

Outside the Box: A New Mechanism for Solving Wage Challenges in the Public Sector

A Comparative Review

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Executive Summary

Introduction

- In many countries, wages and employment conditions in the public sector are regulated through collective agreements that apply across the entire sector.
- This form of regulation ensures a coherent wage structure and a high rate of income equality throughout the public sector, while also enabling the negotiating parties to maintain control over wage levels. However, it has often had difficulty in addressing challenges arising from localized or occupation-specific conditions within different segments of the public workforce.
- In some cases, attempts to address this problem have led to the decentralization of collective bargaining to the local level – a development that has been associated with a substantial increase in income inequality.
- An alternative response to this inherent limitation of centralized bargaining is the “Problem-Solving Box” mechanism, which is based on allocating an agreed share of the total cost of a wage agreement toward the negotiated resolution of targeted wage-related issues through collective bargaining between the parties.
- Since this kind of mechanism is not widely used around the world, this paper reviews existing international examples of the Problem-Solving Box – focusing in particular on Israel – and identifies their strengths and weaknesses in relation to the optimal regulation of public-sector wage conditions.

Case Studies of the Problem-Solving Box



Ireland

- The 2024–2026 public-sector wage agreement included, for the first time, a “Local Bargaining” clause.
- This clause, amounting to 3% of the total cost of the wage agreement, was intended to address wage claims at the level of occupation, pay grade, or specific groups of workers. The funds were to be released in two stages: one during the current agreement period and the other in the subsequent wage agreement.
- Despite its title, agreements under this clause are not to be reached through local-level negotiations, but rather at the national level.
- If the parties fail to agree on the allocation of funds, the issue is referred to mediation through the Workplace Relations Commission, and, if necessary, to the Labour Court.
- The agreement further stipulates that no industrial action may be taken in connection with wage claims under this mechanism, and that settlements achieved through it will not serve as a precedent for additional wage demands.



Denmark

- As part of a broader trend toward partial decentralization of public-sector wage bargaining in the late 1980s, national agreements established dedicated wage funds (“wage pools”) designed to address the needs of distinct groups of workers. These funds are most commonly directed toward closing gender wage gaps or improving the pay of low-wage earners.
- The scale of these funds constitutes a small percentage of the overall cost of the wage agreement. For example, the 2018 wage pool – considered relatively large – amounted to 0.3%.
- Unlike the Irish and Israeli cases, the allocation of dedicated wage pool funds in Denmark is determined through collective bargaining at the local level.

- The 2023–2027 framework agreement, which governs the wage conditions of all public-sector workers unionized under the New Histadrut, included for the first time a formal “Problem-Solving Box” mechanism. This arrangement was developed on the basis of similar undertakings in previous framework agreements.
- The Box was allocated 3% of the total cost of the agreement, to be released in five stages over the agreement period. Additional budgetary channels were also agreed upon and transferred into the Box.
- The use of Box funds is determined through a multi-year outline agreed between the Histadrut and the Salary and Employment Agreements Department at the Ministry of Finance.
- Unlike the Irish case, the Israeli agreement does not include a formal dispute-resolution mechanism regarding the allocation of Box resources, relying instead on the parties’ capacity to reach mutual understandings.
- In practice, the Problem-Solving Box constitutes an extension of the industrial peace embedded in the framework agreement, as the Histadrut may not raise wage demands beyond those included in the agreement, except under explicitly stated exemptions.

The Problem-Solving Box: Opportunities and Challenges

- The establishment of a Problem-Solving Box is made possible by the fact that it offers mutual benefits to both parties: the public employer gains fiscal certainty and long-term industrial peace throughout the agreement period, while trade unions secure a substantial earmarked budget for resolving wage disputes and labour conflicts, some of which may be longstanding.
- Trade unions further benefit from the ability to address wage inequality across the public sector and to improve the conditions of disadvantaged groups of workers.

- A further advantage lies in strengthening social dialogue, as the agreement to manage such a mechanism implies trust and necessitates continuous negotiation over its implementation.
- At the same time, the primary challenge of the Problem-Solving Box lies in its practical implementation. Although the budget is agreed in advance, successful operation depends on reaching negotiated settlements. Where no agreed dispute-resolution mechanism exists – as in Israel – trade unions may encounter deadlock.
- Moreover, the expanded authority granted to trade unions in allocating funds positions them, rather than the state, as the primary address for worker groups excluded from the Box.
- Another challenge is that allocating resources to distinct worker groups may generate intra-union tensions and erode solidarity among workers.

