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ISSN: 2787-7639 DOI: 10.3326/in.2023.133

IPF NOTES

#133
6 November 2023

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According to the International Labour Organization, successful collective bargaining can contribute to reducing income inequality within the society. The social dialogue between employers and trade unions in Croatia did not achieve much with regard to reducing income inequality. In the present Note we explain why trade union membership in Croatia is decreasing, we identify weaknesses of the collective bargaining system and give recommendations for its improvement.

Collective bargaining is a process of voluntary negotiation between one or more employers (or their organizations) and one or more workers' organizations (that is, trade unions). Studies on the effects of collective bargaining on macroeconomic variables and social well-being are very sparse. Several most recent papers lead to the conclusion that there is a positive association between trade union

density (share of trade union members in total number of employees) and income equality.[1] The 2009 research, which covered Croatia too, also discovered a positive association between trade union density, collective agreement coverage rate and income equality.

Inequality in Croatia

Income inequality is usually expressed by means of the Gini coefficient, ranging between 0 and 1 (or 0 and 100). In this range, 0 means total equality (i.e., all citizens have equal income), while 1 signifies total inequality (i.e., a single person earns the entire income for the community). Another widely used measure is the quintile share ratio (S80/S20) which measures the total income of the top 20% of the highest earners and bottom 20% of the lowest earners in the population. There are alternative measures of inequality used in literature, but none of them are used as often in studies on income and wealth distribution. In addition, services provided by the state are often excluded from measurements of income inequality, as well as in-kind transfers, and we can safely assume that citizens with lower income use state-provided services to a greater extent than other citizens.

The Gini coefficient for Croatia has not changed substantially between late 1980s and the present. According to Croatian Bureau of Statistics data, the Gini coefficient of equivalised disposable

[1] See, for example, Jaumotte and Osorio Buitron (2020), Farber et al. (2021), Case and Deaton (2020), Darvas et al. (2023).

income[2] in Croatia was on a mild upward trajectory in the first years of economic transition (0.286 in 1988, rising to an average of 0.30 in the period 1996-1998), only to drop to an average of 0.29 between 2003 and 2022 (Table 1 in Appendix). In most of the reference years, the Gini coefficient was below or equal to 0.30, exceeding this mark only on three occasions – 0.32 in 2010 and 0.31 in both 2013 and 2015. Its lowest values – 0.28 – were recorded in 2006 and 2007. Even though income inequality in Croatia is mostly perceived as high, parallel Gini coefficients show that it is identical to average inequality in EU-15 and EU-27 countries and, moreover, that it has remained stagnant in the past ten years.[3]

The quintile share ratio S80/S20 for Croatia in 2022 shows that 20% of the population with the highest equivalised disposable income earned 4.6 times more than the 20% of the population with the lowest equivalised disposable income (Table 1 in Appendix). In the 2000s this gap has been widening, reaching its peak in 2010 (5.5). After this, it decreased quite substantially in 2011, only to increase

[2] Equivalised disposable income is obtained by dividing a household's total disposable income by the equivalised household size calculated by means of a modified OECD scale, whereby the household head receives the index 1, other adults in the household receive 0.5, while household members under the age of 14 receive 0.3.

[3] Bezeredi, Mustać and Urban (2023) used questionnaire data corrected by means of tax data. Such data is more representative of the upper sections of the income distribution pyramid. Their research has shown that the Gini coefficient of equivalised disposable income in Croatia equalled 0.33 in 2017, which is 15% higher than when estimated from original survey data. They concluded that income from capital and assets is a major factor contributing to overall inequality.

again in 2012. After 2013, it has been decreasing for most of the years.

Since general government expenditures have a mitigating effect on inequality, Croatia's attempts to decrease inequality involve adjustments to the tax and social insurance systems (primarily pensions), social benefits as well as minimum wages. Minimum gross salary in Croatia in the period 2010-2023 increased from 373,48 euros to 700 euros, or by 326.52 euros (87.4%). This growth has been particularly strong in the past five years, when the minimum wage increased by 244 euros (53.4%). Even though minimum wage does affect the reduction of income inequality, Denmark, Finland and Austria manage to record higher income equality than Croatia and retain the downward trend for income inequality, even without a nationally defined minimum wage amount.[4] We can thus conclude that there are other effective ways of reducing income inequality apart from minimum wage.

