The role of unions and the state in wage inequality: what lessons can be learned by comparing Europe with Brazil?

El papel de los sindicatos y del Estado en la desigualdad salarial: ¿qué lecciones se pueden aprender al comparar Europa con Brasil?

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Abstract

Wage inequality is related to levels of statutory minimum wages, coordination and coverage of collective bargaining, unions' memberships and representation, and proportions of informal work. From this perspective, the European Directive on Adequate Minimum Wages (Directive 2022/2041/EU) presses the right policy buttons through raising minimum wages and strengthening collective bargaining. Wide variations in collective bargaining regimes and unions' power resources across the EU countries predict wide variations in the impact of the intended reduction of wage inequality across the European countries (wages being especially low in Eastern European countries). In Brazil, wage inequality indicators are higher than in all European countries, and Brazilian unions have limited influence because of the very high proportion of informal work and high fragmentation in collective bargaining in the country. The increase of the statutory minimum wage in Brazil between 2006-2018 led to a reduction of wage inequality, but this state policy has stagnated over the last eight years because of changed political contexts. The neo-liberal labor market reforms in 2017 in Brazil intensified worker vulnerability and also limited unions' representational rights. Unions in Europe and Brazil share the challenge of organizing the growing numbers of precarious workers with non-regular labor contracts.

Key words:

WAGE INEQUALITY; UNIONS; COLLECTIVE BARGAINING; MINIMUM WAGE; PRECARIOUS WORKERS

Resumen

La desigualdad salarial está relacionada con los niveles de los salarios mínimos legales, la coordinación y la cobertura de la negociación colectiva, la membresía y representación de los sindicatos, y las proporciones de trabajo informal. Desde esta perspectiva, la Directiva

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Europea sobre Salarios Mínimos Adecuados (Directiva 2022/2041/UE) señala algunos puntos correctos como el aumento de los salarios mínimos y el fortalecimiento de la negociación colectiva. Las amplias variaciones en los regímenes de negociación colectiva y en los recursos de poder de los sindicatos en los países de la UE predicen amplias variaciones en el impacto de la reducción prevista de la desigualdad salarial en los países europeos (con salarios especialmente bajos en los países de Europa del Este). En Brasil, los indicadores de desigualdad salarial son más altos que en todos los países europeos, y los sindicatos brasileños tienen una influencia limitada debido a la muy alta proporción de trabajo informal y a la alta fragmentación en la negociación colectiva en el país. El aumento del salario mínimo legal en Brasil entre 2006 y 2018 condujo a una reducción de la desigualdad salarial, pero esta política estatal se ha estancado en los últimos ocho años debido a cambios en el contexto político. Las reformas neoliberales del mercado laboral en 2017 en Brasil intensificaron la vulnerabilidad de los trabajadores y también limitaron los derechos representativos de los sindicatos. Los sindicatos en Europa y Brasil comparten el desafío de organizar a un número creciente de trabajadores precarizados con contratos laborales no regulares.

Palabras clave:
DESIGUALDAD SALARIAL; SINDICATOS; NEGOCIACIÓN COLECTIVA; SALARIO MÍNIMO; TRABAJADORES PRECARIZADOS

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The role of unions and the state in wage inequality: what lessons can be learned by comparing Europe with Brazil?[10]

1. Introduction

Many academics have published articles about the question whether unions are limiting or accelerating wage inequality in labor markets. Most labor economists conclude that collective bargaining coverage and union membership reduce levels of wage inequality, but it is not always clear why this is the case. This paper aims to provide more understanding of the underlying mechanisms. Further, while literature on wage inequality mostly focuses on advanced economies and increasing wage inequality since the 1980s, several authors have more recently started to reveal evidence of decreasing wage inequality in some European countries and Latin America as well (Rodríguez-Castelán et al., 2022). This paper questions the extent to which industrial relations factors are part of the explanation.

Furthermore, there is a political relevance in studying this subject. If governments want to intervene in wage inequality, should they do this alone or with the support of collective bargaining? This question has recently become more relevant in Europe, where Member States are having to respond to the European Directive on Adequate Minimum Wages (Directive 2022/2041/EU) that aims to reduce wage inequality, by reconsidering the national Statutory Minimum Wages (SMW) in relationship to the median/average wage level in their countries and by strengthening collective bargaining parties if the collective bargaining coverage is less than 80% in their countries. We also see this political

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relevance in Brazil. The rise of the SMW in the period 1996-2018 was quite successful in reducing wage inequality in the Brazilian labor market (Firpo & Portella, 2019; Engbom & Moser, 2022). But the current state policy in SMW is less ambitious and has not reversed the labor market reform of 2017, which has led to growing numbers of precarious workers and fewer rights for representing workers.

