

# European Minimum Wage Directive and Strengthening Collective Bargaining Coverage

**A critical assessment**

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## Abstract

The EU Minimum Wage Directive recommends that EU Member States achieve a collective bargaining coverage of 80 per cent to ensure adequate minimum wages. This figure is not binding in its implementation. However, EU Member States not reaching the target are obliged to submit a National Action Plan. This plan needs to contain measures aimed at strengthening collective bargaining coverage. It remains legally contested whether the adoption of such measures constitutes a binding obligation. The Directive accords primacy to sectoral or cross-sectoral wage negotiations. A target of 80 per cent is arbitrary and cannot be convincingly justified on either empirical or theoretical grounds. Equally, no sufficient empirical evidence can be found to support the prioritisation of sectoral or cross-sectoral collective bargaining systems. The EU Minimum Wage Directive pursues exclusively distributional policy objectives. Allocative policy objectives, such as the promotion of employment, are mentioned only in passing in the Directive. In doing so, the Directive follows the narrative that only collective agreements guarantee fair and adequate wage-setting, without addressing the possible negative externalities of higher collective bargaining coverage. Such effects may include higher unemployment or higher prices.

# 1 The debate on collective bargaining coverage in the EU

In October 2022, the European Parliament and the Council of the European Union adopted the Directive on adequate minimum wages in the European Union (European Parliament/Council of the European Union, 2022). The EU Minimum Wage Directive aims to ensure adequate protection for workers through collectively agreed or statutory minimum wages. In this context, the Directive also pursues the objective of strengthening the collective bargaining coverage in the Member States. A high level of collective bargaining coverage is, in the view of the EU Minimum Wage Directive, necessary to ensure that as many workers as possible receive adequate minimum wages. Well-functioning collective bargaining is described as an “important means” of enforcing adequate minimum wages. In Member States without a statutory minimum wage, the level of the minimum wage, as well as the proportion of workers protected by it, depends directly on well-functioning collective bargaining “together with a high coverage of sectoral or cross-industry collective agreements” (European Parliament/Council of the European Union, 2022, recital 22). At this point in the preamble to the Directive, no explicit reference is made to the coverage of collective agreements. However, it is emphasised in general terms that against the background of “declining collective bargaining coverage, it is essential that the Member States promote collective bargaining [...] to improve workers’ minimum wage protection” (European Parliament/Council of the European Union, 2022, recital 24).

The improvement of living and working conditions and, in particular, the adequacy of minimum wages for workers constitutes the “primary objective” of the EU Minimum Wage Directive. The “promotion of collective bargaining for wage-setting” represents a secondary objective for achieving this primary objective (ECJ, 2025, recital 136). The promotion of collective bargaining is therefore not an isolated objective but a means to an end, namely the improvement of living and working conditions. Both objectives are enshrined in Article 1 of the Directive. Article 4 of the Directive elaborates further on the “[p]romotion of collective bargaining for wage-setting”. Pursuant to Article 4(2), “each Member State in which the collective bargaining coverage rate is less than a threshold of 80 % shall provide for a framework of enabling conditions for collective bargaining [...]”. Such a Member State shall also establish an action plan to promote collective bargaining.”

The action plan is to be reviewed at least every five years and revised where necessary. It is to be established following consultation with, or by agreement with, the social partners (collective bargaining parties). The European Commission is to be notified and the action plan is to be published. The reference value of 80 per cent is justified, on the one hand, by the observation that countries with a high level of collective bargaining coverage tend to have a lower proportion of low-wage earners. In Member States with a low share of low-wage earners, collective bargaining coverage exceeds 80 per cent. Furthermore, a high level of collective bargaining coverage of more than 80 per cent is generally associated with a high minimum wage level (European Parliament/Council of the European Union, 2022, recital 25).

An action brought by Denmark before the European Court of Justice (ECJ), supported by Sweden, was dismissed by the ECJ with regard to the provisions on the extension of collective bargaining coverage (ECJ, 2025, recital 147). The applicants argued, amongst other things, that there had been a breach of Article 153(5) of the Treaty on the Functioning of the European Union (TFEU). Article 153 TFEU lays down in paragraph 1(b) that the Union shall support the Member States in the field of “working conditions” with a view to achieving the objectives of Article 151 TFEU. Article 151 TFEU provides: “The Union and the Member States [...] shall have as their objectives the promotion of employment, improved living and working conditions, [...], proper social protection, dialogue between management and labour, the development of human resources [...] and

the combating of exclusion” (European Union, 2012). However, pursuant to Article 153(5), this does not confer on the Union any regulatory competence in respect of “pay”, the “right of association”, the “right to strike”, or the “right to impose lock-outs” (ibid.). Regulatory competence in these areas is therefore expressly excluded. Denmark objected, amongst other things, that Article 4(2) of the EU Minimum Wage Directive directly interfered with the core of the Danish model. It was solely a matter for the social partners to negotiate and determine the level of wages in full autonomy (ECJ, 2025, recital 37).

In dismissing the action, the ECJ draws a distinction in its reasoning between the promotion of collective bargaining and the right of association. The starting point, it held, is the objective of the Union to promote “the role of the social partners and facilitating dialogue between them, while respecting their autonomy” (ECJ, 2025, recital 107). The exclusion of regulatory competence in respect of the right of association relates (as in the case of pay) primarily to ensuring “the autonomy of the social partners at national level”. Accordingly, the concept of “right of association” is to be interpreted “as referring to the freedom of workers and employers to form or dissolve organisations, [...] or to join or not to join them but does not cover measures governing the right to collective bargaining between employers and workers” (ECJ, 2025, recital 115). Since Article 4(2) of the EU Minimum Wage Directive aimed solely at promoting collective bargaining, the right of association was not affected.

The ECJ further establishes that, pursuant to Article 4(2) of the EU Minimum Wage Directive, Member States are not required to achieve the threshold of 80 per cent collective bargaining coverage referred to therein, but merely to implement a framework creating the conditions for collective bargaining. In addition, they are required to draw up an action plan to promote collective bargaining. The EU Minimum Wage Directive therefore imposes on Member States “not obligations as to the result to be achieved but, at most, obligations as to means” (ECJ, 2025, recital 79). Where a Member State falls below the 80 per cent threshold, this does not “in itself constitute a breach of an obligation on that Member State” (ECJ, 2025, recital 80). The Directive prescribes neither an obligation to enforce “a larger number of workers to join a trade union” nor an obligation “that the Member States must declare a collective agreement universally applicable” (ECJ, 2025, recital 84). At the same time, according to the EU Minimum Wage Directive, sector-specific or cross-sectoral collective agreements play a central role in ensuring minimum protection as “sectoral and cross-industry level collective bargaining is an essential factor for achieving adequate minimum wage protection and therefore needs to be promoted and strengthened” (European Parliament/Council of the European Union, 2022, recital 16). This passage is also reproduced in the ECJ judgment (ECJ, 2025, recital 16).

The EU Minimum Wage Directive and the ECJ judgment therefore contain a number of noteworthy prioritisations that warrant deeper economic analysis:

- The positive right of association is accorded a clear precedence over the negative right of association.
- Sector-specific or cross-sectoral collective bargaining and collective agreements are prioritised over company-level collective agreements.
- The regulatory objective of improving the minimum protection of workers is pursued without discussing the economic consequences of higher collective bargaining coverage regarding the competitiveness of small and medium-sized enterprises (SMEs) or of the European Union as a whole.

Of particular interest are the observations in the preamble to the Directive (which were also adopted by the ECJ) to the effect that “traditional collective bargaining structures have been eroding” in recent decades. This was attributed to “structural shifts in the economy towards less unionised sectors and to the decline in trade union membership”. The latter, it was argued, was a consequence of “union-busting practices” and the “increase of precarious and non-standard forms of work” (European Parliament/Council of the European Union, 2022, recital 16). No mention is made of the motives on the part of employers that might be decisive in the decision not to be covered by a collective agreement. This is all the more remarkable given that the scope of collective agreements extends significantly beyond the rate of trade union membership and the rate of companies and employees directly bound by a collective agreement – that is, by virtue of collective agreements negotiated by company's employer associations or by the company itself and of workers' membership in trade unions (see Chapters 2 and 3). Above all, companies that are directly bound by collective agreements account for higher numbers of workers being covered by such agreements. Equally, with regard to the passage in the EU Minimum Wage Directive stating that “sectoral and cross-sectoral level collective bargaining” had come “under pressure in some Member States” following the financial crisis of 2008, there is no indication whatsoever as to whether “traditional collective bargaining structures” were sufficiently flexible and adaptable. It is possible that they came under pressure precisely because of a lack of adaptability and an absence of problem-adequate solutions.

These questions are examined in the present analysis. The aim is not only to evaluate the objectives pursued by the EU Minimum Wage Directive; it is also to assess whether the proposed instruments – in particular a collective bargaining coverage of 80 per cent and the prioritisation of sectoral collective bargaining – are appropriate to achieve these objectives. To this end, Chapter 2 provides a stocktaking of collective bargaining coverage in Germany, whilst Chapter 3 looks at Europe. Chapter 4 discusses the extent to which a high level of collective bargaining coverage is suited to ensuring greater “fairness” in wage-setting. In addition, it examines whether sectoral or cross-sectoral collective bargaining is to be preferred over decentralised bargaining, as preferred by the EU Minimum Wage Directive. Since the National Action Plans called for by the EU also alter the role of the state in the wage-setting process, consideration is also given to how a more active state involvement in the wage-setting process – or indeed state direction of collective bargaining autonomy and wage-setting – is to be assessed. Chapter 5 draws some conclusions.

## 2 The German case: directly binding agreements and collective bargaining coverage

### 2.1 Directly bound versus being covered by a collective bargaining agreement

The debate on collective bargaining coverage in the EU is shaped by the normative assumption that a high level of binding agreements guarantees fair working conditions and is an indicator of a functioning collective bargaining autonomy. Being bound to a collective agreement is frequently equated with collective bargaining coverage. However, at least for the German case, a conceptual clarification is necessary in this regard (Lesch/Schröder, 2023). Being bound by a collective agreement is often defined merely as being covered by such an agreement. However, in the legal sense of the Collective Agreements Act (*Tarifvertragsgesetz*, TVG) only the members of the collective bargaining parties – trade unions on the one hand and employers on the other – are directly bound by collective agreements negotiated by the relevant social partners. Furthermore, this binding nature persists until the collective agreement expires. Collective bargaining coverage, by contrast, is understood as the actual coverage or reach of a collective agreement. It can extend well beyond the original scope of an agreement in the sense of the TVG.

Overall, four pathways can be distinguished by which collective bargaining coverage can be attained in Germany (Lesch/Schröder, 2023, 5):

- Firstly, collective bargaining coverage arises through the bilateral binding of workers and employers to their respective organisations or in case of employers also through acting as a signatory party to the collective agreement themselves. This means that workers need to be organised in a trade union and employers need to be bound by a collective agreement (either negotiated by their employer association or by themselves). In this case, the legal norms of the collective agreement apply directly and mandatorily to the employment relationship. In the German case, this is referred to as being directly bound by a collective agreement (*originäre Tarifbindung*).
- Secondly, collective bargaining coverage can also arise through unilateral binding. Thus, the legal norms of a collective agreement on matters relating to the workplace and works constitution law apply, pursuant to the TVG, to all employees whose employer is bound by a collective agreement. In this case, the legal norms also apply to workers who are not members of a trade union.
- Thirdly, collective bargaining coverage can also arise by statutory order. This is the case, for instance, when a declaration of general applicability is issued. In such cases, a collective agreement is declared binding on all establishments in a sector, including those without membership in an employer association.
- Fourthly, collective bargaining coverage can arise through contractual reference clauses, whereby employment contracts refer to a collective agreement, though the employment contracts' signatories are not formally bound by the agreements. Non-unionised workers also benefit from this arrangement.

In summary, collective bargaining coverage describes the actual reach of collectively agreed provisions, whilst the direct binding of a collective agreement reflects the organisational strength of the collective bargaining parties. The EU Minimum Wage Directive refers to collective bargaining coverage. However, collective agreements can also produce effects beyond their actual reach. This is the case when employers orient themselves

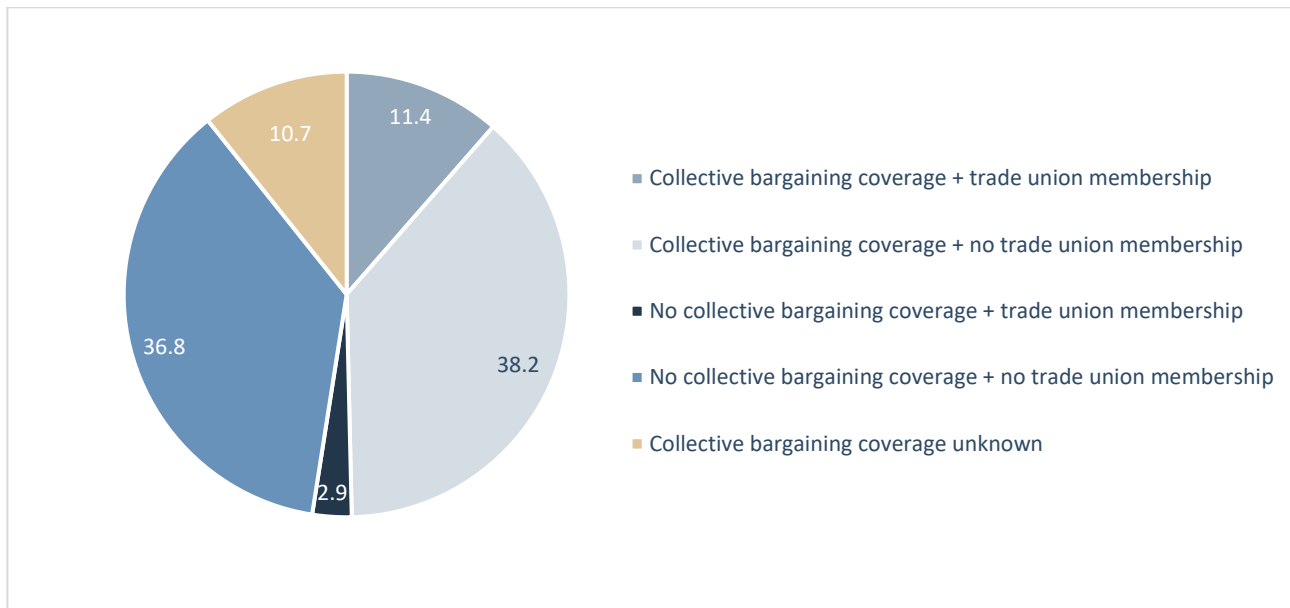
towards collective agreements and apply individual provisions thereof. The “orientation” towards collective agreements is statistically recorded and reported separately in Germany.

