

**FOR DEBATE AND GUIDANCE**

## SECOND ITEM ON THE AGENDA

**Collective bargaining and the  
Decent Work Agenda****I. Introduction**

1. In March 2006, the Officers of the Committee on Employment and Social Policy (ESP) agreed to discuss an item on collective bargaining and the Decent Work Agenda during its November 2006 session. Against the background of the nature and role of collective bargaining, this paper<sup>1</sup> provides an assessment of the extent to which and how collective bargaining is advancing each of the main elements of the Decent Work Agenda.<sup>2</sup> The paper does not analyse in detail the status of collective bargaining globally. Rather, it provides a synthesis of recent trends in a number of geographical regions and is intended to launch a discussion on linkages between collective bargaining and the social and economic objectives of decent work. Advancing tripartism and social dialogue are dealt with throughout the paper as cross-cutting issues.

**II. Definitions and context**

2. Effective recognition of freedom of association and the right to collective bargaining for workers and employers are fundamental to the values, principles and objectives set out in the ILO Constitution, 1919, as amended, the Declaration of Philadelphia, 1944, and the Declaration on Fundamental Principles and Rights at Work, 1998 (“the Declaration”).<sup>3</sup> They confer important rights and protections on the social partners concerned, enable them to secure other consequential rights and regulate their ongoing relationship in the labour market. As such, freedom of association and collective bargaining are key instruments for advancing the Decent Work Agenda.

<sup>1</sup> A complete bibliography of reference literature published outside the ILO and relied on during preparation of this paper can be provided by DIALOGUE on request.

<sup>2</sup> See ILO: 1999; 2001; 2003; 2004a.

<sup>3</sup> See also ILO *Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy*, 1977 (especially arts. 49-56 inclusive), the UN Global Compact, 1999 (Principle 3).

3. “Collective bargaining” is defined by reference to the relevant ILO instruments as the process and activities leading to the conclusion of a collective agreement.<sup>4</sup> For the ILO, effective collective bargaining, culminating in an agreement which is mutually beneficial to the parties concerned, will occur most often where there is a framework for labour market governance that upholds the fundamental rights of workers and employers and promotes social dialogue and decent work. Such a framework is characterized by: recognition of the right of workers and employers to associate freely and to establish organizations of their own choosing;<sup>5</sup> strong, independent, representative and democratic workers’ and employers’ organizations, having knowledge of key issues, access to and effective involvement in social dialogue institutions and processes and the capacity to influence social and economic discussions; governments creating an enabling policy, legislative and institutional environment; and an environment which includes effective machinery and mechanisms to facilitate and promote collective bargaining, prevent, manage and resolve labour disputes, and enforce laws and regulations through labour inspection and the judicial system.
4. Collective bargaining is a core element of the larger concept of social dialogue, on which the ILO itself is based.<sup>6</sup> In this context, the 2002 International Labour Conference resolution concerning tripartism and social dialogue stated that “legitimate, independent and democratic organizations of workers and employers, engaging in dialogue and collective bargaining, bring a tradition of social peace, based on free negotiations and accommodation of conflicting interests”.<sup>7</sup> One of the ILO’s main continuing roles is to promote freedom of association and the right to bargain collectively as part of good labour market governance, contributing to sustainable economic and social progress.
5. While collective bargaining is a voluntary process between social partners, the role of the State, and of the labour administration in particular, should not be underestimated. In this respect, there is considerable variation between and among countries ranging from so-called “voluntarist” industrial relations, where usually the State does not play an active role, to those where government involvement is more direct. The scope of this paper prevents a detailed analysis of the State’s role in promoting collective bargaining, as provided for in ILO standards.<sup>8</sup> But it should be noted that developing and maintaining an efficient labour administration, able to influence economic and social policies and set an effective framework for collective bargaining and other elements of social dialogue, is as

<sup>4</sup> More specifically, Art. 2 of Convention No. 154 defines collective bargaining as “all negotiations which take place between an employer, a group of employers or one or more employers’ organizations, on the one hand, and one or more workers’ organizations, on the other, for: (a) determining working conditions and terms of employment; and/or (b) regulating relations between employers and workers; and/or (c) regulating relations between employers or their organizations and a workers’ organization or workers’ organizations”.

<sup>5</sup> See the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87).

<sup>6</sup> “Social dialogue” is defined by the ILO to include all types of negotiation, consultation or simply the exchange of information between or among representatives of governments, employers and workers, on issues of common interest relating to economic and social policy.

<sup>7</sup> ILO: 2002, pp. 21/24-21/26.