Finally, this paper aims to discuss the social problem of low labor incomes. The Brazilian labor market is still structurally characterized by a huge proportion of informal workers: around 40% have no social rights and are not represented by unions. Workers in Europe are also confronted with precariousness and a *living wage crisis* in which wages are lagging behind high inflation. Overall, levels of job security in European labor markets have fallen in recent decades and more precarious forms of labor contracts have proliferated. Workers at the bottom of the Brazilian labor market are feeling the negative effects of the neo-liberal labor market reform in 2017. Excessive inequality can lead to citizens' feelings of injustice in income distribution and mistrust in others. Metcalf et. al. (2001) point to a *moderating role of collective voice* in the way that collective agreements increase transparency and perceived fairness of pay determination. Social cohesion might be negatively affected when there is a lack of collective voice and a lack of inclusion of lower-paid workers in labor market institutions.

2. Methodology

Given the problem definition outlined above, this article answers three interrelated research questions. Firstly, what are the effects of wage-setting institutions in Europe and Brazil on wage (in)equality? Secondly, between Europe and Brazil, what are the similarities and dissimilarities of the unions' contexts and their powers to influence wage inequality? Thirdly, what potential do the unions in Europe and Brazil have for increasing their influence in this field? The period of analyses covers the last 30 years (1995-2025).

Comparing the case of Brazil with the case of Europe is relevant, both theoretically and socially. Both have a structure of collective wage bargaining by unions; both have experience with state intervention on minimum wages; and there is evidence that in Brazil and in some parts of Europe, wage inequality has declined in the period of analysis (1995-2025). By comparing the developments in both cases in the last 30 years, we can better disentangle the effects of collective bargaining and Statutory Minimum Wages (SMW) on wage inequality. As mentioned before, the case of Europe is particularly interesting because of its recent policy of reducing wage inequality through collective bargaining and the SMW. Viewing Europe as a single case is problematic. Europe consists of Member States with different state traditions and collective bargaining regimes, and varieties of liberalization across the European countries (Thelen, 2014). However, these variations provide an opportunity for a better study of the effects of labor market institutions on wage inequality in Europe. In the tables of inequality indicators (tables 1 and 2) and for labor relations characteristics, I report about the range across European Member States (from the minimum to the maximum at national level). In the text, I discuss the relationship between inequality and industrial relations. At the same time, convergent transformations related to developments of individualization, increased flexibility and liberalization in labor relations can be seen in all national models of industrial relations (Baccaro & Howell, 2017). Further convergence in collective wage-setting may arise as a result of the new European Directive on Adequate Minimum Wages.

This article is the result of a detailed literature review, my own experiences in researching industrial relations in Europe, and discussions with academics in Brazil.[11] I use

[11] I want to thank specifically the following experts in Brazil for discussing this topic of trade unions and wage inequality in the Brazilian context: Prof. Adalberto Cardoso (UERJ-IESP), Prof. José Ricardo Ramalho and his team (UFRJ), Prof. Andréia Galvão (Unicamp), and Cloviomar Cararine (DIEESE). For the European context, I have profited from many long-term collaborations with academics and

statistics from databases of the ILO (ILOSTAT) and the OECD, and specially the OECD/AIAS ICTWSS database, about labor income share, income inequality, wage inequality, and other labor market and industrial relations characteristics in the period 1995-2025. The structure of this working paper is as follows. Firstly, before answering the research question, I disentangle different dimensions and measures of wage inequality and link them to the most recent statistics in Brazil (in relation to other Latin-American countries) and in Europe (section 3). In the following sections, I analyze labor market institutions in Europe and Brazil for a better understanding of their influence in wage (in)equality: these are, respectively, collective bargaining (section 4), unions (section 5) and the statutory minimum wage (section 6). In the final section, I draw conclusions and discuss the potentials and challenges for reducing wage inequality in both Europe and Brazil.

3. Wage inequality

Two main dimensions of wage inequality are distinguished in the literature. Firstly, the inequality between capital and labor. This is commonly measured as *labor income share as a percentage of GDP*. In Europe, wage shares are to some extent positively related to collective bargaining coverage and, to a lesser extent, also to unionization (Keune, 2021). This is most evident in the liberal market economies in Eastern European countries and Ireland, which all combine low wage share and low collective bargaining coverage. The ILO Department of Statistics (ILOSTAT) includes the labor income of informal work and self-employed in the their index. The rate of informality of labor relations and the inequality in the disposable income of households after taxes are much higher in Brazil than in Europe (see table 1).

practitioners in many European countries in cross-country comparative research on collective bargaining and social dialogue.