Various data sources are available in Germany for calculating the shares of workers and employers that are bound by a collective agreement and the broader collective bargaining coverage: the IAB Establishment Panel, the Earnings Survey, and the Socio-Economic Panel (SOEP). However, all three data sources capture the directly binding nature of collective agreements inadequately (Lesch/Schröder, 2023).

For the SOEP, employees have been surveyed regularly since 2015 as to whether their earnings are based on a collective agreement. A distinction according to the collective bargaining level – sectoral or company-level collective bargaining – is not possible in this context. In addition, employees are surveyed approximately every four years regarding their trade union status. By combining the questions on earnings and trade union status, it becomes possible to draw at least a rough empirical distinction between the different types of collective bargaining coverage (Bach, 2022; 2026; Lesch/Schröder, 2023, 18). The most recent available data relate to the year 2023. Figure 2-1 shows that just under 50 per cent of respondents stated that they were remunerated on the basis of a collective agreement. The collective bargaining coverage determined in this way comprises both the binding by an agreement established on a mutual basis by employer and employee as well as the unilateral binding by the employer. In 11.4 per cent of the cases, workers were union members, and their employer was bound by a collective agreement, whilst a further 38.2 per cent were not union members but paid in accordance with a collective agreement to which their employer was bound. This figure describes approximately the proportion of collective bargaining coverage arising by virtue of reference to the collective agreement in the employment contract (Lesch/Schröder, 2023, 7). In other words, this collective bargaining coverage arises because employers bound by collective agreements generally apply the collective agreement to all employees, regardless of whether they are trade union members or not. Almost 11 per cent of respondents stated that they did not know whether their earnings were based on a collective agreement. Just under 37 per cent were neither trade union members nor remunerated in accordance with a collective agreement to which their employer was bound. In just under 3 per cent of the cases, the employee was a trade union member, but the employer was not bound to a collective agreement.

**Figure 2-1: Employees' collective bargaining coverage and trade union membership in 2023**

Shares in per cent



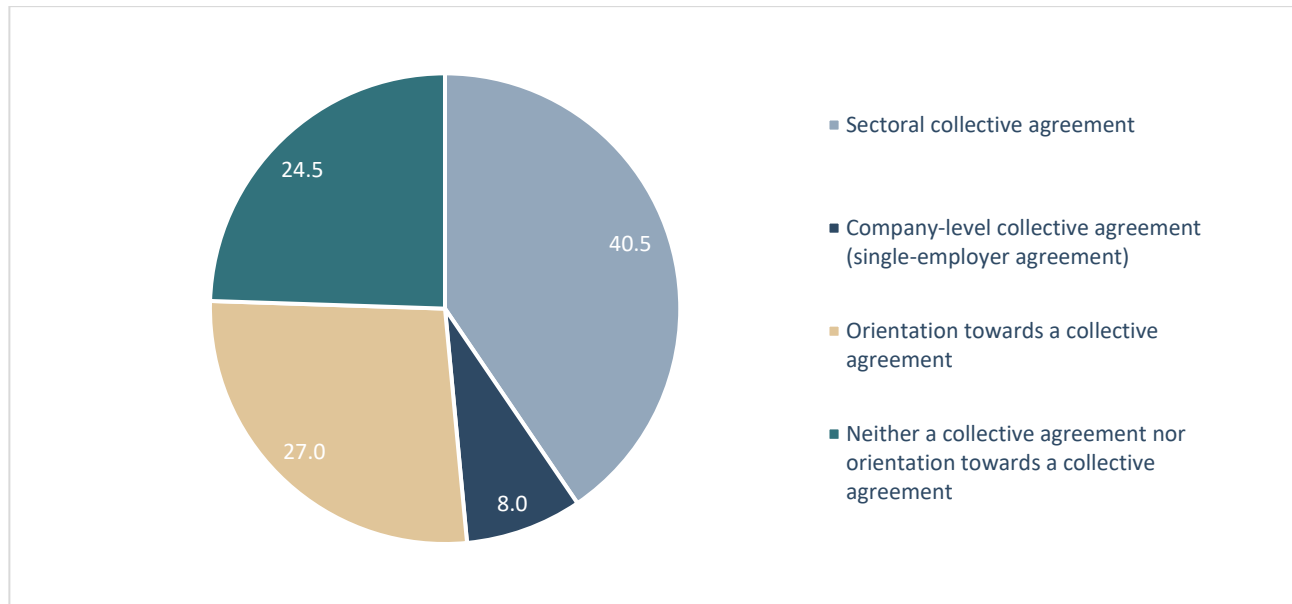
Source: Bach (2026)

Since the SOEP has only surveyed remuneration in accordance with collective agreements since 2015, and since some employees are unaware of their collective bargaining coverage, a complementary look at employer surveys is warranted. The IAB Establishment Panel has regularly surveyed employers since 1995/96 as to whether a sector- or company-level agreement, or no collective agreement applies in their establishment. The survey is able to capture the share of establishments directly bound by collective agreements. The likewise reported share for employees is determined indirectly, by looking at the collective bargaining status of their establishments. The share of “collectively bound” employees actually indicates what percentage of employees worked in an establishment that is bound by either a sectoral or a company-level collective agreement (Lesch/Schröder, 2023, 11). In addition, since 1999, establishments without a collective agreement have been asked whether they orient themselves towards a sectoral collective agreement regarding wages and salaries (Lesch/Schröder, 2023, 8 f.). The question on orientation is useful insofar as it points to the fact that the impact of a collective agreement can extend beyond its actual scope of application.

Figure 2-2 provides an overview of the different types of collective bargaining coverage in Germany. According to the IAB Establishment Panel, the proportion of “collectively bound” employees in 2024 stands at 48.5 per cent, which is slightly below the figure determined on the basis of employee responses in the SOEP. The largest share – over 40 per cent – is accounted for by sector-level agreements. A further 8 per cent of employees work in establishments with a company-level agreement in place. The proportion of employees in establishments without a collective agreement thus stands at 51.5 per cent. Within this group, however, more than half of employees work in an establishment that orients itself towards a collective agreement. As a result, collective agreements extend their influence to a further 27 per cent of employees. Only just under 25 per cent work in establishments that neither apply a collective agreement nor orient themselves towards one. The “collective bargaining coverage” in the sense of the EU Minimum Wage Directive thus falls considerably short of the target of 80 per cent. However, if orientation is included, this figure is almost reached.

**Figure 2-2: Employees working in an establishment covered by or oriented towards a collective agreement in 2024**

Shares in per cent



Sources: IAB; Own calculations

In addition to the rate of collective bargaining coverage on the employees' side, the IAB data can also be used to determine the collective bargaining coverage of establishments. Where establishments are not compelled to apply collective agreements due to extensions, this constitutes the “original” or “direct” binding to a collective agreement. However, since the IAB Establishment Panel does not ask whether establishments are directly bound by an agreement or applying an extended agreement, the term collective bargaining coverage will also be used hereafter. In the mid-1990s, 44 per cent of the establishments were covered by a sector-level agreement. Company-level agreements applied to a total of 11 per cent (Figure 2-4). Thus, in the mid-1990s, every second establishment was still covered by a collective agreement. In 2024, 21 per cent of the establishments were covered by a sector-level agreement. The share of establishments covered by company-level agreements fell to 2 per cent. The proportion of establishments covered by a collective agreement has thus more than halved.

The fact that the rate of collective bargaining coverage differs between employees and establishments is attributable to the more frequent use of collective agreements by larger establishments (Table 2-1). Large collectively bound companies with many employees thus result in a comparatively higher collective bargaining coverage on the employees' side. Whilst only 14.6 per cent of establishments with a maximum of four employees are bound by a sector-level collective agreement, the figure for establishments with more than 200 employees stands at 59.2 per cent. This relationship can also be observed in the case of company-level agreements. Whilst 14.7 per cent of establishments with more than 200 employees are bound by a company-level agreement, the figure for establishments with 50 or fewer employees is less than 4 per cent. Furthermore, larger establishments that are not bound by a collective agreement orient themselves towards collective agreements considerably more frequently than smaller establishments not bound by an agreement. Approximately 68 per cent of large establishments not bound by a collective agreement indicate that they orient

themselves towards an agreement. Only around one third of establishments not bound by a collective agreement and employing fewer than five employees indicate the same (Table 2-1).

**Table 2-1: Collective bargaining coverage by establishment size in 2024**

Establishment responses, shares in per cent

| Establishment size     | Sector-level agreement | Company-level agreement | No collective agreement | ...oriented towards a collective agreement |
|------------------------|------------------------|-------------------------|-------------------------|--------------------------------------------|
| 1-4 employees          | 14.6                   | 1.3                     | 84.1                    | 33.8                                       |
| 5-9 employees          | 19.3                   | 1.7                     | 79.1                    | 45.2                                       |
| 10-20 employees        | 27.0                   | 2.4                     | 70.5                    | 47.0                                       |
| 21-50 employees        | 33.1                   | 3.9                     | 63.0                    | 54.0                                       |
| 51-100 employees       | 35.9                   | 6.8                     | 57.3                    | 54.5                                       |
| 101-200 employees      | 40.2                   | 8.2                     | 51.6                    | 53.0                                       |
| 201 and more employees | 59.2                   | 14.7                    | 26.2                    | 68.4                                       |

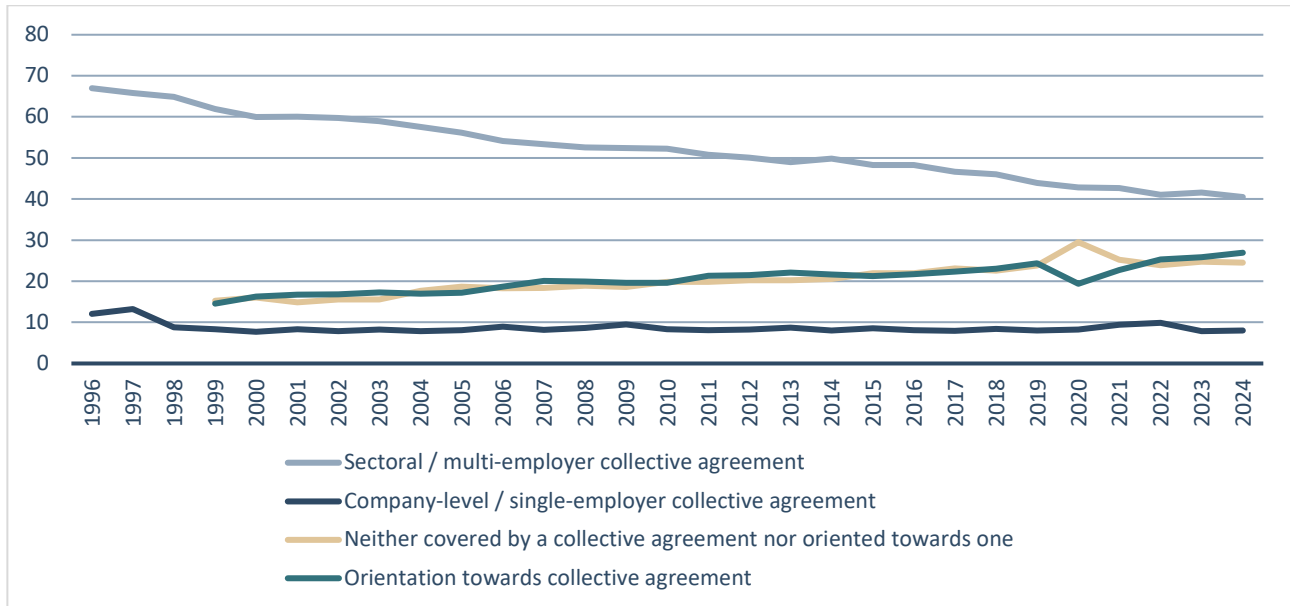
Source: IAB Establishment Panel, extrapolated figures

## 2.2 Trends in collective bargaining coverage

Based on data from the IAB Establishment Panel (*IAB-Betriebspanel*), collective bargaining coverage data are available for western Germany from 1995 and for eastern Germany from 1996. Figure 2-3 shows that the share of employees working in establishments covered by collective agreements has been below 80 per cent in Germany since the mid-1990s. Between 1996 and 2024, the share of employees working in establishments covered by a sector-level agreement fell from over 60 per cent to around 40 per cent (Figure 2-3). By contrast, the share of employees working in establishments covered by a company-level agreement remained broadly stable over the same period, at just under 10 per cent. Overall, collective bargaining coverage among employees has thus followed a declining trend, mirrored by a rising share of employees not working in an establishment covered by a collective agreement. That share increased from around 20 per cent in 1996 to over 50 per cent in 2024. However, many of the companies not bound by collective agreements are voluntarily oriented towards the collective agreement. Since 1999, the proportion of companies that are voluntarily oriented towards collective agreements has actually increased by just under a third, from 22 per cent to 32 per cent. The proportion of employees in companies that follow collective agreements has risen from 15 to 27 per cent since 1999.