Conclusion

- The Problem-Solving Box is a relatively new mechanism that has not yet been widely adopted.
- Comparative analysis suggests that it enables the accommodation of unique sectoral needs, particularly by improving wage conditions for disadvantaged groups of workers.
- Beyond its opportunities and challenges, a key factor emerging from the case studies is the overall scale of the Box, as it determines both the number of workers who may benefit and the magnitude of wage increases it can finance.
- The Israeli case highlights several distinctive features: supplementary funding sources beyond those anchored in the agreement, the flexibility granted to the trade union in implementation, and the capacity to direct funds toward vulnerable worker groups.
- Overall, the Problem-Solving Box represents a mechanism with significant potential to optimize public-sector wage regulation and enhance the parties' ability to manage an inherently complex wage system.

Introduction

A widely adopted model for regulating wages and employment conditions in the public sector is centralized collective bargaining at the highest level of coordination. In other words, wage-setting is determined through agreements between trade unions and the public employer that apply to all employees across the public sector. Such centralized bargaining is intended to ensure a coherent wage structure and a high degree of income equality across different levels and segments of the public sector, while also enabling the parties to maintain effective control over overall wage developments (OECD, 2024).

At the same time, centralized systems have often struggled to provide adequate responses to challenges arising from differentiated conditions at the level of specific occupations or individual workplaces (OECD, 2024). Addressing this difficulty has contributed to the widespread trend toward decentralization of collective regulation in the public sector, either through a shift to purely local bargaining or through hybrid arrangements combining national-level agreements with local-level negotiations (OECD, 2024; OECD, 1994). The academic literature has found that decentralizing bargaining from the general or sectoral level to the workplace level is associated with a substantial increase in income inequality, as well as with a decline in the capacity of trade unions to influence broader socio-economic policy (Waknin-Ganel & Kaldor, 2025).

An additional way of addressing the need to respond to targeted, localized challenges is the mechanism at the center of this paper: the

Public-sector wages and employment conditions are generally set through highly centralized collective bargaining. Yet centralized systems often struggle to address challenges arising from the distinct conditions of specific occupations or workplaces.

“Problem-Solving Box.”¹ At its most basic level, the Problem-Solving Box is an arrangement in which a defined share of the total cost of public-sector wage agreements is earmarked for addressing specific wage-related issues agreed upon by the negotiating parties. The manner in which these funds are allocated in practice is likewise determined through mutual agreement. Unlike hybrid bargaining systems, in which certain wage conditions are negotiated locally, the Problem-Solving Box preserves the overarching collective bargaining framework and consequently maintains the capacity of the parties to regulate the wage system as a whole.

The Problem-Solving Box is an arrangement in which a share of the total cost of the wage agreements is earmarked for issues, and its scope and usage are agreed upon by the negotiating parties.

The principal strength of the Problem-Solving Box – whose scope and implementation timetable are anchored in the wage agreement between the parties – is that it generates benefits for both parties to the negotiation. From the trade union perspective, the earmarked resources provide a high degree of flexibility and the ability to resolve targeted wage problems, some of which may have persisted for many years. From the state’s perspective, the mechanism helps secure stable and long-term industrial peace, since the existence of the agreement between the union and the employer regarding the issues to be addressed during the agreement period reduces the likelihood of unforeseen labour disputes (Blumenberg, 2025)².

The Problem-Solving Box’s key strength is its mutual benefit, with its scope and implementation timetable anchored in the parties’ wage agreement.

¹ Although the mechanism discussed in this paper takes different forms and is referred to by different names in the countries examined, this paper uses the term “Problem-Solving Box” to describe all such arrangements, for the sake of clarity and consistency.

² Interview with Adam Blumenberg, Vice President of Economics and Policy and Director General of the Professional Trade Union Department of the New Histadrut (General Federation of Labour in Israel), June 30, 2025.