Table 1: Labor income share and employment in Brazil and EU

Indicator/factor	Brazil	EU
Labor income share as % GDP, 2024 (ILOSTAT)	59.7	31.3 – 63.9 [12]
Inequality in disposable income by households after taxes, 2022, (OECD)	451	226 - .360 [13]
Unemployment rate 25+, 2024 (ILOSAT)	6.1	2.2 – 10.9 [14]
Share of informal employment, 2023 (ILOSTAT)	36.5	0.8 – 7.7 [15]

Sources: ILOSTAT, OECD (June 2025).

The second dimension of wage inequality refers to the distribution of the wage share among wage earners. There is a *vertical* dimension in the differences between the lower and the higher paid workers and a *horizontal* dimension of wage inequality for the same kind of work or for the same professions in different regions, enterprises or sectors (between firms). Wage inequality for the same kind of work can also be a result of performance-related payments (Zwysen, 2021) or discrimination in non-performance-related workers' characteristics like race, gender, and age (within firms). In this paper, I focus on the vertical dimension in the distribution of wages between lower and higher paid workers. Within the second dimension of wage inequality, there are common measures regarding the vertical dimension. Most of them are based on decile ratios between the higher and lower paid workers. The working population

[12] Ireland (31.3) – Belgium (63.9)
[13] Slovak Republic (.226) - Lithuania (.360)
[14] Czechia/Poland (2.2) – Spain (10.9)
[15] Slovenia (0.8) – Poland (7.7)

is divided into 10 equal shares of workers that count with an average wage level within the decile. In the ratio D10/D1 (the two 10 percent tails in the wage distribution are divided). However, mostly the ratio 'D9/D1' is used, or D8/D2. D9/D5 is used to measure wage inequality in the upper half of the wage distribution, and D5/D1 measures the wage inequality or compressed wage structure in the bottom half. The *Palma ratio* divides the total hourly wages of the top 10 per cent of the wage distribution by the total hourly wages of the bottom 40 per cent of the wage distribution. Other interesting measures focus on the share of low-paid workers in the labor market (paid less than 50% of the median wage) and the level of the minimum wage as a percentage of the average wage or the median wage in a country.[16]

Globally, wage inequality differs significantly across countries, with low-income countries displaying, on average, the highest level of wage inequality and high-income countries the lowest. Reductions in wage inequality since the beginning of the twenty-first century are more pronounced among low-income and lower-middle-income countries (ILO, 2024).[17] The decline in wage inequality in the 21st century in these countries has happened both in the upper and lower tails of the wage distribution, but more in the top half than in the bottom half (ILO, 2024). In Europe, the decline in wage inequality is less than in other parts of the world, although the decades of growing inequality since 1980 seem to have stopped in many EU countries (ILO, 2024). In Brazil, income inequality and wage inequality fell substantially between the mid-1990s and 2010 (Cardoso, 2018; Ferreira et. al., 2017).[18]

[16] In Europe, the last-mentioned measures are used in the European Directive on Minimum Wages (see section later).

[17] Depending on the measure of inequality used, the average annualized decrease in wage inequality ranges between 0.7% and 0.3% in high-income countries, between 1.3% and 0.3% in upper-middle-income countries and between 9.6% and 3.2% in low-income countries. The annual change in wage inequality in lower-middle-income countries is close to zero, ranging from a decrease of 0.9% to an increase of 0.3%, depending on the measure of inequality considered.

[18] The family income per capita Gini index fell from 0.599 in 1997 to 0.538 in 2009 and at least half or the majority of this was caused by changes in work-related income (Cardoso, 2018; Ferreira et. al. 2017).

But, as we will see below in more detail, wage inequality levels are still high compared to Europe.

In 2024, the D9/D1 ratio in wage distribution was 5.5 in Brazil, (far) higher than in all European countries. The variation among EU Member States is high. Eastern European countries score highest in Europe, such as Poland (4.0) while France, Belgium and especially the Scandinavian countries have the lowest D9/D1 ratio (under 3.0). In this D9/D1 ratio, Brazil is ranked even higher than the USA and is located in the upper half among other Latin-American countries. Wage inequality is only higher in Guatemala (18.7) and Argentina (5.7). The global picture in the less extreme inequality measure D8/D2 is almost the same. Also according to this ratio, Brazil scores higher than all European countries. Three other Latin-American countries score higher than Brazil: Guatemala, Argentina and Peru.

Other measures for wage inequality teach us that wage inequality in the upper half of the wage distribution (D9/D5 ratio) in particular is high in Brazil (see table 2). Looking to the bottom half of the wage distribution (D5/D1 ratio), the inequality in Brazil is much lower and is in the middle of the European countries. This means that the Brazilian wage structure is compressed for the lowest 50% of workers. More compressed than in e.g. Guatemala, Argentina, Peru, Ecuador or Uruguay. But less compressed than in most European countries and in Chile.

