tripartite agreement on the MW as a follow-up measure of the IMF-EU debt settlement package and declared a MW freeze, while later enacting a MW level 30 per cent below the union demand. In 2011, unilateral government intervention took a different turn in Hungary. While earlier the Hungarian MW had been tax-free (gross MW being equal to net MW), with the introduction of a 16 per cent flat rate personal income tax in 2010, MWs became subject to taxation. The government ordered a corresponding level of wage increases in the lower-income brackets to be implemented by the employers and a control panel was set up to monitor if employers complied with this rule.

As regards real changes in the MW, the picture is highly dispersed, with decreases in the last two years showing up in a few CEE countries (the Czech Republic, Romania and Latvia), while elsewhere (in Poland, Bulgaria and Lithuania) MWs in real terms grew substantially. There have also been huge fluctuations in MW changes from one year to another. In individual countries MW increases between 15 and 20 per cent occurred (Slovenia in 2010, Hungary in 2011 and Lithuania in 2012), but both before and after these increases, no changes or decreases could be witnessed (ETUC/ETUI 2012). Finally, we must conclude that the main driver of wage increases in CEE countries has been a mix of market-based forces stemming from economic integration and, to some extent, MW fixing policies and wage-related policy measures in the public sector. It is questionable whether the dynamics of this process will be sustainable after the crisis.

16.6 Conclusion

In the last 20 years, CEE countries have gone through difficult and turbulent transformation processes. Initially after World War II, Europe used to be divided both in political and economic terms. After the collapse of this order, CEE countries felt themselves liberated and rapidly abandoned the postcommunist planned economy. Market economies have been established and the countries integrated into the European and world economy. This has not been a linear development process, though, as trade and industrial structures

collapsed, unemployment started to soar and wages plummeted. It was only from the mid-1990s that the region started to catch up with the richer countries of Western Europe. The modernization of the CEE economies was in particular driven by FDI, which was also a main driving force of wage increases.

Trade unions went through fundamental democratization processes that saw them abandon the role of transmission belt for the ruling Communist parties in order to embrace more fundamental institutional changes that ushered in new independent unions. The union density rates of almost 100 per cent that had existed before the regime change were not expected to be sustainable, but the subsequent dramatic drop in union density was still surprising. Trade unions have subsequently remained weak and collective bargaining coverage has been relatively low. In the CEE countries, unions have mostly been active at tripartite national and at company level, while industry-level bargaining has remained weak. We showed that wage increases were primarily driven by economic processes, notably by FDI and outward labour mobility. In certain periods, MW policies and wage setting in the public sector were important as well.

The crisis has highlighted the fragility of the integration model that had previously helped CEE countries to achieve a considerable degree of convergence with Western Europe. FDI-driven export-based growth, concentrated in cyclical industries, indeed turned out to be a risk factor during the downturn. However, the quick rebound in exports following the crisis suggested a relative resilience of this economic model. The major challenge for these countries is to develop innovation and knowledge-intensive activities that will allow them to sustain the convergence trend in the long term. Central Eastern Europe cannot continue to rely on cost competitiveness, given, among other things, the competition from the large pools of cheap labour in the South-eastern European countries and, even more so, in Asian countries. Although the CEE countries do not have a fundamental cost competitiveness problem, pressures remain high for wage moderation and even wage cuts.

It had been taken for granted that European integration would bring both economic and wage convergence, but the recent developments described here have put serious question marks in place. Clearly, in the long run the CEE countries cannot rely on low-wage competitiveness. It is also clear that the way ahead is through increased public investment in education and research as well through improvements in the quality of the institutional environment. The crisis has also underlined the weaknesses of the prevailing systems of industrial relations in these countries. In good times with dynamic economic development, wages were growing without powerful trade unions. Now that times are different and both national governments and the European institutions continue to push for austerity and wage moderation, unions are lacking the necessary negotiating and mobilization power to resist.

Notes

1. Private sector is wider than the manufacturing sector; here we use it as proxy as manufacturing sector wages were not available in a comparative format.
2. Bulgaria combined a modest FIE employment share with a high share of FDI stock in GDP, a gap mainly to be attributed to its relatively low GDP. If Bulgaria was left out, correlation calculations for the nine countries resulted in: 2008 $R = 0.90$ and 2011 $R = 0.91$.

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17

The United Kingdom

Rupert Griffin and Denis Gregory

17.1 Introduction

As one of the first countries to both industrialize and de-industrialize, the United Kingdom provides a good case study of the labour market consequences of such a change. Moreover, many of the characteristics attendant on the shift towards an economy where the service sector provides the dominant share of both GDP and employment have subsequently also shown up in other mature industrial nations. The impact of the Great Recession on the UK economy was, it seems, exacerbated by the disproportionate size and influence of the banking and financial services sector which accounted for around a fifth of GDP in 2012. Recently, this has called into question the viability of the de-industrialization policy followed by successive governments over the last 40 or so years. Moreover, as we will show, from the standpoint of securing a fairer distribution of income and wealth, the macroeconomic policy changes introduced since the late 1970s have had the opposite effect.

This chapter, in sections 17.2 and 17.3, outlines how critical changes in the management of the UK's political economy have both undermined trade unions and contributed to rising inequality in the United Kingdom. Against this context, section 17.4 examines the introduction and impact of the National Minimum Wage on employment levels and on the lower paid in particular. The recent campaign for a living wage is also considered here. The final section deals briefly with changes in the social security system.

17.2 Developments in the political economy

17.2.1 The post-war 'democratic consensus'

At the end of World War II a newly elected Labour government embarked upon ambitious recovery policies aimed, among other things, at achieving full employment and the establishment of an insurance-based system of social welfare. These policies derived from the ideas of Sir William Beveridge (*Full Employment in a Free Society*, 1944) and the pre-war work of J.M. Keynes

(*General Theory of Employment, Interest and Money*, 1936) created the system of social security known as the welfare state and promoted a mixed economy where the state, through public ownership, could play a more decisive role in demand management. Until the early 1970s this combination of Keynesian demand management and the welfare state ensured the United Kingdom enjoyed low levels of unemployment and steadily rising standards of living. Political support for this style of economic management lasted until the mid-1970s and has commonly been referred to as the social democratic consensus.

It is clear that many other western European nations in the decades after 1945 also adopted a Keynesian approach to the management of their economies. Thereafter, though, the economic trajectory of the United Kingdom followed a rather different arc to that of the rest of Europe. Around the time that European nations were considering forming the European Economic Community (EEC, the forerunner of today's EU), the United Kingdom was consolidating its trade activity rather more with Ireland and its former colonies, than with Europe. The consequences of this became apparent in the mid-1960s, when economic growth rates of member nations of the EEC were evidently outperforming the United Kingdom. Following protracted negotiations the United Kingdom eventually joined the EEC in 1973 and confirmed its membership by referendum in 1975. The end of the country's post-war period of full employment also arrived in the mid-1970s. In the 1980s and early 1990s the unemployment rate reached very high rates. Although unemployment was falling as the century closed, it ticked up to around 8 per cent as austerity measures took hold in 2010–12.

Initially, the reasons put forward for the unprecedented rise in post-war levels of unemployment tended to be polarized between cyclical fluctuations, on the one hand, and structural factors, on the other. Over time, though, the structural balance of economic activity in the United Kingdom has shifted away from manufacturing sector towards the service sector. This is, of course, a common trend in maturing economies, although in the United Kingdom the process has left the manufacturing sector in a weaker position than that of its main competitors in the EU. Table 17.1 shows how the sectoral contribution to total employment levels has changed since 1951. The fall in employment in the manufacturing and mining sector has been stark. Its employment share declined from 43 per cent in 1951 to less than 9 per cent in 2011 – the lowest share of any of the countries studied in this book. Over roughly the same period, the contribution of manufacturing and mining to UK GDP fell somewhat less, from an estimated 42 per cent in 1948 to 15 per cent in 2012. The services sector, by contrast, has grown sharply on both measures, with its employment share rising from 46 to around 83 per cent between 1948 and 2012, while its contribution to GDP rose from 45 to around 78 per cent between 1948 and 2012 (Jones 2013). Looking at subsectors (not in the table), the rapid rise of the finance

Table 17.1 Development of employment shares by sector, United Kingdom, 1951–2011 (headcount)

	1951	1961	1975	1991	2001	2010	2011
Agriculture, fishing, forestry	5.0	3.6	2.8	2.3	1.5	1.4	1.3
Manufacturing and mining	43.2	41.4	33.6	23.9	13.9	9.2	8.8
Construction	6.0	6.8	6.8	7.3	6.8	7.0	7.0
Services	45.8	48.2	56.8	66.5	77.8	82.4	82.9
Total	100	100	100	100	100	100	100

Source: 1951–2011: Censuses United Kingdom (England/Wales, Scotland, North Ireland), for 1975–2011 combined with European Commission 2001, 2010, 2013, 2014 (based on Eurostat data).

(banking and insurance) sector is particularly noteworthy regarding both employment and GDP share. In employment terms (for England and Wales alone) its share went from 6.5 per cent in 1951 to slightly over 17 per cent in 2011, or over 4.5 million employed, while its GDP share grew from 5 per cent in 1948 to just below 20 per cent in 2012 (ONS, *Censuses 1951 and 2011 England/Wales*; Jones 2013). The significance of this sector for the economy made the United Kingdom particularly vulnerable to the financial crash of 2008.

17.2.2 Exit Keynes, enter Friedman and the monetarists

The competitive failings of the UK economy in the 1960s and 1970s and the belief that high levels of public expenditure were somehow ‘crowding out’ job-creating investment in the private sector provoked the incoming Thatcher government in 1979 to implement radical changes in economic management. They were guided, at the time, by the monetarist economic theory developed by Milton Friedman and the individualist philosophy of Friedrich Hayek. The immediate effects of monetarism were evident in a rapid increase in unemployment. The manufacturing sector bore the brunt of this as de-industrialization slashed employment by more than 60 per cent over this period. The overvalued exchange rate of the early 1980s and the dominant political conviction that the United Kingdom’s future was in services and finance, in particular, were further nails in the manufacturing sector’s coffin. Since then the financial crash has exposed the folly of such de-industrialization and the value of a robust manufacturing sector has, once again, begun to be appreciated.

From the early 1980s onwards the balance of power shifted markedly against unions. The influence of both Friedman and Hayek could be seen at work as successive Thatcher administrations combined an aggressive policy of privatizations with a parallel drive to both deregulate the labour market and minimize the collectivism that had characterized the social democratic consensus. Thus, labour market regulation (already less prevalent than in

continental Europe), on, for example, unfair dismissal and redundancies was loosened. At the same time, the scope and functions of trade unions were severely constrained by a carefully designed programme of legislation. As a consequence, collective bargaining came under pressure. Multi-employer bargaining, while already in steady decline in the private sector (and also less widespread than in other European nations), almost totally disappeared in the 1980s. This weakening of bargaining infrastructure together with anti-union legislation encouraged employers to differentiate and 'individualize' employment contracts. The UK labour market became increasingly segmented by the advance of insecure, low-quality jobs culminating in the 'zero hours' contracts that have characterized employment opportunities in large swathes of the private services sector (cf. Lloyd et al. 2008). To the evident disappointment of UK trade unions, post-1997 Labour administrations basically left intact the labour market and industrial relations frameworks engineered by the previous Conservative governments. The only progressive development offered was the creation of a Low Pay Commission (LPC), leading to the introduction of the national minimum wage (NMW) (cf. Mason et al. 2008a, b).

While the notion of a minimum wage had, to an extent, always divided trade unions in the United Kingdom, with the more powerful placing their faith in free collective bargaining, by the time New Labour took office the unions were unified in their support for a NMW. In part, this recognized the declining influence of collective bargaining for the lower paid but also the deterioration in the United Kingdom's income distribution which the shift from Keynesianism to monetarism had helped create. Between 1978 and 1985, for example, the proportion of low-paid workers earning at or less than two-thirds of the median gross hourly wage increased sharply. This was followed by slower earnings growth until the mid-1990s for all age groups, thereby generating a general increase in earnings inequality in the UK economy (Mason et al. 2008a, b). Measured by the Gini coefficient, inequality in household income (both in primary and disposable incomes) also rose strongly in the 1980s: from 0.24 to 0.27 (disposable incomes) between 1972 and 1984 up to 0.34 in 1990, thereafter roughly stabilizing between 0.33 and 0.36. Time series based on other inequality yardsticks, such as the D9:D1 ratio, show a very similar trend. For example, in 1980 an individual at the ninth decile of the (household disposable) income distribution enjoyed an income 3.2 times as high as an individual at the lowest decile. By 2007–08, this ratio had increased to 4.2, before falling back to 3.9 for 2009–10. Between 1970 and 2002–03, the share of total income received by the richest 10 per cent of individuals increased dramatically from 20 to 28 per cent, while the share of the poorest 10 per cent fell from around 4 to 2.8 per cent (McKnight and Tsang 2013; Atkinson and Morelli 2014).

