



3. Wages and collective bargaining: is social Europe really back on the agenda?

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In the field of wages and collective bargaining in particular, a new discourse has emerged that recognises adequate minimum wages and strong collective bargaining as an institutional precondition for a more sustainable and inclusive economic development

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Introduction

At the Porto Social Summit on 7 May 2021, the European Commission, the European Parliament and the Portuguese EU Presidency confirmed their commitment to the implementation of the European Pillar of Social Rights by signing a so-called ‘Social Commitment’. Among other things, this included a clear pledge to ensure ‘decent working conditions and fair pay for all workers’. Does this mean that after years of neoliberal dominance, ‘social Europe’ is back on the agenda? At least rhetorically this seems to be the case. In the field of wages and collective bargaining in particular, a new discourse has emerged that recognises adequate minimum wages and strong collective bargaining as an institutional precondition for a more sustainable and inclusive economic development (Schulten and Müller 2021).

The clearest expression of this new approach to wages and collective bargaining is the proposed directive on adequate minimum wages (European Commission 2020a), which explicitly aims at ensuring adequate minimum wages for all workers in the EU and at strengthening collective bargaining in order to reduce in-work poverty and wage inequality. However, while the proposed directive has the potential to improve working conditions for millions of workers, the proof of the pudding will be in the eating. Only by adopting a directive on adequate minimum wages that really deserves its name, can European and in particular national policymakers prove that their applause for the many ‘essential and front-line workers’ that kept our societies going during the pandemic was not merely rhetorical. And in order to fulfil their ‘social commitment’ made at the Porto Social Summit, the European Commission and the European Parliament must fend off attempts by various national governments to water down the content of the directive.

Against this background, this chapter will chart the development of wages, minimum wages, collective bargaining and strike activity, with a particular focus on how minimum wages help to address the problem of wage inequality. The findings demonstrate the need for legislative support at the European level, as national-level policymakers either lack the capacity or the will to tackle the problems of in-work poverty and wage inequality.

Wage developments

After a collapse of wage growth in 2020 (see ETUI and ETUC 2020: 102), nominal wage growth recovered slightly in 2021. Figure 3.1, which illustrates the development of nominal wages in 2020 and 2021, shows that in 16 EU Member States, nominal wages grew more strongly in 2021 than in the previous year. Overall, it is possible to distinguish three groups of countries. The smallest group, of four countries with a nominal wage growth of more than 5%, is exclusively comprised of CEE countries, ranging from Romania (5.7%) and Poland (5.8%) to Lithuania (6%) and Hungary (6.9%). Since this group of countries also reported the strongest nominal wage growth in 2020, the trend of converging wages between CEE countries and western European countries continued in 2021. The second and largest group consists of 11 countries with an increase of between 2% and 5%. This group ranges from Slovenia (2%) and Ireland (2.1%) to France (4.3%) and Bulgaria (4.8%). It is followed by a third group of 10 countries with a

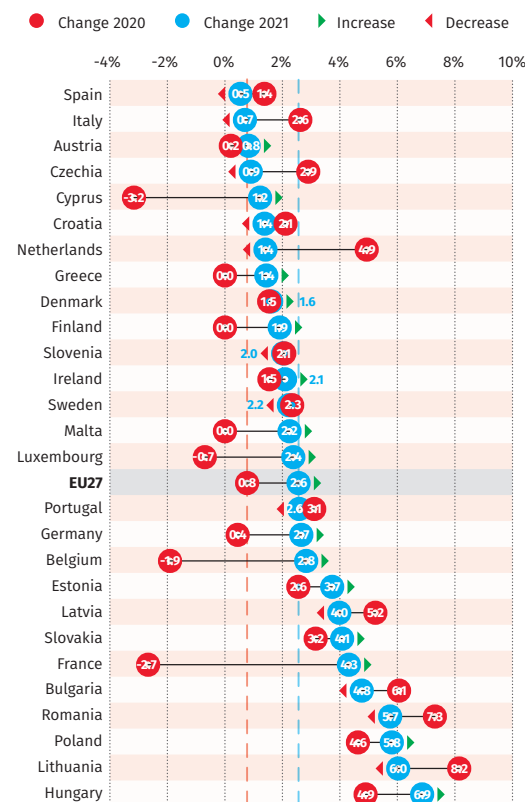
very modest increase of 2% or less, which ranges from the southern European countries Spain (0.5%) and Italy (0.7%) to the Nordic countries Denmark (1.6%) and Finland (1.7%).

The wage data for 2021 should, however, be treated with some degree of caution. First of all, they are partly based on forecasts, which in a pandemic situation are necessarily more uncertain than during normal times. Second, it should be emphasised that in line with the European Commission's AMECO database, nominal wages are measured as 'nominal compensation per employee', which, in addition to wages and salaries, also includes the employer's social security contributions. Under normal circumstances, nominal compensation and wages develop largely in parallel. During the pandemic, however, all EU countries made frequent use of job retention schemes to preserve employment. In many countries this involved relieving employers from paying social security contributions as a tool to adjust their costs (Drahokoupil and Müller 2021). This policy, however, reduces the growth of nominal compensation.

Third, wage developments in 2021 were heavily influenced by two opposing trends. The first trend concerns the above-mentioned frequent use of job retention schemes, which tended to lower nominal compensation per employee. This is because, as a rule, employees only receive a part of their original wage for the time not worked while being enrolled in these schemes, while also keeping their employment status. And the impact of job retention schemes on nominal wage growth per employee gets even more complicated, because depending on the type of scheme – such as those in which the benefit is directly paid to the employee (da Silva et al. 2020) – the benefits may be counted as social transfers and therefore not included in the statistical measures of compensation. The second trend is linked to composition effects and points in the opposite direction: an increasing rate of nominal compensation per employee. This is due to the fact that low-paid workers – for instance on fixed-term or part-time contracts – are, as a rule, the first ones to lose their jobs. Their exit from the labour market thus potentially increases the nominal compensation per employee of the remaining workforce.

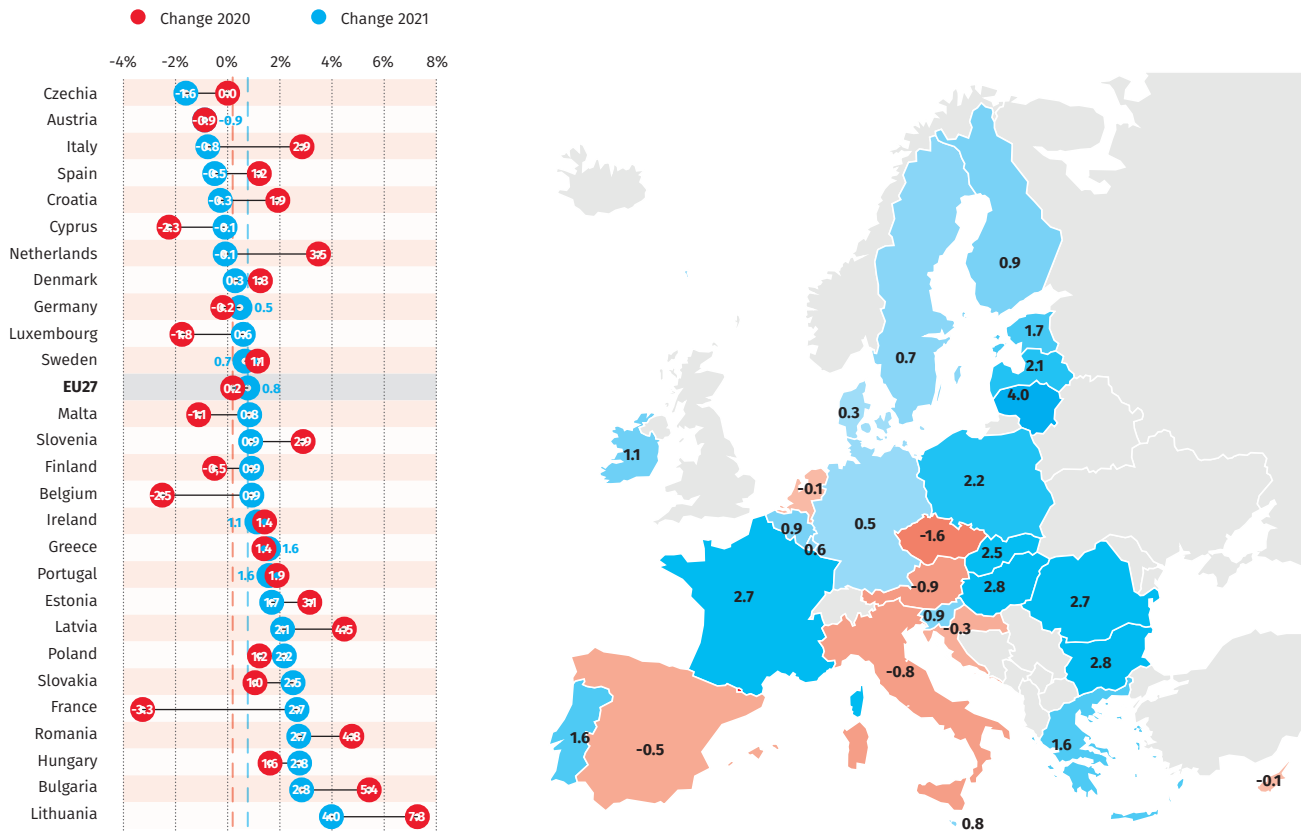
With these caveats in mind, the overall development of nominal wages in the EU in 2021 followed the economic cycle: as, over

Figure 3.1 Development of nominal wages* in 2020 and 2021 (change in percentage compared to previous year)



Note: *Nominal compensation per employee: total economy (national currency). Source: AMECO database (HWCDW), 8 September 2021.