Collective bargaining at the national level

Freedom of association and the right to organise are defined by the Constitution (Articles 43 and 60), Labour Act, various International Labour Organization conventions and other international treaties to which the Republic of Croatia is a party. Both employers and employees have the right, without any restriction, to establish and join employers' associations and trade unions. Unfortunately, Croatia does not have an elaborate, comprehensive and stable system of monitoring data related to trade union membership and collective agreements in force. There is only one publicly available

[4] See Kučiš (2021).

database of collective agreements. Therefore, the main source of data is occasional academic papers and reports.

Prior to the economic transition, almost all workers in Croatia were trade union members whose membership fee was paid directly from their salaries. In the then prevailing self-management system, there was no strong division between employees and employers. Trade unions had relatively limited responsibilities, which cannot be directly compared to those of trade unions in market economies. Collective bargaining currently at work in Croatia is difficult to describe. Regarding the dynamics and duration of a collective agreement's cycle, we can distinguish four different models. The first model includes collective agreements that are ratified for a definite period, mostly with a relatively short duration of one or two years. The second model entails collective agreements signed for a definite period, but a longer one – usually four or five years; these agreements may undergo numerous amendments during their enforcement period. The third model includes collective agreements signed for an unlimited period, but which are quite often adjusted through annexes or amendments. The fourth model comprises collective agreements concluded for an indefinite period that are not subject to changes and amendments. Such agreements are extremely rare.

Collective bargaining in Croatia is mostly decentralised in the private sector and quite centralised in the public sector. From the employers' perspective, the Croatian Employers' Association – CEA (*Hrvatska udruga poslodavaca, HUP*) is the only representative social partner at the national level. According to information provided by CEA, it brings together slightly more than 2,000 companies with around 260,000 employees in total, which is around

46% of total employment in the private sector. CEA has 30 branch associations, but its internal organisational structure does not always correspond to the structure of workers' organisations.

Since the commencement of the transition period, Croatia has had several representative trade union confederations to partake in trilateral dialogue between the employers, workers and the state.[5] Each of these confederations has affiliate unions from various parts of the economy. For such a small country, Croatia has a very high number of registered trade unions – more than 600.[6] Until 2018, four representative trade union confederations had around 367,000 members. Since the summer of 2018, there are only three representative trade union confederations: The Union of Autonomous Trade Unions – UATUC (*Savez samostalnih sindikata Hrvatske – SSSH*), Independent Trade Unions of Croatia – ITUC (*Nezavisni hrvatski sindikati – NHS*) and MATICA – Association of Croatian Trade Unions (*Matica hrvatskih sindikata*). In 2023, UATUC counted around 98,000 members, or 42% of all unionised workers (mostly in the private sector), ITUC had around 80,000 members, or 34% of all trade union members (in state, public and private sector), while MATICA had around 56,000 members, or 24% of unionised members (primarily in education, science and healthcare). The total

[5] The criteria and procedure for defining higher-level representative employers' associations and trade unions for partaking in tripartite bodies at the national level as well as the criteria and procedure for defining representative trade unions for collective bargaining have been stipulated in the Act on Representativeness (Official Gazette 93/14, 26/15).

[6] The estimate is based on data provided by the The Ministry of Labour, Pension System, Family and Social Policy, separately for Zagreb, and on the paper Grgurev and Vukorepa (2015).

number of trade union members whose unions have been affiliated with the representative confederations in 2023 has been roughly estimated to 234,000, while between 40,000 and 50,000 members belong to unions which have not been affiliated.

In the period between 1995 and 2009, trade union density in Croatia was mostly stable, at approximately 35%.[7] Since the start of the economic crisis in 2009, trade union membership has declined, but again with differences between the public and the private sector. While trade union membership and their representativeness in the public sector was generally stable (above 50%), membership in the private sector has been continuously decreasing. It currently stands at around 12% (drop from 17%), but it goes as low as 10% in small and medium-sized enterprises and up to 30% in companies with more than 250 employees. Overall, trade union density has decreased to around 18%.

The decrease can be explained by a host of factors:

- an increasing number of workers in small and medium-sized enterprises in the private sector,
- traditional industries with a high unionisation rate are disappearing, while the service sector is employing an increasing number of workers that do not share a particular interest for trade unions,
- many older trade union members are retired, while younger workers are less interested in membership,

[7] See Bagić (2016) and Bagić (2022).