17.3 Trade unions and collective bargaining

17.3.1 The development of trade unionism

Trade unions in the United Kingdom emerged from World War II, with their reputations by and large enhanced. Union cooperation with centralized controls over output, prices and wages had enabled a 'war effort' to be mobilized and delivered. Unions also influenced the radical programme implemented by the post-war labour government that nationalized the coal, steel and railway industries and introduced the National Health Service (NHS). Aided by the long period of full employment, union membership grew steadily, peaking in 1979 when some 13 million employees – around 55 per cent of the workforce – held union membership. From the 1980s until recently, though, union membership went into steep decline. By 1995, union density had fallen to 32.4 per cent and by 2010 a further decrease took union density down to 26.6 per cent, driven, in particular, by a decline of private sector membership. Currently overall membership shows a slight recovery and stands at 26.0 per cent. Alongside the long-term decline in union membership, the characteristics of union members have changed significantly. Every year since 2005 there have been more women union members than men in the overall total and by 2012 women made up nearly 55 per cent of all union members. In that year union density for women was 28.7 per cent compared to 23.4 per cent for men. Membership has become increasingly polarized between the public sector, with a relatively large share of female workers, where the overall density in 2012 was 56.3 per cent, and the male-dominated private sector, where it was 14.4 per cent. In 2012, union density among full-time workers was higher (27.8%) than that of part-timers (21.3%); whereas that of the permanently employed (26.9%) was nearly double that of those with temporary jobs (14.6%). Young employees aged 16–24 had by far the lowest union density (8.1%), while those aged 50 plus were best organized (33.3%). In 2012, higher-educated employees were more likely to be union members: about 32 per cent of employees with a degree or equivalent and 35 per cent with some other higher education qualification were in a trade union, compared with 16 per cent of employees with no qualifications (all data: ONS 2013).

The coverage of collective bargaining in the United Kingdom has also declined from the heights reached in the late 1970s, when around 75 per cent of the workforce were covered by collective agreements (CLAs). By 2012 it was estimated that slightly over 29 per cent were similarly covered. Within this overall decline, the difference between the public sector, where nearly 64 per cent of employees were covered by CLAs in 2012, and the private sector, where the comparable figure was 16 per cent, was striking. Reflecting differences in union density, bargaining coverage was highest in public administration (66%) and education (55%) and lowest in accommodation

(hospitality) and food service (3.7%). In addition, full-time workers had greater coverage than part-timers and so too did permanent compared to temporary workers. Noteworthy here, though, is the persistence of a trade union wage premium notwithstanding the decline in coverage. The difference between the average hourly earnings of union and non-union members remained a significant 15.8 per cent in 2012, and for the public sector it was as high as 27 per cent. It was much smaller, at just over 4 per cent, in the private sector. Moreover, male workers with 7.0 per cent had, on average, a much smaller union premium than females with 30 per cent (all data: ONS 2013).

Trade union efforts to both hold on to membership and retain their influence with governments and employers have plainly struggled to counter the tide of economic and political developments in the last 30 odd years. The rate of decline in membership has been reduced in recent years, but the power and influence of unions remain much weakened.

17.3.2 The system of collective bargaining

Compared to most EU member states, collective bargaining in the United Kingdom is voluntary. Apart from a brief time in the early 1970s, agreements freely entered into have never been legally enforceable. Neither is there a requirement for employers to recognize or negotiate with trade unions. However, where a trade union is recognized there are some issues, health and safety, for example, over which employers do have a duty to consult unions and where the law can intervene in favour of one side or the other. While the principle of 'voluntarism' continues to hold sway in pay negotiations, there has been an increasing amount of legislation designed to curb the collective power and influence of trade unions. At the same time, there has been a growth in the level and amount of legislation, much of it emanating from the EU, enshrining individual employment rights into UK law.

Broadly, over the last 50 years, the locus of pay determination in the United Kingdom has decentralized, moving from industry level, via company level to plant level. In the late 1960s collectively agreed wages and terms and conditions in the private sector were predominately set and decided at industry level. However, pay policy and direct interventions by the state should not be overlooked here insofar as the shape and direction of pay determination in the United Kingdom is concerned. Prices and incomes policies introduced in the mid-1960s by a Labour government to counter mounting trade deficits and falling competitiveness were relatively short-lived. By the early 1970s, inflationary pressures forced another Labour government to make a further attempt at controlling wage increases with an incomes policy designed to cap wage increases. However, agreements linked to productivity in the private sector allowed slightly higher increases to be paid. As a result, wages in the public sector fell behind and demands for pay awards to catch-up began to mount. In the meantime, disputes, notably at

car maker Ford, resulted in further pay increases openly exceeding the pay cap, leading the Trades Union Congress (TUC) in 1978 to reject the governments' attempt to further restrict wage increases to 5 per cent. This pitched the country into a period of widespread industrial action in the public sector commonly referred to as the 'winter of discontent'. A year later the disputes ended when the Labour government announced the establishment of the Clegg commission to explore the comparability of wages between the public and private sectors. An indication of how far public sector wages had lagged behind under the incomes policy can be seen in the commission's recommendation for public sector pay to be increased by 20 per cent.

Conservative governments had more or less left pay determination to market forces and collective bargaining. This stance changed with the Conservative governments of the 1980s and 1990s: reducing wages was seen to be crucial to deal with the rapid growth in unemployment that de-industrialization had provoked. Thus, the bargaining arrangements favoured by Labour governments such as National Joint Industry Councils and multi-employer, industry-wide pay setting all came under fire. By the end of the 1990s much of the industry-wide negotiating mechanisms had disappeared. However, this was not entirely the result of government policy. For example, the national engineering agreement collapsed as a result of union pressure over calls for a 35-hour working week.

Interestingly, in the public sector, the ending of national pay setting in the National Health Service (NHS) in 1994 with bargaining devolved to regional level had little effect in controlling wage increases. In practice the union representing NHS staff simply decided on a national strategy to win 3 per cent increases irrespective of region. In the end, the majority of NHS employers succumbed and 3 per cent increases became the norm across the United Kingdom. This failure to differentiate NHS wage increases through local negotiations led to the further design and negotiation of a job-evaluated grade structure for around 1.3 million NHS staff excluding doctors, dentists and managers. The agreement, known as Agenda for Change, was implemented in 2004 and is still in place today. Outside of the NHS in other parts of the public sector, high levels of collective bargaining have been maintained, albeit under restrictive government policy. For example, the Local Government Services National Joint Council agreement covers some 1.6 million workers in England and Wales, with a similar agreement covering around 200,000 workers in Scotland.

The annual recommendations of the Pay Review Bodies (PRBs) sit alongside these agreements. There are currently six PRBs recommending annual increases in pay for: the armed forces, doctors and dentists, nurses and health service staff, the prison service, schoolteachers, senior NHS managers and senior civil servants. While not designed to supersede collective bargaining, recommendations by the PRBs (based on evidence from government, employers and unions) have to be considered before a negotiated agreement

can be reached. It is expected that the government will implement the recommendation and the unions will not take industrial action. Although official measures have shown collective bargaining to be in a steady decline in the private sector, the influence of bargaining has managed to remain significant. Employer practice, as monitored by Incomes Data Services (IDS) (2009, 2011a, 2013), shows that many firms operating across the economy, from call centres to utilities, still prefer to negotiate annual, or, in some cases multiyear, agreements with recognized trade unions. The rate of pay negotiated and agreed in some large and influential private sector firms especially in the manufacturing sector such as car maker Nissan frequently become the benchmark for those employees at non-unionized firms.

17.3.3 The Great Recession and collective bargaining

The 2008–09 Great Recession affected parts of the UK economy very differently and CLAs in some sectors were put under considerable strain. While pay settlements and agreements covering employees in some sectors of the UK economy may have exceeded inflation, average weekly earnings as reported by the Office for National Statistics (ONS) have remained below inflation for most of the post-recession period. Despite annual inflation dropping to 1.5 per cent, as measured by the consumer prices index (CPI), throughout 2014 increases in average weekly earnings have, mostly, been below 1 per cent. However, in the private sector, the majority of pay settlement figures recorded by IDS (2014) in the first three months of 2014 exceeded increases in the cost of living. While this is a reflection of falls in inflation rather than any significant acceleration in the level of pay increases, it is likely that continued economic growth in the United Kingdom will begin to exert upward pressure on negotiations.

During the Great Recession some national sectoral agreements, such as the one covering print workers, were not concluded after failures to agree on low or no pay increases. In contrast, an agreement covering the papermaking sector was revived in 2011 and increases agreed. Bargaining in general, though, has continued at plant or company level. In the public sector the impact of government policy has resulted in the imposition of a two-year pay freeze followed by three years (at least) of wage increases capped at 1 per cent. Consequently, there has been little for unions and employers to negotiate about and the existing pay bargaining mechanisms have been put on hold. Such severe pay restraint has also called into question the independence of the PRBs, while in local government the National Joint Council has come under threat as local councils are forced to make substantial unilateral changes in light of their extremely constrained budgets. The period between 2008 and 2014 has been a testing time for industrial relations. On the whole, though, the majority of agreements have remained in place as a result of an often pragmatic approach taken by employees in the private sector who may have accepted their employers' arguments and voted for job security over pay

increases. However, it is clear that pay freezes and low pay rises in the public sector have resulted in growing tension and disputes have begun to emerge involving a wide range of public sector workers (firefighters and NHS staff in 2014, for example) frustrated at the wage cuts they have suffered.

17.4 The National Minimum Wage: A successful trade union campaign

17.4.1 History of the National Minimum Wage

Support for the introduction of a NMW gathered pace among trade unions in the 1980s and 1990s as it became apparent that the bargaining power of low-paid public sector workers was being undermined by the discriminatory application of governmental pay policies. The plight of the low-paid public sector worker had already been highlighted by the dustmen's strike of the early 1970s. Thus, it was no surprise that the union most involved in that strike – the National Union of Public Employees (NUPE, later to merge with two other public service unions to form UNISON, the United Kingdom's largest union) – became the leader in the fight for the NMW. Yet, initially across the union movement enthusiasm for an NMW was not universally shared. The debate over how to deal with low pay had rumbled on through the 1950s and 1960s, and a strong view had emerged that 'free collective bargaining' was the best way to raise pay. To reinforce their argument, union negotiators pointed to the low wages associated with the wages councils that had, in effect, institutionalized low MW 'floors'. Negotiators contrasted this with the pay advances they obtained when left to negotiate in a range of manufacturing industries without the fetters of a wage floor. Thus, the belief arose that free collective bargaining would pull up wages and salaries generally. Furthermore, it was argued that an NMW would act as an anchor on pay advance as the 'minimum' became the norm. However, the constraints placed on collective bargaining by high levels of unemployment and falling union membership in the 1980s and 1990s, together with the diminishing influence of CLAs, effectively killed off the notion that bargaining by the strong would pull up the pay of weaker groups. As the Thatcher government set about scrapping all but a couple of the existing wages councils in an attempt to lower wages and 'price workers into jobs', the idea of an NMW quickly gathered momentum among trade union leaders and negotiators.

We should note here that a form of MW fixing had existed for many years in the United Kingdom. As Deakin and Green (2009) observed, MW legislation was already part of the Trade Boards Act of 1909. This established tripartite wages councils to ensure workers in low-paying industries received a fair wage. The Councils' decisions were legally enforceable and policed by the Wages Inspectorate. Subsequent changes to the legislation extended the wages councils remit to include other aspects of terms and conditions such as holiday entitlement and overtime rates. By the late 1980s there

were 26 wages councils covering over 2 million workers, mostly in the low-paying sectors of retailing, clothing manufacture and miscellaneous services such as hairdressing. While the Councils' orders set legal wage minima these were still comparably low. In keeping with their ambition to deregulate the labour market, wages councils were construed by the Thatcher government as an interference with market forces and their powers were accordingly greatly reduced. In doing so, the United Kingdom notified the International Labour Organization (ILO) of its withdrawal from convention No.26 (Minimum Wage Fixing Machinery Convention), and introduced the Wages Act of 1986. This saw the abolition of the majority of wages councils in 1993 when the Trade Union Reform and Employment Rights Act was introduced. The last remaining wages council, the Agricultural Wages Board, was abolished in 2013 by the current Conservative government with the support of the National Farmers Union (which, although it claims to be the 'Voice of British Farming', is not a trade union).

During the mid-1990s arguments for a national minimum wage were coming to the fore and the opposition Labour Party committed itself to establishing an NMW. Increasing income inequality, rising child poverty and the cost to the public budget of in-work benefits further strengthened the arguments for an NMW. The Labour government honoured its pledge and established the Low Pay Commission in 1997. Since then the LPC has been an independent advisory body responsible for recommending the rate of the NMW to government. It is made up of an equal mix of commissioners: three with a trade union background, three employers, two independent academics and an independent chair. In recommending the rate of the NMW the LPC need only consider any variation in rates for different age groups, under the age of 26. The 1998 NMW legislation explicitly ruled out any variation by region, occupational group, organization size or industrial sector. While the NMW legislation was explicit in its definition of the NMW the LPC was given little guidance on its terms of reference. As such, the LPC has taken an evidence-based approach when making its recommendations but has not relied on any formal link to prices, economic growth, unemployment, earnings or productivity. To date, the government has always accepted the LPC's recommendations on the headline rate of the NMW. However, it took seven years before the government accepted the LPC's recommendation that the adult rate should apply from age 21, seemingly because of the flagship schemes aimed at reducing unemployment for young people in the early years of the Labour government (Plunkett and Hurrell 2013).