Figure 3.2 Development of real wages* in 2020 and 2021 (change in percentage compared to previous year)



Note: *Real compensation per employee, deflator private consumption: total economy.
Source: AMECO database (RWDCD), 8 September 2021.

“
The long-term trend of the decoupling of wage and productivity developments continued in 2021

time, economic activity resumed, hours of work normalised and the use of job retention schemes receded, nominal compensation per employee adjusted in many countries and the EU overall.

Figure 3.2, however, illustrates that the recovery of nominal wage growth only partially translated into a corresponding recovery of real wage growth. According to the European Commission’s AMECO database, in 2021 only 12 countries reported a stronger growth of real compensation per employee than in the year before. This applies in particular to those countries which saw negative real wage developments in 2020. In 2021, real wage developments were negatively affected by rising energy and commodity prices, as well as production bottlenecks due to the shortage of some input components and raw materials, which in turn put pressure on consumer prices (European Commission 2021). A large part of the nominal wage growth was thus eaten up by the increase in inflation.

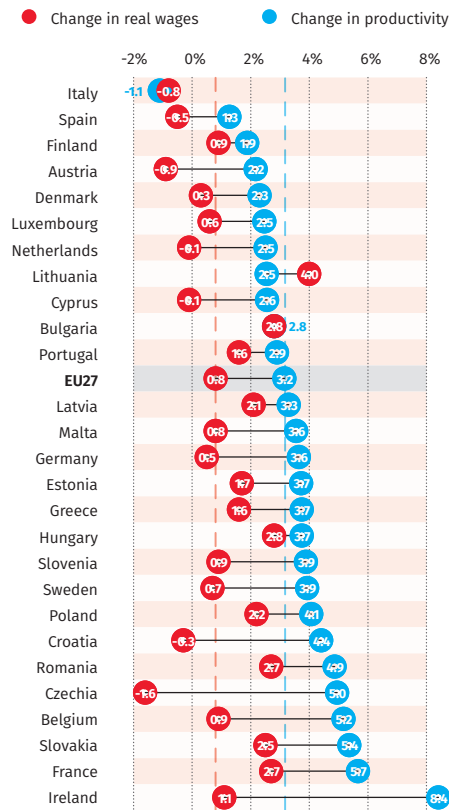
As a consequence, the long-term trend of the decoupling of wage and productivity developments continued in 2021. Figure 3.3 compares the development of real compensation per employee and the development of labour productivity (measured as GDP per person employed). If real wages develop in line with

labour productivity, wage growth not only compensates for inflation but also ensures that workers get their fair share of the wealth they created. With the exception of Lithuania and Bulgaria, this was not the case in 2021.

It should, however, be borne in mind that the growth of productivity in 2021 is as much the result of statistical effects as it is a reflection of the economic recovery (linked to the easing of the restrictions imposed on companies to contain the spread of Covid-19). According to Maqui E. and Morris R. (2020), there is, furthermore, some ground to believe that the pandemic forced some companies to improve efficiency by optimising their process through increased digitalisation and automatisisation.

Statistical effects played an important role in several respects. First, average productivity may have increased because of a so-called ‘cleansing effect’ as the pandemic forced the least productive firms to exit. For France, for instance, Hadjibeyli et al. (2021) found that the average level of productivity increased at a lower level of output. Second, productivity increases in 2021 were also the result of base effects caused by the pandemic-induced collapse of productivity in 2020. Third, and closely related to the previous point, productivity per person

Figure 3.3 Development of labour productivity* and real wages in 2021



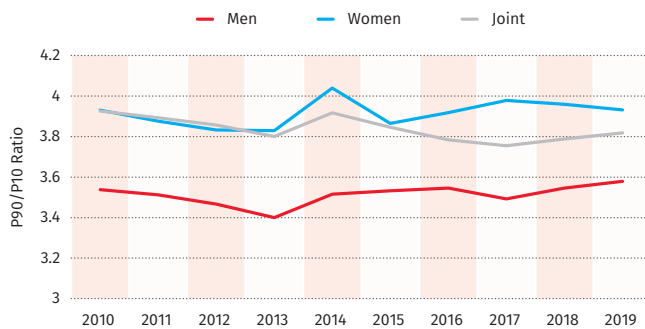
Note: * Gross domestic product per person employed.
Source: AMECO database (RVGDE), 8 September 2021.

employed is closely linked to working time developments. This means that the extensive use of job retention schemes in 2020 and the corresponding decrease in working hours caused a substantial decrease of productivity per person. To some extent the drop in productivity in 2020 was the flipside of the success of job retention schemes in preserving employment (Lübker 2020). By the same token, the receding use of job retention schemes in 2021 caused an increase in productivity per person. Against this background, the following section will shed some light on the development of wage inequality during the pandemic.

Wage inequality in Europe

Wage inequality in Europe increased substantially up to and during the Great Recession of 2008/2009. Since then it has, on average, remained relatively stable or even decreased slightly in Europe in terms of hourly wages (see Figure 3.4). The overall decline in wage inequality can be attributed to a decrease in inequality in the upper half of the wage distribution, as the wages between the top (90th percentile) and the median converged. However, inequality in the bottom half of the wage distribution remained stable and actually increased again from 2016/2017 onwards. Furthermore, while wages converged slightly for the whole population, the picture is different when looking at the distribution of wages for men and women separately. Wage inequality increased between 2013 and 2019 within both gender categories; the overall reduction in wage inequality is due to a decrease over time in the gender pay gap (measured in hourly wages), from 17% in 2010 to 15% in 2019.

Figure 3.4 Evolution of wage inequality in the EU as a whole

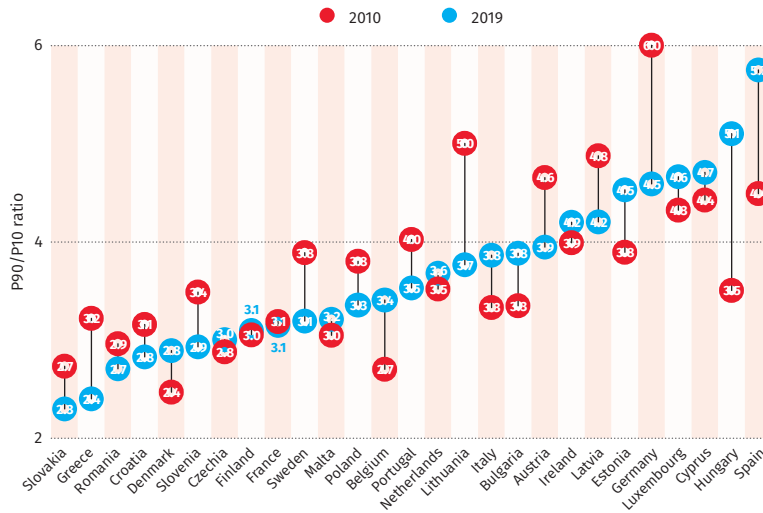


Note: Own calculations based on EU-SILC data on ratio of 90th to 10th percentile on hourly gross wage, weighted average of Member States; data only available until 2018 for Ireland and Italy. The scale does not start at 0.
Source: EU-SILC 2010-2019.

Figure 3.5 illustrates that there is substantial country variation regarding changes in inequality (measured according to the P90/P10 ratio). Wage inequality declined the most from 2010 to 2019 in Germany, Lithuania, Greece, Latvia, Slovenia, Austria, Portugal, Poland, and Croatia. There were sizeable increases in wage inequality in generally more unequal countries – Spain, Hungary and Estonia – but also in less unequal countries, such as Bulgaria, Italy and Belgium.

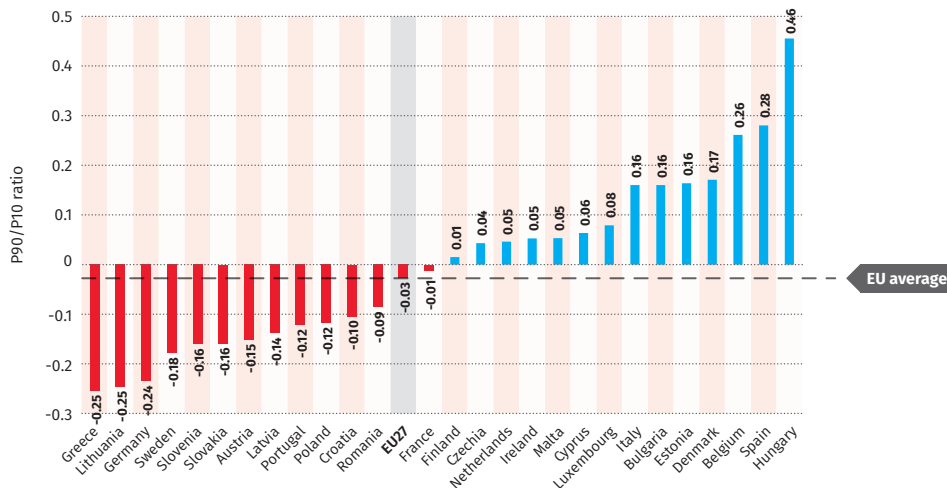
Figure 3.6, which illustrates the relationship between changes in collective bargaining coverage/the relative value of minimum wages and changes in wage inequality, demonstrates that some of the national variation in wage inequality can be explained by these two factors. On average, an increase in wage inequality is associated with a decrease in the share of

Figure 3.5a Wage inequality, 2010-2019, EU Member States



Note: Scale does not start at 0.
Source: EU-SILC 2010-2019.