- many young workers are often employed on fixed-term contracts and are afraid to unionise or do not see any direct benefit from unionisation,
- an increasing number of workers are employed on projects or Internet platforms,
- growth in the number of self-employed workers, who in Croatia are not trade union members and do not participate in collective agreements,
- in some economic sectors there is extensive outsourcing of all auxiliary services in the sector as well as a transition to digitalisation, which further undermines union membership,
- approximately 10,000 persons work through agencies for temporary employment; they mostly do not have a particular interest for unionisation, while trade unions do not know how to motivate them and include them into the membership,
- unfair competition and anti-union practices of employers such as thwarting professional promotion due to trade union membership and/or mobbing.

The number of workers covered by collective agreements is arguably more important than trade union density. There were 580 collective agreements in force in Croatia at the end of 2021, which regulated the rights of about 670,000 employees (47% of all workers).[8] The number of valid collective agreements is similar to the number recorded in 2014 (570). However, there is no uniform system of collective bargaining in Croatia with regard to type of

[8] See Bagić (2022).

agreement, its duration, bargaining cycle and dynamics of amendments to collective agreements.

Collective bargaining at the sectoral level

Sectoral-level collective bargaining in Croatia virtually does not exist. There are quite substantial differences in the coverage of workers by collective agreements according to sector of activity (data only for employees in legal entities). According to the National Classification of Economic Activities (NACE), coverage is extremely low in Administrative and support service activities (NACE N) and Other service activities (NACE S), standing at 2.8% for both, while it is substantially low in Real estate activities (NACE L), with 8.2% and Professional, scientific, and technical activities (NACE M), with 13.3%. On the other hand, due to sectoral (branch) collective agreements all workers in the Construction sector (NACE F) and Accommodation and food service activities (NACE I) are covered.

This great variance in the level of collective agreement coverage is largely dependent on the type of employer and predominant form of ownership. The greatest collective agreement coverage is recorded in the public sector, consisting of state and local administration and public services (public education, healthcare, culture institutions, etc.), in which collective agreements include almost 88% of the employees. In public companies, which are mostly owned by the central Government and/or local and regional self-government, the collective bargaining coverage rate is around 75-80%. The coverage in companies under private ownership is

substantially lower, amounting to only about 36%, with vast differences depending on economic sector and company size.[9]

The administrative extension of the application of sectoral collective agreements to all employers in certain sectors has a major impact on the collective bargaining coverage rate, especially in the private sector. Only two sectors in Croatia – Construction (NACE F) and Accommodation and food service activities (NACE I) – have extended sectoral collective agreements, which, for certain simple jobs, also stipulate the lowest possible wage, which is higher than the statutory national minimum wage. They cover around 140.000 employees, which is around 50% of all workers employed in the private sector whose rights have been regulated by collective agreements, or 20% of the total collective agreement coverage rate. Without this administrative extension, the collective agreement coverage rate would be substantially lower in these sectors.

Effects and weaknesses of the collective bargaining process

Although the trade union density rate and collective agreement coverage rate are quite high in Croatia, the outcomes of collective bargaining in Croatia are somewhat limited. This is the consequence of many factors, primarily related to low level of mutual trust between employers and trade unions, lack of tradition and persistence in collective bargaining, low capacity and goodwill of the social partners. In Croatia, collective bargaining and collective agreements have not managed to do much to alleviate income inequality. According to claims by the Executive Secretary for public policies, projects and education in the Union of Autonomous Trade

[9] See Bagić (2016) and Bagić (2022).

Unions of Croatia, from about 230 collective agreements in UATUC's database that are currently in force, around 40% of them have a very elaborate wage structure, 20% of them define only basic ranges, while about 40% do not sufficiently regulate remunerations. After reading through a substantial number of collective agreements with very elaborate wage structure, one can conclude that the topic of reducing income inequality is virtually absent from them.

The only thing that contributes to reducing inequality are sectoral (branch) collective agreements which define the lowest possible salary for specific auxiliary occupations, which is higher than the statutory minimum wage. Apart from branch agreements, another factor that could help reduce income inequality would be the participation of social partners in the Commission for Monitoring and Analysis of the Minimum Wage.

Collective bargaining in Croatia does not put enough emphasis on redistributive policy, occupational health and safety, protecting dignity of workers and workforce mobility. The labour market is highly segmented with respect to the patterns and role of collective bargaining, while on the other hand there is lack of any consistent and widely accepted system of harmonising basic salary and other material rights with macroeconomic trends and indicators of business performance of enterprises. The current institutions are weak, while the regulatory framework tends to change frequently, which causes legal instability.