17.4.2 Coverage of the National Minimum Wage

The first NMW rate was intended to cover around 8 per cent of the workforce. However, a data error in statistics provided by the Office for National Statistics meant it started from a very low base and the initial adult hourly rate of UKP 3.60 only affected between 4 and 5 per cent. More recent

Table 17.2 Development of national minimum wage (UKP/hour and annual change in %), United Kingdom, 1999–2013

Date of change	Adult rate		Development rate*		16–17-year-olds		Apprentice	
	rate	% change	rate	% change	rate	% change	Rate	% change
April 1, 1999	3.60		3.00					
June 1, 2000	3.60	0	3.20	6.7				
October 1, 2000	3.70	2.8	3.20	0				
October 1, 2001	4.10	10.8	3.50	9.4				
October 1, 2002	4.20	2.4	3.60	2.9				
October 1, 2003	4.50	7.1	3.80	5.6				
October 1, 2004	4.85	7.8	4.10	7.9	3.00			
October 1, 2005	5.05	4.1	4.25	3.7	3.00	0		
October 1, 2006	5.35	5.9	4.45	4.7	3.30	10.0		
October 1, 2007	5.52	3.2	4.60	3.4	3.40	3.3		
October 1, 2008	5.73	3.8	4.77	3.7	3.53	3.8		
October 1, 2009	5.80	1.2	4.83	1.3	3.57	1.1		
October 1, 2010	5.93	2.2	4.92	1.9	3.64	2.0	2.50	
October 1, 2011	6.08	2.5	4.98	1.2	3.68	1.1	2.60	4.0
October 1, 2012	6.19	1.8	4.98	0	3.68	0	2.65	1.9
October 1, 2013	6.31	1.9	5.03	1.0	3.72	1.0	2.68	1.0

Note: * 1999–2009: covering 18–21-year-olds; 2010–13: covering 18–20-year-olds.

Source: LPC 2013.

estimates (Manning 2012) also put the figure at around 5 per cent of the workforce, while the LPC in its most recent report (LPC 2013) suggested 4 per cent (Table 17.2). According to that report, the majority of MW employment in 2012 was concentrated in the hospitality, retail, cleaning and social care sectors. For example, around one in four jobs in hospitality were paid at the level of the NMW, while one in ten retail workers receive the statutory

MW. The LPC reports summarize the groups most affected by the NMW in its annual reports. Judging by the Kaitz index value (the value of the NMW relative to the median wage) being higher among part-time workers, temporary contract workers, those with few qualifications, ethnic minorities and among 18–21-year-olds, the NMW has more ‘bite’ among these groups. For example, according to the data from the Annual Survey of Hours and Earnings (ASHE), nearly 12 per cent of part-timers in 2012 were paid at the NMW level against 2.5 per cent of full-timers, as well as 11 per cent of those on temporary contracts against just over 4 per cent of permanent workers (LPC 2013).

17.4.3 The National Minimum Wage, prices and earnings

Since its inception in 1999, growth in the NMW has generally outpaced average earnings and prices. According to the LPC there was a 72 per cent increase in the rates from UKP 3.60 in April 1999 to UKP 6.19 in October 2012. Had increases been in line with average earnings, the figure would be UKP 5.71 in 2012, an increase of 58.5 per cent. If the annual uprating had followed movements in prices under the Retail Prices Index (RPI), it would have grown by 49 per cent, and under the government’s preferred measure the CPI¹, it would have been increased by 34 per cent. If nominal growth as measured by GDP was used, the NMW would have increased by 70 per cent. There is also evidence that suggests the incidence of the *very* low paid (earning less than half of median hourly pay) between 1998 and 2007 fell from 6.6 to 1.8 per cent. Yet the reduction in the incidence of low pay (less than two-thirds of the median) was much less, from 22.0 to 21.1 per cent (Plunkett and Hurrell 2013, 25; Manning 2012, 6–7).

Since 2008, though, annual increases in the NMW have been below the level of inflation and only very slightly above the growth in average weekly earnings (AWE). If the effect of RPI is considered, the 2012 NMW rate of UKP 6.19 was lower in real terms than at any point since 2003. Adjusting the figures by CPI would show a similar trend with the 2012 adult rate the lowest in real terms since 2004. In contrast, when adjusted by average weekly earnings (AWE) growth the NMW reached its highest ever value in 2012. This development is reflected in the Kaitz index values of 0.53 for 2012 (related to the adult *median* hourly wage) and 0.41 (related to the adult *average* hourly wage), the highest levels since the introduction of the NMW. In 2012, the adult NMW made up 91.8 per cent of the lowest decile of the wage distribution and 74.7 per cent of the lowest quartile, also representing the highest levels since 1999 (LPC 2013²). From a European perspective, these are medium-high levels. Nevertheless, if the recent trend of annual increases in the NMW lagging behind the RPI were to continue, the Kaitz values are likely to fall and the NMW ‘bite’ will diminish. In this respect, it does not help that collective bargaining is, to a large extent, absent from low-paying sectors in the United

Kingdom such as hospitality and retail and wholesale (Plunkett and Hurrell 2013, 29).

17.4.4 The National Minimum Wage: Employer responses

While the NMW has had a greater impact on firms in lower-paying sectors, the evidence shows that firms have adapted well to paying more to their lowest-paid workers. As a result there has been a narrowing of pay differentials between NMW workers and better-paid employees, with many firms adopting flatter occupational pay structures (IDS 2007). There is some evidence (see Plunkett and Hurrell 2013) that employers to preserve profit margins may have cut non-wage benefits or reduced working hours rather than make job losses. However, other research found that higher hourly wages have offset any reductions in hours or non-pay benefits (IDS 2007). One consequence of the introduction of the NMW is that it has often become the 'going rate' for entry-level jobs in lower-paying sectors such as retail and hospitality. Moreover, many firms in lower-paying sectors have used the rate of the NMW as the floor for pay structures or as a benchmark by which to set pay. Further research by IDS found that the median difference between the NMW and established pay rates at a broad selection of firms in lower-paying sectors had converged. IDS found that the differential between the NMW and established rates narrowed from 16.5 per cent in 1999, when the NMW was introduced, to 4.3 per cent ten years later. This research also showed that at times of relatively large increases in the NMW, employers did not increase their established rates by as much. However, when increases in the NMW were lower some employers in the sample raised rates by more than the percentage increase in the NMW (IDS 2011a). Overall, between 1999 and 2010 workers on hourly wages around UKP 2–3 above the level of the NMW appear to have seen their wages rise, as firms have responded – to some degree – by maintaining pay differentials among low-wage workers (Manning 2012, 8).

In order for the NMW to be effective a high level of compliance is required. The LPC's estimate in 2013 was that around 960,000, or 4.5 per cent, of workers were paid at (or up to 5 per cent above) the level of the adult NMW in 2012. There remains, however, a small proportion of workers who are estimated to earn below the MW. The LPC put this for 2012 at some 211,000 workers, or around 0.9 per cent of the UK workforce. However, this figure is not necessarily an indication of non-compliance as some workers, such as those living in accommodation provided by their employer, can legitimately earn below the NMW rate. Calculations based on various sources suggest low and non-compliance rates have been typically below 1 per cent since the introduction of the NMW. The years 2010 and 2012 were the exception when, according to the Labour Force Survey (LFS), non-compliance reached about 2 per cent (Le Roux et al. 2013). Interestingly, the LPC noted this data also implied that around 6 per cent of the bottom decile of adult earners

in the United Kingdom did not receive the NMW, and that this proportion was more likely to have increased than reduced. This being so, the LPC concluded non-compliance to be a significant problem (LPC 2013, 123).

17.4.5 Employment effects of the national minimum wage

As noted earlier, opposition to the NMW centred on its likely effect on employment. While it might be possible to set minimum wages high enough to be detrimental to employment, it is generally agreed the modest increases to the NMW have not had this effect. Following much research in the United Kingdom (the Low Pay Commission alone has commissioned over 100 pieces of research on the impact of the NMW), the LPC in its 2013 report summarized the evidence as follows: 'since the introduction of the NMW, the low paid had received higher than average wage increases but that the research had, in general, found few adverse effects on aggregate employment; the relative employment shares of the low-paying sectors; individual employment or unemployment probabilities; or regional employment or unemployment differences' (LPC 2013, 182).

17.4.6 The 'Living Wage' and minimum income standards

The London Living Wage (LLW) campaign was launched in 2001 by the broad-based community group London Citizens (see *Living Wage Foundation* website). In 2005 the Greater London Authority (GLA) established the Living Wage Unit to decide the level of the LLW each year. The basic idea was to set a living wage at a level able to provide an 'acceptable' standard of living. Following campaigns across the United Kingdom, a research effort tried to widen the idea of a Living Wage. Between 2006 and 2008, a team led by Loughborough University/Centre for Research in Social Policy (CRSP) developed a minimum income standard (MIS) for Britain. They argued that existing official budget standards did not properly reflect changing social norms since 1998–99. The MIS specifies an income sufficient to reach an acceptable minimum standard of living, developed through group discussion, in combination with expert judgements (Bradshaw et al. 2008). The outcomes vary substantially for each household type. In order to come up with a figure for a National Living Wage (NLW) based on the MIS a single figure is derived by taking a weighted average of the households in the survey. Each year this figure is uprated (Hirsch 2012).

Table 17.3 shows that, calculated as a proportion of the LLW, the LLW is 25–30 per cent higher than the NMW, with the gap widening in recent years. Since its introduction in 2011, the NLW grew to be around 17 per cent higher than the NMW in 2013.

As distinct from the statutory NMW, it is important to recognize that paying the living wage is a purely voluntary commitment. Nevertheless, the idea of a living wage has become increasingly popular with trade unions such as UNISON and GMB and has gained support from across the political

Table 17.3 Development of national minimum wage, London Living Wage and National Living Wage (UKP/hour and mutual difference), United Kingdom, 2003–13

Year	NMW (UKP/hour)	LLW (UKP/hour)	Difference LLW/NMW (%)	NLW (UKP/hour)	Difference NLW/NMW (%)
2003	4.50	6.40	29.7		
2004	4.85	6.50	25.4		
2005	5.05	6.70	24.6		
2006	5.35	7.05	24.1		
2007	5.52	7.20	23.3		
2008	5.73	7.45	23.1		
2009	5.80	7.60	23.7		
2010	5.93	7.85	24.5		
2011	6.08	8.30	26.7	7.20	15.5
2012	6.19	8.55	27.6	7.45	16.9
2013	6.31	8.80	28.3	7.65	17.5

Source: LPC and Living Wage Foundation (websites).

spectrum. The Living Wage Foundation and the Living Wage Employer mark have been established to recognize and accredit living wage-paying organizations. Around 400 firms have become accredited living wage employers. However, the majority of these firms are already in high-paying industries such as finance and higher education, where those affected by the adoption of living wages are confined to lower-paid staff. In June 2014, Nestlé became the first major manufacturing firm to commit to pay the LLW in London and the NLW elsewhere in the United Kingdom to its 8,00 staff as well as to contract and agency workers (*The Guardian* 2014). The NLW has also had success with many, mostly Labour-controlled local councils, agreeing to pay the living wage as a minimum (e.g. GMB 2013). One may conclude that the appearance of a campaign for a living wage, set higher than the NMW, is evidence that the NMW has had limited effect on tackling low-wage pressures.

17.5 Pressures on the social security system

The United Kingdom's social security system, consisting of a range of universal and means-tested benefits to provide state support for disadvantaged groups, has been under pressure for many years. In part, this has much to do with demographic change, notably the increases in life expectancy. This has raised the issue of the state pension provision and led the current government to raise the pension age for men from 65 currently to 67 in 2024 and 68 some years later. Women's pension age is to be gradually increased to equalize with men by 2018 and thereafter to increase at the same rate. A flat rate universal state pension of UKP 140 is also scheduled

for introduction in 2018. Another major issue for successive governments since the early 1970s is the so-called 'poverty trap'. In effect, this is triggered where the unemployed person is discouraged because the loss of benefits suffered on gaining employment exceeds the amount of income generated by that new employment. The last Labour government introduced a range of tax credits aimed at assisting the working poor and also at overcoming the poverty trap. Although this seemingly made some initial improvements, recent evidence suggests that the poverty trap is still proving to be a major constraint. A factor that appears important here are the very low wages that many newly created jobs offer. Although Labour government policies strengthened redistributive efforts and seem to have induced a period of falling inequality in the mid-2000s, such policies have not fully undone the dramatic increase in inequality occurring over the 1980s (cf. McKnight and Tsang 2013). According to data from the Department of Work and Pensions, disposable household income for the lowest decile has, since about 1995, grown in real terms far more slowly than either median or the particularly highly paid (highest decile) households. In fact, the real disposable income of the lowest paid households appears to have flat lined for three or four years before the crisis took hold.

The position of the trade unions with regard to these changes in the social security system and the consequent stresses they have engendered is both complex and problematic. There is much union anger at the levels of unemployment and in particular the plight of the unemployed young. Unions have been united in their condemnation of the elements of compulsion introduced by successive governments whereby benefit recipients are penalized (i.e. their benefits are reduced or withdrawn altogether) if their job-seeking activity falls short of what is deemed to be appropriate. They have also been consistent in criticizing both low pay and the zero hours' employment contracts that have latterly characterized low-paid employment in the private service sector. Likewise, they have condemned the squeezing down on benefits such as the recently introduced cap on benefits, whereby lone parents have suffered disproportionately. However, the truth is state benefit payments are not negotiated.

