

THE IMPACT OF TRADE UNIONS DYNAMICS ON INCOME INEQUALITY TRENDS IN EUROPEAN UNION COUNTRIES

Presented By : Jacopo Binati

Central European University | 2024



OVERVIEW

1

- Introduction
- Methodology
- Research Question
- Importance of Trade Unions
- Model Selection
- Model Result
- Policy Considerations
- Conclusions

INTRODUCTION

2

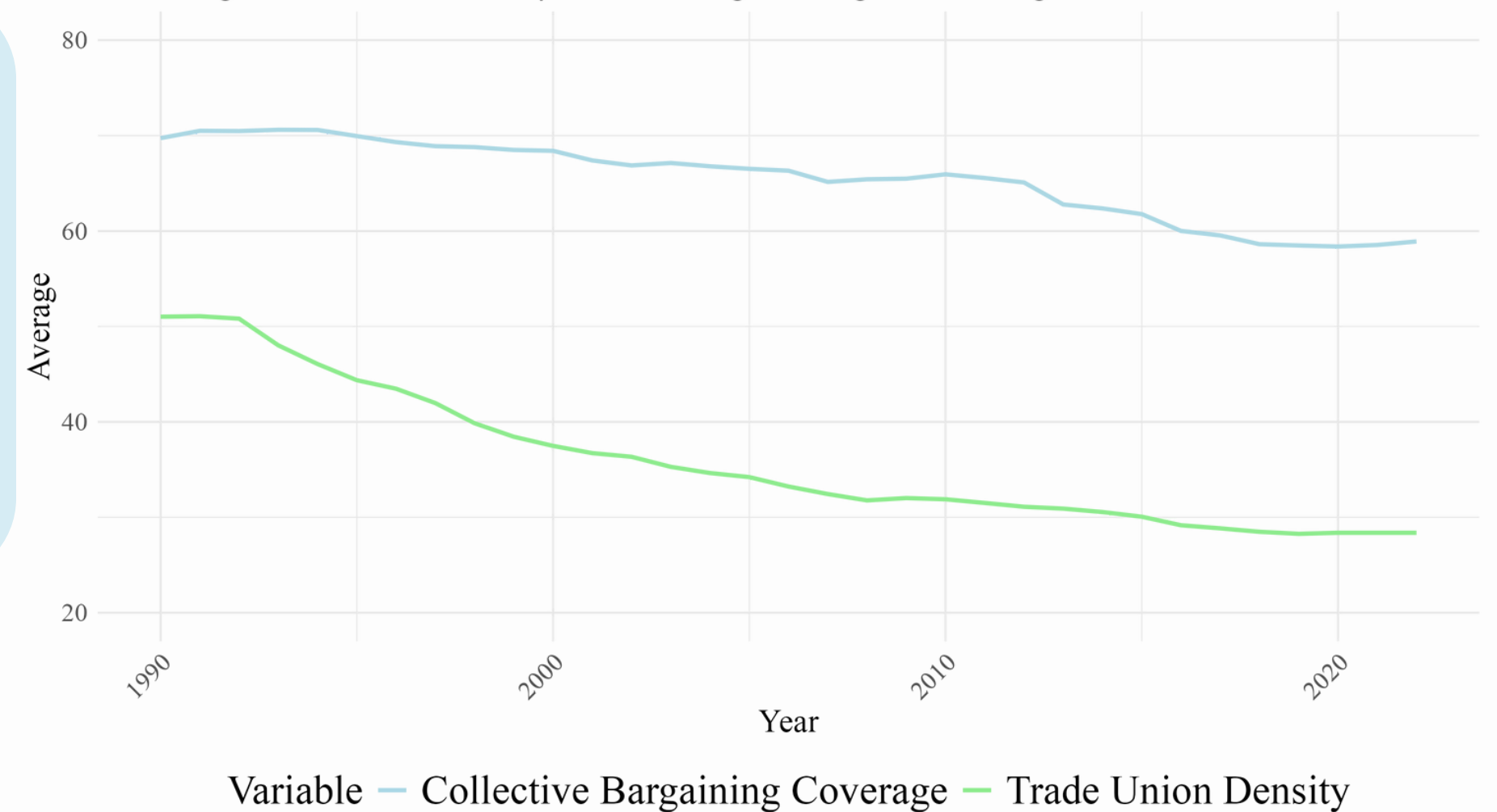
- **Why Unions:**

- Vital instrument of **fairness in employment**;
- Trade Union **Density** and Collective Bargaining **Coverage**