Figure 3.5b Changes in wage inequality, 2010-2019, EU Member States



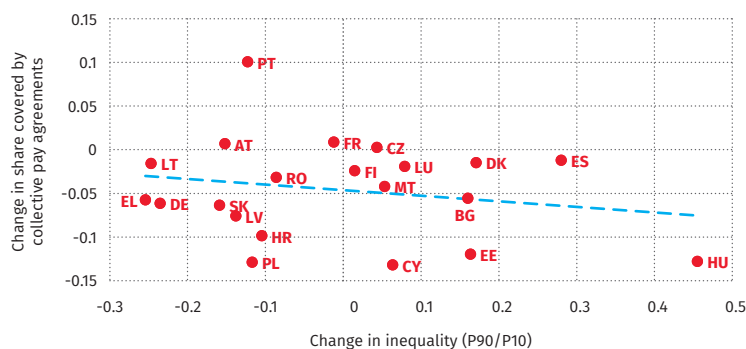
Note: Scale does not start at 0.
Source: EU-SILC 2010-2019.

workers covered by a collective pay agreement. By the same token, higher bargaining coverage is generally associated with a more equal distribution of wages. As the coverage rate of these agreements decline, the resulting wage distribution is generally less equal. Figure 3.6 also provides a rough indicator of the potential impact of the development of minimum wages on wage inequality. Wage inequality increased in four out of the seven countries where the relative value of the statutory minimum wage as a percentage of the median or average wage (i.e. the Kaitz Index) decreased, and in four out of the seven countries without a statutory minimum wage in 2010. Germany is included in this group because it only introduced a statutory minimum wage in 2015. However, the country's eventual introduction of the minimum wage contributed

to a drop in wage inequality by substantially raising wages in typically low-wage sectors, particularly in east Germany (Herzog-Stein et al. 2020). Conversely, wage inequality decreased in eight of the fourteen countries where the Kaitz Index increased.

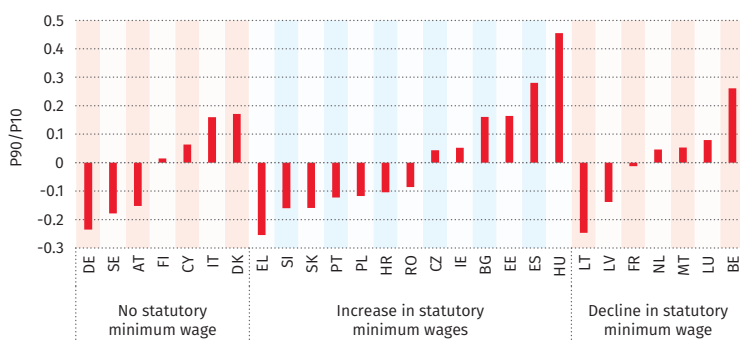
The overall picture prior to Covid-19 was one of stagnating inequality, with a slight increase again from 2018 onwards. There is not yet any comparable European-level data available to study the impact of Covid-19 on wage inequality. However, an early analysis by the ILO of the development of the overall wage bill in the first and second quarters of 2020 suggests that the pandemic altered the wage distribution in favour of the highest-earning workers because the bottom 50% of the wage distribution suffered

Figure 3.6a **Changes in inequality and collective bargaining coverage (2010-2019)**



Source: EU-SILC 2010-2019 data for wage inequality (2018 for Italy and Ireland), EARN_SE510_01 and EARN_SE518_01. Note: Relation between the change in inequality (P90/P10) from 2010 to 2019 and the change in the share of workers in establishments with at least 10 employees covered by any type of collective pay agreement.

Figure 3.6b **Relation between change in inequality and statutory minimum wages (2010-2019)**



Source: Kaitz index (minimum wage in relation to median wage [in relation to average wage in Bulgaria]) according to OECD earnings database (OECD 2021). For Bulgaria, Croatia and Malta: European Commission (2020).

larger wage losses than the top 50% (ILO 2020: 47). The research by the ILO also suggests that the pandemic increased gender wage inequality because female workers are over-represented in the sectors that were hardest hit by the crisis and therefore suffered larger wage losses than male workers (ILO 2020: 47). Another interesting finding is that job retention schemes helped to mitigate the impact of the crisis on wage inequality in Europe ‘by reducing the decline in the share of the total wage bill received by those at the bottom 50 per cent of the wage distribution from 3.7 to 1.7 percentage points’ (ILO 2020: 50).

While there has so far been little further research on the impact of the pandemic on wage inequality, several papers have looked at the inequality of income, including wages but also other sources of income such as benefits. Simulation studies of the impact of lockdown on income inequality indicate it would, in theory, lead to a sizeable increase, due to those already earning less being more likely to lose their jobs and those with higher earnings being more likely to benefit from working from home (Brunori et al. 2020; Palomino et al. 2020). However, financial support policies have been widespread across Europe and substantially aided poorer households, thereby mitigating the rise of income inequality. As a result, average income inequality in many countries has actually declined (Clark et al. 2021; Angelov and Waldenström 2021; Stantcheva 2021; OECD 2021). Once this short-term support stops, however, the distributional impacts on employment will likely result in a widening of income inequality across Europe.

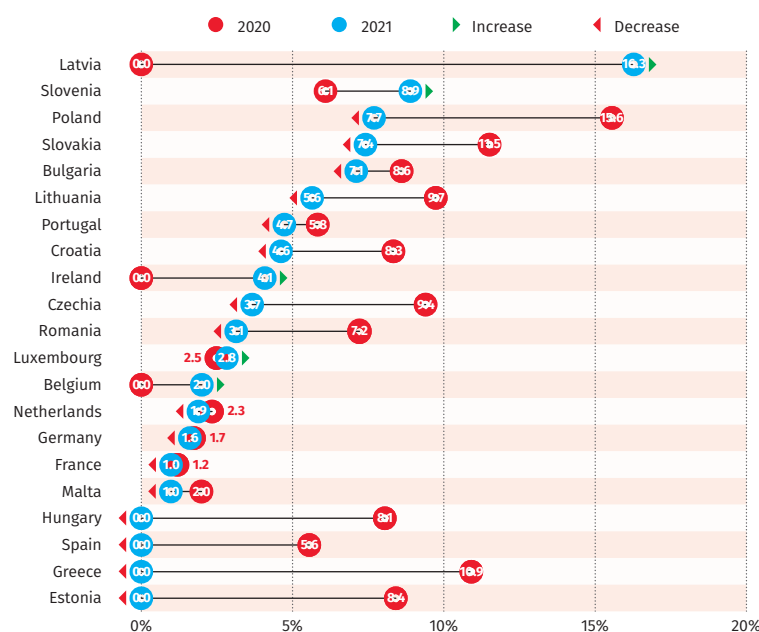
Minimum wage and collective bargaining developments

An increase in minimum wages that exceeds the general wage development contributes to reducing wage inequality by compressing the overall wage structure: first, by directly increasing the wages of low-paid workers and second, through so-called 'ripple effects' (Grimshaw and Rubery 2013), by indirectly influencing the development of the wage groups above the minimum wage. Since women are overrepresented in the group of minimum wage earners, an increase in the minimum wage furthermore helps to reduce the gender pay gap (European Commission 2020b).

Figure 3.7, which illustrates the development of statutory minimum wages between 1 January 2020 and 1 January 2021, demonstrates that in the majority of countries, the pandemic slowed down the increases in minimum wages. The only countries where minimum wages increased more in 2021 than in 2020 were Latvia, Slovenia, Ireland, Luxembourg and Belgium. It should, however, be noted that even though statutory minimum wages are, as a rule, adjusted each year on 1 January, in four countries there were

extraordinary adjustments during 2021 which are not reflected in Figure 3.7. This applies to several countries. In Belgium, the minimum wage increased from EUR 9.85 to EUR 10.01 on 1 September 2021. In Germany, following a recommendation of the Minimum Wage Commission in June 2020, a staged process of minimum wage increases was adopted for the next two years to take into account the economic consequences of the pandemic. As a consequence, there was a moderate increase in the minimum wage to EUR 9.50 on 1 January 2021 and then to EUR 9.60 on 1 July 2021. In order to comply with the rule that minimum wage increases should develop in line with collectively agreed wages, the next increases will be more substantial: to EUR 9.82 on 1 January 2022 and to EUR 10.45 on 1 July 2022. In Hungary, after prolonged negotiations, the minimum wage was increased by 4% on 1 February 2021 and by another 1% on 1 July 2021. And finally, in the Netherlands, following the usual two-staged procedure applied since 2017, the minimum wage was increased to EUR 10.34 on 1 January and to EUR 10.44 on 1 July 2021.

Figure 3.7 **Nominal development of minimum wages per hour, from 1 January 2020 to 1 January 2021 (%)**



Source: WSI Minimum Wage Database (WSI 2021).

With this caveat in mind, several groups of countries can be distinguished according to the size of the minimum wage increase between 1 January 2020 and 1 January 2021. The first group of countries includes countries with an increase of more than 5%, ranging from Lithuania (5.6%) to Slovenia (8.9%) and Latvia (16.3%). The exceptionally large increase in Latvia follows two years in which there was no increase at all. The fact that this group exclusively comprises CEE countries means a continuation of the year-long trend of minimum wage convergence between CEE countries and western European countries. A rough indicator for the convergence of minimum wages is the fact that over the last ten years the relation between the highest minimum wage in Luxembourg and the lowest in Bulgaria more than halved, from 1:13.9 in 2011 to 1:6.4 in 2021. The second group of countries with a minimum wage increase of between 2 and 5% comprises seven countries, ranging from Belgium (2%) to Croatia (4.6%) and Portugal (4.7%). The third group comprises those eight countries with an increase of less than 2%.