**Figure 2-3: Development of collective bargaining coverage among employees in Germany**

Establishment responses, shares in per cent

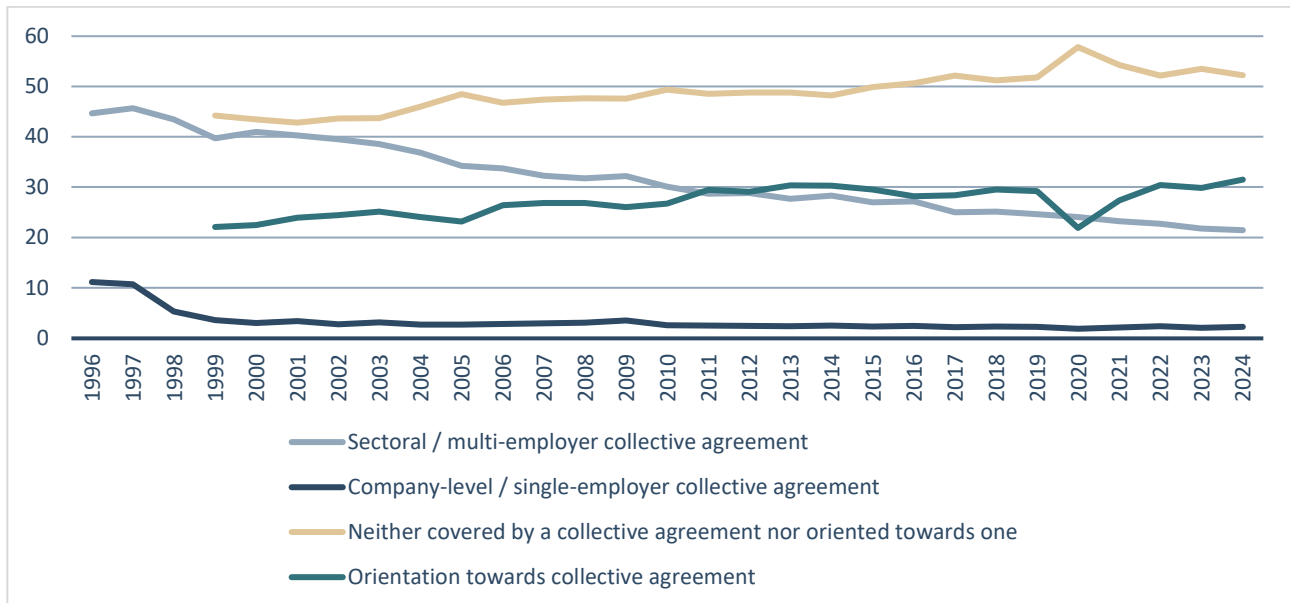


Orientation towards collective agreement recorded from 1999 onwards.

Source: IAB Establishment Panel, extrapolated figures

**Figure 2-4: Development of collective bargaining coverage among establishments in Germany**

Establishment responses, shares in per cent



Orientation towards collective agreement recorded from 1999 onwards.

Source: IAB Establishment Panel, extrapolated figures

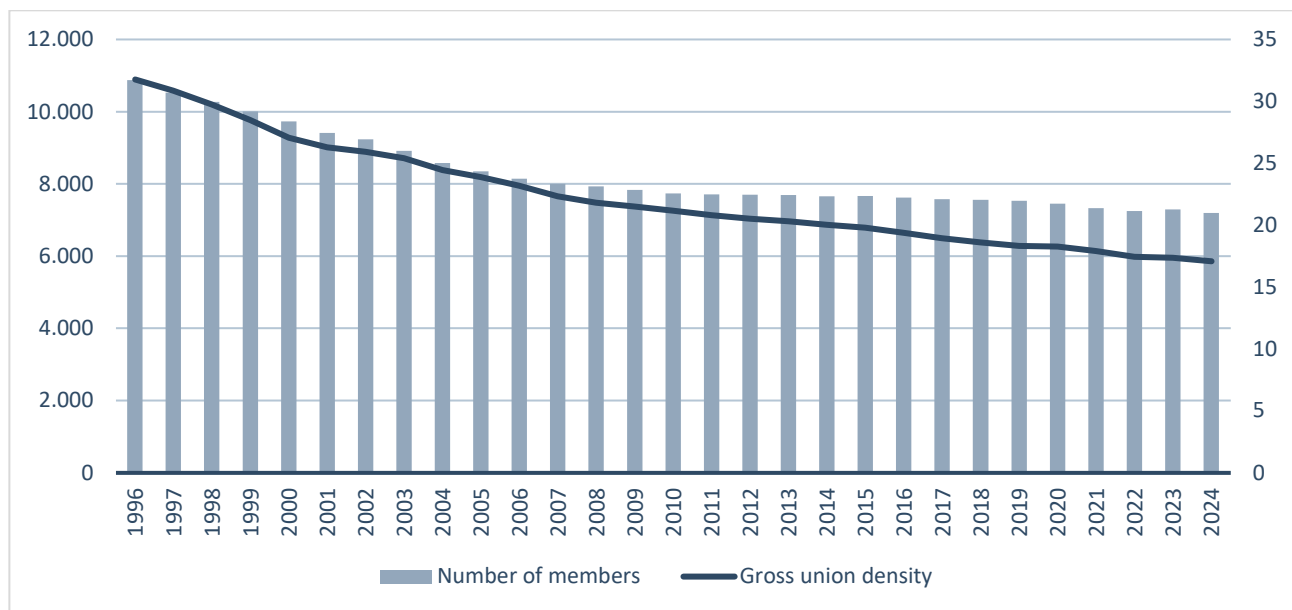
It should be noted once again at this point that the collective bargaining coverage data from the IAB Establishment Panel have a key limitation: the employer responses do not make it possible to determine the share of establishments and employees directly bound by an agreement – that is, whether, in addition to employers binding themselves to collective agreements, the employees are also members of a trade union that is party to the collective agreement.

## 2.3 Trends in trade union membership

In parallel with the decline in collective bargaining coverage, the number of trade union members has also fallen steadily since 1996 (Figure 2-5, left axis). In 1996, the individual trade unions affiliated to the German Trade Union Confederation (DGB) had just under 9 million members. In addition, there were 1.1 million members in the unions affiliated to the German Civil Service Federation (dbb), and approximately 300,000 members in unions affiliated to the Christian Trade Union Confederation (CGB). Together, this amounted to almost 11 million members. By 2024, only 5.6 million people were organised within the DGB unions. The Civil Service Federation unions were able to increase their membership to almost 1.4 million. No official figures are available for the CGB any longer. Its membership is likely to stand at just under 270,000.

**Figure 2-5: Number of members and gross trade union density in Germany**

Number of members in thousands (left axis) and gross trade union density in per cent (right axis)



Members: DGB, DBB and CGB (estimates from 1997 onwards); gross union density: trade union members as a percentage of employees

Sources: Lesch et al. (2021, 38); DGB; DBB; Own calculations

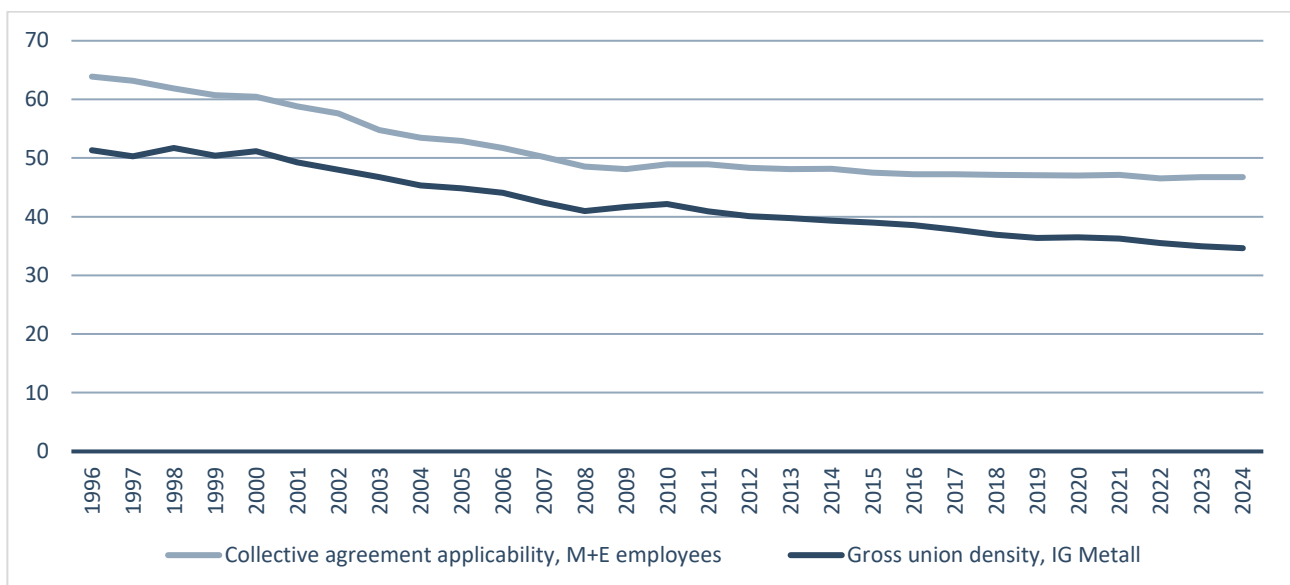
The decline is even more pronounced when the gross trade union density is calculated (Figure 2-5, right axis). The gross rate indicates the percentage of all trade union members as a proportion of all employees. Since the membership figures also include unemployed persons and pensioners, gross trade union density overstates the actual anchorage of trade unions among employees, which is measured by net trade union density (active trade union members as a percentage of employees). Since the number of inactive trade union members is not published by the trade unions, the development of gross trade union density is examined here. In 1996, gross trade union density stood at 31.8 per cent in Germany. By 2000, it had fallen to 27.1 per cent and

by 2010 to 21.2 per cent. This represents a decline of more than 10 percentage points in just 15 years. The decline continued after 2010, albeit at a slower pace. In 2024, the gross trade union density stood at 17.1 per cent. A calculation of the net union density rate on the basis of the European Social Survey shows that in 2016, 20.2 per cent of all dependent employees were still members of a trade union. By 2023, the net union density had fallen to 16.6 per cent (Eckle, 2025, 47). According to OECD/AIAS (2025a), most recently only approximately 14.1 per cent of employees in Germany were members of a trade union.

The metal and electrical industry – one of the key sectors in German manufacturing – also experienced a decline in collective bargaining coverage over recent decades. A comparison of the collective bargaining coverage among employees with the gross union density of the German Metalworkers' Union (IG Metall) shows that both indicators are declining in parallel (Figure 2-6). This indicates that IG Metall has also been unable to maintain its traditionally high trade union anchorage among employees in the metal and electrical industry. Most recently, the gross union density rate declined even somewhat more sharply than collective bargaining coverage. A collective bargaining coverage among employees of over 80 per cent was last recorded in the metal and electrical industry in the 1960s. Until well into the 1980s, collective bargaining coverage remained at least in the vicinity of 80 per cent. Thereafter, a continuous decline set in (Höpfner et al., 2021, 41). The share of metal and electrical establishments bound by a collective agreement in the sector still stood at around 45 per cent at the beginning of the 1980s. This too declined steadily from the second half of the 1980s onwards. In 2024, 7,335 of the 25,384 establishments in the sector were organised within a metal employer association, of which 3,131 were members of an employer association negotiating collective agreements. Accordingly, just under 13 per cent of all establishments were still subject to the negotiated agreements (Gesamtmetall, 2025, 4).

**Figure 2-6: Collective bargaining coverage and gross union density in the metal and electrical industry in Germany**

In per cent



Gross union density: share of all IG Metall members as a proportion of employees in the metal and electrical industry (estimate).

Sources: Gesamtmetall; DGB; Own calculations

### 3 Collective bargaining systems in European comparison

The EU Minimum Wage Directive acknowledges that collective bargaining coverage varies considerably across Member States. This is attributed to national traditions and practices as well as to historical context. These factors are also to be taken into account in the envisaged National Action Plans (European Parliament/Council of the European Union, 2022, recital 25). In the following, an examination is therefore made of the collective bargaining systems of European countries. To this end, collective bargaining coverage rates, trade union density, and, by way of example, a number of institutional parameters that have an influence on collective bargaining coverage are compared.

First, Figure 3-1 provides an overview of the proportion of employees covered by a collective agreement. The OECD estimates presented in the figure relate to 2024 or to the year with the most recently available value. The range is very wide. According to OECD estimates, collective bargaining coverage among employees stood at 100 per cent in Belgium and Italy, whilst Poland most recently recorded only 12 per cent. Overall, ten countries (Denmark, Slovenia, Portugal, Sweden, Finland, Spain, France, Austria, Italy, and Belgium) achieved a collective bargaining coverage rate of at least 80 per cent of employees.

When considering these figures, it should be borne in mind that it often remains unclear how collective bargaining coverage comes about. In particular, for countries with a high proportion of generally applicable collective agreements, the share of employers who are directly bound to collective agreements remains obscure. According to the OECD, generally applicable collective agreements are taken into account when reporting on collective bargaining coverage. This raises the question of whether entire collective agreements are declared generally binding, or only certain provisions, which may also relate solely to specific groups of employees (for example, generally applicable collectively agreed minimum wages). In addition, it should be noted that the OECD reports collective bargaining coverage rates for some countries merely as estimates. Finally, differing methodological approaches to determining national collective bargaining coverage rates give rise to limitations in comparability. In particular, orientation towards collective agreements is generally excluded, so that the orientation towards a collective agreement – a practice widely observed in Germany – is not considered in an EU country comparison. For Italy, by contrast, it is stated that it cannot be ruled out that orientation towards collective agreements has in some cases also been included (OECD/AIAS, 2025b).