- **Role of Trade Unions**

- Advocacy for workers' rights
- Impact on benefits, and job security

Average Union Density and Bargaining Coverage Over Time



Research Design

- Mixed-Methods approach:
 - Qualitative and Quantitative analysis

Data Sources

- World Bank Dataset
- OECD Databases
- WPJ ROL Index

Variables and Metrics

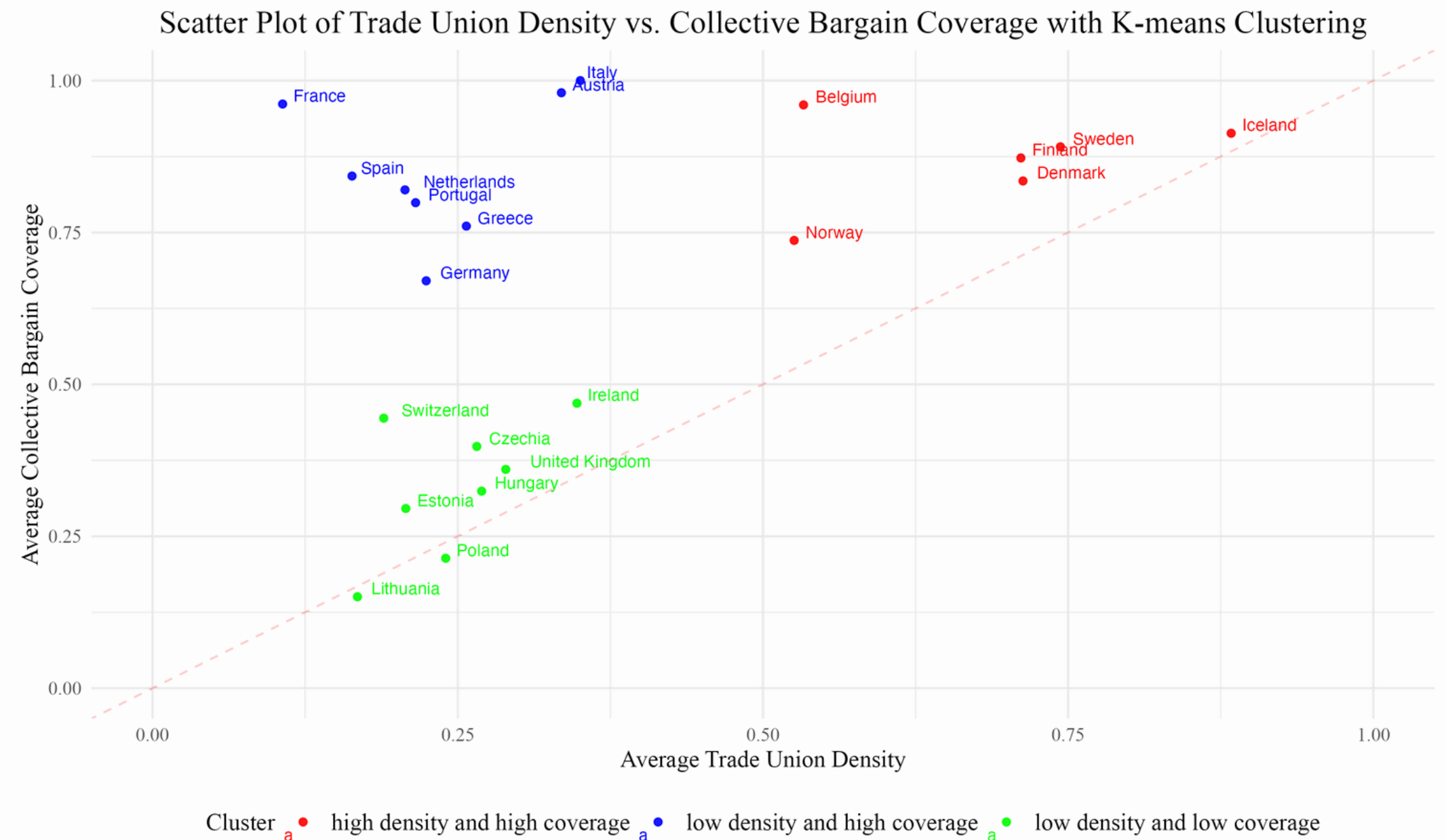
- Trade union density and coverage
- Income inequality metrics: Gini coefficient
- Control variables (e.g., GDP, inflation, labor force participation,...)
- Selected European countries

RESEARCH QUESTION

4

Impact of Trade Unions on Income inequality

- Impact depends on **legal frameworks** and **strength of representativeness**
- **Variations by region:**
 - e.g., Nordic countries vs. new member states
- **Ghent System**, between Coordinated Market Economies and Liberal Market Economies