The last measure in table 2, is the '*Palma ratio*'. This inequality ratio in Brazil is 2.6, which is high and far higher than in all European countries, the USA and most of the Latin-American countries. In this measure, only Guatemala scores higher (7.3). The Palma ratio in Brazil fell a little bit more in the period 2006-2021 (-1.5 a year) compared to most European countries (ILO 2024: 49)).[19]

So, to summarize, in Brazil the wage inequality among wage earners is (far) higher than in European countries and is also relatively high compared to other Latin-American countries. Remarkably, wages in the lower half of the wage

[19] ILO 2024: 49.

structure in Brazil are quite compressed and not that different from Europe. The highest wage inequality in Brazil is found in the upper half of the wage distribution. The top 10% of highest wage workers in Brazil collectively earn 2.6 times more than the whole working population in the lowest 4 deciles.

Table 2: Wage inequality indicators in Brazil and EU

Indicator/factor	**Brazil**	**EU**
D9/D1 ratio	5.5	2.1 – 4.1 [20]
D8/D2 ratio	2.9	1.6 – 2.6 [21]
Inequality in the upper half of the wage distribution (D9/D5 ratio)	3.3	1.6 – 2.7 [22]
Inequality in the bottom half of the wage distribution (D5/D1 ratio)	1.7	1.3 – 2.0 [23]
Palma (total top 10%/total bottom 40%, hourly base)	2.6	0.7 – 1.4 [24]

Source: ILO (2024), most recent data available in the period 2021-2024

4. The effects of collective bargaining on wage inequality

4.1 Europe

There is a very high variation in collective bargaining coverage in Europe. The average is 60%, but the range is from 7% to 98% (see table 3). Decreased bargaining coverage in European countries has led to greater wage inequality in these countries (Bosch, 2015; De Spiegelaere, 2022; Keune,

[20] Sweden (2.1) - Cyprus (4.1).

[21] Sweden (1.6) – Greece (2.6).

[22] Sweden 1.6 – Portugal (2.7).

[23] Sweden (1.3) – Estonia (2.0).

[24] Sweden (0.7) – Latvia/Cyprus (1.4).

2021).[25] Collective bargaining coverage, together with union density, is strongly associated with higher wage floors (Haapanala et al., 2023). Multi-employer bargaining leads to higher collective bargaining coverage and also to less inequality than single employer bargaining. This is logical, considering the (horizontal) inter-firm inequality, but also the *vertical* dimension of inequality is limited because this discourages undercutting strategies of employers. From this perspective, one can predict that the trend of decentralization in collective bargaining from the sectoral to the company level will lead to further inequality. Nevertheless, whether and how decentralization leads to inequality in wages and other terms and conditions of employment depends on the *institutional pathways* and degree of coordination (Tros, 2023). Also Garnero (2021), after comparing 36 OECD countries (including non-European countries), concludes that coordinated bargaining systems are associated not only with higher employment and better integration of vulnerable groups, but also with lower wage inequality (measured in the D9/D1 ratio) than fully decentralized systems. He concludes that coordination is taking place not only in stable (cross-) sectoral bargaining regimes, but also in regimes with *organized* forms of decentralization.

Furthermore, the strength of worker representation at company level plays a role. Zwysen (2021) found that stronger worker representation diminishes the rise in wage inequality resulting from increased use of performance pay. While there seems to be a positive association between workplace representation and the receipt of performance pay, performance pay is then more equally distributed among workers. The premium is also more equally distributed in the presence of stronger worker representation (Zwysen, 2021).

Disorganized forms of decentralization and fragmentation in collective bargaining regimes are institutional barriers in promoting wage equality (Tros,

[25] Examples of declining coverage and increasing inequality since 1990s are: Bulgaria, Cyprus, Czechia, Germany after 1990, Greece after 2008, Hungary, Ireland, Malta, Poland and the UK.

2023). This is clearest in Eastern Europe. But in Spain too, the effect of the labor market reforms in the 2010s has been the creation of new patterns of fragmentation in industrial relations (Muñoz Ruiz et. al., 2023). In Germany, business organizations pushed for more flexibility in labor contracts and for a further breakdown of collective bargaining structures, leading to an erosion of the traditional industrial relations model. We see the most robust collective bargaining structures in the Scandinavian countries. Even in relatively stable social partnership models, such as in the Netherlands, we see clearly declining memberships of employers' associations that can undermine the system of making sectoral agreements general binding, and that can easily lead to declining collective bargaining coverage and also increasing numbers of non-regular workers, such as the self-employed and platform workers who are not covered by collective bargaining at all (Been & Keune, 2025). So, although the European Union aims to increase collective bargaining coverage to protect adequate minimum wages and to reduce wage inequality, it is far from clear if this can stop the longer-term (structural) trends of labor market flexibility, decentralization in labor relations and erosion of collective bargaining structures.