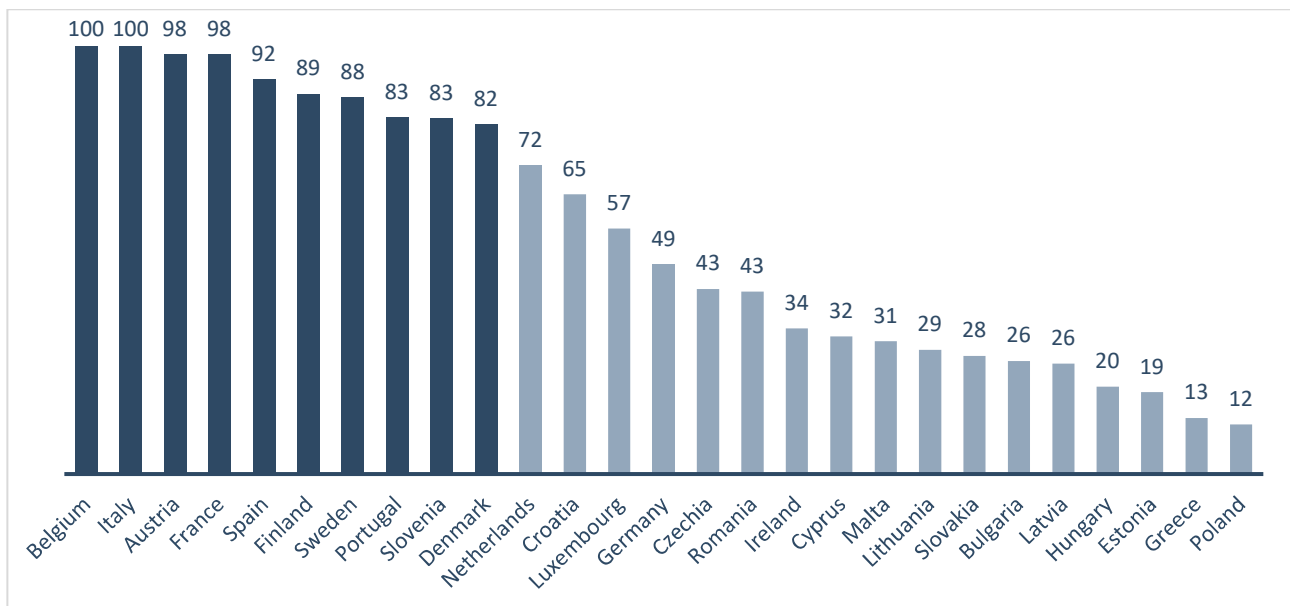
Table 3-1 summarises key factors that influence collective bargaining coverage in EU Member States. Broadly speaking, three regulatory systems can be distinguished by which a high level of collective bargaining coverage is achieved:

- **Extension mechanisms:** Of the ten EU countries that already record a collective bargaining coverage rate of over 80 per cent, Belgium, Finland, France, Portugal, Slovenia, and Spain extend collective agreements to companies originally not bound by the agreements by means of declarations of general applicability (OECD/AIAS, 2025a). In Italy, a specific form of general applicability of collective agreements is applied through the *erga omnes* principle. Under constitutional law, it is provided from the outset that a concluded collective agreement applies to all employees of a company that is party to a collective agreement (*erga omnes*). In addition, the labour courts ensure a high level of collective bargaining coverage. Whilst not all companies are legally obliged to apply sectoral collective agreements, virtually all of them comply with sectoral agreements (Meardi, 2014, 433). Sectoral agreements usually serve as a benchmark when courts deal with disputes over wages and working hours (*ibid.*).

- **Ghent system:** In Belgium, Denmark, Finland, and Sweden, the involvement of trade unions in the organisation of unemployment insurance (Ghent system) contributes to a high level of employees being covered by collective agreements. Traditionally, the trade union density in this group of countries is comparatively high. In Belgium, the system of voluntary unemployment insurance has since been replaced by a compulsory system, in which trade unions continue to participate. In Belgium and Finland, in addition to the Ghent system, extending collective agreements also contributes to a high collective bargaining coverage (Schulten/Müller, 2024, 444).
- **Compulsory membership:** In Austria, a wide collective bargaining coverage is secured through the compulsory membership of employers in the economic chambers.

**Figure 3-1: Collective bargaining coverage in European comparison**

Employees covered by a collective agreement as a percentage of all employees entitled to collective bargaining



Collective bargaining coverage: 2023/24 or the year with the most recently available value.

Sources: OECD/AIAS ICTWSS Database Version 2.0

In order to better understand the three regulatory systems referred to above, one country from each category is examined by way of example in the following.

France achieves an almost complete collective bargaining coverage of around 98 per cent. In 2023, 1,043 applications for declarations of general applicability were submitted in France, of which 1,029 were approved (Ministère du Travail et de l'Emploi, 2024, 169 f.). The near-complete acceptance of all applications for general applicability accounts for the high collective bargaining coverage of employees. Fundamentally, the French government has two options for extending collective agreements to outsiders. Firstly, it can declare generally applicable a collective agreement concluded for a specific sector, occupational group, or across occupational groups. Secondly, it can order that collective agreements also apply to employers in similar economic sectors or to employers outside the original geographical area (Dufresne/Maggi-Germain, 2012, 535). However, the second mechanism is rarely applied.

**Table 3-1: Collective bargaining coverage and collective bargaining systems in the EU**

Collective bargaining coverage in per cent and institutional framework conditions

|             | Collective Bargaining Coverage (%) | Contributing Institutional Factors                   |
|-------------|------------------------------------|------------------------------------------------------|
| Belgium     | 100.0 (2024)                       | Usage of extension mechanism: 3 (2019), Ghent system |
| Italy       | 100.0 (2024)                       | Constitutional right to a fair wage                  |
| Austria     | 98.0 (2024)                        | Chamber system: Mandatory membership for employers   |
| France      | 98.0 (2024)                        | Usage of extension mechanism: 3 (2019)               |
| Spain       | 92.1 (2024)                        | Usage of extension mechanism: 3 (2019)               |
| Finland     | 88.8 (2022)                        | Usage of extension mechanism: 3 (2019), Ghent system |
| Sweden      | 88.0 (2024)                        | Usage of extension mechanism: 0 (2019), Ghent system |
| Portugal    | 83.3 (2023)                        | Usage of extension mechanism: 3 (2019)               |
| Slovenia    | 83.1 (2016)                        | Usage of extension mechanism: 2 (2019)               |
| Denmark     | 81.6 (2023)                        | Usage of extension mechanism: 0 (2019), Ghent system |
| Netherlands | 72.1 (2024)                        | Usage of extension mechanism: 2 (2019)               |
| Croatia     | 65.3 (2024)                        | Usage of extension mechanism: 1 (2019)               |
| Luxembourg  | 57.3 (2022)                        | Usage of extension mechanism: 2 (2019)               |
| Germany     | 49.0 (2024)                        | Usage of extension mechanism: 1 (2019)               |
| Czechia     | 43.2 (2024)                        | Usage of extension mechanism: 1 (2019)               |
| Romania     | 42.6 (2024)                        | Usage of extension mechanism: 1 (2019)               |
| Ireland     | 34.0 (2017)                        | Usage of extension mechanism: 1 (2019)               |
| Cyprus      | 32.1 (2022)                        | Usage of extension mechanism: 0 (2019)               |
| Malta       | 31.0 (2022)                        | Usage of extension mechanism: 0 (2019)               |
| Lithuania   | 29.0 (2023)                        | Usage of extension mechanism: 1 (2019)               |
| Slovakia    | 27.6 (2024)                        | Usage of extension mechanism: 1 (2019)               |
| Bulgaria    | 26.4 (2022)                        | Usage of extension mechanism: 1 (2019)               |
| Latvia      | 25.8 (2022)                        | Usage of extension mechanism: 1 (2019)               |
| Hungary     | 20.4 (2022)                        | Usage of extension mechanism: 1 (2019)               |
| Estonia     | 19.1 (2021)                        | Usage of extension mechanism: 1 (2019)               |
| Greece      | 13.1 (2017)                        | Usage of extension mechanism: 2 (2019)               |
| Poland      | 11.6 (2023)                        | Usage of extension mechanism: 0 (2019)               |

Collective bargaining coverage and use of extension mechanisms: the latest available year is given in brackets in each case.

OECD/AIAS ICTWSS classification adopted for classifying extension mechanism usage: 0 = no statutory provisions for the mandatory extension of collective agreements; 1 = extension of collective agreements rare/only in exceptional cases, limited to certain sectors, very high thresholds and/or employer veto rights; 2 = use in many sectors with the existence of thresholds and the authority of ministers to declare collective agreements wholly or partly non-binding; 3 = nearly automatic and more or less comprehensive extension. Additional characteristics based on Schulten/Müller, 2024.

Sources: OECD/AIAS ICTWSS Database Version 2.0; Schulten/Müller, 2024, 443

Both, the social partners and the French Ministry of Labour itself, may apply to the General Directorate for Labour to extend a collective agreement. For a collective agreement to be declared as generally binding in France, it must have been concluded by a representative trade union and a representative employer association. Since 2008, stricter criteria apply for trade unions and employer associations to be recognised as representative. Among other requirements, the bargaining parties must have existed for at least two years and must demonstrate organisational experience, a sufficient number of members, and the collection of membership fees. For French trade unions, it is also significant that their candidates must receive at least 10 per cent of the votes in workplace-level employee representation bodies in companies with 11 or more employees. To be considered representative at sector level and at national level, their candidates must together obtain at least 8 per cent of the votes (Lesch et al., 2017, 55; Fulton, 2025).

Whilst the extensive use of extension mechanisms in France has cemented collective bargaining coverage at a high level, the system is not underpinned from the grassroots – that is, by a high trade union density. In 2023, just 9.1 per cent of employees were trade union members (Eckle, 2025, 47). Under the extensive French practice of declaring collective agreements as generally binding, trade union membership is not a prerequisite to benefit from extended bargaining outcomes. Whilst collective agreements in France can be negotiated at various levels, companies have gained more leeway in collective bargaining in recent decades. Nevertheless, sectoral collective agreements remain the defining feature of the French collective bargaining system (Fulton, 2025). In addition, French trade unions wield considerable political influence, as they can call political strikes well beyond their own membership base. France is among the countries with the highest number of working days lost to strike action, and collective bargaining disputes are frequently adversarial (Lesch, 2025, 54).

In Austria, collective bargaining coverage is likewise very high, at 98 per cent. This is attributable to a statutory requirement for companies to be members of the economic chambers (Wirtschaftskammern) (Allinger, 2025, 3). Compulsory employer membership guarantees a high coverage of employees by collective agreements, which are negotiated predominantly at sectoral level between the subunits of the Austrian Federal Economic Chamber and the trade unions. The agreements apply to all chamber members, and opening clauses are rarely agreed. A large proportion of employees are also required to be members of the Chambers of Labour (Arbeiterkammern), which offer various services, such as legal advice (ETUI, n.d. a). Trade union membership, however, is voluntary. According to OECD data, approximately one in five employees in Austria was a trade union member in 2024. Calls for reform, such as the abolition of compulsory chamber membership, were, so far, not successful (Allinger, 2025, 3).

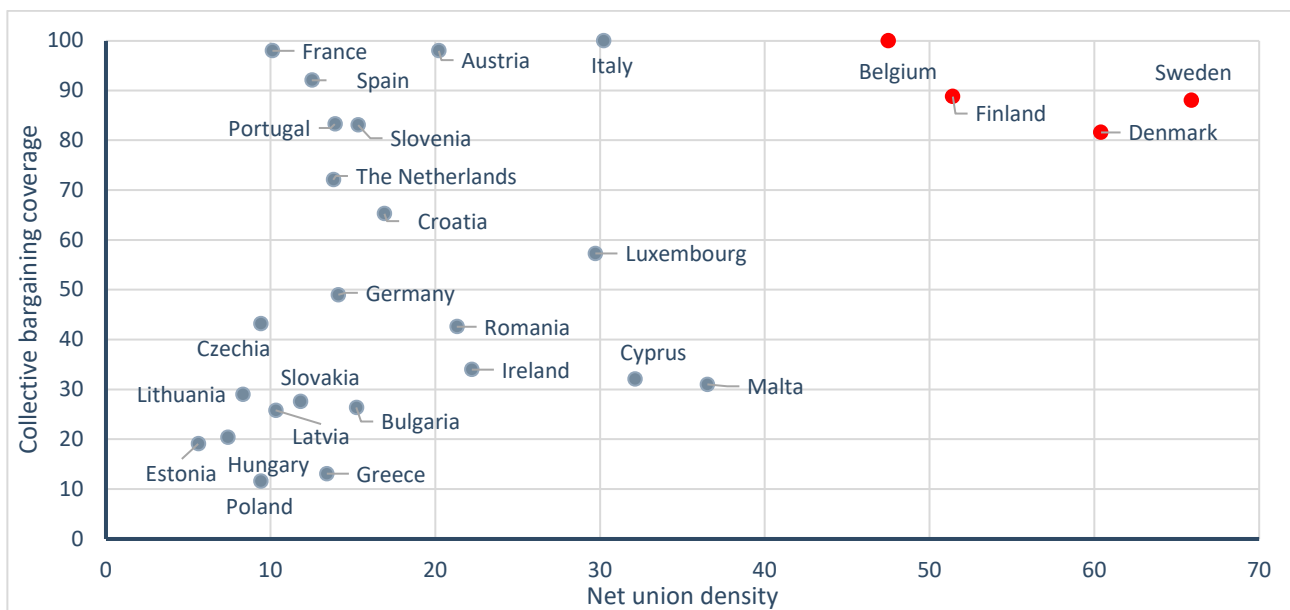
Sweden is regarded as a model example of autonomous collective bargaining, with a high level of organisation among the bargaining parties and a high collective bargaining coverage. In 2024, according to OECD data, 88 per cent of employees were covered by a collective agreement (OECD/AIAS, 2025a). This high proportion is achieved largely without state intervention in the form of using extension mechanisms or compulsory membership. Instead, in Sweden both employees and employers are strongly organised within their respective organisations. According to the OECD, in 2024 90 per cent of employers were organised in an employer association (OECD/AIAS, 2025a). In the same year, 66 per cent of employees were trade union members. Employers who are bound to a collective agreement are, however, required to apply it to all employees (Daniels/Fürst, 2023, 6). This extends coverage beyond an already high level of directly binding collective bargaining. Nevertheless, the Swedish collective bargaining system is stabilised essentially from within, i.e. by the actors themselves. The trade union administration of the earnings-related unemployment insurance

facilitates the outreach and recruitment of trade union members and, owing to further selective incentives, has a positive influence on trade union density (Kjellberg, 2025, 131 f.). Furthermore, only trade unions appoint works councils in Sweden (ETUI, n.d. b; Eurofound, 2024).