Moreover, the tripartite institutional frameworks that once gave unions a voice in national policy making (e.g. the National Economic Development Office), with very few exceptions (Health and Safety Commission and LPC), are long gone, scrapped by the Thatcher administration. By and large, the years of New Labour administrations did nothing to restore opportunities for tripartite governance with the sole exception of the LPC. It should be noted, though, that unions are in the minority on the LPC. Thus, while unions remain a powerful lobby for and on behalf of the poor and disadvantaged their political influence is limited. Moreover, their bargaining power is in reality available only to those public sector employees in the social security system struggling to make it work – a task that has been undermined by cuts

in staffing and pay restraints that have seen around three years of falling real wages and salaries for these employees. To ignore the wealth of experience that unionized workers in the front-line delivery of social security possess is certainly misguided and wasteful but, at the same time, to impoverish this particular workforce is little short of a scandal.

Notes

1. The RPI and CPI are calculated differently. The CPI uses a geometric, while the RPI uses an arithmetic mean. As a result the RPI figure is usually higher. Importantly, however, the RPI includes a measure of housing costs and is, therefore, considered by union pay negotiators to be a better reflection of changes in the cost of living.
2. Due to changes in methodology, the figures are not fully comparable over time.

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18

The Russian Federation

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18.1 Introduction

After the collapse of the Soviet Union in 1990, the transition of the Russian Federation was marked by a profound crisis leading to industrial collapse and hyperinflation in 1992, followed by a financial crisis in 1998. Eight years later, the scenario had changed. In 2006 and 2007, Russia showed its highest economic growth for 20 years, with GDP per capita increases of 8.6 and 8.8 per cent, respectively. Subsequently, wages were also increased substantially (Federal State Statistics Service [Rosstat] 2014). However, the country's economy remains very vulnerable in that overall economic growth continues to be highly dependent on factors in the global economy.

The 2008 global crisis started in the financial sector but, within a short time, had strongly affected the industrial and service sectors in Russia. The crisis indeed emphasized the Russian economy's vulnerability, in particular, its crucial revenue flows from the export of oil, energy and raw materials. In 2009, for example, Russian GDP per capita fell by 7.8 per cent. The crisis also had considerable implications for labour, triggering an increase in the unemployment rate, the reduction of real wages and the erosion of living standards. The biggest drop in employment was also registered in 2009, when the unemployment rate reached 8.3 per cent. In 2010 the situation improved, but at 7.3 per cent unemployment was still above that of the pre-crisis year 2007. The second and even worse implication of the crisis was the fall of real wages. After increasing cumulatively by nearly 100 per cent in the decade before, wages decreased by 6 per cent in 2008 (Federal State Statistics Service 2014; ILO 2013, 19). In Russia, this is a recurring pattern: in times of macroeconomic shocks, employment decreases tend to remain relatively modest, while (decreasing) wages carry the main burden of adjustment (Gimpelson and Kapeliushnikov 2011).

In order to overcome the impact of the crisis, the Russian government launched a programme of anti-crisis measures in March 2009. It focused

on public and temporary work schemes for both the unemployed and the employed at risk of dismissal. In most cases support was provided at the same level as the minimum wage (MW), plus mandatory regional wage supplements (Government of the Russian Federation 2009). President Medvedev also called for a modernization plan for the Russian economy, allegedly aimed at combating corruption and bureaucracy and diversifying the economy. Diversification was also aimed at the reduction of the country's dependency on oil and gas revenues (Arguments and Facts 2008). After 2009, the main socio-economic indicators demonstrated a recovery: GDP per capita growth reached 4.2 per cent in 2010 and 3.8 per cent in 2011, productivity grew at an estimated 3.2 per cent in 2010 and 3.8 per cent in 2011; the rate of inflation returned to just over 6 per cent and the unemployment rate to 6.5 per cent (Federal State Statistics Service 2014). Although in 2012 economic growth measured by GDP per capita increases was still around 3.3 per cent, in 2013 it decreased to 1.1 per cent (World Bank 2014).

Despite the Anti-Crisis Measures and the modernization campaign of the government, Russia's dependence on raw material exports has remained. In 2011, the share of raw materials in total export volume reached 70.3 per cent, and 40 per cent of Russia's GDP was generated by exports of raw materials (Federal State Statistics Service 2014). In early 2013, the Russian prime minister stated that half of the state budget consisted of raw material export revenues (*Korrespondent.net* 2013). In 2010–11, the oil price boom was a major factor behind the economic recovery but, with stable oil prices in 2012, the economic growth rate fell. In 2013, trade in global markets did not provide the expected relief as oil prices stabilized below the 2012 level, and for 2014, energy price forecasts were highly uncertain (EIA Outlook 2014). On top of this, the economic slowdown of 2012–13 was aggravated by weak domestic demand, reflected in subdued investment and consumption. In 2013, consumption, an important growth driver in the past, expanded at a much slower pace than in the previous three years when it had been stimulated by a considerable volume of consumer credit. As a result, the Russian population in 2013 had to spend additional income to pay credit debts instead of fulfilling consumption needs. Also in 2013, investment activities tapered sharply as the large infrastructure projects for the Winter Olympics in Sochi and the Northern Stream pipeline neared completion. As a result, the contribution of gross capital formation to growth turned negative (World Bank 2014). In the next few years, large new infrastructure projects such as those related to the Soccer World Cup in 2018 will plainly require considerable investments. This will be a challenge under conditions of economic slowdown. Table 18.1 shows the main changes in the Russian economy over 2007–12.

This brief overview provides the basis for the rest of the chapter, which is organized as follows. Section 18.2 goes into major labour market trends, including informalization and flexibilization. Section 18.3 covers

Table 18.1 Development of socio-economic indicators, Russian Federation, 2007–12

	2007	2008	2009	2010	2011	2012
Various indicators						
GDP per capita growth	8.8%	5.4%	−7.8%	4.2%	3.8%	3.3%
Productivity growth	7.5%	4.8%	−4.1%	3.2%	3.8%	3.1%
Average nominal wage/month (RUB*)	13,593	17,290	18,638	20,952	23,369	26,629
Average nominal wage growth	27.8%	27.2%	7.8%	12.4%	11.5%	13.9%
Annual inflation rate	11.9%	13.3%	8.8%	8.8%	6.1%	5.1%
Average real wage growth	14.2%	12.3%	−1.0%	3.3%	5.1%	6.8%
Unemployment rate	6.0%	6.2%	8.3%	7.3%	6.5%	5.5%
Subsistence minimum level						
Subsistence minimum level/month (RUB)*	4,159	4,971	5,572	6,138	6,878	7,049
Subsistence minimum level growth	12.6%	19.5%	12.1%	10.2%	12.1%	2.5%
People living below subsistence minimum (in million)	18.7	18.9	18.5	18.1	17.9	15.5
Percentage of population living below subsistence minimum	13.3%	13.4%	13.0%	12.5%	12.7%	11.0%

Note: *Exchange rate at November 20, 2013: UKP 1 = 32.6 RUB; USD 1 = 44.03 RUB.

Source: Federal State Statistics Service 2014.

the development of trade unions and collective bargaining. Section 18.4 is devoted to wages and social security, including MW setting, the relation of the MW to the minimum subsistence level and the average wage, the (dis)connection between the MW and social security and the effects of MW setting on collective bargaining. The final section draws conclusions and presents some recommendations.

18.2 Labour market trends

18.2.1 The structure of the labour market

According to Russia's Federal State Statistics Service, the size of the economically active population in October 2013 was 75.7 million, nearly 53 per cent of its 143.3 million-strong population. Of these, 5.5 per cent had no occupation but were actively searching for a job and so were unemployed according to the International Labour Organization (ILO) definition. Some 33.9 million or 47.3 per cent of the economically active population were working under an employment contract in companies, excluding

small enterprises. Together with people working under civic contracts they constituted 35.5 million working in companies. The Labour Code of Russia stipulates that all employees must sign a written contract and provide their 'labour book' to the employer; oral contracts are prohibited. In the 1990s, the practice of working without signed employment contracts became widespread. In order to prevent such practices, provisions were subsequently included in labour law to protect the employment relationship. If the court finds a civic contract has been signed instead of an employment contract whereas, *de facto*, an employment relationship exists, then the provisions of the Labour Code should be applied to the relationship.

In spite of these provisions, the gap between the economically active and the officially employed population is rather high. In other words, there is a substantial amount of informal employment in Russia. Although the Federal State Statistics Service does not conduct surveys of wages in the informal economy, it does assess its size. For 2010, it estimated that informal employment amounted to 16.6 per cent of total employment, with preliminary estimates for 2012 coming in at 19 per cent of the total workforce (Bolsheva 2012; Federal State Statistics Service 2014). This seems surprising, since Vice-Prime Minister Olga Golodets, in her speech to the G20 meeting of Ministers of Labour in July 2013, stated that around 48 million people in Russia were working in the 'white' economy, while informal employment amounted to around 20 million, or approximately 30 per cent of total employment (Gritsuk 2013). It should be noted that the latter category not only includes illegal work but also all workers not officially registered by the authorities, including women on pregnancy and child-rearing leave, housekeepers and others.

18.2.2 Labour market flexibilization

In the last 10–15 years, flexible employment relations have increasingly been used in Russia. A few years ago a discussion concerning the necessity of flexibility was emphatically initiated by employers' associations, led by the Russian Union of Industrialists and Entrepreneurs (RSPP 2013). Their main argument was that more flexibility would help increase the level of legal employment. Trade unions, in contrast, have stood for the maintenance and better implementation of current legislation with state control over compliance. Currently, hardly any legislative changes have been adopted but the discussion continues.

The dominant contract form is that of the permanent contract, although, the Labour Code allows fixed-term contracts for less than five years in a wide number of cases. The Labour Code contains a list of more than 11 instances in which the employer has the right to offer a fixed-term contract (including the temporary character of work, the period of absence of another employee and so on) and a similar list of instances in which the employer and employee can agree to sign a fixed-term contract. The second list consists

of at least ten more cases, including some that are not well grounded, like reaching the pension age. In practice, employers often force employees to sign a temporary contract without good reasons thereafter to renew and resign such contracts on an annual basis for the opportunity to finish the employment relationship easily. Employees tend to accept this because they are more interested in having a job than in having the correct employment contract. We may add that many domestic workers in Russia working under oral agreement neither register their employment contracts nor pay taxes, though regulations concerning their work can be found in Chapter 48 of the Labour Code. In 2013 the Labour Code was amended with a new Chapter 49.1, concerning the regulation of employment relations with distant employees. Distance work and telework existed in practice but hitherto there were difficulties in implementing proper legislative provisions for these forms of work.

Another draft law, partly aimed at the further flexibilization of employment relations, has latterly been discussed in the State Duma, the parliament of the Russian Federation. According to Article 15 of the Labour Code, the employment relationship currently is a two-sided arrangement between the employer and employee. However, in recent years more and more efforts have been made to legalize triangular relationships. Recently, for instance, the State Duma adopted in the second hearing a draft law called 'On the prohibition of the use of agency labour', which originally aimed at prohibiting triangular employment relationships. Yet, after the second hearing the draft was changed to allow private employment agencies to hire agency workers. It should be noted that part-time work to combine family obligations and work has not been widely applied in Russia, mainly because of the low wage levels involved. In the third quarter of 2013 part-timers made up only 2 per cent of those working in companies (except small-scale business – Federal State Statistics Service 2014). By contrast, the practice of holding more than one job in order to make ends meet has become widespread.

18.3 Trade unions, collective bargaining and labour disputes

18.3.1 Trade unions

The creation of trade unions was illegal in Russia from the 1870s until 1906, when the first regulations on trade unions were adopted. Before the Revolution of 1917, trade unions in Russia were mostly political organizations. After 1917 unions achieved an extremely broad set of rights. With the adoption of the Code of Laws on Labour in 1922, representative bodies, except local unions, were de facto prohibited from participating in activities at local level. Unions were recognized as representatives of employees and obtained numerous rights, including the right to oversee compliance with health and safety regulations, social insurance provision and the payments of salaries and so on. In 1933 the People's Commissariat (Ministry) of Labour was

replaced by the All-Union Organization of Trade Unions (VCSPS). Soviet trade unions thereby received broader powers than unions anywhere else and became de facto part of the state apparatus. Since the 1930s, the unions' functions included distribution of housing, organization of socialist workplace competitions, managing social welfare funds and resorts, the control over compliance with labour legislation and so on. The membership of unions was obligatory. They continued to implement a broad range of functions till the collapse of the Soviet Union (Lyutov and Gerasimova 2013). Even after the collapse, Soviet law continued to apply in Russia for some years and the extensive powers enjoyed by the unions remained those delegated to them to perform state functions, rather than any powers won by them in pursuit of their members' interests (Ashwin and Clarke 2002). The state has taken over some powers, for example the control of social insurance and the establishment of a Labour Inspectorate, but the unions have continued to administer the distribution of social insurance benefits and to monitor health and safety.

With the adoption of the new Labour Code of the Russian Federation in 2001, the powers of trade unions were limited, especially at local level. The employer is currently obliged to consult unions on a range of issues, instead of the earlier obligation to gain their agreement. Besides this, union rights have been designed in such a way that minority unions have few opportunities to mobilize the workers, or, to take part in collective bargaining. Nevertheless, trade unions are still the main representatives of workers in Russia. In the late 1980s and the 1990s, the Russian labour movement split in two camps, namely unions affiliated to the Federation of Independent Trade Unions of Russia (FNPR), the successor of the Soviet trade unions, (sometimes called 'official'), and the newly established unions, called 'free' or 'alternative' to indicate their independence from employers and state (Olimpieva 2011). The latter group arose on the back of the wave of strikes that played an important role in the collapse of the Soviet system. In the 1990s these unions established a number of confederations, including the Confederation of Labour of Russia (KTR) and the All-Russian Confederation of Labour (VKT). In 2011 the latter joined KTR and since then KTR is the most representative confederation of the 'independent' unions. Both FNPR and KTR are affiliates of the International Trade Union Confederation (ITUC) and thus have been included in the international trade union movement.