4.2 *Brazil*

The collective bargaining coverage in Brazil is estimated at around 65% in recent years (OECD/AIAS ICTWSS database). This percentage is based solely on the population of workers in employment contracts with the right to be represented in collective bargaining. So, if informal workers were also included in the coverage rate, than the rate would not exceed 45%. Wage bargaining in Brazil is strongly decentralized and fragmented, and unions make very different wage agreements, dependent on the parties on the other side of the negotiating table (Cardoso, 2018, 2020). The uncoordinated collective bargaining structure in Brazil is a barrier for the unions in reducing inequalities. In comparison, the higher levels of centralization in collective bargaining structures and business coordination in other Latin-American countries - such as Argentina and Uruguay - are more directly associated with a reduction in inequalities from the 2000s onwards (Cardoso, 2020). Also, the organizational structure of unions in Brazil is fragmented. In Brazil, there are more than 20,000 unions and around one quarter of them are company unions. The most important union federation is *Central Única dos Trabalhadores* (English: Unified Workers' Central), commonly known by the acronym CUT. CUT organizes many union members, along lines of sectors and professional classifications. The collective bargaining coverage rate in Brazil in nowadays around 45-65% of all workers. According to DIEESE, the coverage rate is 77%, but that is only measured in the formal economy among people with employment contracts.

Table 3: Labor relations in Brazil and EU

Indicator	Brazil	EU
Trade union density rate in 2023 (OECD)	9.6 %	5.6 % - 65.2 % [26]
Drop in trade union density 2000 – 2023 (as percentage of level in 2000)	50 %	6.5 % - 62 %[27]
Collective bargaining coverage rate in 2020-2023 (OECD)	64.8%	7.4% -100 % [28]

Sources: OECD/AIAS ICTWSS database (last available data, checked in October 2025)

To summarize, decreasing coverage and fragmentation of collective bargaining structures are

[26] Estonia (5.6%) – Sweden (65.2%).
[27] France (-6.5%)_ - Slovenia (-62%).
[28] Poland (10.6%) – Belgium/Italy (100%).

hindering unions' institutional powers to reduce wage inequality not only in Brazil but also in many European countries.

5. The effects of unions on wage inequality

5.1 Declining powers

Wage bargaining outcomes are shaped by union associational power, that is, the level, unity and solidarity of membership (Benassi et. al., 2019). Jaumotte & Buitron (2020) conclude that in the period 1980-2011, around half of the increases in the Gini coefficients in net incomes in 20 developed economies was associated with de-unionization.[29] In Europe as well, unionization is associated with lower wage inequality, although less clearly and less uni-dimensionally than the association between collective bargaining coverage and wage inequality (Keune, 2021). In the Netherlands, for example, rising wage inequality since the 1990s is related to the reduced bargaining power of trade unions as a result of shrinking union membership (Keune, 2021). In the Eastern European region, low membership goes hand-in-hand with low collective bargaining coverage and high wage inequality. Mobilization capabilities of unions depend not just on the number of members, which can be illustrated by the capacity to organize public actions against the national government in e.g. France and Spain (countries with quite low shares of union memberships).

In Brazil too, there is a clear trend of declining union memberships. The organization level fell from around 19% in 2000 to 9.6% in 2023 for those employed. Including the self-employed working population, the decline was estimated from 16% to 11% between 2000-2019 (Galvão et.al., 2023). Krein & Dias (2017) points to the close and cooperative relationship between the Unified Workers' Central (CUT, the largest union federation in Brazil) and the Workers' Party

[29] This research is based on data from 20 countries in the period 1980-2011 on incomes (so not just wages).

(PT), together with the progress achieved in collective bargaining that strengthened the CUT's institutional and political powers in the first one and a half decades of this century. Nevertheless, the CUT's power in society began to decline from 2013 onwards, due to criticism by more conservative segments in society, and was further weakened by the economic and political crisis in 2015, which ultimately culminated in the impeachment of President Dilma Rousseff. Combined with the political context in which Bolsonaro attacked democratic institutions and social movements and the effects of the Covid pandemic, the capability of unions' actions and resistance declined even further (Cardoso & Peres, 2021).