In Sweden, collective bargaining was conducted predominantly at national level until the 1980s. As in many other EU countries, Sweden experienced a decentralisation of its collective bargaining system from the 1990s onwards, in order to achieve greater flexibility for companies (Lesch et al., 2017, 57). The focus of collective bargaining shifted from the national level to the sectoral and the local level. Today, for example, wages and working hours are negotiated in sectoral collective agreements and at local level between companies and trade union representatives (Eurofound, 2024). Sectoral collective agreements are the dominant level for collective bargaining. Regarding wages, they frequently set framework or minimum conditions, with further details then agreed at local level (Lesch et al., 2017, 57 f.).

**Figure 3-2: Collective bargaining coverage and trade union density**

Shares of employees covered by a collective agreement and trade union density, in per cent



Collective bargaining coverage and trade union density: 2023/24 or the year with the most recently available value; red data points: Ghent countries.

Source: OECD/AIAS ICTWSS Database, Version 2.0

The three country examples cited illustrate that institutional differences in the design of social insurance and collective bargaining systems also explain the level of collective bargaining coverage. Collective bargaining coverage ultimately says nothing about the rate of establishments that are directly bound to an agreement as they either signed it or are a member of an employer association negotiating the agreement. It also does not shed light on how strongly trade unions are embedded in individual countries and what effect state support measures have on the organisation of trade union members. As shown in Figure 3-2, there is no clear relationship in the EU between collective bargaining coverage and trade union density. Whilst the Ghent countries Belgium, Finland, Denmark and Sweden traditionally demonstrate very high trade union density rates and high collective bargaining coverage, this relationship is not observed in all EU countries. In Italy,

fewer than one third of employees are trade union members, despite very high collective bargaining coverage. In Austria, France and Spain, too, an extremely high collective bargaining coverage is accompanied by a comparatively low level of trade union density. Germany, with a collective bargaining coverage of 49 per cent and a trade union density among employees of – depending on the data source – 14.1 per cent (OECD/AIAS, 2025a) to 16.6 per cent (Eckle, 2025, 47), sits in the middle range of EU countries. A high collective bargaining coverage is therefore associated with varying degrees of trade union strength. A high level of trade union organisation, however, is always accompanied by high collective bargaining coverage.

The membership strength of employer associations also varies considerably (OECD/AIAS, 2025a). Whether and how state measures used to increase collective bargaining coverage affect the membership figures of employer associations and unions in the long term – and thereby also the share of employers and employees directly bound by a collective agreement due to their membership in their respective organisations – remains entirely unclear. In any case, it cannot be inferred from the aggregate figures that state measures lead to a high level of such direct binding – and thus to a strengthening of the social partners’ autonomy. On the contrary, there are grounds to fear that state support measures reduce the incentive to join a trade union, particularly when extension mechanisms such as generally binding collective agreements deliver collectively agreed conditions to unorganised employees “free of charge”. In order to secure their viability, trade unions must attract more members through their own efforts.

## 4 Economic perspective on collective bargaining coverage

### 4.1 Collective bargaining coverage, the labour market and wage distribution

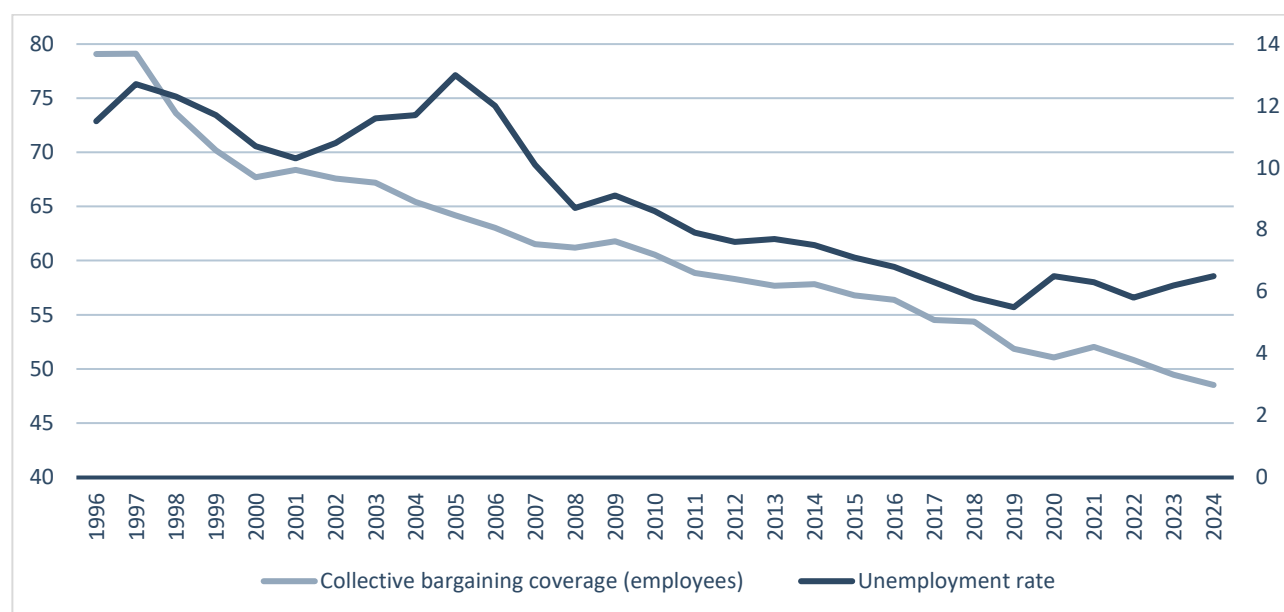
Following the empirical review, the question arises as to whether the politically formulated objective of collective bargaining coverage of 80 per cent can be justified on theoretical grounds. The 80 per cent collective bargaining coverage rate envisaged in the EU Minimum Wage Directive implies that there is an optimal level of collective bargaining coverage. However, neither economic theory nor empirical research provides robust evidence for such a target (Lesch et al., 2017, 15). When the focus is placed on achieving the highest possible level of collective bargaining coverage, two central aspects are overlooked: why are firms increasingly making use of their right to negative freedom of association, and why are employees opting for trade union membership less frequently? As a result, the actual challenge, namely the decline in the share of workers directly bound by collective agreements (through mutual union and employer-side binding), is not addressed. Against this background, it is necessary to clarify whether a high level of collective bargaining coverage (also irrespective of the share of workers directly bound through mutual union and employer-side binding) is in fact a guarantee for the performance of a wage-setting system, and which other factors are decisive.

Collective bargaining autonomy is based on positive and negative freedom of association. These rights are in a relationship of tension; taken together, however, they safeguard the functioning of the system. In this context, the possibility of withdrawing from collective bargaining acts as a disciplining mechanism. Competition from outside the system forces the bargaining parties to negotiate collective agreements that are attractive and competitive (Haucap et al., 2007, 94 f.; Lesch et al., 2017, 11). If this competitive pressure is eliminated through the extensive use of the declaration of general applicability of collective agreements or statutory coercive mechanisms, negative effects on the labour market and on the adaptability of the wage-setting system to changing economic conditions may arise (Haucap et al., 2007).

A descriptive comparison of trends in collective bargaining coverage with macroeconomic indicators such as the unemployment rate or wage inequality provides hardly any indication that higher collective bargaining coverage leads to outcomes that are desirable from a macroeconomic perspective. While collective bargaining coverage declined markedly already in the second half of the 1990s, unemployment in Germany initially remained at a high level over the same period and continued to rise until the mid-2000s (Figure 4-1). As a result of an increasingly employment-oriented wage policy from the mid-1990s onwards and the labour market reforms introduced gradually from 2003 (“Agenda 2010”), a turning point was subsequently achieved in the German labour market and unemployment fell substantially. This decline was interrupted by the global economic and financial crisis in 2008/09, but it essentially continued until 2019. Over the same period, collective bargaining coverage continued to decline significantly. In parallel, competition from outside the system (measuring the share of employees and establishments that are not covered by collective agreements among all employees and establishments) increased steadily. In order to reinforce this trend further, the social partners had to maintain the course of an employment-oriented wage policy well into the 2010s. In the course of the employment upswing, however, a decoupling of wage and productivity dynamics emerged, which is increasingly proving to be a burden. In the years from 2020 onwards, which have been shaped by multiple crises, the unemployment rate rose again while collective bargaining coverage continued to decline.

**Figure 4-1: Trends in collective bargaining coverage and the unemployment rate in Germany**

Collective bargaining coverage (left axis) and unemployment rate (right axis), in per cent



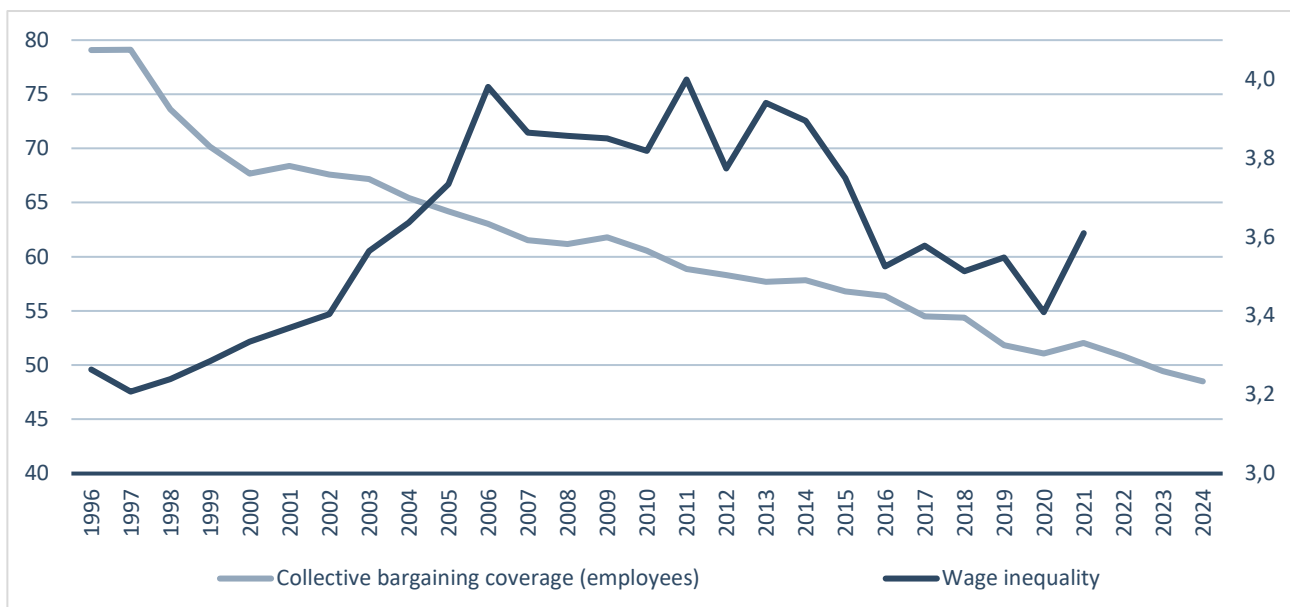
Sources: Federal Employment Agency; IAB Establishment Panel

In the current debate on the minimum wage and collective bargaining coverage, however, the primary focus is on distributional objectives. It is noteworthy that, in a long-term macro-level perspective, a purely descriptive view reveals no clear relationship between the degree of collective bargaining coverage and wage inequality. To illustrate this, Figure 4-2 plots the degree of collective bargaining coverage on the left vertical axis and a measure of wage inequality on the right vertical axis. Wage inequality is measured using the ratio of gross hourly wages of high earners to those of low earners. High earners are defined as the richest 10 per

cent, while low earners are defined as the poorest 10 per cent. Technically, the gross hourly wage at the 90th percentile of the earnings distribution is set in relation to the 10th percentile (the 90:10 percentile ratio). A value of 5.0, for example, indicates that the gross hourly wage of the lowest-paid person in the top decile (90th percentile) is five times as high as the hourly wage of the highest-paid person in the bottom decile (10th percentile). In Figure 4-2, comparing this income ratio with the collective bargaining coverage line shows no inverse relationship. Wage inequality increased from the mid-1990s until around 2005, while collective bargaining coverage declined over the same period. After 2013, however, wage inequality fell again even though collective bargaining coverage continued to decline. At least on a purely descriptive basis in the long-term perspective, the existence of a strong relationship between collective bargaining coverage and wage inequality cannot be confirmed.

**Figure 4-2: Trends in collective bargaining coverage and wage inequality in Germany**

Collective bargaining coverage, in per cent (left axis), and the 90:10 percentile ratio of gross hourly wages (right axis)



Wage inequality 2020/21: Estimate.

Sources: Fulda/Schröder (2023); Grabka (2022; 2024); IAB Establishment Panel

Overall, from a macroeconomic perspective, it cannot be inferred that collective bargaining coverage of just under 50 per cent, as currently observed in Germany, would be less desirable in terms of allocative efficiency and distributional policy than collective bargaining coverage of 80 per cent, which was last achieved approximately in the 1990s.