<sup>8</sup> See especially the Collective Bargaining Convention, 1981 (No. 154), Art. 5, and associated ILO Recommendation No. 163, Part II.

great a challenge in many countries as establishing free, independent and effective employers' and workers' organizations.<sup>9</sup>

6. Although many practitioners and analysts expect collective bargaining to contribute to positive economic and labour market outcomes, there is limited systematic evidence on the economic effects of collective bargaining. This is partly a reflection of the limited research that has been conducted and of the context-specific nature of the economic effects (i.e. the economic, institutional and political environment in which employers and trade unions interact), but mainly of the difficulties of isolating the economic effects of collective bargaining from other variables.
7. Given the right mix of policies and institutions, collective bargaining can have positive economic effects at the micro and macro levels. At the macro level, sound industrial relations (including collective bargaining) can contribute to democracy,<sup>10</sup> social stability, equality of treatment, reduce the trade-off between inflation and employment and facilitate smoother, more balanced adjustment to economic reform. At the micro level, collective bargaining contributes to settlement of labour conflicts, improved productivity, investment in workforce development, and enterprise adjustment in a more competitive environment. Collective bargaining also provides a mechanism to address distributional challenges which can threaten social stability. In fact, there is growing evidence of “a favourable conjuncture in many countries between the presence of collective bargaining institutions, more equal distribution and smoother adjustment as countries integrate into the global economy”.<sup>11</sup>
8. The link between social dialogue, collective bargaining and decent work is not solely economic in nature.<sup>12</sup> Collective bargaining contributes to due process, mutual understanding and confidence, can address such matters as the parties wish and can reconcile their often divergent short-term interests. In other words, collective bargaining, framed with effective laws and institutions, supported by the will of all actors and implemented in good faith, represents an effective tool of governance, well adapted to the demands of a fast changing world.
9. In the latter regard, increasing flexibility<sup>13</sup> in the labour market, including in the workplace, is being pursued by various means: legislation, collective bargaining, individual employment contracts, unilateral action by employers or a combination of these methods, the precise combination depending ultimately on national and/or local conditions. None of these methods is static. Labour law and employment contracts are undergoing significant changes.<sup>14</sup> Also, the process and outcomes of collective bargaining continue to

<sup>9</sup> See Heyes, J.: 2004; Lecuyer, N.: 2002.

<sup>10</sup> ILO: 2006a, p. 55.

<sup>11</sup> Hayter, S.: p. 49.

<sup>12</sup> See, for example, ILO: 1996, particularly the conclusions, which stressed that tripartite cooperation is a means of cooperation among the parties with view to: (a) seeking to promote the pursuit of economic development and social justice in concert; and (b) reconciling, where necessary, the requirements of economic development and those of social justice.

<sup>13</sup> The term “flexibility” is usually understood in this context as flexibility in employment, pay, working time and work organization.

<sup>14</sup> See ILO: 2003a and 2006b for an overview of recent developments in the scope of the employment relationship.

evolve, sometimes as a result of legislative reforms, but increasingly at the initiative of the social partners themselves.

10. Various recent ILO and other studies show that systems of collective bargaining around the world have undergone or are experiencing significant changes with respect to their associated legal frameworks, institutions, processes, content, and behaviour of the parties involved. Providing for wage increases and regulation of employment conditions is no longer the only (or the most important) purpose of collective bargaining. Instead, collective bargaining has increasingly become an instrument in managing the process of enterprise restructuring, with a view to enhancing the competitiveness of enterprises and to safeguarding jobs or ease impacts of redundancies. There is also a general trend towards decentralization of negotiations on employment conditions: some are coordinated and/or guided by higher-level negotiations, while others take place in a more open-ended environment. However, detailed analysis of individual national situations is needed before any broad international comparisons can be drawn. Unfortunately, most comparable data is only available from developed countries with continuing bargaining traditions. Ongoing and recently launched ILO research should throw more light on these issues in 2007.<sup>15</sup>
11. Finally, the large informal economy<sup>16</sup> throughout the world, not only in developing countries, represents from the perspective of collective bargaining both a significant obstacle and opportunity. While it might prove difficult to develop traditional forms of collective bargaining in the informal sector, the relevant principles of freedom of association and dialogue should be applied whatever the form of economic activity and wherever it is located. In this respect, it might be recalled that trade unions, employer organizations and collective bargaining first developed in what now would be called informal economies of newly industrializing nineteenth century Europe. In the larger context, collective bargaining and social dialogue are a part of the solution, as both social partners and the State are equally interested in addressing the issue of undeclared and unregulated work, as this phenomenon represents specific risks for each of them. Moreover, the demonstration effect of healthy industrial relations and its outcomes in the formal sector cannot but have positive impacts in the informal economy.

### **III. Collective bargaining and decent work**

#### **A. Collective bargaining and ILO standards**

12. Whereas the Decent Work Agenda cannot be fully achieved without the involvement of the social partners through dialogue, collective bargaining can function properly only if the tripartite actors create and maintain basic enabling conditions.

<sup>15</sup> For example, DIALOGUE is carrying out a research study on changes in industrial relations systems since the early 1990s, with particular reference to collective bargaining. Developments in about 40 countries are being examined. In addition, DECLARATION, through its follow-up procedures, is undertaking ongoing work on freedom of association and collective bargaining, including in the context of preparing the related 2008 Global Report. INTEGRATION is also continuing related work in the context of follow-up to the World Commission report.

<sup>16</sup> ILO: 2002a. The ILO estimated that informal employment as a share of non-agricultural employment in the second half of the 1990s was 48 per cent in North Africa, 72 per cent in sub-Saharan Africa, 51 per cent in Latin America and 65 per cent in Asia. More recent research indicates some reduction in the faster growing economies of East and South-East Asia, but limited changes elsewhere.