The European Commission explicitly states that ‘in the majority of Member States with national statutory minimum wages, minimum wages are too low vis-à-vis other wages or to provide a decent living’ (European Commission 2020a: 2)

This group includes the four countries Estonia, Greece, Hungary and Spain, where there was no increase at all between 1 January 2020 and 1 January 2021. Hungary is a special case, however, because if the two increases in February and July 2021 were taken into account Hungary would be in the group of countries with increases of between 2 and 5%.

As regards the contribution of minimum wages to reducing wage inequality within countries by compressing the wage structure, Figure 3.7 also illustrates the fact that, despite the overall less dynamic development in 2021, in 11 countries the minimum wage increases still exceeded nominal wage increases. This applies in particular to CEE countries such as Bulgaria, Croatia, Czechia, Latvia, Poland, Slovakia and Slovenia, but also to western European countries such as Ireland, Luxembourg, the Netherlands and Portugal.

Concerning the driving forces of minimum wage adjustments, three broad factors can be distinguished. The first is the pandemic, which prompted decision-makers in many countries to take a more reserved approach.

The second factor explains, in particular, the more substantial increases in some of the CEE countries, which is the fact that the minimum wage was adjusted in accordance with procedures and political commitments that predated the pandemic. In Latvia, for instance, the decision to increase the minimum wage to EUR 500 on 1 January 2021 was part of the package agreed upon in 2018, which also involved a minimum wage freeze for two years. Similarly, the recent increase in Slovenia was based on changes to the Minimum Wage Act adopted in 2018, according to which the minimum wage should exceed the minimum cost of living by 20-40%. The substantial increases in Poland and Slovakia also have a similar explanation, even though in these two cases the increases would have been even more substantial if the pre-pandemic rules and commitments had been truly fulfilled. In October 2019, the Polish government announced its intention to raise the minimum wage to PLN 4,000 over the next three years, which involved a target of PLN 3,000 for 2021 (Schulten and Müller 2020: 104). Even though the actual increase to PLN 2,800 does not meet this target completely it can still be seen in the context of the pre-pandemic commitment of the government to a substantial increase of the minimum wage. In Slovakia, an amendment to the Minimum Wage Act was adopted in October 2019 which stipulates that from 1 January 2021, in the event that trade unions and employers would not reach an agreement, the minimum wage would be set by the government to at

least 60% of the average wage of two years earlier (Schulten and Müller 2020: 116). According to this new rule, the minimum wage should have increased to EUR 656 in January 2021, as demanded by the trade union KOZ SR. The actual increase to EUR 623 therefore fell short of the target defined by law.

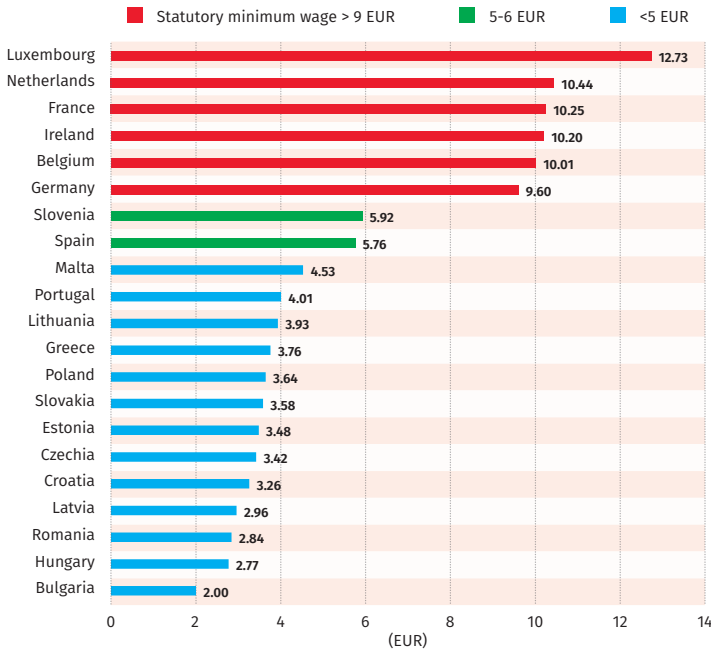
Finally, the third factor that influenced minimum wage increases was their integration into a broader, more demand-side-oriented handling of the crisis based on stabilising internal demand. This was the case in Bulgaria and Portugal (Eurofound 2021: 19).

Despite the continuing overall trend of minimum wage convergence between CEE and western European countries, a great deal of variety in the absolute minimum wage level still persists across the EU. As regards the absolute level of minimum wages on 1 September 2021, three broad groups of countries can be distinguished. The first group, with minimum wages above EUR 9 an hour, comprises six countries ranging from Germany (EUR 9.60) to the Netherlands (EUR 10.44) and Luxembourg (EUR 12.73). The second group, with minimum wages of EUR 5-6, comprises only Slovenia (EUR 5.92) and Spain (EUR 5.76). The by far largest group comprises the 13 countries with a minimum wage of less than EUR 5. With the exception of Malta, Portugal and Greece this group consists exclusively of CEE countries and ranges from Bulgaria (EUR 2) and Hungary (EUR 2.77) to Portugal (EUR 4.01) and Malta (EUR 4.53).

The absolute level of statutory minimum wages says little, however, about whether minimum wages are adequate in the sense of enabling a decent living, which is the explicit objective of the European Commission’s proposal for a directive on adequate minimum wages. As a matter of fact, in its proposed directive, the European Commission explicitly states that ‘in the majority of Member States with national statutory minimum wages, minimum wages are too low vis-à-vis other wages or to provide a decent living’ (European Commission 2020a: 2).

This assessment is implicitly based on the two fundamental methods of establishing the adequacy of minimum wages (Schulten and Müller 2019). The first is the so-called ‘living wage approach’ which determines adequate minimum wages by calculating the costs for a certain basket of goods and services which is necessary for a decent living and participation in social life. The second is the so-called ‘wage distribution approach’, which considers the relative position of minimum wages in the national wage structure. Since there is no universally accepted calculation for a living wage, neither regarding the concrete

Figure 3.8 **Statutory national minimum wage (per hour, in euros, September 2021)**



Note: Conversion of national currencies into EUR based on average exchange rate in 2020.
Source: WSI Minimum Wage Database (WSI 2021).

composition of the basket of goods and services nor regarding the types of household which needs to be considered, the wage distribution approach is more pragmatic. It is based on the Kaitz Index which measures the minimum wage as a percentage of the national full-time median or average wage. The median wage is defined as the wage that divides the overall wage structure into two equal segments; i.e. it marks the boundary between the highest paid 50% and the lowest paid 50% of the employees.

As the European Commission points out in recital No. 21 of the proposed directive, 60% of the gross median wage and 50% of the gross average wage are indicators commonly used at international level as a reference value to assess the adequacy of minimum wages in relation to the gross level of wages (European Commission 2020a: 20). These two indicators define a ‘double decency threshold’ below which no statutory minimum wage should be set in order to achieve the original aim of the proposed directive ‘to ensure that the workers in the Union are protected by adequate minimum wages allowing for a decent living’ (European Commission 2020a: 2). Figure 3.9 illustrates that in 2020, not one EU Member State fulfilled this double decency threshold. On the contrary, current minimum wage levels are well below the double decency threshold in the vast majority of EU countries.

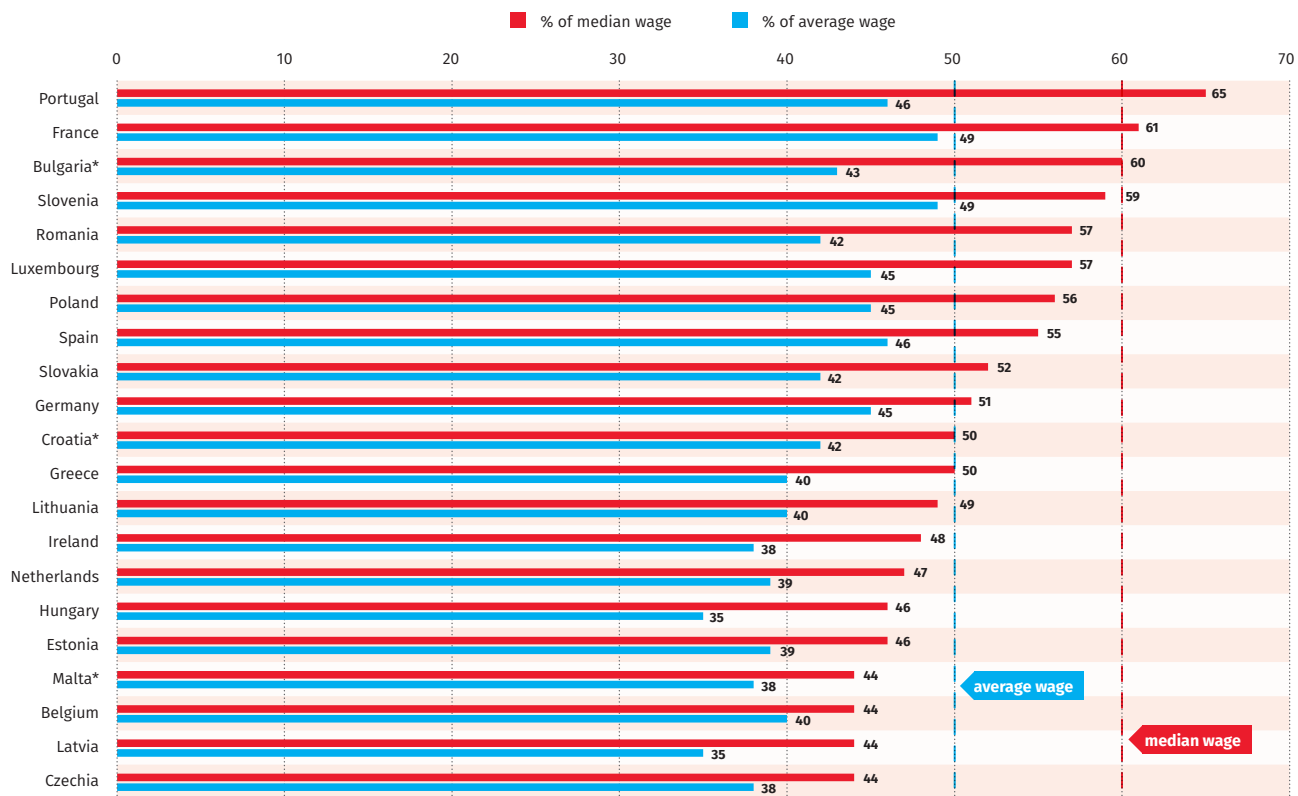
Figure 3.10, which illustrates the number of employees who would benefit from an increase in the statutory minimum wages to