In the late 1990s and early 2000s following the collapse of the Soviet Union, many expected the official Russian trade unions would disappear along with the system of which they were an integral part. For a number of commentators, the future lay with the new unions (cf. Ashwin and Clarke 2002). The next decade proved that these expectations were unrealistic. Former Soviet trade unions have remained numerous and rather influential while the newly established unions, although having obtained power and influence, have not become that widespread. Overall, since the Soviet period

the roles, competences and membership of trade unions have all decreased. Currently, FNPR unites 46 sectoral trade unions and 78 regional organizations. Its membership has fallen recently from nearly 28 million in 2006 to nearly 22 million in 2012 (Olimpieva 2011; see *FNPR website*). Of the 2012 FNPR membership, 78 per cent was employed, 14 per cent students and 11 per cent pensioners. The most unionized sectors in addition to the government sphere (around 7.6 million members) are the basic and construction industries (6.2 million), and transport and communication (nearly 3 million members). The traditional practice of creating primary union organizations at the local level has remained in existence. According to the legislation on trade unions and social dialogue, the primary union is the most common local representative forum of employee interests. Nevertheless, the number of primary union organizations affiliated to FNPR has also decreased recently, from around 200,000 in 2008 to 178,000 in 2012 (see *FNPR website*).

The membership of KTR is currently about 2 million. This confederation has about ten all-Russian and 25 interregional unions with local organizations in over 60 regions (*RBK Daily*, 2012). Total union density in the Russian Federation in 2012 was approximately 53 per cent related to formal employment, and about 33 per cent related to total employment. Leaving students and pensioners out, the density falls to about 41 and 25 per cent, respectively. Although these figures are rather high seen from an international perspective, the Russian public's trust in trade unions is low. According to a 2012 opinion survey by the Levada-Center, 17 per cent of their respondents trusted trade unions and 24 per cent did not. Similar levels of distrust were also recorded for business (25 per cent) and the police (31 per cent). By contrast, at the same time 49 per cent did trust the Russian president and 41 per cent trusted the armed forces. Only a very small minority (1 per cent) expected unions to support them in difficult situations. In a 2011 survey, the share of those stating they could settle problems they faced through participation in either union activity or in the activity of political parties or in other public organizations was only around 7 per cent, compared to 40 per cent perceiving that problems could be settled by applying to the courts and 24 per cent by using mass media sources (Levada-Center 2012).

According to Article 31 of the Labour Code, the interests of all employees may be represented by the 'other representative (representative body)' if there are no primary union organizations established within the company. Similarly, where none of the primary organizations acting at the company unites more than half of the employees, they are not authorized to represent the interests of all employees by the procedure prescribed by the Labour Code. The 'other representative' may be elected by a secret ballot at a meeting or conference of workers. Currently there is no information available on either the number of organizations in which other representative bodies have been created or on their competence or functions. On the basis

of interviews with union representatives and from publications on union websites, we conclude that the total number of other representative bodies is not high. They mainly have the character of 'yellow unions' in that their creation is often initiated by employers and used by them to prevent the creation of independent unions or to decrease the influence of existing unions (Lyutov and Gerasimova 2013).

In large companies with a developed system of cooperation between employers and employees various commissions have been created, for example, on youth and women's issues and on social policy. They are usually initiated in accordance with collective agreements (CLAs) and seen by both parties as a form of workers' participation in company management. Usually the competence of these commissions is limited to social issues and they are not endowed with co-determination rights. In Russia, there is no system of independent workers' committees or works councils as in Germany or the Netherlands. In May 2013 the Labour Code was, however, amended to provide for the possibility to create works councils. The new paragraph of Article 22 recognizes the creation of works councils as a *right of the employer*. Such a works council is defined as an advisory body established by the employer, with the promotion of the employer's business as its main aim (Lyutov and Gerasimova 2013).

Trade unions, especially FNPR, with regional, territorial and sectoral organizations in the main industries and territories of the country, are also represented at national level. The Russian Tri-partite Commission established on the federal level in 1999 (Federal Law 1999) includes representatives from the state bodies sitting alongside all-Russian trade unions and all-Russian employers' associations. At this level, every few years the General Collective Agreement is signed. Usually this agreement is rather declarative and tends to be focused on the general directions of the country's development rather than prescribing any particular steps and aims. All draft laws on social and labour issues should be discussed by the Russian Tri-partite Commission before being submitted to the State Duma.

18.3.2 Collective bargaining

The structure of the Russian trade union movement, as sketched above, fits into the institution of 'social partnership' that also makes up the framework for the collective bargaining system. The main levels on which social partnership is structured are national (federal), regional and local (company), although it is also possible to conduct sub-regional or multi-regional collective bargaining. There are separate rules for the appointment of workers' representatives for collective bargaining purposes at company level. Although the company level is the most developed collective bargaining level in Russia, in practice registration procedures are complicated, with significant administrative barriers to be overcome in order to be recognized as a bargaining partner. The ITUC has called these requirements 'excessive' in

respect of trade unions' representation. Formally, at company level the primary union organization has the right to bargain collectively if it organizes over half of all employees. Anything less than this and the right to bargain should be granted to the meeting or conference of employees. Where only a few representatives exist at local level, they should be encouraged to conclude one agreement covering all employees. Also, two or more union organizations representing in total more than half of employees are entitled to create a joint negotiating body for collective bargaining purposes. This body has to include representatives of all unions taking part in the organization of this joint body. By law, minor trade unions keep the right to join negotiations within one month of their starting, but in practice this rule rarely helps them to participate in collective bargaining. More generally, employers and state bodies tend to discriminate against trade unions and their activities, hence freedom of association and the right to organize are frequently violated (see *ITUC* website).

The largest number of CLAs is negotiated by FNPR unions. According to FNPR information (website), there were 155,540 collective agreements in force in 2012 at local level as well as 6,781 sectoral and territorial CLAs. The total number of agreements on different levels is fairly high. According to information from the Ministry of Labour, in 2011, 5,000 CLAs signed on higher than local levels were in force and 192,779 local agreements were registered (2010: 205,972; 2007: 179,000). Furthermore, some 1,700 sectoral and territorial-level agreements and 37,000 at plant level had been negotiated by unions not affiliated to FNPR and by other representative bodies. In 2011, 23.1 million employees in total, or 54 per cent of the workforce in the formal sector, were covered by CLAs at local level. Across federal regions, collective bargaining coverage based on local agreements varied from 41 to 69 per cent (Ministry of Health and Social Development Report 2012). Taking these agreements plus those at higher levels into account led the ILO in 2010 to conclude that the total collective bargaining coverage in Russia, at least formally, was over 70 per cent. We must add that the employers' side is rather weakly organized with employers' associations uniting only a minority of employers. In many sectors employers are not organized in associations and prefer to form business clubs that cannot be recognized as collective bargaining partners. Thus, trade unions at national and regional levels often have bipartite negotiations with government. Significantly, though, legal provisions allow the government to extend the coverage of an agreement to all employers in a particular sector or region and, as a rule, this right is implemented (Bolsheva 2012).

Wages are the most important collective bargaining subject; in practice they are much more often set at company than at sectoral level. Wages are frequently defined in local normative acts and not through collective agreement, which leaves the employer with more flexibility. There are many examples of CLAs that just contain general provisions and the repetition of

legal obligations. As such they have very little relevance to the fixing of real working conditions and wages. Some research has been done on the relation between the existence of CLAs and wages. A study undertaken in 2003 in nine enterprises in three regions indicated the existence of CLAs increased the level of wages, no matter whether an agreement was negotiated by the trade union or by other representatives. Neither did it matter whether the union was a majority or minority one. At the same time, union presence at company level corresponded with increased wages if a CLA was negotiated. By contrast, their presence without a CLA decreased wages (Bizyukov 2004). There are no research findings or evaluation systems available to measure the effectiveness of CLAs. However, analysis of numerous texts demonstrates that many sectoral CLAs replicate provisions of the Labour Code. At the same time, social dialogue is officially one of the fundamentals of labour relations. Labour law provides numerous norms and formal procedures that employers have to follow which, although complicated from a formal perspective, nevertheless, remain quite ineffective when taking into account employees' needs and problems. The government has promoted social partnership and social dialogue rhetorically, but has not really examined the quality of existing partnerships.

18.4 Wages and social security

18.4.1 Minimum wage setting

According to the Labour Code (Articles 130; 133(1), (3); 421), there is a uniform national MW covering all full-time employment contracts. The amount of the national monthly MW is laid down in the federal Labour Code and payment of wages below the MW is prohibited. The MW is not differentiated by age, occupation or firm size but, as we will see, since 2007 regional differentiation has been allowed, which also gave public employees paid from the federal budget a separate position. The federal law promotes a dual approach, thus there are two MW types. The first is the national MW established for general wage regulations and other payments for labour. This is the subject of labour legislation and collective bargaining. The second MW type is a basic tariff for administrative and civil penalties, taxes and other payments. This dual approach originated in 2000, when the government decided to decouple the MW from the fixing of taxes, penalties and so on. Table 18.2 shows the development of the national MW. The three right-hand columns contain the year-to-year development of nominal and real MW increases, respectively.

Debates concerning the MW definition were raised in 2007 after amendments to the Labour Code. The previous legislation defined the MW as a monthly wage for unskilled employees who worked standard working hours at simple tasks in standard working conditions. It pointed out that the MW amount does not include compensation (e.g. compensation for onerous

Table 18.2 Development of national minimum wage (RUB per month and % of increases), Russian Federation, 2000–14

Date of change	MW for wage regulations	MW for other purposes	Nominal MW increase % year	Real MW increase % year	Year
July 1, 2000	132	83.49			
January 1, 2001	200	100			2001
July 1, 2001	300	100	60.0	39.1	2002
May 1, 2002	450	100	21.9	9.6	2003
October 1, 2003	600	100	23.1	11.0	2004
January 1, 2005	720	100	24.4	11.1	2005
September 1, 2005	800	100	33.9	22.8	2006
May 1, 2006	1,100	100	50.0	34.0	2007
September 1, 2007	2,300	100	53.3	37.6	2008
January 1, 2009	4,330	100	88.3	73.1	2009
			0.0	−8.8	2010
June 1, 2011	4,611	100	3.8	−2.3	2011
			2.6	−3.9	2012
January 1, 2013	5,205	100	12.9	6.3	2013
January 1, 2014	5,554	100	6.7		

Source: Authors' calculations based on Federal State Statistics Service 2014.

working conditions), incentives or social benefits. The new law stated that the monthly wage of an employee working standard hours and performing standard job tasks cannot be less than the MW. Thus, the main debates were about how to determine the MW level. As there is no clear definition in the law of what to include in the MW, this issue always ends up in court. Since 2009, when the MW was substantially increased, the number of court cases has risen. In 2010 the Supreme Court changed its position concerning the MW from recognizing compensation, incentives and social benefits that should be paid *over and above* the MW, to the position whereby the MW should *include* compensation, incentives and social benefits payments. In August 2011, the Supreme Court issued another ruling in which it acknowledged that compensation for employees working in the Northern regions should be paid over and above the MW (Bolsheva 2012).

As stated, the national MW is to be set by federal law. However, there is an institutional procedure for determining MW policy. It is subject to negotiations in the Tripartite Committee and particularly in the General Agreement between the employers' associations, trade unions and the government of the Russian Federation. The General Agreement usually contains broad provisions concerning MW policy, but does not specify level, criteria, increases and so on. Thus, in the General Agreement for 2011–13, it was stated that 'the parties consider it necessary to develop and implement a set of measures to ensure workers' right to decent work, to improve real

wages, income policy and living standards...for this purpose, the parties enter into the following commitments...to organize consultations to determine the minimum wage level as laid down in Article 133 of the Labour Code...to analyze the current system of minimum social guarantees, including minimum wages and social transfers in terms of their impact on poverty reduction' (General Agreement 2010).

It is relevant to note that to date the MW has not met the criteria laid down in Article 133 of the Labour Code. Since 2002, when the new Labour Code was introduced, the MW was supposedly no longer allowed to be lower than the subsistence minimum; that minimum is determined quarterly by reference to a basic consumption basket and to compulsory fees and taxes. Based on the Federal Law 1997, there are national and regional subsistence minimums in place. However, the federal government has interpreted the legal provision that the national MW should be increased in line with the national subsistence minimum as a long-term goal. Thus, the special law on the MW increase has never been enacted, and the gap between the MW and the subsistence minimum has persisted to the present day. The middle column of Table 18.3 shows the ratio between these two entities from 2002 to 2013. In spite of the fact that the MW remains below the subsistence minimum, this latter minimum is itself very low and does not reflect employees' needs. The Federal Law 1997 stipulates that it includes a consumption basket of basic goods, but this does not take into account the necessary expenditure on education, healthcare, childcare and so on.