13. The first Declaration Global Report on freedom of association and the right to collective bargaining described the right to organize as “essential to the collective representation of interests, and realization of the right to collective bargaining is the key to making this representation effective”.<sup>17</sup> That and the second Global Report on the subject cites numerous instances of continuing and serious violations of freedom of association and the right to collective bargaining, while noting that progress continues to be made. Both Reports stress that good labour market governance based on respect for these principles and rights can contribute to stable economic, social and political development.<sup>18</sup>
14. Universal implementation of the freedom of association and right to collective bargaining Conventions is far from a global reality.<sup>19</sup> Their ratification lags behind the other six fundamental Conventions, and a large proportion of the world’s population still does not enjoy the protection of legislation based on these Conventions.<sup>20</sup> In the context of rapidly growing emerging economies, the proportion of the world’s GDP produced in countries that do not fully implement these standards is growing.
15. For many years, the Office has carried out a programme of action to support ILO constituents to implement their obligations concerning freedom of association and collective bargaining.<sup>21</sup> In this respect, the work of the ILO supervisory bodies has been complemented by the follow-up to the Declaration. Other action has involved research, advice on policy, legislative,<sup>22</sup> institutional and procedural issues, advocacy and awareness raising, information gathering and dissemination, training and specific country assistance through technical cooperation projects.

## B. Collective bargaining, employment and income distribution<sup>23</sup>

16. A key dimension in assessing the labour market and economic effects of collective bargaining is the *degree of bargaining coordination*. “Coordination” in this context refers to the degree to which the social partners coordinate wage agreements across an economy so that wage increases are non-inflationary, the wage bargain accommodates the macroeconomic implications of the wage settlement – such as inflation, unemployment and national competitiveness – and wages and profits are in line with competitiveness.
17. Bargaining coordination can be achieved through different types of industrial relations institutions. While centralized systems of collective bargaining are highly coordinated,

<sup>17</sup> ILO: 2000, p. 35.

<sup>18</sup> ILO: 2000; 2004.

<sup>19</sup> As of September 2006, Convention No. 87 was ratified by 147 countries (or 82 per cent of member States), and Convention No. 98 was ratified by 156 countries (or 87 per cent of member States).

<sup>20</sup> In this respect, the countries having the largest populations which have not ratified these Conventions are Brazil, China, India and the United States.

<sup>21</sup> See 1992 (ed.): ILO Constitution, Preamble and Annex (Declaration concerning the aims and purposes of the International Labour Organization). Also, see 1998: Declaration, especially arts. 1-3 inclusive.

<sup>22</sup> See ILO Constitution, art. 10.2(b).

<sup>23</sup> The discussion in this section of the paper relies primarily on the analysis in Hayter, S.: 2002.

decentralized and even industry-level bargaining systems can also provide for high levels of coordination. Wages may be negotiated at an intermediate sectoral level, but with sufficient linkages across the economy (perhaps through a peak trade union or employers' organization) to coordinate the level of wage settlements. Alternatively, one industry may be so dominant in an economy that it acts as a "lead bargainer" and signal for economy-wide settlements. In decentralized bargaining systems, employers' organizations with highly developed networks, such as those in Switzerland or Japan, can be important institutions of coordination. In other cases, such as the Czech Republic, national trade union confederations establish wage guidelines or negotiation objectives for their member organizations, relying on central bank forecasts.

- 18.** The most institutionalized examples of bargaining coordination are "social pacts" or other national-level agreements. These involve commitment to non-inflationary wage settlements in the context of a specific macroeconomic strategy which includes benefits for workers in terms of new jobs, skills upgrading, social security, economic stability and, with growth, rising incomes. Studies point to a positive relationship between *coordinated* collective bargaining, employment outcomes and more equitable wage distribution. They also highlight the value of coordinated bargaining in reducing the potential trade-off between social and economic objectives (e.g. employment and inflation) and in facilitating labour market adjustment.<sup>24</sup>
- 19.** Some economists argue that collective bargaining can have a negative impact on income inequality and on the speed and extent of workforce adjustment required by a globalizing economy. According to this view, insiders in well-protected sectors would both enjoy a wage mark-up and better employment protection, which would lead to income inequality and low adaptation capacities of the sectors concerned. However, research shows that these effects can be mitigated by union-employer cooperation and coordination, and are constrained by increased product market competition which limits the ability of firms to pass on the costs of insider deals to customers.
- 20.** In considering the impact of collective bargaining on labour markets and on economic development, the institutional and policy environment and incentives in product and labour markets should be examined. It is the package of institutions and policies that matters. It is thus important to reinforce the complementarities that can exist and promote greater coherence between policies and institutions. Policy measures should also be aimed at addressing incentives in product and labour markets so as to align the objectives of different actors with a country's development priorities, facilitate smoother adjustment and promote more equitable development.
- 21.** As for employment, the fact that in most countries prices cannot easily be passed onto consumers because of increasing product market competition means that wage increases well above any rise in productivity would probably lead to employment cuts. Moderate wage rises more in line with productivity could achieve employment growth, low unemployment and low inflation. Recent work on the impact of wage bargaining on unemployment concludes that, in coordinated bargaining systems, unions and employers are able to internalize the adverse employment consequences of excessive wage claims, because they are able to strike bargains between employment and wages. Firms with union contracts are seen to have higher employment levels than firms without such contracts. More generally, countries with highly coordinated collective bargaining are seen to be associated with lower and less persistent unemployment, lower earnings inequality, and fewer and shorter strikes than uncoordinated systems. Integrating an employment goal in

