

**Transformation of Wage Bargaining Systems in European Union.
Some Approaches**

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Abstract: In a global world, the industrial relations have become the strategical tool for economic development of the states. Our paper aim to emphasise the increasing role of wage bargaining systems in the industrial relations in European Union, going from the presumption that the labour market is changing every day and the European authorities must take the decisions with a high economic and social impact. Going from an extended literature review and using the data provided by Eurostat and Eurofound, reflecting the new European regulations concerning the employment relations, the findings of our paper reflect a dynamic transformation of wage bargaining systems at institutional level, labour market and collective bargaining. The results reflect the direct implications of wage bargaining systems on the labour productivity, on the political decisions considering the minimum wage and the real and nominal wage. Our findings are valuable for the academicians and practitioners interested in industrial relations and wage bargaining systems.

Keywords: industrial relations; wage systems; labour productivity; collective bargaining

JEL Classification: M54; J31; J52

1. Introduction

Industrial relations reflect the work and the relationships between employees and employers at work. Due to the fact that the industrial relations have had a numerous meanings for the employees and employers in accordance with the work facts (*sensational*, when the events are dramatic and have negative impact for the employees, *collectivist*, when the events implies the unions or employees representatives and *conflictual*, when the employees refuse to make their jobs and protest against the actions and decisions of the management boards), the term industrial relations has acquired a negative connotation. In fact, industrial relations

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supposed to take everyday decisions for the employees, to ensure the implementation of internal rules, rule of law, the rights and duties of the employees and employers, even if it is about public or private sector (Tofan & Bercu, 2014, pp. 10-17) . The industrial relations implies promotion and protection of the rights and duties of the employees, the wages, working conditions, safety and security at work, working time and rest time, grievance and the solutions, negotiations, collective bargaining, agreements. If the employees doesn't have an union or some representatives doesn't means that the industrial relation disappear, moreover all the working conditions being negotiated between employees and employers (managers, supervisors) and it happened all the days in all the organisations.

The theoreticians argue that the industrial relations means the study of trade unions and collective bargaining (Kaufman, 1993, p. 192) or as being part of structural changing as became a rise of non-unionism, increase the importance of HRM and reaffirm the quantitatively oriented of labor economics (Kelly, 1998). It should be notice that the common sense of industrial relations changes all the time, due to the dynamics of the workforce on the market, to the behaviours and needs of employees and must be discuss in terms of the employment relationships. For our work, the term industrial relations captures the broad realities of employees-employers relationships, as interactions between people and organisations at work, between the employees and their representative councils, between the unions and state authorities, discussing in terms of social dialog.

2. Different Approaches of Employment Relationship

To understand the complex issue of employment relationship it is necessary to reflect the different approaches in theory from ideological point of view and from analytical perspective offer by the researchers and scientific community. It should be notice that the complexity of employment relationship is done by the interdisciplinary studies (economic, social, politic, legal and juridical points of view).

The ideologies made distinctions between *pluralism*, *unitarism* and *radicalism* (Fox, 1974; Hyman, 1999). The *pluralist perspective* proposed to analyse the employment relationship through the potential conflict which can be manageable by rules and regulations; the *unitarism perspective* view the relationship between employees and employers as a state of harmony where the conflict is temporary and illegitimate; the *radical perspective* propose the control of the employees, the dominant being the stability of the system which assure the well being of the employers.

We must note that, in practice, could be find situations when the unitarism view is completed by a pluralist one, or with a radical dimension. It is difficult to distinguish between these ideologies or to put boundaries between them, but, precisely these differences makes possible the deeper analyse of the industrial relations.

The theories of industrial relations ranges from *institutionalism* (neo and old-institutionalism) at *unitarism* and *radical* perspectives. The literature devotes old-institutionalism perspective on the beginning of the 20th century as a descriptive accounts of the collective bargaining and trade unions (Kaufman, 1993) and neo-institutionalism as a nuanced analyse of employment relationship which include rules and specific procedures and mechanisms. Pluralism suggested that employees from different organisations could have the same interests and they are able to create horizontal links with other groups (trade unions) and they could create commitment and loyalty with other leaders than their managers. Conflict is seen as inevitable and legitimate as an effect of different aims and interests at the workplace. Unions are the legitimate representatives of employees' interests and having the right to manage the conflict and with the responsibility to seek compromise. The role of management is to reconcile the conflict opinions and to maintain it in acceptable limits to not destroy the company. This ideology put the state as the impartial guardian of public interest and must protect the employees and restrain the power of the employers when increase too much. Alan Fox assume that that management must recognise other source of power within the organisation, the legitimate sources of leadership and share the decision-making authority with interests groups (representatives of employees, employees) (Fox, 1974, p. 408). The critics of pluralism perspective goes from the idea that it is difficult to balance the power between unions and the management of the company and that the power must be to the management part. This is the view of radicals which feel that the starting point of the relationship is between capital and labor (Hyman, 1999). Also, the pluralism is focused on the rules, regulations and mechanisms and from this point the social security and stability are seeing as a compromise and multiple concessions.