## 4.2 Collective bargaining coverage, wage levels and wage structure

Against this background, it is necessary to question whether higher collective bargaining coverage leads to the distributive outcomes that are considered desirable. The following discussion addresses this by drawing on the personal and functional distribution of income as well as on the wage level.

In its major Employment Outlook study from 2018 (OECD, 2018b, 88), the OECD concluded for 21 countries examined that wage dispersion between 2012 (2006 for Germany) and 2016 was greater among employees who were not covered by collective bargaining than among employees for whom firm-level or sectoral collective agreements applied. Employees covered by firm-level agreements occupied an intermediate position. In systems in which collective agreements are concluded at both firm and sector level, wage dispersion among employees with a firm-level collective agreement was greater than under sector-level bargaining, but lower than under individual bargaining. In countries in which collective agreements are concluded exclusively at company level, wage dispersion was similar among employees without a collective agreement and those covered by firm-level agreements. Empirical studies that examine the relationship between wage inequality and the degree of collective bargaining coverage econometrically identify, at least for the period up to 2010, an amplifying effect of declining collective bargaining coverage on wage inequality. However, there is disagreement about the strength of this relationship (Fulda/Schröder, 2023). Taking into account the period from the 2010s onwards, it is necessary to question the extent to which the degree of collective bargaining coverage can explain developments in wage inequality. The decline in wage inequality despite continued declines in collective bargaining coverage could suggest that the influence of collective bargaining coverage on the wage structure and the wage level has diminished and is likely to diminish further in the future. In addition to shortages of skilled workers, and the resulting intense competitive pressure for labour, this is likely also due to the impact of the minimum wage on the wage distribution (*ibid.*). Even without high collective bargaining coverage, scarcity-related pressures could lead to a differentiated wage structure above the statutory minimum wage.

An analysis of the relationship between collective bargaining coverage and the wage share, as an indicator of the functional distribution of income, shows that the wage share has remained broadly constant since the mid-1970s, while the collective bargaining coverage rate declined markedly over the same period (*ibid.*). A European comparison likewise shows that a high degree of collective bargaining coverage does not necessarily go hand in hand with a higher wage share (Schröder, 2026). European countries with a high wage share display very different levels of collective bargaining coverage. In Germany, the wage share of 70 per cent is even higher than in most European countries with a degree of collective bargaining coverage of 80 per cent and more. A model calculation for Germany also shows that an increase in collective bargaining coverage to 80 per cent, assuming a collective bargaining wage premium of 5 per cent, could raise the wage share by only 1.1 percentage points (Schröder, 2026). In theoretical terms, the weak relationship is explained primarily by the fact that wage settlements above the market wage make substituting labour with capital more attractive, which in the medium to long term leads to a decline in the wage share (Fulda/Schröder, 2023; Schröder, 2026).

Finally, regarding wage levels, it should be taken into account that empirical research identifies a wage gap between employees covered by collective agreements and those not covered by collective agreements. Based on the SOEP, the so-called unadjusted collective bargaining wage gap amounted to around 9 per cent in 2019. However, more than 40 per cent of this wage differential can be attributed to individual, job-related and firm-related characteristics. Once the wage gap is adjusted for the selection effects associated with collective bargaining coverage, it is substantially smaller. On an adjusted basis, the wage premium for employees in establishments covered by collective agreements is around 5 per cent (Bach/Hammermann, 2023). The difference between the unadjusted and adjusted wage premium is due, among other factors, to the fact that larger and more profitable firms in particular enter into collective bargaining, as they can afford to do so (Fulda/Schröder, 2023, 6). The narrative that only collectively agreed wages are fair wages therefore ignores

allocative effects. Companies not covered by collective agreements would first have to generate the value added required to match collectively agreed wage levels. In addition, the wage increase triggered by higher collective bargaining coverage would also affect price and employment developments.

Haapanala et al. (2023) argue that collective bargaining coverage and the level of the minimum wage should also be considered in terms of their interaction. The authors conclude that statutory minimum wages and high collective bargaining coverage are distributionally complementary. Combining both indicators would prevent wages in the lower wage segment from being determined predominantly by the statutory minimum wage. If sufficient collective bargaining coverage is in place, a collectively agreed wage structure emerges above the statutory minimum wage, ensuring an adequate distance from the statutory minimum. These findings are based on a comparison of 30 European countries over the period 2004 to 2019. The authors also find that the share of employees earning less than 60 per cent of the gross median wage is often lower in countries with a high degree of collective bargaining coverage than in countries with a lower degree. In addition, effective wage floors are higher overall in countries with high collective bargaining coverage. The authors note, however, as a limitation, that they only examine full-time employees and that the experiences of individual countries cannot necessarily be transferred to other countries, since wage-setting systems are highly path-dependent. Systems cannot be changed easily. In particular, for countries with decentralised wage-setting systems, the target value of 80 per cent represents a major challenge that cannot be achieved without comprehensive institutional changes.

Irrespective of these limitations, the study by Haapanala et al. (2023) lacks a discussion of the economic implications of high collective bargaining coverage. First, it ignores any relationship between wage levels and employment. The larger the gap between wages and the statutory minimum wage in the lower wage segment, the more the entire wage grid shifts upwards. This increases the cost of labour. If this leads to lower demand for labour, welfare gains accrue only to those who receive higher wages without losing their jobs. Second, the study does not address any price effects. If wages rise as a result of higher collective bargaining coverage, many firms will attempt to pass the higher costs on through higher prices. This, in turn, reduces employees' real incomes and demand. The study apparently assumes that higher (minimum) wages are financed largely out of firms' profits, and that profits were excessive due to a certain degree of market power. In doing so, the study follows the familiar narrative that greater fairness in wages can be achieved without endangering other economic policy objectives.

### 4.3 Degree of centralisation of collective bargaining

The EU Minimum Wage Directive gives precedence to sectoral and cross-industry collective bargaining for wage setting. Pursuant to Article 4(1)(a), the capacities of the social partners are to be strengthened and developed so that the social partners are able to conduct collective bargaining "in particular at sector or cross-industry level" (European Parliament/Council of the European Union, 2022, 42). By prioritising specific degrees of centralisation in wage bargaining, the Directive intervenes in the institutional design of wage-setting systems. However, the academic debate on the efficiency of different degrees of centralisation shows that this is not required from a macroeconomic perspective.

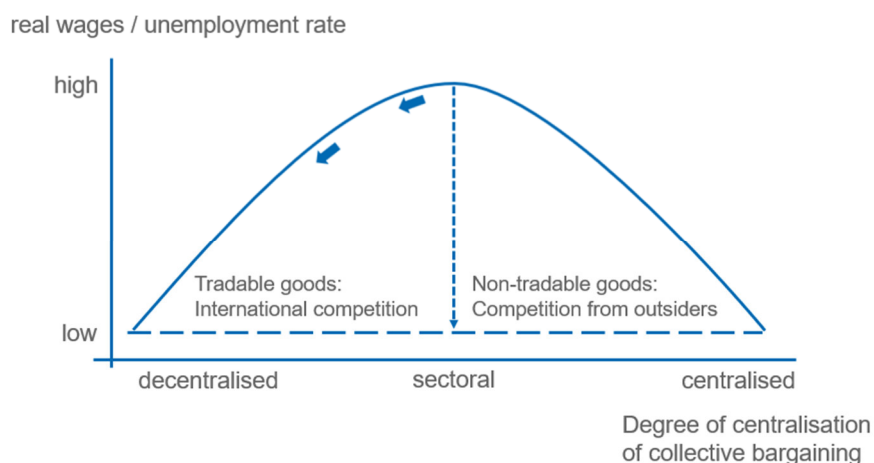
The starting point of the academic debate on the efficiency of wage-bargaining systems is the hump-shape hypothesis proposed by Calmfors/Driffill (1988). The core insight of this model is that both centralised and decentralised wage-bargaining systems lead to better macroeconomic performance than systems with

sectoral collective bargaining. While actors bargaining at the central level internalise the external effects of their wage settlements, and actors bargaining at the decentralised level are disciplined by competition, neither of these effects operates at sector level. This relationship is illustrated in Figure 4-3. The horizontal axis shows the degree of centralisation of collective bargaining, and the vertical axis shows the real wage and the unemployment rate. The degree of centralisation indicates how strongly trade unions and employers cooperate among themselves and with one another. Real wages and the unemployment rate are positively related: the higher the real wage, the higher the unemployment rate (and vice versa). The relationship between the degree of centralisation and real wages and unemployment is described by an inverted U-shaped relationship (hump-shaped). Under decentralised bargaining, real wages and the unemployment rate are relatively low. As centralisation increases, real wages rise and the unemployment rate increases. After both variables reach a maximum at sector level, they decline again as wage bargaining becomes more centralised. The disadvantage of sectoral bargaining arises from the incentive for bargaining parties operating at sector level to raise real wages without taking negative external effects into account, because adverse price or employment effects are small. If, however, all actors at sector level behave in this way, negative macroeconomic price and employment effects emerge.

However, the theoretical model is based on the assumption of closed economies. In an open economy, competitive pressure increases particularly at sector level, thereby disciplining the collective bargaining parties that bargain at sector level (Danthine/Hunt, 1994). As a result, the efficiency of the three wage-bargaining levels converges, and the hump-shaped curve becomes a horizontal line at a low level of real wages and unemployment (Figure 4-3). This international competitive pressure is particularly relevant for industries producing tradable goods. In industries producing non-tradable goods, stronger competitive pressure can arise simply because competition from outside the system increases domestically. The following applies: the more firms are not covered by collective agreements, the more intense competition becomes, including via labour costs, and the greater the pressure to limit increases in unit labour costs. Graphically, the growing competition from outside the system can be represented as a movement along the hump-shaped curve towards a decentralised wage-bargaining system (Lesch et al., 2017, 13).

**Figure 4-3: Degree of centralisation of collective bargaining**

Establishments' responses, shares in per cent



Source: Lesch et al. (2017, 13)

A second criticism of the hump-shaped hypothesis concerns the restriction of the analysis of wage-bargaining systems to the degree of centralisation of collective bargaining. The conventional classification of wage-setting systems on the basis of a one-dimensional degree of centralisation ignores further transmission mechanisms that can have a substantial impact on system performance. While Soskice (1990) already incorporated informal coordination between the bargaining parties at the different levels of a collective bargaining system, and Aidt/Tzannatos (2008) point to the potentially positive effects of coordinated collective bargaining, Braakmann and Brandl (2016) broaden the perspective to include institutionalised coordination mechanisms between bargaining levels. In addition to the degree of centralisation in wage bargaining, this approach also considers the extent to which institutionalised mechanisms exist between levels, such as opening clauses in sectoral collective agreements or two-tier systems in which sectoral framework agreements leave room for establishment-level supplements. These distinctions give rise to hybrid systems as mixed forms of the three systems implied by the hump-shaped hypothesis. In particular, the capacity for vertical coordination is highlighted as important for the performance of a collective bargaining system (Brandl, 2022, 672). Under the condition that vertical coordination is in place, performance increases with the degree of centralisation and the degree of horizontal coordination. Empirical studies show that the performance of a collective bargaining system can be explained significantly better when coordination capacity is taken into account than by the hump-shaped hypothesis alone (Braakmann/Brandl, 2016; Brandl/Braakmann, 2021).

The empirical findings of Braakmann and Brandl (2016) show that multi-level systems with opening clauses or regulated derogation pathways lead to higher productivity gains than single-level systems or multi-level systems without institutionalised openings. The efficiency of a system therefore depends on how much guided flexibility it allows. If the bargaining parties do not succeed in creating flexibility through institutional rules, adjustment pressures are released through exit from collective bargaining.

In a follow-up study, Brandl and Braakmann (2021) confirm the importance of coordination capacity for firms' productivity. They show that vertically coordinated multi-level systems are associated with a significantly higher probability of establishment-level productivity gains than uncoordinated alternatives. In systems in which wage bargaining is horizontally or vertically uncoordinated, the likelihood of productivity-oriented adjustments declines. What matters, therefore, is not the formal level at which bargaining takes place, but the presence of vertical coordination, which creates an orderly division of tasks between framework-setting at the upper level and establishment-level implementation at the lower level, thereby enabling flexibility. Productivity, however, is only one indicator that can be used to assess the efficiency of a wage-bargaining system, and it is also difficult to interpret. High productivity growth can be accompanied by employment losses and rising unemployment or may even be a direct consequence of employment losses. In addition, the level of productivity needs to be considered in relation to the level of labour costs. High productivity, taken on its own, says little about the state of an economy. Aidt/Tzannatos (2008, 278) also emphasise that the more control variables for country-specific economic policy are included, the more difficult it becomes to identify a statistical relationship between the degree of coordination in collective bargaining and macroeconomic performance.<sup>1</sup>

The OECD (2018b) further developed the theoretical debate in its Employment Outlook published in 2018. The starting point is four key institutional features of wage-bargaining systems (OECD, 2018b, 78 f.): the

<sup>1</sup> Aidt/Tzannatos (2008, 278) emphasise: "Unsurprisingly [...] the more and better one controls for cross-country differences in economic policy, the harder is it to detect a relationship between bargaining coordination and economic performance."

coverage of collective agreements, the bargaining level, the flexibility of the system, and intersectoral coordination. These key features are combined and further developed into a “new taxonomy of collective bargaining systems” (OECD, 2018b, 81). As of 2015, this “taxonomy” distinguishes five types:

- Predominantly centralised and weakly coordinated systems: Sector-wide collective bargaining predominates, and collective agreements are frequently extended to employees or establishments not covered by collective agreements. At the same time, there are few opening clauses and no intersectoral coordination of collective bargaining. The OECD cites France, Iceland, Italy, Portugal, Slovenia, Spain and Switzerland as examples of such systems.
- Predominantly centralised and coordinated systems: Here, too, sector-wide collective bargaining predominates, and it is also coordinated. Opening clauses, by contrast, are rarely used. Belgium and Finland are cited as examples.
- Organised decentralised and coordinated systems: Here, too, sector-wide collective bargaining predominates, but there is more scope for the establishment level. This is enabled by opening clauses and a relatively low degree of extension of collective agreements to outsiders not covered by collective agreements. Examples include Austria, Denmark, Germany, the Netherlands, Norway and Sweden.
- Largely decentralised systems: Firm-level bargaining predominates over sectoral bargaining, although a certain, not further specified, degree of coordination may play a role. There is no extension of collective agreements to outsiders not covered by collective agreements. The group of countries with largely decentralised systems includes Australia, Japan (where firm-level bargaining is conducted in a coordinated manner as part of the “Shuntō offensive”), Greece, Luxembourg and Slovakia.
- Fully decentralised systems: Bargaining at firm or establishment level predominates, and there is strong competition from outside the system. The OECD cites Canada, Chile, Korea, Mexico, New Zealand, Turkey, the United States, the United Kingdom, Poland, Czechia, Hungary, as well as the three Baltic states as examples of bargaining systems in this group.