5.2 Representing low paid workers

Regarding the effects of unions on wage inequality, we have to look beyond mere membership numbers. Who do unions represent? How do they view the existing wage distribution and how do they prioritize the leveling of wage distribution in collective bargaining? If unions do not have low-wage workers as direct members in their organizations, their voice is heard less and there is more chance that unions will not prioritize the raising of the lower wages. In this way, precarious workers easily remain as *outsiders* in social dialogue and negotiations between unions, business and governments. Some theories even go further, and claim that in segmented labor markets, the privileged core of employees in regular contracts even *use* atypical workers with low job protection to provide the flexibility the company needs. That might be true in some company cases, but as a general statement it is untrue: unions in Europe have tried to include precarious workers in their strategies because of normative ideas about solidarity and social justice (Keune & Pedaci, 2019; Keune, 2021; Keizer et. al., 2024) and also to instrumentally prevent a *race to the bottom*. It is more a matter of the unions' lack of power to represent and mobilize precarious workers (Keizer et al., 2024). Unions in Europe try to integrate low-paid employees, precarious self-employed workers and platform workers in their actions. Supporting workers with non-regular labor contracts is difficult because they are outside the scope of collective bargaining. One strategy to support low-paid employees in collective agreements is to agree on a certain absolute minimum wage increase for all, which has more leveling effects in the wage distribution than simply agreeing a percentage collective wage increase (Tros & Keune, 2016). Of course, unions can also (politically) fight for higher statutory minimum wages. Various trade unions in Europe have launched campaigns to put the minimum wage on the agenda after the Great Recession in 2008. A recent successful campaign was launched by the Dutch trade union FNV in 2018, aiming to have the statutory minimum wage raised to 60% of the median wage. The same level has also been proposed as a reference value in the European Directive on minimum wages (Kloosterboer, 2024).

In the European context, Northern European countries are most equal in terms of wages. This is not caused by high statutory minimum wages (because this is not regulated by the state), but can be related to the people's equality orientations combined with the unions' strong associational powers to set high minimum wages in collective agreements. Also the workforce in southern countries seems to have more than average equality orientations, but unions in these countries are weaker (Rosetti, 2019 in Keune 2021).

In Brazil, there are cases in the formal economy in which unions have been successful in limiting the variable payments among the higher-paid employees, to make things more equal with lower-paid employees. It is not clear how much these leveling strategies have spread. Generally speaking, connecting or re-connecting with lower-paid workers is a challenge for unions in Brazil. Union membership levels (also) seem to be higher in the upper half of the income distribution in Brazil (Messina & Silva, 2021). Krein & Dias (2017) point to the Brazilian experience that CUT, the largest union federation in Brazil, lost ground as an organization able to voice the most important social issues, which can also be seen by the fall in the trustworthiness index score for trade unions in 2013.[30] They point to the essential factor (missing since 2013) of maintaining alliances with social movements around an agenda that defends the general interests of the poor in society (Krein & Dias, 2017). From 2013 onwards, conservative groups took over public demonstrations and CUT suffered from a lack of leadership. Furthermore, just as in other Global-South countries, Brazil's high shares of informality in the labor market always made it difficult for trade unions to represent low-income workers and made their work relating to these groups ad-hoc. As well as this factor, Galvão et. al. (2023) mention three main obstacles for unions in Brazil trying to organize precarious workers. Firstly, despite the principle of sole representation, the unions' structure, constituted in the 1930s, favors fragmentation and division. Secondly, by politically guaranteeing the survival of unions without the need to affiliate workers, the accumulated distance between leadership and rank-and-file produced little incentive to mobilize workers when their rights were lost. Thirdly, the formation of unions among informal workers is hindered by the state's occupational classification systems in the context of employment contracts; informal and outsourced workers with less well-regulated professions are behind in their recognition of a need to form a union or association (Galvão et. al., 2023). Nevertheless, through analyzing two recent case studies in the period 2015-2021, Galvão et. al. (2022, 2023) also show the potential for unions to organize workers and cooperate with associations of workers in non-regular contracts to improve payments and working conditions at local levels.

To summarize, unions in Brazil and in Europe are faced with shrinking organizational powers because of declining membership. The limited inclusion of low-paid workers in the rank and file of trade unions makes reducing wage inequality an even bigger challenge.

[30] CUT is classified as a the *left-wing* union with more equality orientations, while there are also non-left unions that are classified as *conservative unions*.

6. The effects of the state on wage inequality

The state plays an important role – autonomously or in relationship to unions – in reducing wage inequality. Firstly through protective standards, especially statutory minimum wages to assure basic wage levels. Secondly, by participative standards in negotiation, consultation or codetermination rights for employees or their representatives and organizations, protecting them from discrimination when they seek to exercise those rights and/or providing them with the necessary resources (Bosch, 2015). Public extension mechanisms support the spread of wage levels in collective agreements to non-unionized workers and non-organized business. By declaring collective agreements binding on all companies in a sector, horizontal forms of inequality are limited and companies cannot compete in lowering the minimum wage Further, some European countries, for example the Netherlands, have implemented a long-existing state policy to lower the lowest salary scales in collective agreements for reasons of employment and competitive labor costs. This policy was supported by the Dutch unions and led to a compressed wage structure among the bottom half of the workers. Labor market policies can also have a contrary impact on reducing wage inequality if they aim to enhance flexibility by promoting a-typical labor contracts.[31]