3. Overview on Legal Framework of the Industrial Relations in European Union

Employment, social progress, social protection, solidarity and cohesion are among the priorities contained in the Treaty on the Functioning of the European Union. Indeed, the Treaty provides that the Union must take into account in developing and implementing all its policies, requirements linked to employment at the highest level of employment, the guarantee of adequate social protection and combating social exclusion.

Fundamental social rights of citizens of member states of the European Union enshrined while both internationally by the EU instruments, the International Labour Organisation and the Council of Europe, and nationally by Member States by adopting national legislation applicable in the field social law (Voiculescu, 2014, p. 96). The elaboration of rules on employment policy labor was necessary to achieve the purposes for which they were introduced European Communities and the

European Union. First, it was found that the scope of national regulations stops at state borders, while many aspects of the employment relationship beyond these boundaries (eg. ratios related to labor mobility within the Union or restructure businesses affect employees in different Member States). Secondly, it was observed that in most of the Member States labor law is limited to regulating conditions of employment in the private sector, while employment in the European Union contains a uniform regulation of conditions of employment covering the private sector and the public sector (e.g. the rules on equality between men and women in pay and working conditions or regulations concerning free movement of workers). Thirdly, European Union rules governing the status of workers concern both individual labor relations and collective labor relations (e.g. information and consultation with employee representatives to collective redundancies or participation of employees in the European Committee of Enterprises) (Dima, 2012, p. 1). Thus, we can say that according to the Treaty on the Functioning of the European Union, the European Community is not just a free trade area (Popescu, 2006, p. 253).

The fundamental instrument used by social partners to regulate the employment relationship is collective bargaining. Using this process can improve the relationship between employers and employees and, through the negotiations process will result a useful agreement for both parties. The collective bargaining process has as aim protections of employees by setting comprehensive minimum standards and limiting unilateral decisions taken by the management. For the individual employers, the collective bargaining means a very important tool to reduce the conflicts concerning the rights and duties, to legitimize the power of hierarchy and, notably, to save the transaction costs (Crouch, 1999).

The European Union adopted important legislative acts considering the relationships between employers and employees. The European Commission evaluate and reviewed existing EU legislation in the area of health and safety at work, young persons in transition to work, in this regard developing a new Strategic Framework for the period 2014-2020. One of these steps is represented by the Directive 2014/74/EU regarding the enforcement of the Posting of Workers Directive which aim is to assure the adequate protection of worker's rights, fair competition and a level playing field between all service providers within the European Union. The Directives 2002/14/EC and 98/59/EC are directly linked by the information and consultation of workers at national level in order to keep regulation 'fit for purpose' (Report of European Commission, p. 150). These directives regard the workplace representation. It should be mention that in the European member states the unions and non-union representation has established or increase the power over the last decade.

At the national level, the legal framework take into consideration the partnership between employers and employees through they representatives (unions or non-unions representatives - councils) establishing a set of minimum conditions at the

workplace. For example, are some countries (Romania, Bulgaria, Cyprus, Latvia, Lithuania and Malta) where the workplace representation is mainly voluntary (Report of European Commission, p. 33).

4. The Wage Systems in European Union - Trends and Challenges

Wages are considered the most important and difficult collective bargaining issue. The literature shows that the wage systems are positively related with the employee's satisfaction (Berger & Schwab, 1980, p. 206). Wages and benefits are also a prime collective bargaining issue to the employer, representing the largest single cost factor on their income statement. The total economic package of wages and benefits are the subject of negotiations between employers and employees and should be based on pay equity, which, as being shown in literature "become a permanent morale factor" (Carrel, 1978, pp. 108-118).

Wages are considered as an important factor for the national and international competitiveness and internal demand and open the debates on the mechanisms to promote the competitiveness on the European labour market, taking into account the role of wages in sustaining the demand in the context of a low inflation and stagnant growth. Wage bargaining systems are a combination of various regulatory tools. The main elements of the regulatory mix are:

- a. *market forces* which exert the primary influences, making the differences between actual and basic wages;
- b. *state interventions* which with its authority implement a political regulation for wage levels establishing a minimum level or setting automatic indexation mechanism;
- c. *collective bargaining* which aim is to reflect the political regulation and market forces.

