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I Z A
World of Labor
Evidence-based policy making

Labor market institutions and policies in old and new EU members

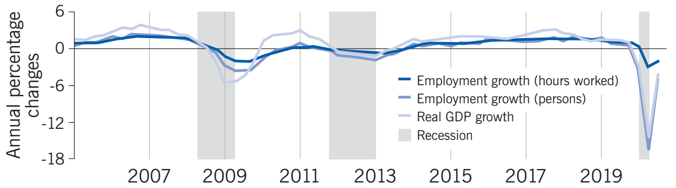
After three recessions, a new emphasis on the importance of collective institutions and social dialogue is emerging

Keywords: labor market institutions, wage coordination, union density, labor market power, social dialogue

ELEVATOR PITCH

Old and new EU member states still adopt quite different labor market institutions and policies: convergence has been partial and limited. Nevertheless, a new agreement is spreading on the importance of well-developed, coordinated institutions, supported by social dialogue, in view of the increasing challenges posed by the macro economy and by the increasing fragmentation of labor markets.

During each recession, the adjustment burden in the Euro area was more on hours worked, less on job losses



Source: Anderton et al., ECB Economic Bulletin, Issue 8/2020.

KEY FINDINGS

Pros

- In new EU member states, employment protection for temporary contracts has increased, converging towards that of older EU members.
- Employment protection laws cushion the impact of negative macro shocks on workers' incomes and reduce job losses.
- If increased bargaining coverage is associated with greater bargaining coordination, this has positive effects on employment and price stability.
- In fragmented labor markets, collective bargaining institutions may improve the functioning of labor markets.
- Job retention schemes were widely promoted during the COVID-19 recession, providing a strong cushion against job losses.

Cons

- Collective bargaining coverage has continued to decrease since 1985 in most European countries.
- Expenditures on active labor market programs are contracting in old EU member states; they are constant but much lower in new members.
- Until 2019, expenditures on unemployment benefits and related measures diminished throughout the EU.
- Fragmentation of labor markets and increasing incidence of negative macro shocks pose hard challenges to labor market policies.
- Some countries have not yet adopted provisions for adequate minimum wages nor for coordinating them with collective bargaining.

AUTHOR'S MAIN MESSAGE

Differences in trade union density (the proportion of workers who are union members), collective bargaining coverage and expenditures on labor market policies between new and old member states have increased since 2000. On the other hand, with respect to employment protection laws there has been some convergence between the two groups. Especially since the COVID-19 recession, there is a new understanding for the importance of social dialogue and coordinating institutions for collective bargaining. Additionally, the macro-stabilization function of fiscal policies has evolved in this direction, by subsidizing temporary but widespread job retention schemes.

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