To identify the macroeconomic effects of the different systems, the OECD compares a total of 35 countries over the period 1980 to 2016. The allocation of countries within the OECD taxonomy changes over time. Germany was classified in the 1980s as a predominantly centralised and coordinated wage-setting system (due to wage leadership in the metal and electrical industry) and, since the 1990s, as an organised decentralised and coordinated system. The OECD justifies this adjustment by noting that the first hardship clauses entered the German system from 1993 onwards. Only between 1998 and 2001 does the OECD temporarily classify the German system as predominantly centralised and weakly coordinated. However, the OECD does not discuss in more detail the temporary decline in the degree of coordination during this period (OECD, 2018c, 5). The centralisation is likely to be related to the tripartite Alliance for Jobs. In this context, the Federal Government, together with the social partners, attempted to find reform solutions at the round table. Since wage formation in Germany differs from industry to industry, a macroeconomic classification is, in any case, open to challenge. This is likely to apply to the classification in other countries as well. With reference to the ICTWSS database<sup>2</sup>, the OECD (2018c, 8) merely notes that the degree of coordination in the various countries has changed significantly over time.

<sup>2</sup> The OECD/AIAS database “Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS)” (OECD/AIAS, 2025c) contains over one hundred variables on the institutional characteristics of trade unions, wage-setting, and state intervention over a period of 60 years in OECD countries and a number of other countries. This makes it possible to obtain internationally comparable information on the long-term development of collective bargaining systems. The database was

Fully decentralised systems are chosen as the reference category. In addition to various labour market indicators (employment rate, part-time rate, fixed-term employment rate and unemployment rate, unemployment rates for vulnerable groups such as young people, low-skilled workers or women, and various indicators of wage inequality), sociodemographic characteristics, country and time effects, as well as institutional reforms are also included as control variables in the model estimation. The OECD (2018b, 82) concludes that macroeconomic performance is strongest in coordinated systems compared with the reference category of fully decentralised systems. For example, employment is higher and unemployment is lower than in other systems. Coordinated systems are also associated with lower unemployment among vulnerable groups. In addition, coordinated systems lead to less wage inequality than decentralised systems and have a lower share of involuntary part-time employment (OECD, 2018b, 83). One interesting finding by the OECD is that fixed-term employment varies little across systems but is higher in countries with a high degree of collective bargaining coverage (ibid.). Behind coordinated systems, centralised systems (without coordination) and largely decentralised systems perform second best, while fully decentralised systems show the weakest performance. The OECD (2018b, 75) summarises: “Co-ordination in wage bargaining helps take into account the macroeconomic effects of wage agreements by ensuring that these agreements do not undermine external competitiveness and are set in line with business-cycle situation.”

The OECD Jobs Strategy, also adopted in 2018 (OECD, 2018c, 146 f.), likewise emphasises that coordination is of great importance for the performance of sectoral bargaining. The positive effects of coordination in wage bargaining were also highlighted by Aidt/Tzannatos (2008, 280 ff.). This raises the question of what is meant by coordination and how coordination is measured. The OECD distinguishes between high coordination, low coordination, and no coordination (OECD, 2018c, 10). According to the OECD (2018b, 75), the strictest form of coordination exists when there is a binding wage guideline for all sectors that provides for an upper or lower limit for the collectively agreed wage. From an institutional perspective, the highest form of coordination exists when:

- wage bargaining takes place between peak organisations representing employers and employees, or the state intervenes directly in wage policy,
- sectoral collective bargaining is conducted by a strong monopoly trade union,
- a sector assumes wage leadership and collective bargaining is synchronised, and negotiations between influential employers are coordinated (OECD, 2018c, 20).

If no binding upper or lower limits are set for collectively agreed wages, but non-binding norms and guidelines are provided for collectively agreed wages, the second-highest form of coordination applies (for a more detailed discussion, see OECD, 2018c, 20). The OECD does not further specify what is meant by low coordination. In the codebook for the dataset, reference is made to systems in which there are, in some cases, non-binding recommendations for collective bargaining, for example linking wage increases to the inflation rate and productivity growth. Weak coordination can also arise through sporadic wage leadership by specific firms, statutory minimum wages, or the wage policy of the state in the public sector. No coordination exists where wage bargaining is fully fragmented at establishment level (OECD/AIAS, 2025c, 11).

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originally developed by Professor Jelle Visser (University of Amsterdam) and, since 2021, has been maintained as the “OECD/AIAS ICTWSS database”.

Even taking newer theoretical approaches into account, it remains unclear what effects a full or partial system change of national wage-setting systems would have if intended to increase the degree of collective bargaining coverage in line with the EU Minimum Wage Directive. Brandl and Ibsen (2017) provide empirical evidence in this regard as part of a study on the effects that institutional adjustments to the collective bargaining system have on the development of unit labour costs. They show that an adjustment of the collective bargaining system through a change in the bargaining level or coordination structure, towards a supposedly more advantageous design of the system, does not necessarily lead to better economic performance. Any change in the coordination structure or bargaining level substantially weakens the capacity for wage moderation in the short term. In the years following the reform of the collective bargaining system, unit labour costs rise significantly, regardless of whether greater centralisation or decentralisation was implemented. Repeated adjustments within a short period lead to the highest costs. Brandl and Ibsen conclude that reforms of the wage-setting system are not cost-neutral but entail transition costs that can dampen the expected benefits of a supposedly better system for years.

Overall, even in the more recent literature, the question of what constitutes an optimal degree of collective bargaining coverage ultimately remains unanswered. Moreover, it is unclear how a higher degree of collective bargaining coverage is to be achieved. In principle, it appears sensible to consider not only collective bargaining coverage, but also the organisational strength of trade unions. Trade unions seek to push wages above the equilibrium wage by restricting labour supply, which would emerge under individual bargaining in the context of perfect competition in the labour market (Oswald, 1985). This “monopoly rent” is offset by the fact that trade unions offer a “voice option”, which can mean that dissatisfaction among employees does not result in working to rule, disengagement, or job changes, but is instead articulated vis-à-vis management through collective organisation (Freeman/Medoff, 1979). A high union density strengthens this “voice option”. It would therefore be desirable if high collective bargaining coverage were the result of high union density. Administrative extension of collective agreements (for example through a declaration of general applicability) gives rise to the problem that the union’s “monopoly rent” is transferred to previously uncovered firms without being accompanied by positive effects in the form of broader access to the “voice option”. Aidt/Tzannatos (2008, 272) therefore emphasise: “[E]xtension of collective agreements to non-unionised sectors does not bring with it worker-management cooperation and other productivity-enhancing “voice” factors [...] that to some extent compensate for the economic costs associated with the wage mark-up and other distorting aspects of collectively agreed contracts in unionised sectors”. Moreover, the question arises as to whether trade unions internalise the negative external effects of their wage settlements to a sufficient extent in sector-level bargaining. Without competitive pressure from uncovered “outsiders”, an important disciplining factor disappears in the case of a declaration of general applicability.

Against this background, it is hardly surprising that the OECD (2018b, 76) states: “Well organised trade unions and employer associations with a broad support tend to be the best way to attain high coverage”. It is particularly important, especially at firm level, to create a basis for social dialogue. The OECD (2018b, 76) does not rule out declarations of general applicability but recommends using them with caution: “In systems with sector-level bargaining and no broad-based representation, administrative extension can help cover companies and workers not participating in collective bargaining. To avoid harming the economic prospects of start-ups, small firms or vulnerable workers, extensions need to be well-designed [...]”. In particular, the collective interests of a large group of firms and employees need to be taken into account (see also OECD, 2018b, 103 for further discussion). How important sufficient support for the collective bargaining parties is from the

OECD's perspective is also reflected in a finding on the positively described effect of coordination (OECD, 2018b, 75): "To be effective, co-ordination requires strong and self-regulated social partners as well as effective mediation bodies."

Finally, empirical studies by Brandl and Ibsen (2017) as well as Brandl and Bechter (2019) suggest that state interventions in national wage-setting systems often do not lead to an improvement in economic performance. Considering this finding, it appears advisable to respect the path dependencies of national collective bargaining systems. It is questionable whether seemingly more advantageous arrangements in other systems would lead to similar outcomes under comparable conditions. For the German wage-setting system, the finding that sector-level wage bargaining is not superior to decentralised or centralised bargaining is particularly important. There is no reason to accord primacy to the sectoral or central bargaining level, as the EU Minimum Wage Directive does.

#### 4.4 The state and wage-setting

National wage setting is often path-dependent, and the "balance of power" between the collective bargaining parties and the state can change (Haapanala et al., 2023, 433). An assessment of the objectives pursued by the EU Minimum Wage Directive and the instruments proposed to achieve them should therefore consider not only the bilateral structures between trade unions and employers, but also the trilateral ones between the collective bargaining parties and the state. The state defines the institutional framework conditions; by adjusting them, it can influence the rules of the game and the moves available to the collective bargaining parties (Lesch, 2021; Lesch et al., 2022). With its Minimum Wage Directive, the European Union is now stepping in as a further actor at the supranational level, shaping the institutional framework.

Irrespective of whether, or to what extent, the collective bargaining parties in individual EU member states are able to act autonomously vis-à-vis the state, the following applies: ultimately, the state defines the institutional framework for wage setting. Bender (2018, 705) conceptualises collective bargaining autonomy as a legally constituted and regulated normative order of the labour market that is intended to enable the reliable and appropriate generation of labour standards. Müller-Jentsch (1983, 123) argues that the leeway granted to trade unions and employers within this order remains subject to the state's willingness to shape and delimit the framework. Weitbrecht (1969, 162) distinguishes between two levels of collective bargaining autonomy. The "internal procedures" refer to the bilateral mechanisms agreed between the collective bargaining parties for norm-setting through collective agreements and for regulating conflict. By setting the framework conditions, the state places limits on these "internal procedures" and on "norm-setting" itself (Höpfner et al., 2021, 182). Weitbrecht (1969, 34) argues that autonomy is always at risk of changes to the framework conditions if norm-setting conflicts in substance with the state's economic policy objectives, or if the manner in which the bargaining parties conduct their disputes, for example through strikes or strike threats, conflicts with certain considerations of the common good. The more efficiently this wage-setting order is organised, the weaker the state's incentive to intervene in it through wage laws, compulsory arbitration, or what Bender (2018, 700) describes as an imposed corporatisation of industrial relations in an authoritarian context.

Building on these considerations, Höpfner et al. (2021, 183) argue that the state monitors and evaluates both the internal relations among the collective bargaining parties and their external relations with the state. On this basis, the state derives possible adjustments to the framework conditions of collective bargaining autonomy, or otherwise seeks to influence the conduct of the collective bargaining parties. Fehmel (2011, 273) defines collective bargaining autonomy as a specific, institutionalised arrangement for allocating regulatory competences between the state and collective bargaining parties. He views this arrangement as a mutually beneficial exchange. The state can refrain from intervening in wage setting, thereby avoiding risks to its legitimacy, and in return assumes the follow-on costs of wage policy through state social policy. If these follow-on costs become too expensive, the state attempts to steer the conduct of the collective bargaining parties in the direction it prefers. Lesch (2021, 714) models this arrangement as a principal-agent relationship. In this setting, the state as principal leaves the regulation of working conditions to the collective bargaining parties and expects, in return, that the collective bargaining parties, as agents, will find appropriate solutions to problems. Since the collective bargaining parties pursue members' interests, their objectives may conflict with those of the state. Moreover, the state's objectives, distinguishing here between allocative and distributive goals, may vary, which makes adjustments in the conduct of the collective bargaining parties necessary. This follows already from the fact that changing governments may have different allocative and distributive preferences.

To influence the conduct of the collective bargaining parties, the state can draw on a range of steering mechanisms (Fehmel, 2011). Höpfner et al. (2021, 183) distinguish between regulatory interventions through legislation and steering interventions through appeals, threats (semantic steering) or tripartite involvement. Lesch et al. (2022, 56) extend these types of steering by adding political steering. Lesch (2021, 715) orders the types of steering according to their intensity of intervention and, in doing so, also considers system change as a further option. In theory, such a change can be implemented partially or fully. In practice, a full system change is generally ruled out, since wage-setting systems are path-dependent. System change may become more relevant as a result of the EU Minimum Wage Directive, because countries with decentralised wage-bargaining systems would, in order to reach the target value of 80 per cent, have to shift to sectoral wage bargaining and would have to declare such sectoral collective agreements to be generally binding. This would constitute a clear system change that would eliminate established bargaining structures by compulsion. The different steering mechanisms or steering types can be of a process-policy or regulatory-policy nature. Process-policy steering changes the rules of the game, while regulatory-policy steering changes the moves.