6.1 Statutory minimum wages

The European Directive on Adequate Minimum Wages (Directive 2022/2041/EU) has the explicit objective of establishing national frameworks for minimum wages that provide for a decent standard of living (Ratti, 2024). The directive specifies criteria to ensure adequate minimum wages in each Member State. Overarching objectives are the promotion of social convergence in the EU, reducing wage

[31] Of course, state policies on taxes and social security also play a role in income inequality and the share of low-paid workers, but these fields are beyond the scope of this paper.

inequality and reducing in-work poverty through adequate minimum wages. The directive stipulates that Member States shall use indicative reference values, such as regulating a minimum wage level of 60% of the gross median wage and/or 50% of the gross average wage. The introduction of this Directive can be seen as a shift in views and ambitions regarding intervention in wage-setting and a re-empowerment of labor interests in the EU (Müller & Schulten, 2023; Schreurs & Huguenot-Noel, 2025). Not that long ago, after the Great Recession in 2008, the view of the European Commission veered in the opposite direction: deregulation in wage-setting and decentralization of collective bargaining were seen as instruments to reduce rigidities in labor regulation and to limit the wage-setting power of trade unions (Keune, 2015; Müller & Platzer, 2020). The Party of European Socialists played a key role in the emergence of the Directive of 2022, with support from the European Trade Union Confederation (Schreurs & Huguenot-Noel, 2025). With this Directive, not only should statutory minimum wages be at a decent level, but also collective bargaining coverage should be increased, which logically can only be achieved by a centralization of multi-employer bargaining. The coverage level is at the target level of 80% percent in only six European Member States, namely Austria, France, Belgium, Finland, Sweden and Italy (last available data in the OECD/AIAS ICTWSS database). The other EU countries still have to make national action plans to strengthen the collective bargaining parties and to increase the collective bargaining coverage in the countries (Müller & Schulten, 2025). Eurofound (2025) concludes that national statutory minimum wages in many Member States have increased actual wages over the past few years and that the benchmark for collective bargaining coverage (80%) promoted discussions on reforming collective bargaining regimes.

Brazil is a national case in which raising the legal minimum wage appeared to be an effective instrument for reducing wage inequality in the period 2006-2018. Facing attempts by the right to overthrow Lula's presidency in 2005, the government approached trade unions and social movements for support that led, among other agreements, to increase in the minimum wage (Krein & Dias, 2017). In 2006, an agreement about the minimum wage's purchasing power was established between the government and the top organization(s) of unions. During the government of Dilma Rousseff, the agreement became law in 2011, defining the percentage of adjustment in real increases of the minimum wage level until 1 January 2015 (Barbosa de Melo, 2015). In this period, low wages in particular continued to grow above inflation, thanks to an increase in minimum wage and positive collective bargaining results (Krein & Dias, 2017). Many investigations led to the conclusion that, at least in this period of economic growth, this had a positive effect overall in reducing wage inequality and compressing wage distribution (Barbosa de Melo, 2015; Engbom and Moser, 2022; Ferreira et. al., 2017; Firpo and Portella, 2019; Saltiel and Urzuá, 2022). Some researchers showed reduced poverty as well (Sotomayor, 2021). A more divergent finding is that this led to greater labor income inequality in the *informal* sector (Parente, 2024). Other possible negative side-effects on employment and labor productivity seem to have been muted by the reallocation of workers towards more productive firms (Engbom and Moser, 2022). In 2018, the level of the minimum wage rose to 70% of the median wage, historically high for Brazil and among the highest in the Latin-American region (Firpo and Portella, 2019). After 2018, the rise in the minimum wage stopped and the reduction of wage inequality stagnated. Unions continued asking for leveling-up of the legal minimum wage, but despite the union background of the current president Lula da Silva, the political maneuvering space has become tight in the field of labor and social policies.

6.2 Interconnection of the statutory minimum wage and collective bargaining

The analysis of 30 European countries between 2004–2019 by Haapanala et. al. (2023) indicates that statutory minimum wages and collective bargaining coverage both had distinct and interrelated effects in establishing effective wage floors and in reducing the share of low-paid workers. Statutory minimum wages without high collective bargaining coverage and low union powers will set a hard floor for wages, but raising wages above that floor will be challenging (Garnero et. al., 2015). It is also challenging to reduce the share of low-paid workers if the level of the minimum wage is relatively high (Haapanala et. al., 2023). Eurofound (2025) found that despite social partners' concerns about crowding-out effects, there are just limited negative impacts on collective bargaining processes of raising national minimum wages. In some sectors in some countries it might be stimulating agreements on bonuses, or hindering non-wage improvements (Eurofound, 2025). Other research, such as in German sectors of industry, also could not find indications that collective bargaining could be weakened by the statutory minimum wage (Bosch et. al., 2023).