<sup>24</sup> See Auer, P.: 2000; Hayter, S.: 2002.

bargaining has been an increasing feature of many collective agreements at all levels of bargaining.

22. A caveat to the employment-wages link applies: wages act on two sides of the economy. On the supply side they are costs, but on the demand side they are consumption, saving and investment. Mediating this micro-macro difference is an important task for responsible social partners and their bargaining practices and in their relationship with government macroeconomic policy-makers.

### **C. Collective bargaining, productivity and competitiveness**

23. Collective bargaining provides firms with a mechanism to encourage participation in the workplace. The literature on the value of participation has examined benefits related to the ability to secure trust and commitment in employment relations and thus improve productivity and efficiency.<sup>25</sup> Indeed, there is now a large body of evidence showing that workplace participation through collective bargaining can enhance firm performance and that firms with higher degrees of worker participation outperform other firms.<sup>26</sup>
24. Collective bargaining has also been shown to enhance training intensity and human capital accumulation in companies, thereby increasing productivity. In this respect, in OECD countries there is increasing social dialogue and collective bargaining on continuous training. In countries with training levies and/or funds, these usually have been given a framework through bipartite or tripartite agreements at sectoral and/or national levels. In this way, collective bargaining can contribute to investment in training even in countries in which trade union density and/or collective bargaining coverage are not high.
25. In addition, greater employee participation in the workplace reduces monitoring costs with benefits in terms of efficiency. The potential to enhance efficiency and productivity raises other possibilities for distribution in the context of external pressures that place constraints on the wage bargain.
26. How and the extent to which competitiveness is dealt with through collective bargaining varies considerably from one country to another. However, some authors distinguish two major approaches. In continental Europe, recent years have witnessed significant bargaining developments in this area, integrating concerns for enhancing job protection and improving enterprise competitiveness. On the other hand, in the United States and in other countries with similar labour relations traditions, collective bargaining has tended to focus on improving enterprise competitiveness, on the assumption that jobs would be protected or created by the success of the enterprise in markets as a result of its competitive edge.

### **D. Collective bargaining, working conditions and social protection**

27. Wages, working time, work organization, arrangements to adapt working life to the demands of life outside work, and working conditions are core elements of the employment relationship and of workers' protection. They are major dimensions of

<sup>25</sup> See Hayter, op. cit., and Ozaki, M.: 1999.

<sup>26</sup> *ibid.* See also Fayoshin, T., et al.: 1998.

collective bargaining, social dialogue and human resources management at the enterprise level, as well as socio-economic policies of governments. These terms and conditions of employment are therefore crucial aspects of decent work at the enterprise level.

- 28.** The introduction of new technologies, rapid shifts in production and outsourcing, and the changing composition of the workforce, including the growth of part-time and casual work, have given rise to new subjects for bargaining and have changed the ways in which more traditional conditions of work are being addressed. This is particularly the case in Europe and in a number of other developed countries, but is also emerging elsewhere. Changes with respect to gender equality in the labour force and shared family responsibilities have resulted in increased consideration for reconciling work and family life through collective bargaining. In this context, maternity leave, paternity leave, adoption leave and parental leave are now frequently part of collective negotiations. Also, introduction of new technologies in the workplace influences negotiations as workers are able to more easily work from home (telework), unions and management discuss rules for the use of technologies such as email, and greater attention is paid to training and workforce development. More negotiations are featuring flexible use of working time and work organization arrangements, including greater use of part-time, flexitime, time banking and job sharing. Provisions for limiting temporary work, managing outsourcing and workforce restructuring, and ensuring employment stability and security are appearing in a number of countries. Occupational safety and health provisions, an area of traditional concern, have broadened to recognize the increasing incidence of stress and violence in the workplace, and measures to prevent harassment and discrimination are also appearing more frequently.
- 29.** Social protection – all programmes and arrangements protecting employees and their families with respect to various risks and needs – are inherent elements of workers’ income and working conditions and as such are important subjects of collective bargaining. Moreover, social protection reforms are often the subject of bipartite or tripartite debate at the national level.
- 30.** Collective bargaining on social security at the enterprise or sectoral level is widespread in Europe and in North America. In some countries (Denmark, Netherlands, Sweden, United Kingdom), occupational systems relying on sectoral bargaining play an important role. In others (Austria, Belgium, Finland, Germany), supplementary pension schemes are provided directly by individual employers and reflected in the individual employment contract or enterprise-level agreement. In recent years, many countries have introduced measures to encourage the development of occupational pensions or other supplementary pension provisions, often in conjunction with basic public pension system reforms (reducing future benefits, increasing retirement age and tightening other eligibility conditions), making collective bargaining on this particular issue even more important. Also, in many countries of Africa and Asia, where public social protection is weak, few existing important elements of social security are the subject of collective agreements at the sectoral or enterprise levels. In addition, bargaining new balances between employment protection and social protection (here, unemployment benefits and active labour market policies) are also on the agenda of social partners. So-called, “flexi-curity” arrangements are thought to respond better to the more volatile markets caused by globalization than traditional forms of employment or social protection.
- 31.** Social protection issues, particularly social insurance schemes which are financed and supervised jointly by employers and workers, are the subject of national-level bipartite or tripartite negotiations in an increasing number of countries. The social partners may act as “guardians” of proper governance of overall national social security systems and/or individual social security schemes. This role is particularly important when social security systems need to adjust to a changing economic and social environment. In the OECD