18.4.2 The minimum wage and the wage distribution

The far right-hand column of Table 18.3 shows the Kaitz index, the ratio between the national MW and the average wage on a yearly basis. Although the 'Kaitz' increased somewhat since 2007, it has recently fallen below 20 per cent – which is by far the lowest found in the countries studied in this book. In view of this, it is important to note that Russia has not ratified two of the relevant ILO Conventions, that is, Nos. 26 and 131. Thus, it may be argued that, in order to comply with the ILO standards, Russia would have to increase the MW significantly and reconsider its criteria. The strong MW increases in the period 2005–09 slightly improved living standards, but only affected wage earners at the very tail of the wage distribution. It seems likely that these MW increases also influenced average wages to a minor extent in regions with relatively high regional MWs and, more generally, wages for females, young workers, workers over 50 of age and workers with low education (Lukiyanova 2010; Bolsheva 2012). After 2009, when the national MW nearly doubled to 4,330 RUB, data have been available on the share of workers receiving below 5,000 RUB. In 2009, the percentage of such workers was estimated at 9.5 per cent. By 2011, it had decreased to 6.2 per cent due to nominal wage growth (Federal State Statistics Service 2014). By 2012 the effects of the 2009 MW raise in terms of the gap with average wages had

Table 18.3 Subsistence minimum, national minimum wage and average wage (in RUB, yearly averages), per month, Russian Federation, 2002–13

Year	Subsistence minimum per employee	MW (yearly average)	Ratio MW: subs. minimum (%)	Average wage	Ratio MW: average wage (Kaitz index) (%)
2002	1,968	400.00	20.3	4,360.30	9.2
2003	2,304	487.50	21.2	5,498.50	8.9
2004	2,602	600.00	23.1	6,739.50	8.9
2005	3,255	746.67	22.9	8,554.90	8.3
2006	3,695	1,000.00	27.1	10,633.90	9.4
2007	4,159	1,666.67	40.1	13,593.40	12.3
2008	4,971	2,300.00	46.2	17,290.10	13.3
2009	5,572	4,330.00	77.7	18,637.50	23.2
2010	6,138	4,330.00	70.5	20,952.20	20.7
2011	6,878	4,493.92	65.3	23,369.20	19.2
2012	7,049	4,611.00	65.4	26,629.00	17.3
2013	7,871	5,205.00	66.1	29,960.00	17.4

Source: Authors' calculations based on Federal State Statistics Service 2014.

largely disappeared; it can be concluded that this raise was a mere political measure to maintain the social image of the government.

Income and earnings (wage) inequality have continued to be relatively high in Russia throughout both the 1990s transition period and again in the new millennium. In the second half of the 2000s, inequality as measured by the income-based Gini coefficient even rose temporarily up to 0.422 in 2007, before falling slightly to 0.417 in 2011. Other yardsticks, like the D9:D1 ratio, displayed a similar trend. The earnings 'Gini' remained substantially higher than its income equivalent for quite a while, for instance, showing a value of 0.447 in 2007, before decreasing in the last few years to a level slightly higher than the income-based Gini. This may point to some effects of the redistribution measures taken by the government (Denisova 2012, 8).²

It should be noted that there are major differences across the 83 regions of the Russian Federation as regards the level of average nominal wages, unemployment rates and the role of the informal economy. In order to take these differences into account, a new provision (Article 133.1) on regional MWs was introduced in 2007 in the Labour Code. While the national MW is set by federal law, the regional MW can only be set in a Regional Agreement. These Regional Agreements can be bipartite or tripartite. The law does not make it compulsory for the regions to negotiate regional MWs; rather it allows the social partners at the regional level to bargain for higher MWs than the national MW within the framework of Regional Agreement negotiations. As a rule, the MW set in the Regional Agreement covers all workers

in a particular region, except public employees paid from the federal budget, who are covered by the national MW. However, regional social partners are free to set special MW regulations for employees of a particular sector or district or to exclude a particular category of employees from regional MW coverage. When the regional MW was introduced in 2007, Regional Agreements were signed in more than half of all regions (45 out of 83). The situation changed in 2009, when the national MW was increased substantially. In that year only 30 regions signed Regional Agreements and in 17 of them public workers were excluded from the MW. In 2010–11, only 27 regions kept their MWs higher than the national ones (Kobzar 2010).

In 2013 the number of regions with a regional MW had increased to 51 (FNPR data). In the majority of these regions social partners conducted special agreements on regional MWs, whereas in some regions MWs were negotiated in the framework of general Regional Agreements. Regions have chosen different criteria for fixing regional MWs, but the most common yardstick has been the regional subsistence minimum (which varies widely across regions). Some regions set their MWs above regional subsistence levels. In 2009, relatively prosperous Moscow³ and St. Petersburg did so, as did the Novosibirskaya and Kaliningradshaya areas, notwithstanding their much lower average wages and high unemployment and poverty rates. As a consequence, in 2009 the Kaitz indices in the latter two regions reached 41 and 37 per cent, respectively, against 25 per cent in Moscow and 26 per cent in St. Petersburg (Bolsheva 2012).

In most regions the MW is established for private sector employees, whereas for public sector employees national MWs are applied, although, in 20 regions, there is a universal regional MW for public and private sector employees. Only a limited number of regions set a universal MW for private and public workers because regional budgets cannot fund wage increases for regional public workers. One of the arguments the federal government has invoked against rapid MW increases is the fear of the deficits in the federal budget such increases might create. Thus, we need to understand the impact the MW has on the wage system of workers paid from federal and regional state budgets. These categories of workers are paid according to the United Scale of Wages and the New Wage system. Although the United Scale of Wages was delinked from the MW in 2007 and in 2008 a New Wage System was introduced for federal public workers, the MW remains an important yardstick for this wage system. Moreover, the United Scale of Wages is still implemented in the wage system for regional public employees. The monthly wage level for the lowest category of employees according to the United Scale and the New Wage System cannot be below MW level. If the MW goes up, the wage scale as such goes up as well. Thus, indirectly, an MW increase affects every public worker in the country (Bolsheva 2012).

In view of the mechanisms described above, it can be expected that MW earners are disproportionately concentrated in the state and municipal sector. This is confirmed by the research of Lukyanova (2010). She found that 94 per cent of all workers paid on or below the MW in 2009 were employed at state or municipal establishments. In that year, 19.5 per cent (based on tariff wages⁴) or 6.5 per cent (based on total wages) of state and municipal workers ran the risk of being at or below the MW. As for branches of economic activity, recreation, arts and sporting activities (24.7% and 9.5% respectively); education (24.3% and 10.4%), and health (22.3% and 6.0%) showed the highest rates in this respect. In these branches, the MW hikes in 2005–09 may have had some positive effect on average wages. In the private sector the MW risk was much lower. Women were clearly over-represented: in 2009, the MW risks for men were, respectively, 9.6 per cent (based on tariff wages) and 2.5 per cent (over total wages), whereas those for females were 17.5 and 5.1 per cent, respectively (Lukyanova 2010). As for the composition of the group of MW recipients, research by Tchepkin (2010, cited in Bolsheva 2012, 23) came up with similar results. Moreover, he found that from 2002 to 2007 between 1 and 4 per cent of the total workforce received MWs.

18.4.3 The minimum wage and social security

The most recent reforms in Russia have linked pension payments to the subsistence minimum, but not to the MW. However, payments for sick leave and maternity leave for employees who have worked less than six months are still linked to the MW. Moreover, in 2010 a new law on sick leave pay was introduced. According to this law, sick leave benefit should be calculated from the employee's average wage over a period of 730 days before the sick leave. Where a worker has not been employed for some months during these 730 days, this period will be calculated on the basis of the MW (Bolsheva 2012). The social security system is financed by fees paid by employers while the social security institutions, as well as benefit levels and conditions, are defined by law and cannot be diminished or undermined by CLA. A limited number of flourishing companies provide additional benefits to their employees on the basis of local normative acts or CLAs.

We should add that unemployment benefits have never been generous in Russia and their modest value compared to the average wage level even fell sharply during the 2000s. Russian legislation defines the minimum and maximum unemployment benefits. In 2013 the minimum benefit was 850 RUB per month, and the maximum 4,900 RUB, a level already reached by late 2008. Thus, in 2013 even the maximum unemployment benefit level remained below that of the national MW and was also less than one-fifth of the average wage level. As with the MW, because of their low levels unemployment benefits have been unable to act as a wage floor in Russia (Gimpelson and Kapeliushnikov 2011, 16, 36).

18.4.4 The minimum wage and wage bargaining

In terms of the MW's relevance to the wage-bargaining process, it should be stressed that in most cases real wage negotiations take place at the company level between company-level union representatives and management. Negotiated wages are laid down in collective agreements and cover all workers of the company. The level of wages subject to collective bargaining at company level is usually much higher than the MW level. As illustrated by developments in 2005–09, this implies that the effect of MW hikes on the wage structure generally remains quite limited and that the MW, at its current relative level, is far from an effective wage policy instrument. Understandably, the Russian trade unions all take a common short-term position on the MW, namely, that it should be increased to the level of the subsistence minimum and the MW definition should exclude compensation, incentives and social benefits payments. However, the union strategy on these issues lacks power. The unions mainly take refuge in legal and political tools but have not mobilized workers and organized industrial action around MW issues. Neither do they have a fully worked-out position concerning the impact of the MW on wage bargaining, nor on what should happen to the MW in the longer term after an increase up to the subsistence minimum. This puts the unions in a defensive position concerning MW issues and has weakened their connection with Russian academic experts who, in recent years, have defended MWs at levels above the subsistence minimum (cf. Bolsheva 2012, 22–3).

18.5 Conclusions and recommendations

It can be concluded that the Russian Federation is, at the time of writing, on the verge of a double-dip recession. Governmental efforts to diminish dependence on world markets or raw materials and to diversify the Russian economy have yet to take off. Under these adverse economic conditions, the wages of the majority of Russian workers may once again become quite vulnerable and volatile (more so than employment levels). Moreover, the wage distribution in Russia is highly unequal and has shown no trend towards more equality. Against this backdrop, measures should be considered to revitalize labour market institutions and wage bargaining. In this respect, it is important to consider wage policies in times of economic crisis and recovery. As suggested in ILO's *Global Wage Report 2010–2011*, 'both collective bargaining and minimum wages can help achieve a balanced and equitable recovery by ensuring that working families and households on low wages obtain a fair share of the fruits of every single percentage point of economic growth' (ILO 2010, 80). At the same time, as this report concludes, protecting the purchasing power of low-paid workers can also contribute to a faster recovery by sustaining aggregate demand (2010, 31, 65).

The current Russian national MW system plainly does not serve its original purpose of protecting the most vulnerable labour market participants by

guaranteeing the lowest paid workers and their families a decent standard of living. In order to remedy this situation, MW criteria should first of all be changed. The national subsistence minimum is not an adequate yardstick for setting an MW. Instead, we propose that national MW and regional MWs be set as percentages of the national and regional average nominal wages, with annual adjustments for the inflation anticipated in the following year. This may deliver real redistributive effects. There are strong arguments in defence of an MW level resulting in a Kaitz value between 40 and 60 per cent. Along with such an MW reform, the wage systems, in particular for employees paid from federal and regional state budgets, need to be changed. The MW should serve its original social protection purpose and not be used as the yardstick for federal and regional state budget estimates. In order to execute these proposed changes, wage bargaining should be revitalized to include a major effort on the side of the trade unions. In spite of the well-designed framework for collective bargaining, many company-level trade unions are not, in practice, involved in wage negotiations and many employers try to keep unilateral control over wages. Moreover, there are only a few examples of wage negotiations at the sectoral and regional levels. Regional coordination of wage negotiations is mostly lacking and unions have not put enough pressure on employers for industry-wide bargaining that could help to enforce MWs at appropriate rates and avoid the persistence of unexplainable and unjustified wage differences.

Notes

1. The subsistence minimum is an official poverty line in the Russian Federation.
2. Due to corruption and similar practices, the available statistics may underestimate income inequality. For instance, the practice of 'envelope payments' even to 'official' employees, by which formally employed workers get part of their income as undeclared wages, is still in existence and little pursued.
3. Besides having a relatively high average income level, with a Gini coefficient of 0.52 in 2009, Moscow also had the most unequal income distribution of the Russian regions (Denisova 2012, 26).
4. Between 2000 and 2009, on average tariff wages made up around 50 per cent of the total wage bill in Russia, extra payments, premiums and bonuses around 33 per cent and regional allowances around 14 per cent (Gimpelson and Kapeliushnikov 8, 2011).

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Statistical Appendix: Comparative Statistics

A.1 Introduction

The comparative statistics presented cover three areas, namely (1) the level of development of the countries studied; (2) the (development of the) structure of the economy, and (3) income and wage inequality. What follows here is a brief justification and explanation of the data. First of all, though, we should note that the data presented covers 21 countries: the eight Asian countries detailed in the country chapters and 13 European countries comprised of the six individual European countries detailed in country chapters, three countries summarized in a Nordic chapter (Denmark, Norway and Sweden) and four countries summarized in a Central and Eastern Europe chapter (Czech Republic, Hungary, Poland and Romania).

A.1.1 Level of development

In many development debates, the Human Development Index (HDI), developed for the United Nations Development Programme (UNDP) and published in its annual Human Development Reports, has become a central feature. It is a composite measure of achievements in three basic dimensions of human development: a long and healthy life (life expectancy), access to education (years of schooling) and a decent standard of living (per capita gross national income, GNI). The HDI has though come in for criticism; for example, it captures the gender dimension rather weakly (though in 2010, UNDP launched the Gender Inequality Index, GII). It also leaves out the world of work (for a more elaborate critique, see Van Klaveren and Tijdens 2012, 12–16). Nevertheless, in our view, including a table based on HDI values remains worthwhile as it provides a first glimpse of the (development of) socio-economic differences between countries. Thus, Table A.1 presents the development of HDIs for ‘our’ countries over 1980–2013.