CONTROL VARIABLES

5

Control Variables	N	Mean	St. Dev.	Min	Max
Bargaining Power (squared)	726	0.187	0.226	0.002	0.882
Collective Bargain Coverage	726	0.668	0.288	0.125	1.000
Inflation	726	9.549	73.558	−4.480	1,020.620
Wage Growth	726	1.649	3.312	−15.400	16.300
Log Minimum Wage	726	2.577	3.467	0.000	7.800
Log GDP	726	26.301	1.546	22.230	29.080
Democratic Governance	726	0.860	0.118	0.303	0.985
Net Exports	726	−39.316	18.897	−112.640	0.050
Net FDIs	726	0.257	4.837	−23.590	29.580
Government Debt (percentage)	726	60.339	40.355	3.810	253.120
Log Labor Workforce	726	15.457	1.275	11.880	17.610
Female Workers	726	66.571	9.425	40.190	84.150
Part-time Female Employment	726	33.136	11.458	6.150	61.730
Female Unemployment Rate	726	8.696	5.199	0.720	31.840
Tax Contribution	726	28.459	12.734	1.400	54.000

IMPORTANCE OF TRADE UNIONS

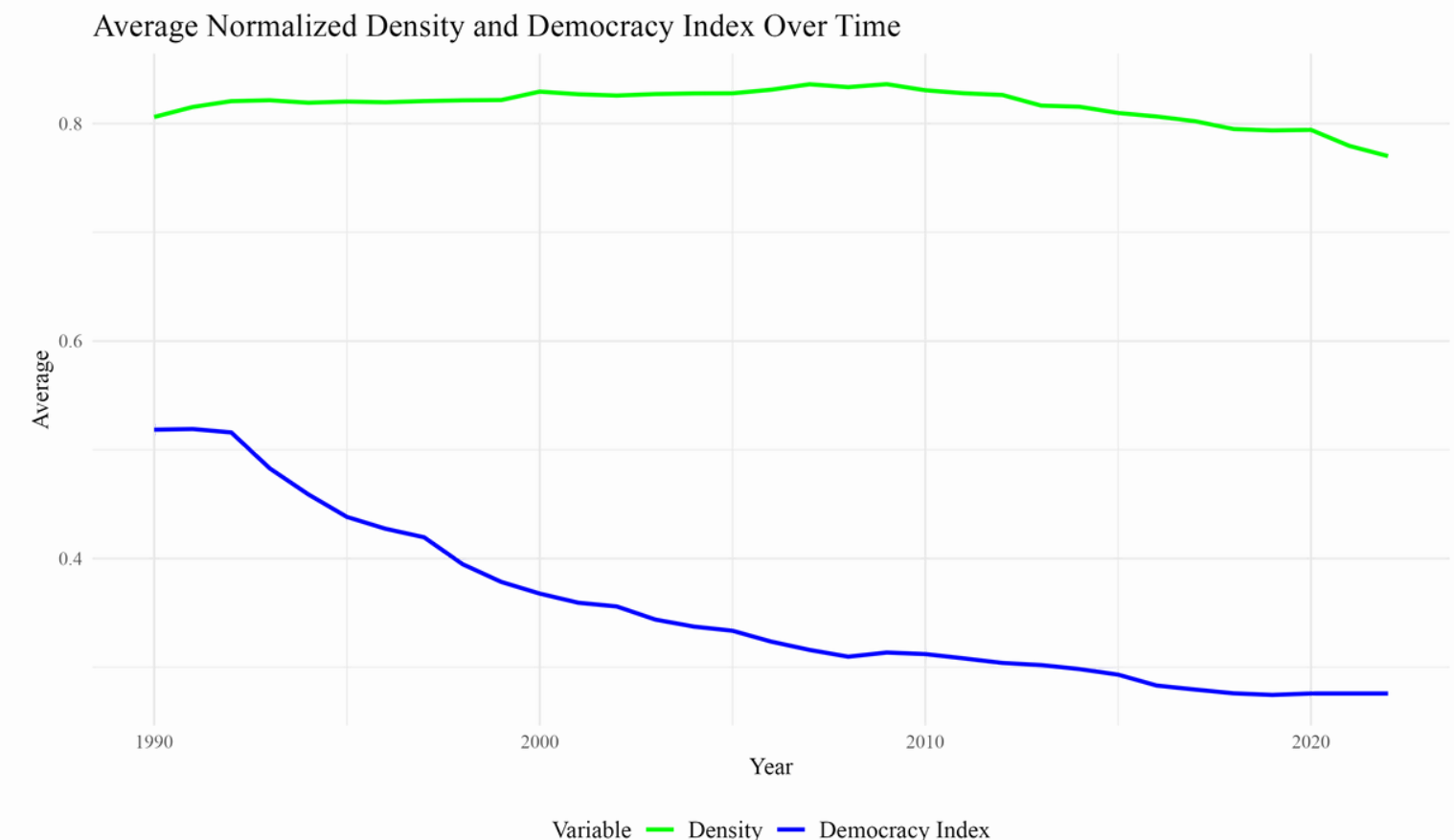
6

Trade unions can achieve gains for workers that would be difficult, on an individual basis

- Change in the structure of the unionised labour force
 - Scarcity of financial resources limit the capacity to implement resources

The Decline in Trade Unions

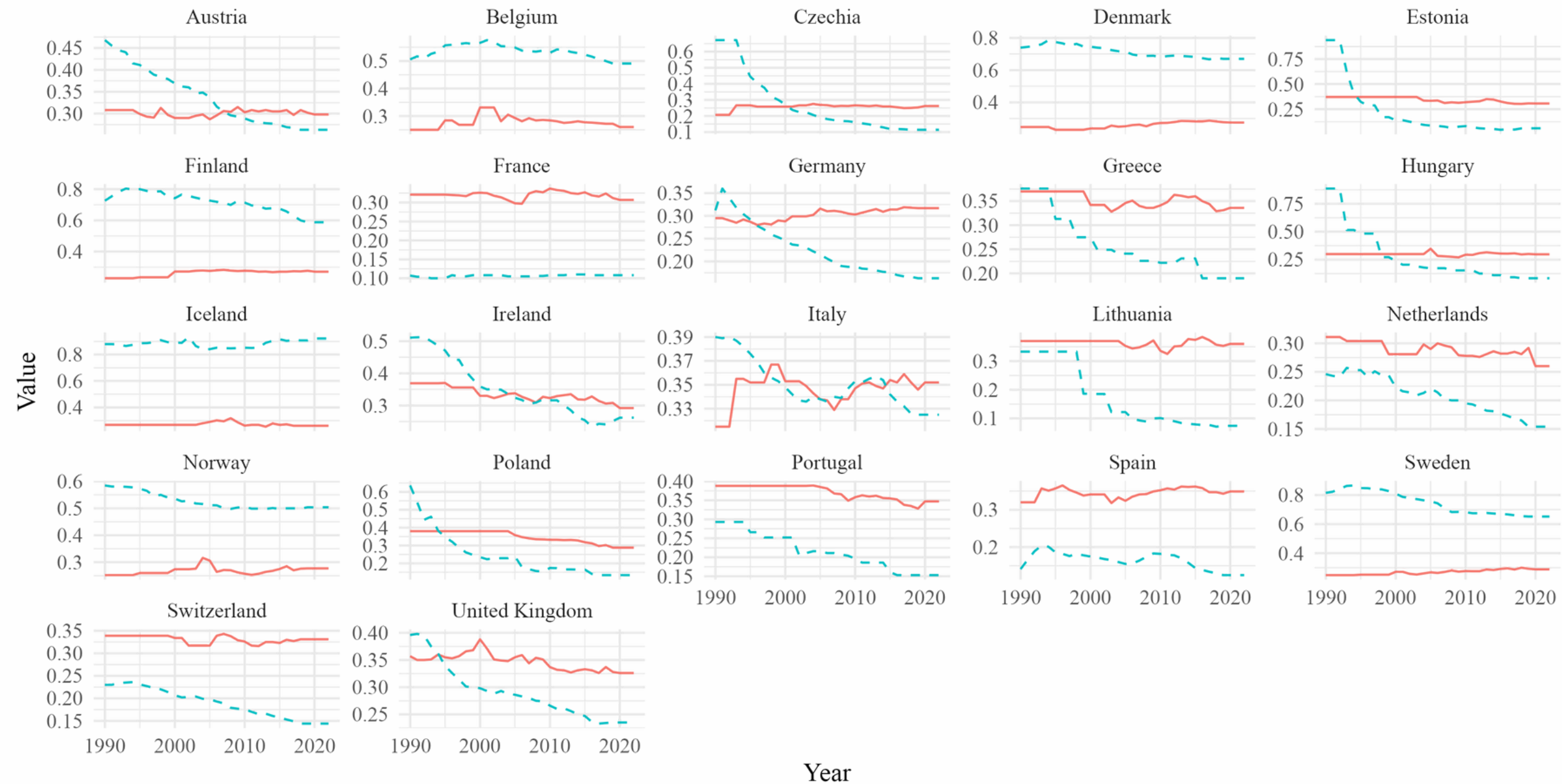
- **External Factors:**
 - **Globalisation** and deregulation
 - Shifts in **labor market dynamics**
- **Internal Factors:**
 - **Organisational rigidity**
 - Lack of diversity in leadership, and Inadequate representation