countries, and many countries of Latin America, pensions and other social security issues are subject to intensive debates involving workers' and employers' organizations. Empirical evidence shows that viability of the reformed systems strongly depends on the extent to which there was a social consensus on adopted solutions.

#### **IV. Current situation and trends with collective bargaining**

- 32.** Most employment relationships around the world continue to be governed by individual employment arrangements. Available data indicates that, in overall terms, collective bargaining coverage has been falling in recent years, although this trend is by no means uniform, varying from one region to another and within each region. Basic indicators such as trade union density and collective bargaining coverage are useful in identifying emerging and potentially long-term developments in individual countries, even if the picture they depict “does not tell the whole story”. This section of the paper addresses the issue of trends in these indicators and examines the current situation in collective bargaining systems across various geographical regions.
- 33.** Researchers usually quote three underlying determinants of trade union density and collective bargaining coverage: political (e.g. the extent to which there is a favourable political climate; respect for freedom of association, and enabling legislation); economic (e.g. changes in economic and production structures and in workforce compositions); and behavioural (e.g. changing workers' or employers' attitudes and values). Some of these factors are more pronounced in some countries or geographic regions than others.<sup>27</sup>
- 34.** While considerable data is available on trade union density and collective bargaining coverage in a number of countries, in many others such information is either not available or provides only a partial picture of the situation. Even where such data exists, there can sometimes be different and overlapping data sources in the same country, which has implications for the quality, consistency and therefore the reliability of what they purport to show.<sup>28</sup> This said, the available information indicates that, while trends in trade union density can in some cases be seen as an indicator of the extent of collective bargaining coverage, there are other important considerations in determining the real role and impact of collective bargaining in a given context. These include the overall strength and effectiveness of worker representation, the presence of strong collaborative interaction by the social partners, the level of bargaining (e.g. at sectoral as compared with more fragmented enterprise levels), the existence of “extension” mechanisms to spread the impact of bargaining and the extent of bargaining coordination.
- 35.** Against this background, and given the limitations of the available data, what seems to be the current situation with respect to unionization and collective bargaining coverage by region?

#### **Africa**

- 36.** Collective bargaining in Africa faces considerable challenges, with numerous studies pointing to the persistent decline in both trade union density and collective bargaining

<sup>27</sup> Visser, J.: 2000 and 2002.

<sup>28</sup> See, for example, INTEGRATION: 2005; Ishikawa, J. and Lawrence, S.: 2005; and Visser, J.: 2002.

coverage across the continent. The high prevalence of the informal economy, low levels of formal wage employment and difficulties in organizing workers in small and micro-enterprises and in rural areas, are among the main factors accounting for these low rates. These problems have been exacerbated by structural adjustment programmes and economic and public sector reforms pursued by many countries in the 1980s and 1990s, which further reduced levels of formal, non-agricultural wage employment, a significant source of traditional trade union membership. South Africa is often cited as an exception to the downward trend in unionization,<sup>29</sup> however, this has been due to the fact that it is a relatively “new” democracy, as well as to the role of trade unions in the struggle for democracy.

- 37.** Some governments in Africa have promoted sectoral-level collective bargaining as a means of ensuring stability in industrial relations,<sup>30</sup> and this remains the major level of bargaining in countries such as Nigeria, South Africa, United Republic of Tanzania, Tunisia and Zimbabwe. However, enterprise-level bargaining has arisen as the dominant bargaining level in a large number of countries (e.g. Cameroon, Côte d’Ivoire, Ethiopia, Ghana, Kenya, Namibia and, increasingly, Zambia) and this process of decentralized bargaining seems to be gaining momentum in the region. In most French-speaking African countries, enterprise-level bargaining complements that at national and sectoral levels. In the 1970s, most of these countries negotiated national collective agreements which are still in force. But recently the social partners have decided in some countries (e.g. Niger, Senegal) to open negotiations with a view to revising them. Available statistics on collective bargaining coverage in Africa do not provide an adequate picture of the current situation. Given the breadth of the informal economy, the overwhelming majority of workers in Africa are not covered by collective agreements. However, trade union membership and bargaining coverage as a proportion of those in formal employment is quite large in some countries, particularly in the public and key industrial sectors.