A form of policy intervention in wage setting processes is represented by the establishing of a statutory minimum wage which represents a limit for all the wages from the economy. The minimum wage is enforced by the legislation and could be established through multiple ways: consultation with social partners or tripartite agreements.

The Member States have a statutory minimum wage which protects the employees. Are some exceptions, where the statutory minimum wage is missing (Sweden, Finland, Denmark, Austria, Italy and Cyprus). These countries have some extent by the wide coverage of collective bargaining (Sweden, Denmark and Finland) and/or mandatory memberships of the employers association (Austria) and constitutional rules and jurisprudential practice (Italy). At European Semester, in 2014, Bulgaria, Germany, Romania, Portugal and Slovenia received specific recommendations on

minimum wages. As a consequence, at the beginning of 2015, Germany adopted the regulation considering the minimum wage system.

Table 1. Monthly minimum wage in European Union Member States (EUR)

Country	Monthly minimum wage (EUR)
Belgium	1501.82
Bulgaria	214.75
Czech Republic	366.30
Germany	1473.00
Estonia	430.00
Ireland	1546.35
Greece	683.76
Spain	764.40
France	1466.62
Croatia	408.39
Latvia	370.00
Lithuania	350.00
Luxembourg	1922.96
Hungary	353.05
Malta	728.04
Netherlands	1507.80
Poland	431.24
Portugal	618.33
Romania	233.16

Slovenia	not available
Slovakia	405.00
United Kingdom	1529.03

Source: Eurostat, accessed on 21 of Mars 2016.

As we can see in the Table 1, the 21 EU Member States have a minimum national wage and could be divided into three main groups. In January 2016, ten Member States had minimum wages below 500 Euros/month: Bulgaria (214.75 Euro), Romania (233.16 Euro), Lithuania (350 Euros), Hungary (353.05 Euros), Czech Republic (366.30 Euros), Latvia (370 Euro), Slovakia (405 Euro), Croatia (408.39 Euro), Estonia (430 Euro), Poland (431.24 Euro). Another four states have the minimum wage between 500 and 1000 Euro/month: Portugal (618.33 Euro), Greece (683.76 Euro), Malta (728.04 Euro), Spain (764.40 Euro). The third group of states has the minimum wage below 1000 Euro/month: France (1466.62 Euro), Germany (1473 Euro), Belgium (1501.82 Euro), Netherlands (1507.80 Euro), United Kingdom (1529.03 Euro), Ireland (1546.35 Euro), Luxembourg (1922.96 Euro).

Another important issues is about collective wage and the impact of labor productivity. Between increase of collective wages and labor productivity exist a correlation, explained by the productivity index per hours worked. In accordance with the data provide by the Eurostat, labour productivity per hour worked is calculated as a real output per unit of labour input. The real output is measured as chain-linked volumes from GDP, with year 2005 as reference and labour input is calculated as total number of hours worked. Data provided by Eurostat shows that labour productivity per hours worked increase in EU Member States, with exception of Spain which has a different pattern, with the gap between productivity and collective wages, Greece, Italy, Lithuania, Portugal where the labour productivity per hour decrease in 2015. For Romania, the data show that the labour productivity per hour increase with 0.23% due to the increases of minimum wage in public sector. At European level, the average for all the 28 member states reflect the direction of development, the ascendant trend being a results of political decisions taken by the European and states authorities after the major economic crises (Table 2).

Table 2. Labour productivity per hour worked (ESA95)

Country	2011	2012	2013	2014	2015
Belgium	99.5	99.3	99.8	100.7	: ^c
Bulgaria	103.9	106.8 ^p	108.6 ^p	110.0 ^p	112.8 ^p