IMPORTANCE OF TRADE UNIONS

7

Gini Index and Trade Union Density Over Time by Country



Indicator — Gini Index — Trade Union Density

Model Selection

- Two-way fixed-effects with Instrumental Variable

$GiniIndex_{it} = \alpha + \beta_1 \times \text{Bargaining Power}_{it} + \beta_2 \times X_{it} + \dots + \mu_i + \lambda_t + \epsilon_{it}$
where

$$\text{BargainingPower}_{it} = \gamma + \delta \times \text{DemocraticGovernance}_{it} + \theta_{it}$$

Instrumental variable approach to address endogeneity

MODEL RESULT

9

- Findings from Regression Analysis:
 - From simple OLS, highest unionised countries are associated with lowest income inequality
- Implications:
 - Increasing bargaining power** is statistically significant in **driving income inequality down**
 - Higher levels of bargaining power have a **progressively larger impact on reducing income inequality**
 - Labour Unions are an effective socio-economic tool for redistribution
- Not only Trade Unions:
 - Reinforcement with Democratic Governance

Table 1: Regression Results: Two-Way Fixed Effect with Instrumental Variable

	<i>Dependent variable:</i>		
	Gini_Index		
	(1)	(2)	(3)
Bargaining Power	−0.027*** (0.011)	−0.024** (0.011)	−0.021* (0.011)
Collective Bargain Coverage	0.022*** (0.008)	0.024*** (0.008)	0.026*** (0.008)
Wage Growth	−0.001*** (0.0002)	−0.001** (0.0002)	−0.0005** (0.0002)
Log Minimum Wage	−0.001 (0.001)	−0.001 (0.001)	−0.001 (0.001)
Log GDP	−0.038*** (0.004)	−0.038*** (0.004)	−0.037*** (0.004)
Government Debt	−0.001*** (0.0002)	−0.001*** (0.0002)	−0.001*** (0.0002)
Log Labor Workforce	0.023* (0.012)	0.025** (0.012)	0.028** (0.012)
Female Workers	−0.001*** (0.0002)	−0.001*** (0.0002)	−0.001*** (0.0002)
Constant	0.959*** (0.201)	0.936*** (0.201)	0.882*** (0.202)
Democratic Governance as IV	Yes	Yes	Yes
Country	Yes	Yes	Yes
Year	Yes	Yes	Yes
Inflation	Yes	Yes	Yes
Part-time Female Employment	Yes	Yes	Yes
Women Unemployment Rate	Yes	Yes	Yes
Bargaining Power:Cluster2	Yes	Yes	Yes
Bargaining Power:Cluster3	Yes	Yes	Yes
Net Exports	No	Yes	Yes
Net FDIs	No	No	Yes
Tax Contribution	No	No	Yes
Observations	726	726	726
R-squared	0.865	0.865	0.867
Adjusted R-squared	0.851	0.851	0.853

Note:

*p<0.1; **p<0.05; ***p<0.01

POLICY CONSIDERATIONS


10

- **Policy Recommendations:**
 - Strengthening labor unions and collective bargaining rights;
 - Implementing supportive legislation
- **Heterogeneity of Effects:**
 - Differential impacts on various worker groups
 - Importance of sector-specific policies
- **Complementary Mechanisms:**
 - Beyond Wages:
 - Job security and training programs
 - Social safety nets and unemployment insurance
- **Long-term Impacts:**
 - Sustained reduction in income inequality through union support

CONCLUSIONS

11

- **Labor unions** and collective bargaining have long been **important for fair income distribution**
- The results clearly show that collective bargaining and trade union density are crucial for achieving fair economic outcomes
 - Adding **Democratic Governance** as an instrumental variable suggests that **strong democratic institutions** and practices are essential for effectively representing labor
- The ongoing presence of trade unions, despite declining membership, highlights their **continued importance in the fight for socio-economic fairness**

The slide features a decorative design on the left side with three vertical bars in shades of blue. On the right side, there are two rectangular areas filled with a grid of blue dots of varying sizes. The text "THANK YOU" is centered in a large, black, sans-serif font.

THANK YOU

Central European University | 2024