Table A.2 presents economic growth measured using a conventional yardstick, namely gross domestic product (GDP) per capita. We have indicated, for the period 2004–13, the annual changes in GDP per capita for the 21 countries studied. The 10-year averages in the last column allow comparisons of the longer-term development of the respective national economies.

A.1.2 Structure of the economy

A number of national chapters include indications of the structural changes in their economy between agriculture, industry and the service sectors. We have also followed that division in Tables A.3A and A.3B, from 1990 until the most recent

available year. Unfortunately, the sources for Asian and European countries differ. While the European Commission produces this data annually for the European Union (EU) countries, there is no such standardized data source outside the EU. Table A.3A presents figures for the Asian countries based on World Bank (2012) (derived from the International Labour Office's Key Indicators of the Labour Market (KILM) database) and additional national sources, as indicated. Unfortunately, the years of measurement could not fully be synchronized. Table A.3B is a little better in this respect except for countries before their accession to the EU, as well as for Norway and the Russian Federation.

As far as we could determine, 'agriculture' in all data includes fishing and forestry, and 'industry' includes mining, manufacturing industry, utilities (electricity, gas and water) and construction.

A.1.3 Income and wage inequality

In recent years, a major debate has arisen among researchers concerning the differing ways of measuring income inequality. Besides being the most widely used measure, the Gini coefficient is also most widely available compared to data for other income inequality measures. Table A.4 presents the development of Gini coefficients from the mid-1980s onward, calculated over net (after taxation and social transfers) (equivalent) disposable household income. At the same time, we have to acknowledge that the Gini coefficient has serious limitations and Gini figures can easily lead to misinterpretations, especially when income redistributions are taking place on one side of the median. Thus, if one is more concerned about the share of income of those at the bottom of the income distribution, then the use of direct or decile/quintile measures, such as the share of income that goes to the poorest 10 or 20 per cent, may be preferable. Ratio coefficients, such as the ratio between the upper and the lower 10 per cent, may also provide better insights (see e.g. ILO/IILS 2012, 14; World Bank webpage Measuring Inequality and notes herein referred to; for comparisons between outcomes of a large number of inequality measures, see Hoeller et al. 2012).

Table A.5 shows the development of a wage inequality rate related to the minimum wage (MW) and covers our prime issue, namely the level of the statutory minimum wage (SMW) relative to that of the median or average wage of full-time workers: the so-called Kaitz index. For the OECD countries with SMWs in place, the OECD Minimum Wage Database produces yearly updates that we have used in this table. For the non-OECD countries, such data were not available. Reliable Kaitz indices are in any case mostly hard to calculate here, in particular when countries have multiple MWs, making it difficult to establish a median or average wage especially when taking into account the large informal sector, as in most of these countries.

Table A.6A indicates the real annual development of hourly MWs from 2001 to 2012 after taking into account inflation, that is CPI. We added five different longer-term averages in Table A.6B. For most countries, the WSI Minimum Wage Database formed the starting point. It should be noted that the 'translation' into real terms of official CPI figures, notably in Asian countries, caused repeated problems: the development of purchasing power values attached to MWs consistently seemed to turn out (much) more positively in this way than was observed otherwise, through wage data or through household (budget) surveys. As shown in Chapter 8, Indonesia is a clear example of this.

A.2 Tables

A.2.1 Level of development

Table A.1 Development of HDI, 1980–2013 (including world ranking of 2013)

	1980	1990	2000	2005	2010	2011	2012	2013
Asian countries								
China (91)	0.368	0.502	0.591	0.645	0.701	0.710	0.715	0.719
India (135)	0.369	0.431	0.483	0.527	0.570	0.581	0.583	0.586
Indonesia (108)	0.471	0.528	0.609	0.640	0.671	0.678	0.681	0.684
Japan (17)	0.772	0.817	0.858	0.873	0.884	0.887	0.888	0.890
Korea (15)	0.628	0.731	0.819	0.856	0.882	0.886	0.888	0.891
Pakistan (146)	0.356	0.402	0.454	0.504	0.526	0.531	0.535	0.537
Thailand (89)	0.503	0.572	0.649	0.685	0.715	0.716	0.720	0.722
Vietnam (121)	0.463	0.476	0.563	0.598	0.629	0.632	0.635	0.638
European countries								
Denmark (10)	0.781	0.806	0.859	0.891	0.898	0.899	0.900	0.900
France (20)	0.722	0.779	0.848	0.867	0.879	0.882	0.884	0.884
Germany (6)	0.739	0.782	0.854	0.887	0.904	0.908	0.911	0.911
Italy (26)	0.718	0.763	0.825	0.858	0.869	0.872	0.872	0.872
Netherlands (4)	0.783	0.826	0.874	0.888	0.904	0.914	0.915	0.915
Norway (1)	0.793	0.841	0.910	0.935	0.939	0.941	0.943	0.944
Sweden (12)	0.776	0.807	0.889	0.887	0.895	0.896	0.897	0.898
United Kingdom (14)	0.735	0.768	0.863	0.888	0.895	0.891	0.890	0.892
Czech Republic (28)		0.762	0.806	0.845	0.858	0.861	0.861	0.861
Hungary (43)	0.696	0.701	0.774	0.805	0.817	0.817	0.817	0.818
Poland (35)	0.687	0.714	0.784	0.803	0.826	0.830	0.833	0.834
Romania (54)	0.685	0.703	0.706	0.750	0.779	0.782	0.782	0.785
Russian Federation (57)		0.729	0.717	0.750	0.773	0.775	0.777	0.778

Source: UNDP 2014.

Table A.2 Development of GDP per capita, annual change (in constant prices of local currency), 2003–13

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Average (2004–13)
Asian countries												
China	9.3	9.4	10.7	12.0	13.6	9.1	8.7	9.9	8.8	7.1	7.1	9.6
India	6.2	6.3	7.7	7.7	8.3	2.5	7.1	8.8	5.3	3.4	3.7	6.1
Indonesia	3.3	3.5	4.2	4.0	4.8	4.5	3.2	4.8	5.1	4.9	4.5	4.4
Japan	1.5	2.3	1.3	1.7	2.2	−1.0	−5.4	4.7	−0.7	2.0	1.8	0.9
Korea	2.4	4.5	3.7	4.7	5.0	2.1	0.2	6.0	2.3	1.8	2.5	3.3
Pakistan	3.0	5.5	5.7	4.2	2.9	−0.2	1.0	−0.2	1.0	1.8	2.7	2.4
Thailand	6.0	5.4	3.9	4.6	4.7	2.3	−2.5	7.6	−0.2	7.3	1.4	3.5
Vietnam	5.7	6.3	6.3	5.8	6.0	4.5	4.3	5.3	4.1	4.1	4.3	5.2
Average 8 (unw.)	4.7	5.4	5.4	5.6	5.9	3.0	2.1	5.9	3.3	4.1	3.5	4.4

Table A.2 (Continued)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Average (2004–13)
European countries												
Denmark	0.1	2.4	2.2	3.5	0.4	−1.3	−5.6	1.2	0.7	−1.0	−0.9	0.2
France	0.1	2.0	0.8	1.7	1.7	−0.4	−3.4	1.5	1.6	−0.2	−0.2	0.5
Germany	−0.8	1.2	0.8	3.8	3.4	1.2	−5.4	4.3	3.6	2.1	−0.1	1.5
Italy	−0.3	0.9	0.5	1.7	1.0	−1.7	−5.9	1.4	0.4	−2.5	−2.4	−0.7
Netherlands	−0.2	1.5	2.0	3.7	4.0	1.7	−3.8	0.6	1.2	−1.9	−1.0	0.8
Norway	0.4	3.3	1.9	1.5	1.6	−1.2	−2.9	−0.8	0.0	1.6	−1.0	0.4
Sweden	2.0	3.9	2.4	4.1	2.6	−1.3	−6.0	5.1	1.9	−1.0	0.7	1.2
United Kingdom	3.8	1.9	2.1	2.3	1.8	−1.1	−5.0	1.1	0.9	0.0	1.1	0.5
Average 8 (unw.)	0.6	2.1	1.6	2.8	2.0	−0.5	−5.0	1.8	1.3	−0.4	−0.5	0.5
Czech rep.	3.6	4.9	6.3	6.6	4.9	1.9	−5.4	2.0	1.8	−0.9	−0.8	2.1
Hungary	4.1	5.0	4.5	4.1	0.7	1.1	−6.4	1.0	2.1	−1.0	1.8	1.3
Poland	3.6	5.2	3.6	6.3	7.3	3.9	2.6	3.6	3.8	1.8	1.7	4.3
Romania	5.9	9.7	4.9	9.4	7.8	9.7	−6.0	−0.3	2.8	0.7	4.1	3.6
Average 4 (unw.)	4.3	6.2	4.8	6.6	5.1	4.2	−3.8	1.6	2.6	0.2	1.7	2.9
EU27	1.1	2.1	1.7	2.9	2.7	−0.1	−4.8	1.7	1.4	−0.7	−0.1	0.7
Russian Federation	7.8	7.8	6.9	8.6	8.8	5.4	−7.8	4.2	3.8	3.3	1.1	4.2

Source: WDI (World Bank Development Indicators Database), except EU27, all years: Eurostat.

A.2.2 Structure of the economy

Table A.3A Development of shares of main sectors in total employment (all in %), Asian countries, ca. 1990–latest available year

China	1990	1995	2000	2005	2008	2010	1990–2010
Agriculture	60.1	52.2	50.0	44.8	39.6	36.7	−23.4
Industry*	21.4	23.0	22.5	23.8	27.2	28.7	+7.3
Services	18.5	24.8	27.5	31.4	33.2	34.6	+16.1
India	1987–88	1993–94	1999–2000	2004–05	2009–10	2011–12	1987/88– 2011/12
Agriculture	64.9	64.0	60.3	56.3	51.3	50.9	−14.0
Industry*	17.0	15.0	16.2	18.8	22.0	21.3	+4.3
Services	18.1	21.0	23.4	24.9	26.7	27.8	+9.7
Indonesia	1990	1995	1999	2005	2010	2012	1990–2012
Agriculture	55.9	45.3	44.1	45.7	40.4	36.8	−19.1
Industry*	13.7	17.3	18.5	17.6	17.7	19.5	+5.8
Services	30.4	37.4	37.4	36.7	41.9	43.7	+13.3
Japan	1990	1995	2000	2005	2008	2012	1990–2012
Agriculture	7.2	5.7	5.1	4.4	3.7	3.7	−3.5
Industry*	34.1	33.6	31.2	27.9	25.3	24.4	−9.7
Services	58.7	60.7	63.7	67.7	69.0	71.9	+13.2

Table A.3A (Continued)

Korea	1990	1995	2000	2005	2010	2012	1990–2012
Agriculture	17.9	12.4	10.2	7.9	6.6	6.2	–11.7
Industry*	27.6	33.3	27.4	26.8	25.0	24.1	–3.5
Services	54.5	54.3	62.4	65.3	68.4	69.7	+15.2
Pakistan	1990	1995	2000	2005	2009–10	2012–13	1990–2012/13
Agriculture	51.1	47.0	48.4	43.9	45.0	43.2	–7.9
Industry*	19.7	18.5	18.1	20.3	20.6	22.2	+2.5
Services	29.2	34.5	33.5	35.8	34.4	34.6	+5.4
Thailand	1990	1995	2000	2005	2010	2013	1990–2013
Agriculture	62.9	52.0	47.8	44.3	42.1	41.9	–21.0
Industry*	14.4	19.8	19.4	19.9	20.0	20.1	+5.7
Services	22.7	28.2	32.8	35.8	37.9	38.0	+15.3
Vietnam	1989	1995	2000	2005	2010	2012	1989–2012
Agriculture	70.7	61.8	62.2	52.3	51.6	47.4	–23.3
Industry*	13.6	14.8	13.0	20.0	20.0	21.2	+7.6
Services	15.7	23.6	24.8	27.7	28.4	31.4	+15.7

Note: *Industry includes manufacturing; mining and quarrying; electricity, gas and water (utilities); construction.

Source: For 1995, 2005, 2010: World Bank 2012, Table 3, except: China, 1990, 2000: National Bureau of Statistics of China 2009; 2008, 2010: UNESCAP 2011, 2013. India, all years: NSSO, Surveys on Employment, various rounds; Labour Bureau Government of India 2013. Indonesia, 1990, 1999: authors' calculations based on KILM database; 2010, 2012: BPS/employment (August). Japan, 1990, 2000: authors' calculations based on KILM database; 2012: Statistics Japan 2012. Korea, 1990, 2000, 2010: authors' calculations based on KILM database; 2012: StatKor 2012. Pakistan, 1990, 1995, 2000, 2005: authors' calculations based on KILM database; 2009–2010, 2012–2013: Government of Pakistan, Ministry of Finance 2013. Thailand, 1990, 2000: Aemkulwat 2010; 2010, 2013: NSO (Thailand) 2014. Vietnam, 1989: McGaig and Pavcnik 2013 (based on census data); 2000: authors' calculations based on KILM database; 2010, 2012: GSO of Vietnam, 2013 Labour Force Survey.