On the basis of heuristically selected case studies for Germany, different types of state steering can be identified (Höpfner et al., 2021, 193 ff.; Lesch, 2021, 720 ff.; Lesch et al., 2022, 49 ff.). It emerged that many state steering attempts were of limited effectiveness in the sense that the objectives pursued with a specific type of steering were not achieved. This applied in particular to the tripartite approach oriented towards regulatory policy (Concerted Action in the 1960s, Alliances for Jobs in the 1990s and early 2000s) and to legal steering (compulsory arbitration in the 1920s, Act to Strengthen the Collective Bargaining Autonomy (Tarifautonomiestärkungsgesetz, TASG) in the 2010s). Attempts to induce the collective bargaining parties to pursue an employment- or stability-oriented wage policy failed, as did attempts to stabilise the collective bargaining system through state-imposed compulsory arbitration or through state wage policy. The current minimum wage debate likewise shows that the state can set effective wage floors, but that this does not strengthen collective bargaining coverage. On the contrary, low earners who benefit from the minimum wage have an

incentive to save the money required for trade union membership. The EU Minimum Wage Directive now responds by addressing the strengthening of collective bargaining coverage in parallel.

Two episodes of political steering proved effective (Lesch et al., 2022, 55 ff.). First, in the 1970s and early 1980s, the Deutsche Bundesbank (Central bank of the Federal Republic of Germany) succeeded in bringing wage policy onto a course consistent with price stability. Subsequently, in the 2000s, the Federal Government succeeded, by threatening statutory opt-out clauses and implementing the “Agenda 2010”, in strengthening the employment orientation of wage policy and in limiting the shifting of the follow-on costs of adverse employment effects (via early retirement arrangements) onto the public. However, this policy was accompanied by growing competition from outside the system (Lesch, 2021, 725). As collective bargaining coverage declined, the sectoral collective agreement had been under pressure to adapt since the mid-1990s. In order to limit further exits from collective bargaining, the bargaining parties were forced to increase the system’s flexibility through collectively agreed opt-out clauses and to limit the cost burden associated with being bound by collective agreements by placing a stronger emphasis on employment. In this context, competition from outside the system played a disciplining role. Lesch (2021, 726) argues that it has proven effective in practice as an instrument that can be used on a case-by-case basis to restrain allocative inefficiencies.

## 5 Conclusion

The EU Minimum Wage Directive regards strong collective bargaining systems, in particular at sector or cross-industry level, as a key institutional framework condition for ensuring adequate minimum wage protection for workers. It considers adequate minimum wage protection to be all the more effective the greater the scope of application of collective agreements. The Directive clearly accords priority to positive freedom of association over negative freedom of association. It considers a scope of application of collective agreements of 80 per cent to be appropriate. It also prioritises sector-specific or cross-industry collective bargaining over company-level bargaining. These requirements are linked to an obligation for all Member States to draw up a “National Action Plan” where the coverage of collective agreements is less than 80 per cent. However, Member States are not required to reach the threshold. Moreover, it is disputed whether Member States can be required at all to draw up a National Action Plan that sets out specific measures to strengthen collective bargaining coverage. Irrespective of this legal issue that remains to be clarified, Member States with collective bargaining coverage of less than 80 per cent are, in a certain sense, under pressure to justify themselves. Such an intervention should not only be legally permissible, but also well grounded in economic terms. This applies to the objective as well as to the recommended measures. They must be suitable and proportionate. From a macroeconomic perspective that is not limited to distributional effects, neither the envisaged threshold nor the primacy of sector-specific or cross-industry collective bargaining is truly convincing. Ultimately, the EU Minimum Wage Directive intervenes in national wage-setting systems without being based on a comprehensive analysis supported by convincing empirical evidence.

The legal dimension was examined in depth by the ECJ following an action brought by Denmark, joined by Sweden. One of Denmark’s central criticisms was that the EU was intervening impermissibly in national wage setting. The ECJ endorsed this view only on a few specific points, but not with regard to the objectives and the provisions on the scope of application of collective agreements. It pointed out that reaching a scope of application of collective agreements of 80 per cent is not mandatory. The only mandatory requirement is that, if the threshold is not met, a National Action Plan must be submitted. In doing so, the Court grants the

EU, at supranational level, a right to monitoring. This may be legally permissible, but it represents a potentially problematic expansion of competences. Moreover, the legal argument must be distinguished from the economic one. The question of regulatory competence may be legally settled, but it has not been sufficiently examined in economic terms.

The first problem concerns the stipulation of the target value of 80 per cent. This accords a clear primacy to positive freedom of association over negative freedom of association. However, you can neither theoretically nor empirically determine an optimal collective bargaining coverage degree or an optimal degree for binding employers and workers directly to collective agreements that could be pursued as a general target. The target is justified on the basis of the normative objective that high collective bargaining coverage leads to greater fairness and less inequality. Empirical studies do indeed show that high collective bargaining coverage is associated with a flatter wage structure, meaning that wages are compressed. In addition, firms covered by collective agreements pay somewhat higher wages on average than firms not covered by collective agreements. However, the regulatory objective of improving workers' minimum protection is pursued without discussing the economic consequences of higher collective bargaining coverage. This raises the question of how systems adjust when their level of collective bargaining coverage is well below 80 per cent. Potential negative external effects on the labour market, the competitiveness of small and medium-sized enterprises, or the overall price level would need to be taken into account in an assessment of the degree of collective bargaining coverage that should be pursued. Instead, a purely distributional objective predominates, which disregards allocative side effects. This partial-analytical approach leaves fundamental economic transmission mechanisms out of account.

Moreover, the Directive does not discuss in any detail how higher collective bargaining coverage can be achieved. Should this occur through administrative extension, or through strengthening the direct binding to a collective agreement by increasing the organisational strength of the collective bargaining parties? This raises the question of what effects the political stipulation of a specific target value for the reach of collective agreement rules has on the autonomous wage-setting process. Typically, the collective bargaining parties are responsible for negotiating wages and other working conditions. The scope of application of the collective agreements they conclude depends on their strength. Where employer associations and trade unions have few members, the reach of collective agreements is also limited. If the reach is to be increased, the actors would either have to strengthen their membership base, or the state would have to take measures to extend the scope of application of collective agreements. In this context, it should be borne in mind that increasing the reach of collective agreements does not necessarily strengthen the direct binding to collective agreements resulting from membership in employer associations and trade unions. If the collective bargaining coverage is expanded administratively without strengthening direct binding to a collective agreement, the negative effects of sectoral collective bargaining, in the form of union-enforced "monopoly rents" or "wage premia", are extended to firms not covered by collective agreements, without allowing the potentially positive effects of the "voice option" that trade unions offer to workers to materialise. Furthermore, the primacy of the positive over the negative right to freedom of association is not universally established across the EU, and a different balance between the two freedoms may well be appropriate from one country to another. In a bilateral wage cartel, wages are not market-clearing in the sense that they bring labour supply and labour demand into balance. Competition from outside the system is therefore important in order to mitigate the cartel's negative effects. Accordingly, the collective bargaining coverage rate should take into account whether unemployment is high or low.

The second problem lies in the prioritisation of sectoral or cross-industry bargaining. Wage-setting systems evolve in a path-dependent manner. Alongside decentralised or sectoral bargaining, two-tier bargaining models are also conceivable, in which bargaining takes place at different levels. Neither theory nor empirical evidence provides a convincing basis for establishing the superiority of sectoral or cross-industry collective bargaining. Moreover, it should be questioned whether the OECD's emphasis on the advantages of organised decentralised systems that are well coordinated is empirically robust. Aidt/Tzannatos (2008, 278) already emphasised, with reference to their analysis, that the statistically measurable influence of coordination becomes smaller the more country-specific differences in economic policy are included as control variables in the regression equation. The OECD likewise includes a range of economic-policy reforms as control variables in its models. However, it remains questionable whether this captures the heterogeneity of economic-policy systems sufficiently, and to what extent the apparent advantages of specific systems can in fact be attributed to the differences examined (OECD, 2018b, 82).

There is therefore no reason to entrust a supranational authority that favours sectoral and cross-industry bargaining with the monitoring of wage-setting systems. Decentralised bargaining systems, or wage-setting systems with strong competition from outside the system, are thus placed under pressure to justify themselves. In the worst case, competition between systems is impeded. Moreover, there is a lack of a clear commitment to strengthening the collective bargaining parties themselves. It makes a difference whether the state extends collective agreements to outsiders through the instrument of a declaration of general bindingness, or whether the collective bargaining parties themselves are able to secure a sufficient scope of application of collective agreements. Small and medium-sized enterprises in particular often shy away from being bound by collective agreements, because the rules are unsuitable or too complex. It is therefore the inherent task of the collective bargaining parties to design collectively agreed rules in such a way that they are also practicable for small and medium-sized enterprises.

The EU Minimum Wage Directive pursues distributional objectives only. Allocative objectives, such as promoting employment, are mentioned in the Directive only in passing. However, the analysis of the state's framework-setting for wage determination, using Germany as an example, shows that a government does have reason to place allocative objectives at the forefront. In this context, competition from outside the system functions as an important policy lever. Through a restrictive or extensive use of the instrument of declarations of general bindingness, a government can influence the degree of competition from outside the system. When unemployment is high, competition from outside the system is tolerated, whereas when unemployment is low, distributional objectives tend to be pursued and competition from outside the system is pushed back. In the context of monitoring the National Action Plans, allocative objectives can come under pressure to justify themselves once a government seeks to pursue allocative objectives by relying on greater competition from outside the system and, for example, declares fewer collective agreements to be generally binding. This restricts the policy toolkit available to national governments to tackle high unemployment. National Action Plans must also be geared towards strengthening the collective bargaining parties' own responsibility. When social partners set wages and working conditions that are broadly accepted, these are adopted either directly through collective bargaining or indirectly through orientation towards collective agreements.

The Federal Government initiated a consultation process in July 2025 for a "National Action Plan to promote collective bargaining" and invited the social partners to submit comments. The submitted statements were published on the website of the Federal Ministry for Labour and Social Affairs in September 2025.

As of June 2026, the Federal Government implemented the following legislative measures, which are intended to strengthen collective bargaining coverage: As early as December 2025, with effect from 1 January 2026, the tax deductibility of trade union membership fees was improved. The measure provides that trade union dues can be claimed in full as work-related expenses in addition to the standard lump-sum allowance (amounting to EUR 1,230). Previously, trade union dues were included within the lump-sum allowance. With this measure, the Federal Government seeks to promote an increase in collective bargaining coverage resulting from the mutual binding of workers and employers to their respective organisations, as the improved tax deductibility alters the cost-benefit ratio of union membership. However, this rule does not eliminate the fundamental free-rider problem faced by trade unions. Because an establishment covered by a collective agreement generally applies the collective agreement to non-unionised employees as well, this creates an incentive for them to save the membership fee. Overall, the improved tax deductibility of trade union dues is likely to have only limited effects on employees' willingness to join.

Since May 2026, the so-called Federal Collective Bargaining Compliance Act (Bundestariftreuegesetz, BTG) has been in force. The Act enables the Federal Ministry for Labour and Social Affairs to specify sector-specific collectively agreed working conditions by statutory instrument and requires contractors to commit to complying with these conditions when performing federal public contracts as part of a collective bargaining-compliance pledge (BMAS, 2026). The BTG applies to public contracts with a value of EUR 50,000 and above. For particularly innovative start-ups, the threshold is EUR 100,000 in the first four years after their establishment. These rules are intended to reduce the alleged competitive disadvantages faced by firms covered by collective agreements in bidding for federal public contracts and concessions, and to curb displacement competition based on labour costs (ibid.). Whether this measure will increase the scope of collective agreements or the collective bargaining coverage resulting from mutual (direct) binding of workers and employers remains to be seen. Higher collective bargaining coverage would be expected if firms that were previously not covered by collective agreements were to take on a public contract. This raises the question of whether the collectively agreed standards are complied with only in the context of public procurement, or whether the firm complies with them in general. The latter appears rather unlikely, since in private procurement there is still no requirement to comply with collective agreement standards. If firms that were already bound by collective agreements take on public contracts, collective bargaining coverage and direct binding to a collective agreement would remain unchanged. A noticeable effect on collective bargaining coverage and direct binding to collective agreements seems unlikely, as can be inferred from the effects of various state-level collective bargaining compliance acts (Bach/Lesch, 2026).

In addition, the coalition agreement between the CDU/CSU and SPD provides for the creation of a digital right of access for trade unions to establishments (CDU/CSU/SPD, 2025, 19). This is intended to supplement trade unions' existing right of access by adding a digital access right corresponding to their analogue rights. Under analogue law, trade union representatives may enter an establishment in order to prepare elections, inform members, or recruit members. The prerequisite is that at least one employee of the establishment is a member of a trade union, and that there are no overriding operational interests (for example strict security requirements, the protection of trade secrets, or disturbances to industrial peace) preventing access. To date, this project has not yet been implemented. In December 2025, the Federal Government confirmed that it continued to pursue this objective and was currently examining how the coalition agreement mandate could be implemented in legislation (Deutscher Bundestag, 2025, 2). A digital right of access would improve trade unions' opportunities for recruiting members. In this respect, it is suitable for strengthening the direct binding to a collective agreement. Especially in establishments that enable mobile working, it would improve

trade unions' ability to inform and reach employees. The free-rider problem described above also persists here, so that even an improved right of access is likely to have only a limited effect on the organisational development of trade unions.

In summary, two measures, improving the tax deductibility of trade union dues and introducing a digital right of access for trade unions, aim to strengthen the direct binding to a collective agreement. This is, in principle, the right approach, even though neither measure is expected to have any noticeable effect. Strengthening the direct binding to a collective agreement should, as a general rule, always be preferred to strengthening the reach of collective agreements through declaring them as generally binding, because it also promotes the positive "voice" effects. The BTTG is also unlikely to have any noticeable effect on collective bargaining coverage resulting from the mutual membership of workers and employers in their collective organisations. However, it represents a better alternative than the compulsory extension of collective agreements to outsiders not covered by collective agreements, because it pushes back competition from outside the system to a lesser extent. Especially in sectoral bargaining, competition from outside the system constitutes a central disciplining element for trade unions and wage bargaining.

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