60% of the median and 50% of the average wage, demonstrates the far-reaching practical implications of implementing the double decency threshold. According to the calculations by the European Commission, more than 25 million workers – 18.6% of all employees in EU countries with a statutory minimum wage – would benefit from an increase of minimum wages to the double decency threshold. Over half of this number is accounted for by three large EU Member States whose minimum wages are currently well below the double decency threshold: Germany (6.8 million employees), Spain (4.1 million) and Poland (4.0 million). The number of directly affected workers is significantly lower in countries which are already close to the reference values, such as France (2.2 million). Measured as a share of the total number of persons employed, the number of workers who would benefit from a corresponding minimum wage increase ranges from less than 10% in countries such as Belgium, Slovenia and France to more than 30% in countries such as Greece and Romania (Figure 3.10).

Figure 3.11 further illustrates the positive impact that an increase of minimum wages to the double decency threshold would have on the gender pay gap. The gender pay gap is the difference between the average gross hourly wages of male and female employees as a percentage of male wages, unadjusted for individual characteristics. The data, which was prepared by the European Commission and based on the Euromod micro-simulation model, illustrates that an increase of minimum wages to 60% of the median and 50% of the average wage would lead to a reduction of the gender pay gap in all countries with a statutory minimum wage. The actual reductions range from 1% in Belgium, France and Malta to 10% and more in Spain (10%), Luxembourg (10%), Slovakia (11%), Poland (12%), Greece (19%) and Romania (25%).

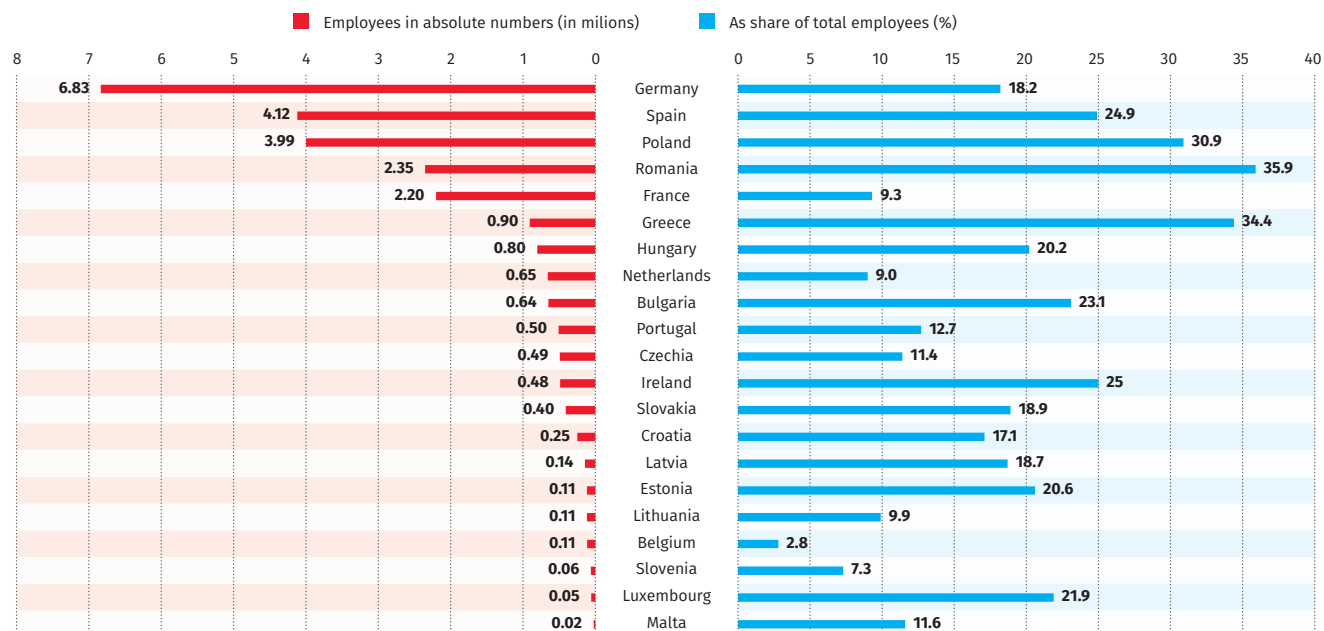
In order to achieve such an improvement for more than 25 million workers it is essential that in the minimum wage directive the double decency threshold remains the decisive reference for minimum wage adjustments. Currently, the double decency threshold is explicitly mentioned in the recitals of the directive, which, despite not obliging the Member States to comply with the 60/50% threshold, still creates a strong normative frame of reference for minimum wage-setting in the future (Schulten and Müller 2021). It is, furthermore, important that the directive’s key objective of ensuring adequate minimum wages (as determined by the double decency threshold) is not undermined by other provisions in the directive. This applies in particular to Article 4 which deals with the

Figure 3.9 Minimum wage as % of full-time median and average wages (2020)



Note: * Data for 2019.
Source: OECD earnings database (OECD 2021). For Bulgaria, Croatia and Malta, data for 2018: European Commission (2020).

Figure 3.10 Number of employees who would benefit from an increase in the statutory minimum wage to 60% of the median and 50% of the average wage (highest value in each case; in millions and %)



Source: Schulten and Müller 2021 based on European Commission (2020) and on employment figures for 2019 from the Eurostat Labour Force Survey.



Countries with high collective bargaining coverage tend to have a much lower wage dispersion and fewer low-wage sectors

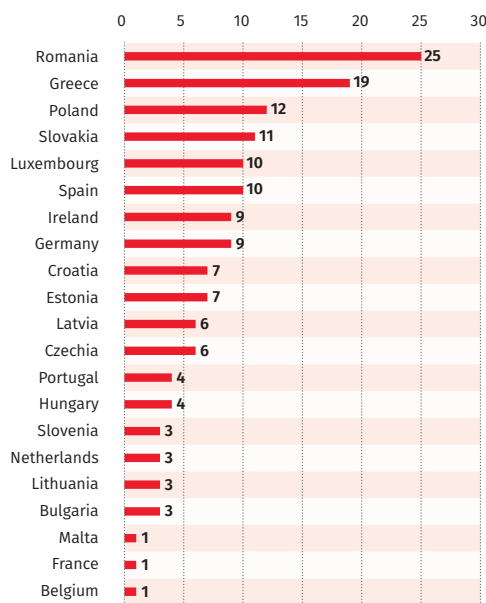
criteria to be used by Member States when adjusting minimum wages. While, in essence, the Member States are free to choose whatever criteria they find most appropriate, the proposed directive calls on them to take into account at least the following four criteria: the purchasing power of minimum wages, the general level of gross wages and their distribution, the growth rate of gross wages, and labour productivity developments (European Commission 2020a: 24).

The last criterion, labour productivity development, is particularly problematic for two reasons: first of all, the concept of productivity is inherently vague and difficult to measure in the private services sector, which would benefit most from an increase of the minimum wage to the double decency threshold. Secondly, the proposed directive leaves it entirely open as to what kind of productivity (national, sector, company or even individual) should be taken into account (Schulten and Müller 2021). Thirdly, even if one agrees to measure wages at national level, the assumption that wages should adapt to productivity developments rather than the other way around can be counterproductive: too low wages can actually discourage investment, which increases labour productivity and drives an economy and wages into stagnation (Sandbu 2020). Because of all these imponderables, productivity is not an appropriate criterion to achieve the objective of ensuring adequate minimum wages. On the contrary, it gives political actors the freedom to undermine the concept of adequacy which inherently aims at ensuring a decent standard of living for all

workers. Another provision that potentially undermines the concept of adequacy is Article 6 of the proposed directive, which allows Member States to define sub-minimum rates and deductions that reduce the remuneration to below the level of the statutory minimum wage.

It should be emphasised, however, that even the fact that a country meets the double decency threshold does not guarantee that the minimum wage provides an adequate standard of living. In a range of countries, such as Portugal, Bulgaria and Romania, the comparatively high Kaitz Index reflects a generally low wage level. To put it bluntly: 60/50% of a very low median and average wage is still not enough to make a living. This highlights the importance of linking the objective of ensuring adequate minimum wages with measures to stabilise the overall wage structure, for instance through the support of multi-employer sectoral bargaining structures. It seems that the importance of this link has been recognised by the European Commission, because the second main objective of the proposed directive is the strengthening of collective bargaining. For this purpose, the proposed directive obliges all Member States whose collective bargaining coverage is below 70% to develop an action plan with measures to promote collective bargaining and to increase bargaining coverage. Adequate collective bargaining coverage of at least 70% not only serves to raise the overall wage structure, it also contributes to reducing wage inequality because of the close link between collective bargaining coverage, the degree of wage dispersion and the size of the low-wage sector (OECD 2019). Countries with high collective bargaining coverage tend to have a much lower wage dispersion and fewer low-wage sectors.