Country	2011	2012	2013	2014	2015
Czech Republic	101.9	102.2	102.1	103.1	:
Denmark	99.9	101.6	99.9	100.3	100.4
Germany	102.1	102.6	103.3	103.6	104.2
Estonia	98.6	103.9	105.3	107.9	106.5
Ireland	104.4	105.0	103.5	106.6	:
Greece	96.7 ^P	94.9 ^P	94.9 ^P	97.2 ^P	94.3 ^P
Spain	101.4	103.9 ^P	105.5 ^P	105.8 ^P	106.5 ^P
France	101.1	101.4	103.1	103.1	:
Croatia	103.8	106.3	108.7	106.4	110.3
Italy	100.5	100.2	101.1	100.7	100.5
Cyprus	99.9	101.0	100.9	101.3 ^P	:
Latvia	103.7	107.3	108.4	111.9	115.5
Lithuania	107.0	109.2	112.6	114.2	113.0
Luxembourg	99.7	96.9	100.0	101.1	:
Hungary	102.1 ^b	101.4 ^b	102.7 ^b	101.1 ^b	101.4 ^b
Malta	102.4	104.2	105.4	106.3	109.8
Nederland	100.7	100.5	100.8 ^P	101.7 ^P	102.8 ^P
Austria	100.8	101.9	102.7	102.6	103.2
Poland	104.7 ^b	106.5 ^b	108.1 ^b	109.4 ^b	111.7 ^b
Portugal	101.4	102.4	103.6	102.8 ^e	102.7 ^e
Romania	100.1	110.6 ^b	115.9	118.2 ^P	123.1 ^P
Slovenia	103.4	103.2	102.4	103.5	105.1
Slovakia	101.7	103.5	106.8	108.7	110.8

Country	2011	2012	2013	2014	2015
Finland	101.6	100.0	100.6	100.6	:
Sweden	100.7	100.5	101.4	102.2	104.7
United Kingdom	100.6	99.8	100.2	100.4	102.1
European Union 28	101.5	102.4	103.4	103.6	104.5

Note: :=not available; c=confidential; p=provisional; e=estimated; b=break in time series.

Source: Eurostat, accessed on 22 of Mars 2016.

Another point of interest for our research is the importance of real and nominal compensation of employees. The collective bargaining is a tool which establish a preliminary set wages for a period of time and not correspond with the compensation paid to employees for their work. It is necessary to complete the basic wage with compensations as bonuses, performance-related and variable pay. These compensations are variables on time and depends a lot from the evolution of market. We will take into discussion the Romanian situation in comparison with Bulgaria, Czech Republic and Cyprus. The criteria taking into consideration were the level of wage bargaining (for all choose countries - intermediate) and the degree of coordination (low coordination). We can observe a negative trends in Czech Republic and Romania for the real compensation being linked by a large reduction in employment for the employees with low skills and low productivity. This means that a negatively compensation it is accompanied by a significant decrease in the number of employees (Table 3).

Table 3. Real and nominal compensations in Bulgaria, Czech Republic and Cyprus (%)

Country	Nominal compensation per employee (2012/2007)	Real compensation per employee (2012/2007)
Bulgaria	60%	27%
Czech Republic	10%	-0,4%
Romania	25,1%	-9,5%

Source: Eurofound, accessed on 22 of Mars 2016. Authors' calculation.

4. Conclusions

The decisions taken by the companies' boards of management have a great impact at individual and collective levels in terms of work satisfaction. All the work conditions are the subject of negotiations between employees and employers and, if we take into account the necessity to be reported at the regulation systems, then it can be discuss about a tripartite dialog, where the state authority have the power of balance. The European industrial relations have changing in the last year, due to the movements produced on European labour market and under the pressure of economic crisis. For the EU member states, to resist at the challenges caused by social and economic slippages and by economic crisis, means a strong cooperation with all the social partners.

Considering the wage bargaining systems, the EU was focused on a high flexibility in the countries with internal or external imbalances on labour market. The reforms in the wage systems were required as a measure of protection and stability support. The transformations in collective bargaining and labour productivity were made by the EU member states in order to sustain the economic and social development. Our findings show that the state implication in establish the minimum wage which reflect the social dialog (an important tool for political decisions for many countries from European Union; eg. Germany adopted the regulation in the field in 2015). States as Bulgaria and Romania received in 2014 some recommendations fro European Commission on wage settings to adjust statutory minimum wage taking into consideration the impact on competitiveness and employment relationships. For other states, the recommendations relate to the reduction of labour market segmentation (eg. Spain, Italy, Portugal). The data reflect a wider relation between wage systems and labour productivity. The real collective wage doesn't reflect the fact that the increasing of salaries suppose all the time also the increasing of labour productivity (eg. Romania and Cyprus). The results reflect the impact of economic

crisis on the wage systems and put pressure on the European decadence to support for wages as a driver of competitiveness (European Commission, 2014b).

Our research results are not without limits due to the wide range of data, but the future work will develop the new assumptions and connections between collective bargaining and economic performance of companies and of public sector in European Union.

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