The use of the Problem-Solving Box is not widespread in many countries. The purpose of this paper is therefore to review Box-type mechanisms in the three countries where such arrangements have been identified – Ireland, Denmark, and Israel – and to examine their strengths and limitations in providing targeted solutions to wage-related challenges while maintaining comprehensive regulation across the public sector.

It is important to note that the Problem-Solving Box represents a relatively new development in the field of public-sector industrial relations. As a result, there is currently no established body of academic literature systematically analyzing its advantages, disadvantages, or long-term effects. Accordingly, the present paper draws primarily on the official positions and documented perspectives of the relevant negotiating parties.

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A. Case Studies of the Problem-Solving Box



Public-Sector Wage Bargaining in Ireland: An Overview

From 1987 to 2009, wage bargaining across the Irish economy featured the highest level of centralization and was conducted within the framework of what became known as Social Partnership. Under this model, wage increases and tax breaks were determined through tripartite negotiations between the government, trade unions, and employer organizations. Although these agreements were not legally binding, the parties were nevertheless committed to adhering to the principles established within them (Maccarrone & Erne, 2023).

This Social Partnership model came to an end in response to the 2008 financial crisis, following the decision of the country's largest employer organization to withdraw from the talks. At the same time, negotiations between the government and public-sector unions reached an impasse, and the government subsequently enacted unilateral wage cuts through legislation (Maccarrone & Erne, 2023; worker-participation.eu³).

Centralized wage bargaining in the public sector was renewed in 2010 at the national level. One significant outcome of the collapse of the Social Partnership framework is that wage agreements in the public sector now require

From 1987 to 2009, Ireland's Social Partnership framework set economy-wide wage increases and tax breaks through negotiations among government, trade unions, and employer organizations.

One significant outcome of the collapse of the Social Partnership framework is that wage agreements in the public sector now require ratification through a vote of workers.

³ worker-participation.eu: [National Industrial Relations: Ireland](#)

ratification through a vote of workers. This means that public-sector workers may reject an agreement reached between the parties even against the recommendation of their unions, as indeed occurred in 2013 (Maccarrone & Erne, 2023).

Wage conditions for public-sector workers, at both the national and local levels, are established through framework agreements signed between the state and trade unions, typically covering periods of three years (International Labour Organization, 2015).

The Problem-Solving Box: The Local Bargaining Clause

In January 2024, a comprehensive public-sector wage agreement for the years 2024–2026 was concluded and was subsequently ratified by public-sector workers in March of that year (Fórsa, 2024a; SIPTU, 2024). Although the parties agreed that trade unions would not raise demands that would increase the overall wage bill in the public sector during the lifetime of the agreement, the settlement included, for the first time, a provision referred to as the Local Bargaining Clause.

Under this clause, up to 3% of the total cost of the agreement was allocated to addressing targeted wage claims by pay grade, occupation, or specific worker groups (Fórsa, 2024b). The funds were to be released in two stages: the first, amounting to 1% of the total cost of the agreement, was to be paid by September 1, 2025; the remaining 2% was to be provided under the subsequent comprehensive wage agreement, which would incorporate the settlements reached during the bargaining period under the current agreement (Fórsa, 2024b).

The parties further agreed that no industrial action would be taken in pursuit of demands raised under this mechanism or beyond it, and that agreements reached through the Problem-Solving Box could not serve as a basis for additional wage claims. In addition, it was determined that settlements concerning sectoral or cross-grade employment

The comprehensive 2024–2026 public-sector wage agreement, concluded in January 2024, introduced a Local Bargaining Clause for the first time, allocating up to 3% of its total cost to targeted wage claims by grade, occupation, or worker group.

conditions would not address issues such as overtime pay, weekly office attendance requirements, annual leave, sick leave, or pension arrangements (The Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation, 2024).

Despite the title of the clause, the intention is not that such claims will be negotiated or concluded at the local level. Rather, the term is used to distinguish between the general wage increases included in the agreement and the additional wage adjustments financed through this allocation. Accordingly, the agreement specifies that the issues addressed under this clause will also be settled at the national level (Fórsa, 2024b).

Under the agreement, trade unions are to conduct an internal decision-making process regarding the groups of workers that may benefit from wage enhancements under this clause and subsequently submit the agreed claims to the state. The timelines established in the agreement provide that negotiations with the government over these wage adjustments would begin in July 2024 and may continue through June 2025 (SIPTU, 2024; Fórsa, 2024b).