Figure 3.11 Reduction in gender pay gap* if statutory minimum wage were increased**



Note: * Percentage difference in median wages between women and men. ** To 60% of the median wage and 50% of the average wage (highest value in each case). Source: European Commission (2020b) based on EUROMOD microsimulation model.

Figure 3.12 demonstrates that collective bargaining coverage in 16 out of 27 EU Member States is currently below the 70% threshold of the proposed directive. It moreover demonstrates the importance of industry-level collective bargaining for obtaining a high bargaining coverage. In all the countries in which bargaining coverage is higher than 50%, the (cross-)sectoral level is (still) the dominant level of collective bargaining. At the same time, Figure 3.12 also illustrates that some kind of state support is essential to achieving the 70% threshold. This can take different forms. In seven of the eleven countries with a bargaining coverage higher than 70% it is the frequent use of the extension mechanism which ensures that collective agreements also apply to companies which did not sign the agreement or which are not members of the employers' federation that signed the agreement.

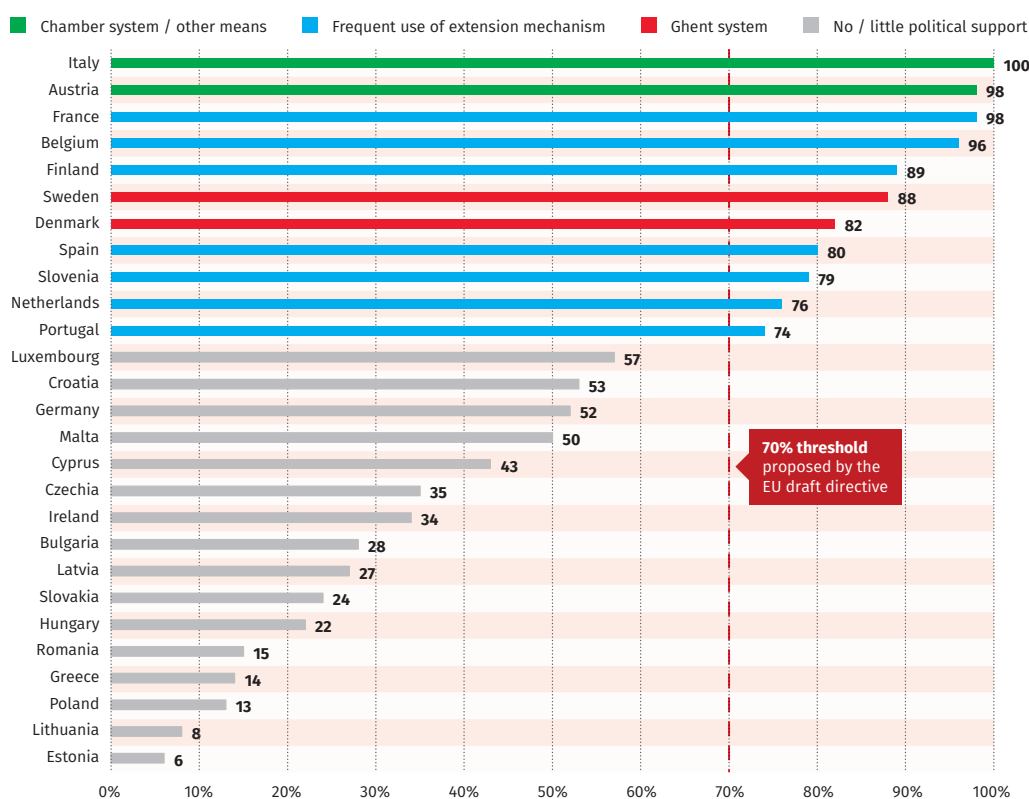
In Italy and Austria, the two countries that top the table, functional equivalents ensure (almost) complete collective bargaining coverage. In Italy, the functional equivalent to the frequent extension of collective agreements is the constitutional right to ‘fair remuneration’, which, in case of a dispute, Italian labour courts usually define as the remuneration laid down in the relevant collective agreement (Treu 2016). In Austria, it is the chamber system – compulsory company membership of the Chamber of the Economy – which ensures that all collective agreements signed by the Chamber of the Economy automatically apply to all companies in the respective industry (Glassner and Hofmann 2019). Exceptions are to some extent Sweden and Denmark, where no extension mechanism or functional equivalents exist and where high bargaining coverage rests solely on the organisational strength of the two sides of industry. Even in these two countries, however, high union density is institutionally underpinned by the so-called ‘Ghent system’, which can be defined as a state-subsidised but voluntary unemployment insurance system administered by trade unions, and which in turn provides a strong incentive to join a union (Vandaele 2006). In order to strengthen collective bargaining, state support for collective bargaining should also include measures that ensure trade unions’ fundamental right to collective bargaining, such

as prevention of the victimisation of workers who exercise their right to collective bargaining and to join a union, and the right of access to the workplace for trade unions, both physically and digitally.

With its recognition of the need to strengthen collective bargaining and the obligation for Member States to establish a national action plan if collective bargaining coverage is less than 70%, the proposed directive is an important step towards ensuring that minimum wages that meet the double decency threshold are in fact high enough to enable minimum wage earners to make ends meet. However, in order to achieve this objective it is imperative that European policymakers withstand political pressures to water down the proposed directive by undermining the concept of adequacy and by lowering or even deleting the quantitative targets such as the double decency threshold and the 70% threshold for collective bargaining coverage.

Since the trade unions’ strength and capacity to act are important determinants in increasing bargaining coverage, as one important factor that contributes to the reduction of wage inequality, the remainder of this chapter will deal with the development of union membership and their capacities to mobilise for collective action.

Figure 3.12 **Collective bargaining coverage in the EU (2019 or most recent year available)**



Note: Collective bargaining coverage = percentage of workers eligible to be covered by a collective agreement who are so.
Source: OECD / AIAS 2021.

Trends in union membership and strike activity

The long-term decline in union membership

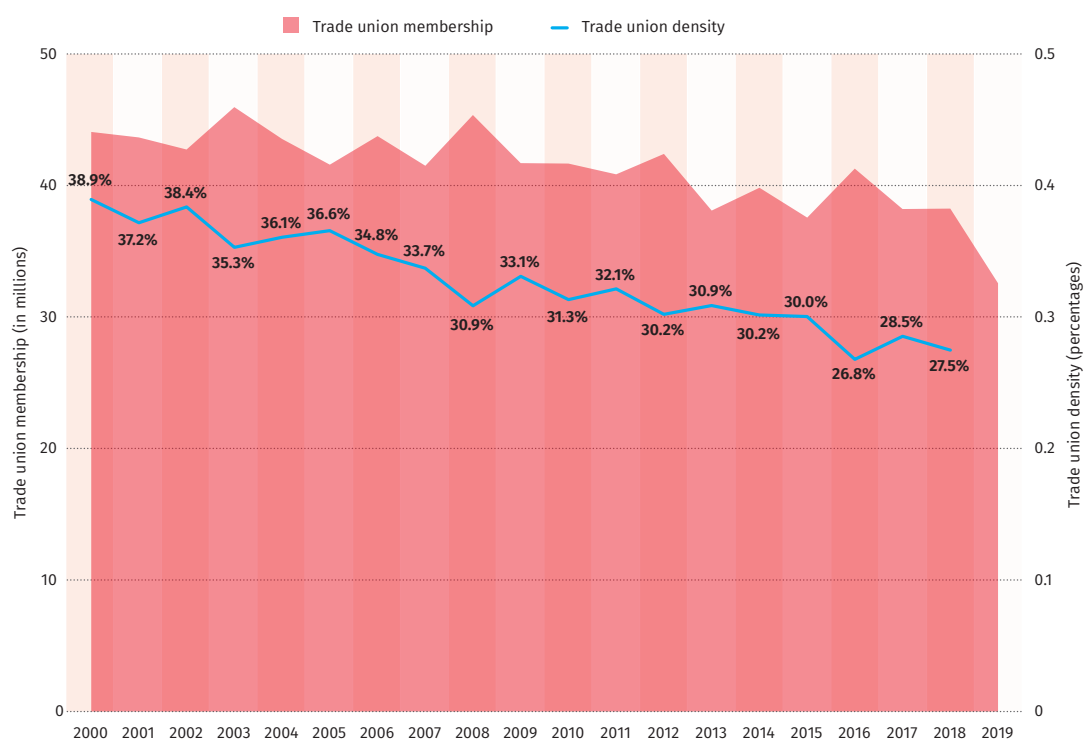
Historically, trade union policies, inspired by a vision of the ‘moral economy’, have been associated with greater equality in earnings, lowering poverty among households, and support for redistributive policies in general (VanHeuvelen and Brady 2021; VanHeuvelen 2018). Therefore, examining absolute and relative union membership over time is useful as a simple indicator for gauging the policy influence of trade unions.

The area graph in Figure 3.13 shows total trade union membership in the EU27 countries plus Norway, Switzerland and the UK, from 2000 until 2019 (the latest year for which data are available for half of the countries). The years 2017, 2018 and 2019 are only illustrative here, as data are still lacking for a number of countries

for these years. Continuous data are also not available for several countries, especially in central and eastern Europe, so the pattern of the area graph is artificially uneven – that is to say, it is determined by the availability of data. Nevertheless, we can say definitively that total membership in the EU27 dropped from about 44 million members in 2000 to about 38 million members in 2018.