## The Americas

- 38.** Unions in Latin America tend to be organized primarily at the company level, with privatization and outsourcing leading to increased union fragmentation. While the number of trade unions has increased in many countries, membership rates have decreased, with few exceptions (Brazil). In some countries trade unions are strong in both the private and public sectors (Argentina, Brazil, Chile), whereas in many others (Central America) unionization is limited largely to public administration. Several countries (Brazil, Ecuador, El Salvador, Panama) limit the right of civil servants to form trade unions and bargain collectively, while others (Bolivia, Honduras)<sup>31</sup> exclude agricultural workers from exercising the same rights.
- 39.** Few governments in Latin America compile, process and make public collective bargaining data. From available data, overall coverage rates have been in decline and seem to be below 10 per cent in the majority of countries, with the exception of Argentina, Chile, Peru and Uruguay. There are a number of reasons for this, including: decentralization of collective bargaining; trade union structures which correspond to enterprise-level bargaining; exclusion of small-scale enterprises from unionization; weaknesses in the application of labour laws; low priority given to strengthening labour institutions; and a lack of regulation of sectoral bargaining. Argentina and Uruguay and, to

<sup>29</sup> Visser, J.: 2000.

<sup>30</sup> Fashoyin, T.: 1998.

<sup>31</sup> Vega Ruiz, M.L.: 2004.

a lesser extent, Mexico, are the only countries with well-established national sectoral agreements. In other countries, sectoral bargaining takes place at the regional level (Brazil), is limited to one or two economic sectors (Chile, El Salvador, Panama, Peru), or does not exist (most Central American countries, Colombia). Data from Argentina suggests a trend towards further decentralization of bargaining, a development also occurring in Peru,<sup>32</sup> Brazil and Uruguay.<sup>33</sup>

40. In Canada and the United States, collective bargaining is largely characterized by single employer, enterprise-level negotiations. In the absence of employer willingness to engage in coordinated bargaining, many unions in both countries have moved to coordinate their own bargaining activities at local, provincial and national levels, and even internationally with respect to certain multinational enterprises. Union density in Canada, while declining throughout the mid-1990s, remains considerably higher than in its neighbour. The same holds true for coverage of collective agreements. Economic shifts in both countries, reflected in the rapid growth of the traditionally non-union service sector and the relocation of manufacturing industries outside their borders, has led to a fall in the private sector component of union membership. Other reasons for falling density levels include the rise of new forms of work, particularly casual and temporary labour, which often fall outside traditional legal protections for freedom of association, and a lack of institutions to facilitate centralized bargaining. Employer resistance to unionization in the United States, which increased considerably through the 1980s and 1990s, has also impacted on the influence of trade unions and collective bargaining.

## Asia and the Pacific

41. In the face of rapid changes and significant advances in technology, collective bargaining has become an instrument of social change in many Asian countries. The spread of democracy in the last two decades has led to the growth of trade unions in a number of countries (Cambodia, Indonesia, Republic of Korea). However, market liberalization, deregulation, restrictions on genuine freedom of association and economic restructuring have led to an overall decline in trade union density and collective bargaining coverage rates throughout the region. The exception to this trend is in Cambodia. A recent ILO survey of workers in the garment industry (the largest sector of formal employment) found a union density of 43.1 per cent. Union density in other sectors is also reportedly rising.
42. Trade union density in the private sector is below 10 per cent in many countries (Bangladesh, Republic of Korea, Malaysia, Philippines, Thailand) and under 25 per cent in others (Australia, Japan, New Zealand, Singapore). Sri Lanka reports a trade union density rate of 30 per cent, due to a highly organized plantation sector. Where data exist, coverage of collective bargaining tends to be low, below 5 per cent in many countries (India, Malaysia, Philippines, Thailand) and now falling below 30 per cent in Australia, which has traditionally had a high coverage rate.<sup>34</sup> While industry-wide collective bargaining in the plantation sector takes place in several countries (South Asian countries, Malaysia), and others complement national wage setting with enterprise-level bargaining (Japan), the vast

<sup>32</sup> Rueda, M.: 2006.

<sup>33</sup> Abramo, L. and Rangel, M. (eds.): 2005.

<sup>34</sup> Data on trade union density and collective bargaining coverage are taken from Ishikawa, J. and Lawrence, S.: 2005; and ILO: 2000a.

majority of collective agreements are reached at the level of the enterprise.<sup>35</sup> National level, industry-wide bargaining in the garment sector has begun in Cambodia.

- 43.** These figures are calculated based on the number of union members or covered employees in paid employment. The direct benefits of unionization and collective bargaining reach few in countries where the informal economy, rural and agricultural activities dominate. There are clearly indirect benefits of union activity and social dialogue, which flow to the informal economy. For example, social dialogue often occurs at the national level on a variety of subjects which impact on the informal economy. The impact, however, is difficult to measure. Restructuring of economies in Asia has led to high employment growth in services, and has also contributed to growth in the informal economy.<sup>36</sup> Other obstacles to collective bargaining and unionization in the region include: legal restrictions in the subjects for bargaining (Malaysia); limitations to bargaining in export processing zones; prohibition of collective bargaining in the public sector (Malaysia, Sri Lanka); increasing use of contract labour (India, Philippines); and fragmented trade union movements (Philippines, South Asia).<sup>37</sup> In response to the competitive pressures of globalization, collective agreements in a number of countries (India, Sri Lanka) have come to include workforce reductions, job wage trade-offs, productivity, job flexibility and the reorganization of work.