The literature in Brazil points to *positive* connections between statutory minimum wages and collective bargaining. Unions in Brazil used the level and adjustment of the national minimum wage as the starting point and reference point for wage negotiations in the period 1996-2018 (Engbom and Moser, 2022). Rises in the minimum wage in the period 2006-2015 were not enough to explain the fall in the Gini-index in that period: unions in that period negotiated higher wages in collective agreements, above the minimum wage level, and negotiated wage increases above the inflation rates (Cardoso, 2018).

6.3 Labor market policies

Public policies aimed at enhancing adequate wages can be contradictory to public policies promoting labor market flexibility. The increase in non-standard forms of employment – such as part-time work, temporary labor contracts and self-employment – in many European countries contributed to rising in-work poverty (Eurofound, 2017). In Brazil, it is the high levels of informal work that are creating structural sections of low-paid and precarious workers in the labor market.[32] Precarious work in Brazil has continued to grow in the last 10 years. After an acceleration of growth in the Brazilian labor market during the period 2003-2013, many workers in Brazil were hit by the worst recession in modern history in 2014-2015 (Oreiro et. al., 2023). This led to a political crisis and opened the path for Dilma Rouseff's vice-president, Michel Temer, to become president in 2016. Temer implemented a neo-liberal reform, based on the assumption that increasing the flexibility of the labor market would lead the Brazilian economy to be more competitive. Remarkably, this rationale and rhetoric had been listened to and implemented in Europe since the 1990s, with disappointing results for workers in the labor market (Cardoso & Azaïs, 2019; Tros & Wilthagen, 2013). Brazil's reform in 2017 aimed for modernization of labor relations, job creation, reduction of unemployment, economic growth and an improvement of workers' income and working conditions. But these promises were accompanied by forms of regulation that actually generated insecurity in employment, income and labor rights (Cardoso & Azaïs, 2019). The policy of labour market flexibility led to more precarious workers and more barriers for unions to improve workers' positions in Brazil (Farias & Schmitz, 2024). At the same time, other policies relating to disinvestment in health, education and social policies, and *uberization* of the labor market made the already vulnerable workforce even poorer (Cardoso & Peres, 2021).

7. Conclusions

Literature shows that levels of wage inequality between lower and higher paid workers are related to the institutional, organizational and societal power of trade unions. Collective bargaining coverage, union memberships and union negotiations with the government to raise minimum wages have a positive influence on reducing wage

[32] In this paper, precarious workers are defined as those with a low labor income, low job security and low income security if their job is lost.

inequality. The higher wage inequality in Brazil, compared to European countries, can partly be explained by these factors. In particular, the continuing high proportion of informal work in Brazil that is not subject to collective bargaining and fragmented union representation in Brazil limit the role of unions in reducing wage inequality.

The European Directive on Adequate Minimum wages (Directive 2022/204/EU) seems to press the right *policy buttons* to reduce wage inequality by raising national minimum wages and strengthening the role of collective bargaining parties in the EU countries. Nevertheless, large variations in collective bargaining regimes and unions' power among the EU countries predict more or less impact of the intended reduction of wage inequality in those European countries. In particular, the target of 80% collective bargaining coverage is unrealistic in Eastern European countries, where unions and employers' association are institutionally and organizationally very weak. In all the EU Member States, the Directive is challenging with regards to ongoing decentralization trends in collective bargaining and growing numbers of workers without regular labor contracts, such as the self-employed and digital platform workers. Empirical research is needed to evaluate how national governments, unions and employers will respond to this Directive. This substantial and interesting European *policy experiment* might help to generate international lessons for those who want to address the problem of wage inequality, both within and beyond Europe.

Compared to the European context, reducing wage inequality in Brazil is more challenging because of the far higher proportions of informal workers with no legal social rights, without union representation and without state control. The substantial increase in the statutory minimum wage in Brazil between 2006-2018, together with collective bargaining results in the same period, reduced wage inequality among all workers in Brazil, but this policy stagnated because of the changed political environment.

Leaving aside dissimilarities in state traditions, labor relations and labor market models between Europe and

Brazil, it is important to identify similarities and opportunities for international learning. Unions in Brazil and in Europe share increasing problems in representing and organizing workers and (re-)connecting with new generations of workers. Fragmentation in collective bargaining in Brazil is a barrier for regulating wage equality, as it is in many Eastern and Southern European countries. Labor market reforms in Europe and Brazil have led to more precarious workers who are more distant from the trade union movement, despite their need for better wages. After the Brazilian labor market reform in 2017, trade unions in Brazil now actually face a double challenge. Not only has the number of precarious workers increased, but unions in Brazil have also lost some of their representational and collective action rights. Interestingly, some local unions in Brazil have experimentally collaborated with social movements and associations of mostly low-paid workers in non-regular jobs, to improve their pay and working conditions. International lessons can also be learned in this field of union innovation.

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