Taking into account only the countries for which continuous data are available from 2000 to 2018 (AT, BE, CH, CZ, DE, DK, EE, ES, FI, FR, IE, IT, MT, NE, NO, SE, SK, UK), then the 2000s and the period 2010–2018 are both marked by an average decrease in membership of -0.6%. The average decline of all countries included stands at -0.8% and -1.1% for both periods. This means that the (average) decrease in union membership is more evident in central and eastern Europe (see also Vandaele 2019).

Figure 3.13 Trade union membership and density (simple average) in Europe (2000–2019)



Source: OECD/AIAS ICTWSS (2021).

Membership continuously rose in Ireland in the years preceding the pandemic, from about 481,000 in 2017 to about 505,000 in 2020 (OECD/AIAS ICTWSS 2021). Increases in these years also took place in Austria, Denmark, Malta and Norway, although it is only in Malta and Norway where membership stands higher now than in the 2000s. It remains to be seen whether the outbreak of the coronavirus has stimulated positive attitudes towards unions among workers. Clearly, economic uncertainty caused by the pandemic, as well as growing concern over workplace health and safety issues, have in certain industries driven more workers into the arms of unions in at least some European countries. In Belgium, for example, a considerable growth in union membership has occurred since the pandemic (L'Echo, 23 March 2020). This can be explained by the involvement of the unions in the administration of unemployment benefits, known as the 'Ghent system'. For the same reasons, Swedish unions have seen a similar influx of new members (Bender and Kjellberg 2020).

Employment levels might have also risen in the public sector, a stronghold of unionism, in some countries due to the pandemic. However, whether this all means that there will be a 'next upsurge' (Clawson 2003) in trade union membership – historically associated with socio-economic turmoil and labour unrest – remains to be seen.

Persistent country differences in union density

The line in Figure 3.13 shows a slow but almost inexorable decline in union density in Europe between 2000 and 2018, for which the financialisation of the economy is just one explanation (Kollmeyer and Peters 2019). If we only take into account the 17 countries (AT, BE, CH, CZ, DE, DK, EE, ES, FI, IE, IT, MT, NE, NO, SK, SE, UK) for which data is available for the whole period, the picture looks as follows: while on average, about 40% of workers were unionised in the period from 2000 to 2009, this average then declined to about one worker out of three from 2010 to 2018 – a drop of five percentage points. The average lies three percentage points lower for both periods if all countries are included.

Furthermore, these are aggregated figures which mask, for example, occupational and sectoral variation. Union density is in fact even lower, since the denominator, which is based on the number of wage and salary earners, does not consider all workers relevant for trade unions,

such as solo self-employed workers and workers in the 'shadow economy'.

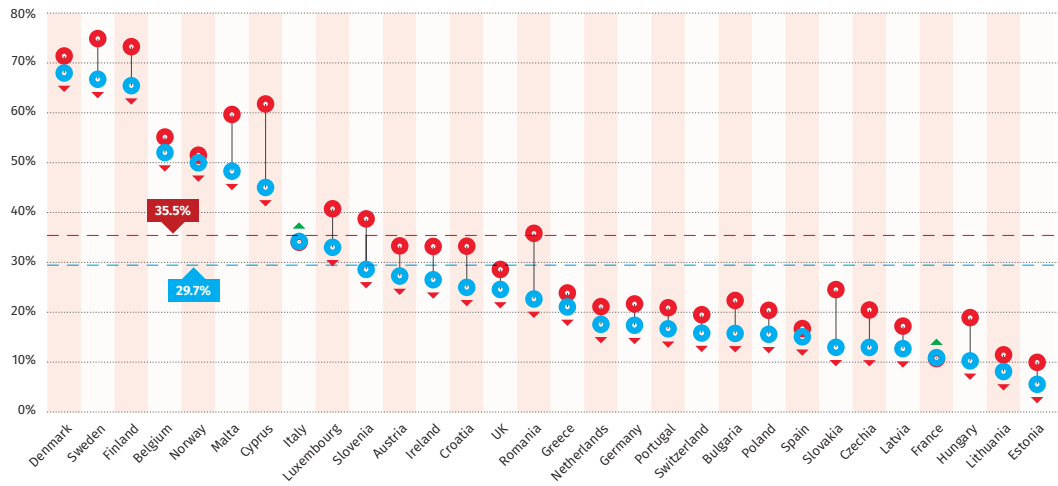
Figure 3.14 depicts a comparison between averages in trade union density in the 2000s and the period 2010-2019. These figures also demonstrate that union density in almost all countries has weakened in the two periods considered here, especially in the CEE countries. There are, however, a few exceptions. Italy has seen a slight increase in density, but this is largely due to a decrease in the number of wage and salary earners, while Spain and France have a rather stable union density. These two countries with low unionisation rates illustrate that union legitimacy can also be based on their mobilisation capacity (Sullivan 2010), as in France, or in union elections for workplace representatives and works council representatives in companies, as in Spain (Martínez Lucio 2017). All in all, considerable divergence in the level of unionisation remains, partly as a result of the variation in labour-friendly labour market institutions (Schnabel 2013), and partly due to how union membership is understood in society.

The Nordic countries and Belgium are still at the top of the 'unionisation league' due to a relatively benevolent institutional setting. While the 'Ghent system', which guarantees unions' involvement in unemployment insurance schemes, is an important explanation for this in these countries (except for Norway) (Høgedahl and Kongshøj 2017), union access to the workplace is also key (Ebbinghaus et al. 2011; Ibsen et al. 2017). Furthermore, centralised collective bargaining is associated with a higher unionisation level, as management has relatively lower incentives to thwart unions at the workplace in such industrial relations systems (Rasmussen 2017). At the bottom of the league, we find most CEE countries: Croatia, Slovenia and Romania have been exceptions in the past, but (rapid) decline has now set in in these countries too.

An overall long-term decline in the strike volume...

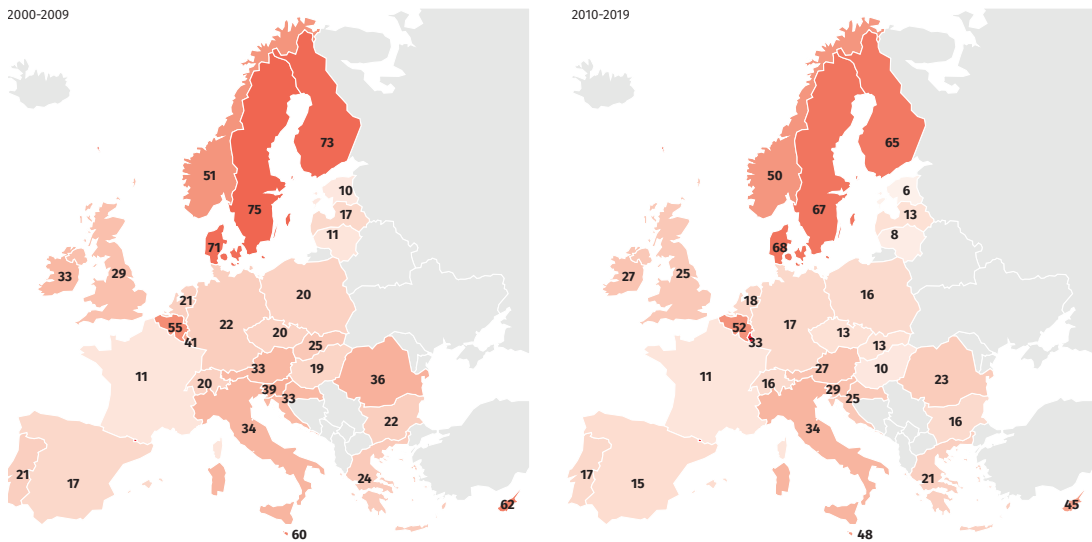
Strike actions informs us about the degree of collective discontent among workers, either with employers at the company or industrial level or with political authorities (if regulations on strike action allow for this). Figure 3.15 depicts the weighted average of the days not worked due to industrial action (which includes lockouts) per 1,000 employees in most European countries, especially those in western Europe, from 2000

Figure 3.14a Trade union density per country, 2000-2009 and 2010-2019



Note: Sorted by 2010-2019 averages.
Source: OECD/AIAS (2021).

Figure 3.14b Trade union density per country, 2000-2009 and 2010-2019 (%)



Note: Sorted by 2010-2019 averages.
Source: OECD/AIAS (2021).

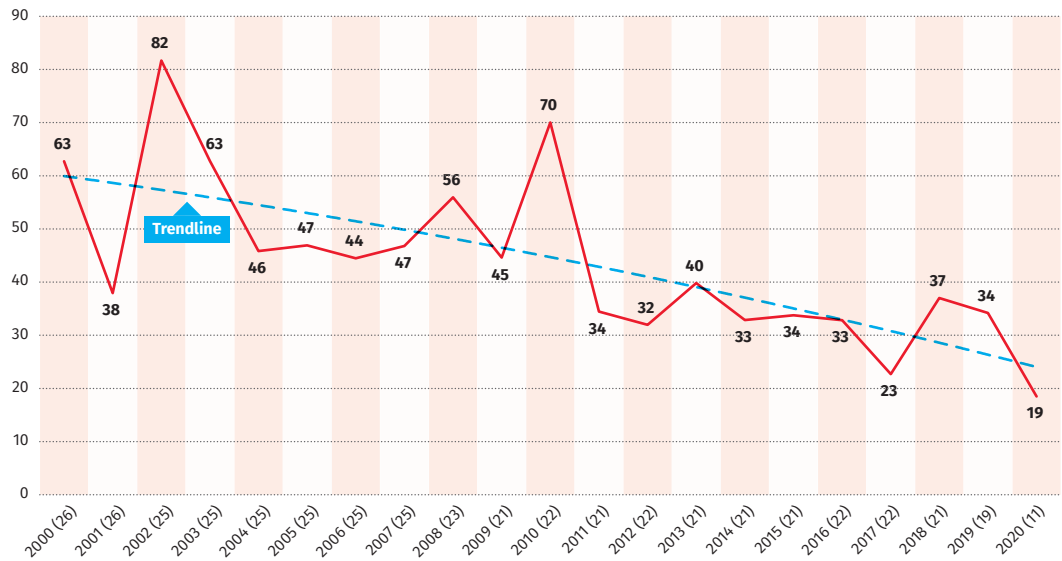
until 2020. It displays a declining trend, with relative peaks in the strike volume in 2002 and 2010 in the last two decades. The first peak has been attributed to the ‘dot-com bubble’ and the 9/11 recession (European Commission 2011: 46), whereas the second peak mainly results from ‘national days of action’ against pension reforms in France (Ancelovici 2011). Thereafter, the volume falls to a level equal to or below 40 days.