## Europe

- 44.** A more detailed analysis of collective bargaining trends in Europe is possible due to the availability of reliable data and literature and the recognition of collective bargaining and social dialogue as part of labour market governance in most countries in the region.
- 45.** Trends in collective bargaining and the industrial relations climate throughout Europe are influenced by the changing labour market and business environment. Enterprise restructuring, new investment strategies, changes in labour migration rules, ageing of the population and new education and vocational training needs influence both the process and content of negotiations. While in the EU-15, an average of two-thirds of workers are covered by collective agreements (90 per cent in Belgium, France, Italy and Sweden), in the new EU-10 coverage is 40 per cent or less in all cases, falling as low as 10 per cent in Lithuania. While the coverage rate is relatively stable, a number of EU-15 countries are seeing a decline in coverage (e.g. Germany, United Kingdom), and the generally low level of bargaining coverage is falling further in many EU-10 countries (e.g. Hungary, Poland, Slovakia).
- 46.** Enterprise restructuring concerns both private and state-owned companies, with both the private and public sectors facing redundancies. In many cases, collective agreements take preventive measures in the form of guaranteeing jobs (e.g. Volkswagen, Galleries Lafayette), providing redundant workers with compensation (e.g. Opel, Husky, Wärtsilä), or combining job security for some workers with social measures for those made redundant (e.g. AEG, Lego, Mittal Steel). In addition to the EU Redundancy Directive, some governments are encouraging the social partners to negotiate procedural agreements covering areas such as information and consultation or assistance in finding alternative work (France, 2005). Relocation of companies, especially with the process of EU enlargement, has become an extremely delicate area of consultations and bargaining,

<sup>35</sup> Sivananthiran, A. and Venkata Ratnam, C.S.: 2002.

<sup>36</sup> ILO: 2006d, p. 33.

<sup>37</sup> ILO: 2006a; Ishikawa, J. and Lawrence, S.: 2005.

resulting in preventive measures or improved redundancy packages and processes. While enterprise relocation represents only 5 per cent of planned job reductions in the EU, it is a highly sensitive issue, subject to debates on investment promotion at national and local levels. Enterprise-level consultations and bargaining seek alternatives or to manage the impacts.

47. In the current economic climate, wage moderation is a key issue in most Western European countries, which is coordinated through central (e.g. Finland, Ireland, the Netherlands, Spain) or through sectoral (e.g. Austria, Denmark, Germany, Sweden) agreements. In new EU Member States, which enjoy higher economic growth, bargaining is focusing on the redistribution of new wealth between capital and labour. New pay systems to increase flexibility are also being discussed (e.g. Denmark, Finland, Italy). Working time remains a prominent and controversial issue. Many agreements create conditions for higher working time flexibility, both in the private (Electrolux; metalworking sector in Italy; automotive sector in Spain) and public (Lufthansa; public sector workers in Slovakia; local public transport in Italy) sectors. In general, companies seek to reverse the long-term downward trend in the duration of working time (France, Germany) in order to reduce labour costs and strengthen their competitiveness. Very often, pay moderation, together with working time, are subject to trade-offs concerning job security.
48. A development related to demographic trends and employment concerns the so-called “end-of-career” issues: pension reform, supplementary occupational pension schemes and early retirement. Pension-related issues are negotiated at the national level and in sectoral or plant-level collective bargaining. Another important new issue on the negotiating agenda is labour migration, including measures taken in relation to a gradual implementation of the freedom of movement of labour in the enlarged EU.
49. There are two groups of countries with very different industrial relations systems in Europe: in the EU-15, collective bargaining is largely<sup>38</sup> coordinated via national or sectoral agreements, whereas in the new EU-10, bargaining is largely decentralized. These two systems are to some extent converging, with a tendency towards decentralization. Higher-level agreements are widening the scope for further bargaining at company level and introducing “opening clauses” allowing companies to diverge from certain terms agreed at the higher level (Finland, France, Germany, Italy).
50. Decentralization is being promoted through various instruments, including: laws increasing the scope for enterprise agreements or changing the hierarchy of importance between sectoral and enterprise agreements (France, 2004); new rules concerning coordinated decentralization of collective bargaining agreed by the social partners (Italy, Finland); and changes in the relationship between sectoral and company bargaining through opening clauses (Austria, Germany). While sectoral agreements tend to deal with general levels of pay increases, improvements of pension schemes and issues of working time arrangements, enterprise negotiations focus on wage-setting at that level (often linking the pay rise to company profitability) and implement detailed working time arrangements adapted to particular plants or professions.
51. The trend to decentralization does not necessarily mean that the government or the central organizations of employers and workers are less interested in influencing the bargaining process from the national level. A number of national-level agreements have been concluded, addressing a range of social and economic issues (social pacts), or focusing on specific issues and reform tasks, including economic stabilization. Central-level dialogue persists as certain reforms (e.g. pensions, labour market) require broad societal agreement,

<sup>38</sup> With the exception of the United Kingdom, and an increasing trend in some other countries (e.g. Germany) towards enterprise-level bargaining.

and the State retains a stake in preserving the overall international competitiveness of the national economy.