Recent developments at the labour market caused by a lack of workforce (due to demographic ageing and substantial emigration of young people) have changed the workers' starting position as

they are now able to set additional terms to their employers. On the other hand, the employers themselves, in order to attract new workers and retain current ones, are willing to offer more than what is stipulated in collective agreements or laws. In addition, such a situation caused a new wave of immigrant workers from third countries, who do not speak Croatian nor request any form of unionization. Both scenarios pose new challenges to unionising and collective bargaining. On the one hand, the workforce's position is enhanced, which could lead to the trade unions having more bargaining power and the employers being more willing to cooperate with the unions. However, on the other hand, this could make the workers feel empowered enough to claim their rights on an individual basis, without involving unions, by changing employers who could provide better work conditions. Non-unionised workers from low-income countries are willing to work longer hours for less money since they do not compare their prospective income to the local work market but rather to their country of origin. This could put more pressure on Croatian workers in the lowest tails of the income distribution and weaken their bargaining position.

Suggestions for enhancing collective bargaining

Collective bargaining in Croatia could have a much greater impact on reducing income inequality than is presently the case. We give the following recommendations for enhancing its role.

- The capacity of social partners needs to be strengthened and sectoral-level bargaining needs to develop.
- The Government should accept collective bargaining as an important instrument for solving problems arising at the labour market as well as an important instrument for

managing macro-economic policy. So the government should, without a second thought, consider and propose a legislative and institutional framework for developing collective bargaining.

- The collective bargaining system should keep in touch with changes in the macro-economic setting and/or micro-economic indicators.
- We should raise the social partners' awareness regarding the topic of income inequality and encourage them to act on this issue.
- The cooperation between trade unions and CEA (including CEA's branch associations) clearly needs to improve, which can only happen if the level of mutual trust, currently at very low levels, increases. Also, the trade unions' work needs to become more coordinated.
- The role and significance of the Economic and Social Council also needs to change.
- Even though education and training play important roles in modern economy, marked by fast-paced and constant changes, they rarely feature as topics in collective bargaining in Croatia. Education should get more attention in collective bargaining in the future, together with occupational health and safety and workers' mobility.
- Finally, we should develop a stable system for monitoring data related to collective bargaining and industrial relations.

Developing efficient industrial relations is not an easy or quick process. It is a long-term activity which cannot be achieved without persistence, consistence, dedication and goodwill of all participants.

This process will unfold at various speeds and different trajectories; in such cases, the appropriate path should be selected in a gradual and individualised manner. However, convergence of collective bargaining is always a desirable option, which could signify massive progress.

APPENDIX

Table 1. Inequality indicators for Croatia (1987-2022)

Year	Gini coefficient	Quintile share ratio (S80/S20)
1987 – 1990	0.29	-
1996 – 1998	0.30	-
2003	0.29	4.4
2004	0.29	4.5
2005	0.29	4.5
2006	0.28	4.2
2007	0.28	4.3
2008	0.29	4.6
2009	0.29	4.3
2010	0.32	5.5
2011	0.29	4.8
2012	0.30	5.4
2013	0.31	5.3
2014	0.30	5.1
2015	0.31	5.2
2016	0.30	5.1
2017	0.30	5.0
2018	0.30	5.0
2019	0.29	4.8
2020	0.28	4.6
2021	0.29	4.8
2022	0.29	4.6
average 2003 – 2022	0.29	4.8

Source: Croatian Bureau of Statistics (Indicators of poverty and social inclusion for individual years) and World Bank. 2003, 2004 and 2005 data have been retrieved from the Joint Memorandum on Social Inclusion of the Republic of Croatia. For earlier data, see Šućur (2021).

The present Note is an outcome of project Bargaining for Equality (BFORE), implemented on behalf of the European Commission by HIVA-KU (Research Institute for Work and Society, Project Coordinator) from Leuven, CEPS (Centre for European Policy Studies) from Brussels, 1Mayo (Fundación 1 de Mayo) from Valencia, Institute of Public Finance from Zagreb, LIER (Labour Institute for Economic Research) from Helsinki and LCSS (Lithuanian Centre for Social Sciences) from Vilnius, with the support of the European Trade Union Institute from Brussels. The project is funded by the European Union (VS/2021/0209). The Note's authors would like to thank all participants in the research for providing useful information and comments. The information and views set out in this document are those of the authors and do not necessarily reflect the views and official opinion of the European Union. Neither the European Union institutions and bodies nor any person acting on their behalf may be held responsible for the use which may be made of the information contained therein.