Data on industrial action generally involve underestimations, and this is certainly the case for post-2008 developments, as data for some strike-prone countries are lacking and the data ignore several general strikes linked to anti-austerity protests (Dribbusch and Vandaele 2016). While there was a relative decline in strike activity in southern Europe before the financial

crisis of 2007-2008, it regained intensity once the European debt crisis began to unfold, although demonstrations remained the prevailing form of political protest (Hunger and Lorenzini 2020). In general, though, the long-term but uneven fall in the strike volume mirrors the shrinking weight of industrial trade unionism, and a shift in strike activity towards the private services sectors, especially transport and logistics, where strikes tend to be shorter and sometimes smaller due to their more disruptive capacity (Bordogna and Cella 2002; Vandaele 2016).

One can only speculate whether these trends will continue or be reversed during and especially after the Covid-19 pandemic. Based on the 11 countries (BE, CH, DE, DK, ES, FI, IE, NE, NO, SK, SE) for which data are available, it looks

Figure 3.15 Days not worked due to industrial action in Europe per 1,000 employees (weighted average) (2000-2020)



Note: Figures in brackets indicate the number of countries on which the weighted average is based.
 Source: Data on industrial action: ETUI based upon data from national statistical offices. For details about the availability and reliability of data, see Dribbusch and Vandaele (2016). Employees in employment: Eurostat.

like the pandemic generally dampened strike activity in 2020, except in Norway. Moreover, in, for instance, Belgium and Finland, it is clear that most strike activity took place in the first quarter, resuming to some extent only in the last quarter. In general, however, the pandemic has not made strike activity and collective action impossible, although processes of mobilisation and the organisation of actions might have been more difficult, as physical contact has been hardly possible in some industries. Nevertheless, corona-proof strike actions and other collective actions like demonstrations and rallies have taken place, and some of them have been clearly related to the pandemic, such as those in the health and social care sector (Vandaele 2021).

...but with persistent country differences

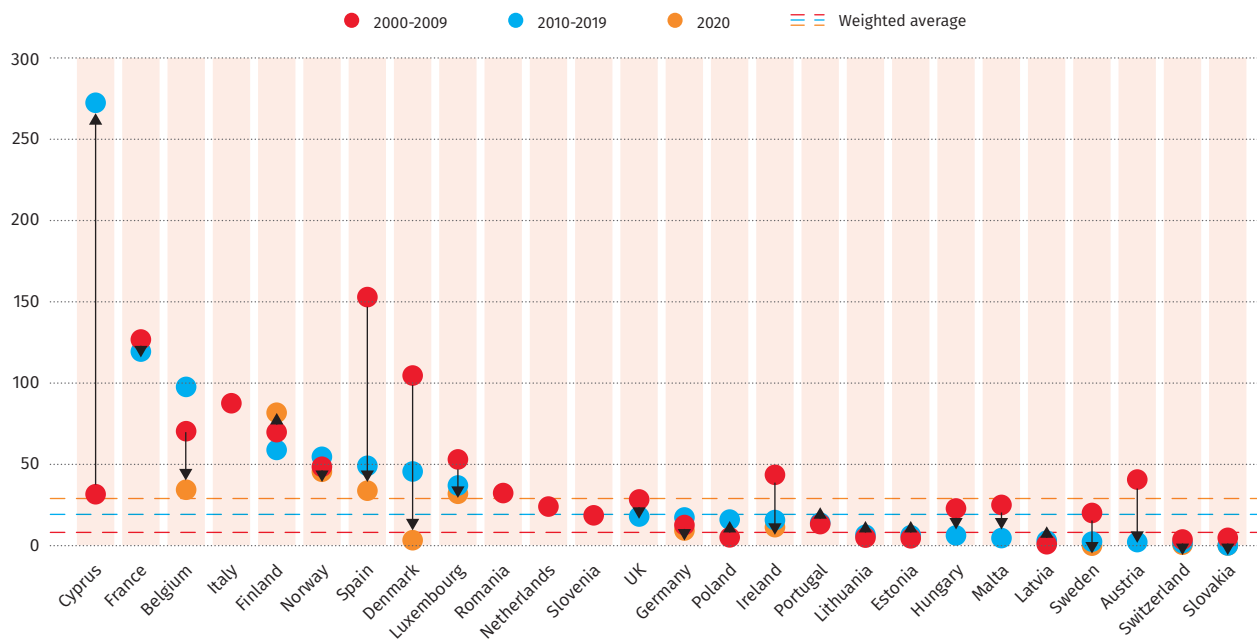
Figure 3.16 makes a comparison between the average strike volume in the 2000s and in the period 2010-2019 in each European country for which (sufficient) data are available; the figure also depicts the strike volume in the year 2020. It largely confirms the secular trend in the strike volume, but it also provides a more nuanced picture at the country level. In several countries, the volume declined on average in the most recent period. This is most evident in the cases of Spain and Denmark – two countries previously marked by a certain proneness to industrial action in the past. In contrast, the open-ended conflict that erupted in the construction industry

in 2013 explains the remarkable increase in Cyprus, which led the European ‘strike league’ in the 2010-2019 period.

Furthermore, showing the enduring mobilisation capacity of trade unions, there is not much difference between the strike volume in the two periods considered in France (the data for the year 2019 are still not available at the time of writing). Remarkably, low-strike countries such as Germany and the Netherlands also saw a certain increase in the last period compared to the 2000s. In particular, political mass strikes, such as large-scale strikes in the public sector and general strikes, help to explain differences in the country’s volume. Quintessential examples of this are an exceptional general strike against pension reforms in Austria in 2003 and a 24-hour national public sector strike in protest against the government’s pay cuts in Ireland in 2009. Public sector, national and general strikes also took place in Belgium since 2012, which explains why industrial action increased in the most recent period. The very slight increase in Poland, meanwhile, can largely be explained by a nationwide strike action for higher wages in education in 2019. Poland is a relative exception, however, as strike activity in most other CEE countries stands at a very low level.

Above all, Figure 3.16 demonstrates the persistence of cross-country differences in the strike volume over time, with those differences tending to increase during upswings in industrial action (Brandl and Traxler 2010).

Figure 3.16 Days not worked due to industrial action per 1,000 employees (country comparisons), 2000-2009, 2010-2019 and 2020



Source: Data on industrial action: ETUI based upon data from national statistical offices. For details about the availability and reliability of data, see Dribbusch and Vandaele (2016). Employees in employment: Eurostat.

Conclusions



Adequate minimum wages and strong collective bargaining can make an important contribution to solving the problem of wage inequality

After a collapse of wage growth in the first year of the pandemic, nominal wage growth recovered slightly in 2021 as the many of the most serious measures to contain the spread of the pandemic were eased and economic activity resumed. Due to a substantial increase in inflation, however, this did not translate into a corresponding increase in real wage growth, which was very unevenly spread across European countries and which in the majority of countries considerably lagged behind productivity growth. This means that in 2021 the long-term trend of a decoupling of real wage increases from labour productivity growth continued. This is reflected in a decreasing wage share and a corresponding shift in the income distribution from labour to capital income.

Analyses of the impact of the pandemic on wage and income inequality moreover suggest a sizeable increase in inequality not only between the bottom and the top of the wage distribution but also between women and men, because women tend to be over-represented in the sectors that were hardest hit by the pandemic and the resulting wage losses. Even before the pandemic, the European Commission officially recognised the problem of wage inequality and also in-work poverty as at least part of the solution to this problem by presenting a draft directive to ensure adequate minimum wages and to strengthen collective bargaining. This chapter has demonstrated not only that adequate minimum wages and strong collective bargaining can make an important contribution to solving the problem of wage inequality, but also that most EU Member States are still far off the respective benchmarks that would help to

solve the problem: the double decency threshold for minimum wages of 60% of the median wage and 50% of the average wage, and 70% collective bargaining coverage.

The proposed directive is currently under discussion in the European Council and the European Parliament and in both arenas opponents of the directive are attempting to water down its content so that it essentially only regulates processes rather than leading to substantial results. Without an obligation placed on national governments to take measures to ensure adequate minimum wages not below the double decency threshold and to ensure a collective bargaining coverage of at least 70%, the proposed directive is in danger of being de facto a recommendation and a directive only in name. Thus, the actual key test for the criterion of adequacy is whether the directive manages to reduce the number of minimum wage earners who live in poverty. The proposed directive on adequate minimum wages is one of the last chances to prove to the millions of workers who cannot make a decent living from what they earn that initiatives like the European Pillar of Social Rights and more recently the Porto Social Commitment are more than just window-dressing. A failure of the proposed directive in ensuring real improvements for minimum wage earners would further undermine the legitimacy of the European integration project and strengthen right-wing populist forces with a clear nationalist and anti-European agenda – which ironically contributed to the political momentum for a more social orientation of EU policy in the first place.

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