52. Social dialogue across national borders is another distinctive element of European industrial relations. It varies from enterprise-level consultations (European works councils) to framework agreements between the European social partners, and the involvement of the social partners, both at the national and European level, in the European Employment Strategy.<sup>39</sup>

## V. Conclusions

53. The above review and analysis indicates that, while there is substantial variation in its coverage from one country and region to another, collective bargaining is making a strong contribution in many countries to advancing the Decent Work Agenda. In this respect, the strength and value of collective bargaining lies in its flexibility and adaptability to address issues in different economic and social contexts and its capacity to coexist with and complement other forms of labour market regulation. It might also be noted that the growth of democracy throughout the world in recent years has led to a broadening in the potential geographical scope of collective bargaining should the relevant social partners be equipped and choose to take this course. Moreover, rapid growth in emerging economies presents a further opportunity to establish collective bargaining as an effective tool of labour market governance and an element in reducing the size of the informal economy in many countries. However, as has also been noted, outside Europe and the major industrialized economies, there are still considerable deficiencies in the current knowledge base in relation to collective bargaining, especially concerning its social and economic impacts.<sup>40</sup>

54. Collective bargaining should also be looked at as an important element in a broader context. In this respect, “achieving the ILO Decent Work Agenda requires giving employment a human face by re-conceptualizing employment as also a social activity with psychological rewards undertaken by human beings in democratic societies”.<sup>41</sup> Such an approach would involve recognizing the equal importance of and finding ways to balance the three objectives of the employment relationship, namely, efficiency (competitiveness, economic development, jobs, quality, productivity and economic prosperity), equity (fairness in distribution of rewards and administration of employment policies) and voice (the ability to have meaningful employee input into workplace decisions, both individually and collectively). Viewed in this context, collective bargaining not only provides for the possibility of some form(s) of direct and indirect reward for efforts and participation in workplace decision-making, as well as an avenue to improve efficiency, through the creation of high-performance work systems.

<sup>39</sup> Rychly, L. and Vylitova, M.: 2005.

<sup>40</sup> There is a particular need for “hard information” on trends in individual countries and within and across regions on the following collective bargaining-related issues: trade union density and strength; membership and organization of employers’ organizations; and the proportion of workers covered by collective agreements. There is also a need for “soft information” on certain issues (e.g. the impact of collective bargaining on economic and social issues; coordination of collective bargaining at various levels; and experiences with negotiations at global level) which usually can be obtained only through direct contact with industrial relations practitioners.

<sup>41</sup> Budd, J.: 2004, pp. v and 2-4.

55. A challenge for the ILO is to take advantage of such new thinking and emerging analysis both to explore new paths, as well as tread existing paths in a different manner, with respect to the role of collective bargaining in the context of decent work.
56. The Office will continue to work with the tripartite constituents on the range of issues related to observance and implementation of the relevant international labour standards, including:
- giving particular priority to action associated with Conventions Nos. 87 and 98, as well as the related Conventions Nos. 135, 151 and 154;<sup>42</sup>
  - improving ILO technical advisory services to the tripartite constituents to address relevant implementation issues (i.e. policy, legislative, institutional and procedural issues, including enforcement considerations), taking into account the interdependency of collective bargaining and other social dialogue and labour administration issues; and
  - providing capacity-building services in relation to using collective bargaining and other forms of social dialogue as a tool to address key social and economic issues, such as employment, productivity, social protection, working conditions, etc.<sup>43</sup>
57. In addition, the Office will undertake a range of activities directed towards strengthening its knowledge base on collective bargaining (and other elements of social dialogue), by:
- contributing to the development of more reliable national labour statistics series, so that progress can be tracked over time;
  - undertaking well-defined research on trends and key emerging issues, in particular analysing the role of collective bargaining in economic and social policy and the relationship between collective bargaining and other labour market variables; and
  - giving special attention to the promotion of principles of participation and dialogue in the informal sector, together with promoting the involvement of social partners in national or local programmes addressing the informal economy and unregistered work.
58. The Committee may wish to offer guidance to the Office on the issues raised in this paper, noting that the Governing Body and the International Labour Conference are continuing to do this in the context of discussions on the annual reports and Global Reports prepared in accordance with follow-up to the Declaration.

Geneva, 12 October 2006.

*Submitted for debate and guidance.*

<sup>42</sup> The Workers' Representatives Convention, 1971 (No. 135), Labour Relations (Public Service) Convention, 1978 (No. 151), and the Collective Bargaining Convention, 1981 (No. 154).

<sup>43</sup> See, for example, those cited in ILO: 2004.

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