Table A.3B Development of shares of main sectors in total employment (all in %), European countries, ca. 1990–latest available year

Denmark	1990	1995	2000	2005	2010	2012	1990–2012
Agriculture	5.4	4.4	3.5	2.9	2.6	2.6	–2.8
Industry*	25.0	24.1	22.9	20.4	18.2	18.1	–6.9
Services	69.6	71.5	73.6	76.7	79.2	79.3	+9.7
France	1990	1995	2000	2005	2010	2012	1990–2012
Agriculture	5.9	5.0	3.9	3.4	2.9	2.8	–3.1
Industry*	27.5	24.6	21.9	20.1	19.0	18.6	–8.9
Services	66.6	70.4	74.2	76.5	78.1	78.6	+12.0
Germany	1991	1995	2000	2005	2010	2012	1991–2012
Agriculture	4.0**	3.0	2.4	1.7	1.6	1.6	–2.4
Industry*	36.7**	32.7	28.9	25.8	24.6	24.7	–12.0
Services	59.3**	64.3	68.7	72.4	73.8	73.7	14.4

Table A.3B (Continued)

Italy	1990	1995	2000	2005	2010	2012	1990–2012
Agriculture	7.5	6.0	4.8	4.1	4.0	3.8	–3.7
Industry*	32.4	31.0	29.4	28.8	27.2	26.2	–6.2
Services	60.2	63.0	65.8	67.1	68.9	70.1	+9.9
Netherlands	1990	1995	2000	2005	2010	2012	1990–2012
Agriculture	4.4	4.0	3.4	3.0	2.6	2.5	–1.9
Industry*	24.7	21.8	19.4	17.4	16.2	15.9	–8.8
Services	70.9	74.2	77.1	79.7	81.1	81.7	+10.8
Norway	1990	1995	2000	2005	2010	2012	1990–2012
Agriculture	7.4	6.2	4.1	3.3	2.7	2.2	–5.2
Industry*	23.3	21.9	21.8	20.8	19.7	20.0	–3.3
Services	69.3	71.9	74.1	75.9	77.6	77.8	+8.5
Sweden	1990	1995	2000	2005	2010	2012	1990–2012
Agriculture	3.5	3.1	3.0	2.3	2.2	2.1	–1.4
Industry*	27.0	24.4	24.3	22.9	21.5	21.3	–5.7
Services	69.5	72.4	72.7	74.8	76.3	76.6	+7.1
United Kingdom	1990	1995	2000	2005	2010	2012	1990–2012
Agriculture	1.8	2.0	1.6	1.3	1.5	1.3	–0.5
Industry*	27.1	27.4	21.3	18.0	16.2	15.8	–11.3
Services	71.1	70.6	77.1	80.7	82.4	82.9	+11.8
Czech Republic	1990	1995	2000	2005	2010	2012	1990–2012
Agriculture	11.8	6.2	5.2	3.8	3.2	3.3	–8.5
Industry*	45.3	41.5	39.9	38.8	36.0	36.1	–9.2
Services	42.9	52.3	54.8	57.5	60.8	60.8	+17.7
Hungary	1989	1995	2000	2005	2010	2012	1989–2012
Agriculture	17.3	8.0	6.5	8.3	6.9	7.4	–9.9
Industry*	37.5	32.6	33.8	31.0	29.4	29.5	–8.0
Services	45.2	59.4	59.8	60.7	63.7	63.1	+17.9
Poland	1989	1995	2000	2005	2010	2012	1989–2012
Agriculture	28.5	22.5	19.2	17.3	12.8	12.6	–15.9
Industry*	35.3	32.0	30.7	29.5	30.0	30.2	–5.1
Services	36.2	45.5	50.1	53.2	57.2	57.2	+21.0
Romania	1990	1995	2000	2005**	2010	2012	1990–2012
Agriculture	29.0	40.3	42.8	31.6	31.6	30.6	+1.6
Industry*	43.5	31.0	26.2	29.8	28.8	28.7	–14.8
Services	27.5	28.7	31.0	38.6	39.6	40.7	+13.2
Russian Federation	1990	1995	2000	2005	2010	2012	1990–2012
Agriculture	13.9	15.7	14.5	10.2	7.9	7.5	–6.4
Industry*	40.2	34.0	28.4	28.0	27.7	27.7	–12.5
Services	45.9	50.3	57.1	61.8	64.4	64.8	+18.5

Note: *Industry includes manufacturing; mining and quarrying; electricity, gas and water (utilities); construction. **New series.

Source: EU member states: European Commission 2003, 2010, 2014, except: UK 1990: ONS 2014. Hungary and Poland 1989: Commander and Coricelli 1992. Romania 1990: NIS 2011. Czech Republic 1990, 1995: Czech Statistical Office 1998. Hungary and Poland 1995: KILM database. Romania 1995, 2000, 2005: KILM database. Norway and Russian Fed.: KILM database.

A.2.3 Income and wage inequality

Table A.4 Development of Gini coefficients, net (equivalent) disposable household income, 1985–latest year available

	1985	1990	1995	2000	2005	Latest year
Asian countries						
China	0.290	0.349	0.415	0.438	0.484	0.481 (2010)
India*	0.314 (1984)	0.325 (1987–88)	0.325 (1993–94)	0.320 (1999–2000)	0.334	0.339 (2010)
Indonesia	0.357 (1984)	0.320	0.360 (1996)	0.320 (1999)	0.394	0.413 (2013)
Japan	0.291	0.312 (1989)	0.323	0.337	0.329	0.336 (2009)
Korea	0.265	0.262	0.265	0.281	0.310	0.319 (2010)
Pakistan	0.334 (1987)	0.332 (1991)	0.310 (1996)	0.330 (1999)	0.310	0.327 (2010)
Thailand	0.438	0.436	0.425	0.448	0.511	0.536 (2009)
Vietnam		0.324	0.356	0.407	0.424 (2006)	0.433 (2010)
European countries						
Denmark	0.221	0.226	0.215	0.226	0.232	0.252 (2010)
France	0.314 (1984)	0.304	0.294 (1996)	0.295	0.290	0.306 (2011)
Germany	0.251	0.256	0.266	0.264	0.285	0.286 (2010)
Italy	0.319 (1984)	0.297	0.332	0.333	0.349 (2004)	0.360 (2010)
Netherlands	0.272	0.292	0.297	0.292	0.284	0.298 (2010)
Norway	0.224	0.217	0.236	0.262	0.243 (2006)	0.245 (2010)
Sweden	0.232	0.237	0.244	0.313	0.296	0.326 (2011)
United Kingdom	0.282	0.336	0.333	0.353	0.346	0.341 (2011)
Czech Republic		0.232	0.257	0.260	0.268	0.256 (2010)
Hungary		0.273	0.294	0.273	0.300 (2004)	0.312 (2008)
Poland		0.269 (1989)	0.327 (1996)	0.316	0.349	0.305 (2010)
Romania		0.233 (1989)	0.311	0.303	0.312 (2008)	0.300 (2009)
Russian Federation	0.252	0.269	0.439	0.432	0.447 (2007)	0.417 (2011)

Note: * Based on *per capita* expenditure.

Source: WDI (World Bank Development Indicators Database)/*World Data Atlas*; OECD (<http://stats.oecd.org/Index.aspx?DataSetCode=IDD>); UNU-WIDER (2008) World Income Inequality Database, version 2.0c (www.wider.unu.edu/research/Database/en_GB/wiid/); Atkinson and Morelli 2014, except: China, 1985, 1990, 1995, 2000; Ravallion and Chen 2007; 2005 and 2010: National Bureau of Statistics of China. India, 1987–1988, 1993–1994, 1999–2000: NSSO, Surveys on Employment. Indonesia: BPS/Gini Ratio. Pakistan 2010: website UNDP Pakistan. Vietnam, 1990, 1995, 2000: Fritzen 2002; 2004/2006, 2010: UNDP 2011. Russia, 2007, 2011: Denisova 2012.

Table A.5 Development of minimum wage relative to median and average wage of full-time workers (Kaitz index), 2000–12

	Median					Average				
	2000	2005	2010	2011	2012	2000	2005	2010	2011	2012
Asian countries										
China										0.34
India										
Indonesia		0.33	0.37	0.38	0.38	0.50	0.70	0.62	0.65	
Japan	0.32					0.28	0.29	0.33	0.33	0.33
Korea	0.26	0.33	0.41	0.41	0.42	0.22	0.28	0.33	0.34	0.35
Pakistan										
Thailand										
Vietnam										0.44
European countries										
France	0.56	0.61	0.61	0.61	0.62	0.45	0.49	0.49	0.49	0.50
Germany					0.51*					
Netherlands	0.51	0.48	0.47	0.47	0.47	0.45	0.42	0.42	0.41	0.41
United Kingdom	0.45	0.49	0.51	0.52	0.53	0.37	0.39	0.40	0.40	0.41
Czech rep.	0.32	0.39	0.35	0.37	0.36	0.27	0.33	0.30	0.31	0.30
Hungary	0.37	0.48	0.47	0.50	0.54	0.28	0.36	0.35	0.36	0.40
Poland	0.40	0.41	0.45	0.45	0.47	0.33	0.34	0.36	0.36	0.38
Romania							0.31	0.31	0.33	0.31
Russian Federation	0.28	0.45	0.45	0.48	0.45	0.20	0.08	0.21	0.19	0.17

Note: * Based on an assumed MW of EUR 8.50 per hour.

Source: OECD, Minimum Wage Database, except: China: Chapter 3. Vietnam: Chapter 4. Indonesia: Chapter 9. United Kingdom, median: Chapter 18. Russia: Chapter 19.

Table A.6A Development of real minimum wages per hour (annual change in %), 2001–12

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Asian countries												
China	10.1	9.7	4.7	13.3	3.4	18.9	0.5	7.7	8.9	8.5	13.1	11.0
Indonesia	11.5	21.6	7.0	3.2	-6.2	11.5	4.0	1.9	7.8	1.0	3.2	5.5
Japan	1.6	0.9	0.2	0.2	0.7	0.5	2.0	1.0	2.8	3.1	1.3	1.6
Korea	8.5	5.6	6.8	9.6	6.4	10.0	5.8	1.4	0.0	2.2	2.0	3.9
Pakistan**	22.7	-3.5	-3.1	-4.6	11.0	12.4	10.7	11.6	-20.8	10.4	-13.9	10.3
Thailand	-1.5	-0.5	-0.9	-1.7	1.5	-3.8	0.8	-0.2	0.9	-1.3	2.6	36.7
Vietnam	15.8	-4.8	-3.0	25.8	-1.4	18.6	-12.6	0.1	4.9	2.6	-1.7	14.8
European countries												
France	2.4	0.5	3.2	3.7	3.8	1.3	0.6	0.4	1.6	0.1	0.3	0.3
Netherlands	0.6	0.7	1.3	-0.2	-1.5	0.5	0.6	0.4	2.4	1.1	-1.3	-1.2
United Kingdom	9.6	1.2	5.8	6.4	2.1	3.6	0.8	0.2	-1.0	-1.1	-2.0	-1.0
Czech Republic	8.3	7.0	7.2	4.5	3.3	8.3	-3.0	-6.3	-1.0	-1.5	-1.9	-3.3
Hungary	16.1	-5.3	1.2	0.8	6.2	0.8	-2.7	-2.5	-1.3	1.3	15.3	-0.3
Poland	-5.3	3.4	2.3	-0.3	3.7	2.8	17.9	9.2	-0.6	2.6	4.0	3.1
Romania	5.5	56.1	-3.3	-1.2	-2.5	11.6	23.4	12.2	-5.6	5.6	-1.3	-3.3

Table A.6B Development of average real minimum wages per hour (annual change in %), 2001–10, 2002–11, 2003–12, 2003–07, 2008–12*

	2001–2010	2002–2011	2003–2012	2003–2007	2008–2012
Asian countries					
China**	8.57	8.87	9.00	8.16	9.84
Indonesia**	6.33	5.50	3.89	3.90	3.88
Japan	1.30	1.27	1.34	0.72	1.96
Korea	5.63	4.98	4.81	7.72	1.90
Pakistan***	4.68	1.02	2.40	5.27	−0.48
Thailand**		−0.27	3.45	−0.84	7.74
Vietnam	4.60	2.85	4.82	5.50	4.14
European countries					
France	1.76	1.55	1.53	2.52	0.54
Netherlands	0.59	0.40	0.21	0.35	0.28
United Kingdom	2.76	1.60	1.38	3.74	−0.98
Czech Republic	2.68	1.24	0.63	4.06	−2.80
Hungary	1.46	1.38	1.88	1.26	2.50
Poland	3.57	4.50	4.47	5.28	3.66
Romania	10.18	9.50	3.56	5.60	1.52

Note: *No data available for India; **unweighted averages of regional MW growth; ***Pakistan's CPI calculation uses broken years (we compare with the previous broken year, thus 2001 MW increase with 2000–2001 CPI increase, etc.).

Source: WageIndicator data and WSI Minimum Wage Database (except: China). China: (statistics for) Chapter 3 and National Bureau of Statistics of China 2014. Vietnam: Chapter 4. Indonesia: (statistics for) Chapter 9. Pakistan: Chapter 7 and WDI tables. Thailand: Chapter 10 and WDI tables. The Netherlands: (statistics for) Chapter 15.

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