Under the agreement, trade unions determine internally which worker groups may receive wage enhancements under the clause, then submit the agreed claims to the state.

The agreement further stipulates that in cases where the negotiating parties fail to reach agreement under the Problem-Solving Box mechanism, the matter will be referred to mediation through the Workplace Relations Commission⁴, and, where necessary, may proceed to adjudication by the Labour Court or any equivalent mediation or arbitration mechanism (The Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation, 2024).

⁴ An independent statutory body established in 2015, responsible, among other functions, for the initial handling of complaints concerning employment relations, the resolution of labour disputes, and the enforcement of workplace rights. The Commission's governing board is composed of representatives from the business sector as well as current and former officials of trade union organizations.

In January 2025, Fórsa, the largest public-sector trade union in Ireland, submitted the first claim under the Local Bargaining Clause. The claim, which concerned the wages of administrative offices across the public sector, was developed on the basis of a survey conducted among union members. Among other issues, it included proposals related to the structure of pay scales, adjustments to progression intervals between grades, and an increase in the salary ceiling for administrative staff (Fórsa, 2025).

Later that same month, the trade union SIPTU also submitted a claim under this provision, seeking an increase in the eating on-site allowance for Office of Public Works staff (SIPTU, 2025).



Public-Sector Wage Bargaining in Denmark: An Overview

In general, wages and employment conditions for public-sector workers in Denmark are regulated through collective agreements at the highest level of centralization. However, unlike the Irish case, bargaining does not take place for the entire public sector as a single unit but is instead divided into separate negotiations for central government workers and for employees of the regions and local authorities (Lind, 2019). Agreements between the parties are typically concluded every two to three years and account for the majority of wage increases (Dahl Christensen, 2024⁵).

Despite the tradition of centralized agreements, a trend toward decentralizing parts of wage bargaining to the local level emerged from the late 1990s onward. Although this trend was suspended

In Denmark, public-sector wages and employment conditions are generally governed by highly centralized collective agreements. Unlike in Ireland, bargaining is divided between central government employees and regional and local authority employees, rather than covering the public sector as a single unit.

⁵ Email correspondence with Christian Dahl Christensen, Adviser at the Danish Employee and Competence Agency, May 14, 2024.

in response to the 2008 financial crisis in order to allow for real wage increases across the public sector, a renewed expansion of local bargaining began in 2018 (Andersen et al., 2021).

One key expression of this decentralization is the wage system known as “New Pay,” established in 1998. Today, this system applies to approximately 80% of all public-sector workers, compared with only 10% in 2007 (Andersen et al., 2021; Dahl Christensen, 2024). Wage structures under this model consist of a base salary determined in general collective agreements, accounting for roughly 90% of total pay, while the remaining 10% is determined locally and may include performance-related pay (individual or group-based, according to qualitative and/or quantitative objectives agreed in advance), one-time payments, skill-based supplements, and allowances for specific roles or responsibilities (Dahl Christensen, 2024; The Danish Employee and Competence Agency, 2011).

Despite the tradition of centralized agreements, a trend toward decentralizing parts of wage bargaining to the local level emerged from the late 1990s onward.

The Problem-Solving Box: Dedicated Wage Pools

As noted above, the vast majority of wage increases in the Danish public sector, across its various levels, are determined centrally and apply to all covered workers. However, in the late 1980s, as part of a broader trend toward decentralization of collective regulation, dedicated wage pools were introduced (Hansen & Krachler, 2024). These funds constitute an agreed percentage of the overall cost of a wage agreement and are intended to address the needs of specific groups of workers (Hansen, 2025⁶).

In the late 1980s, as part of broader decentralization in collective regulation, dedicated wage pools were introduced as an agreed share of the total wage agreement cost to address specific worker groups' needs.

⁶ Email correspondence with Professor Nana Wesley Hansen, Employment Relations Research Centre (FAOS), University of Copenhagen, April 9, 2025.

In recent years, negotiations over general public-sector wage agreements have been conducted between public employers at the different levels of government and a unified coalition of trade unions. The size and objectives of the dedicated wage pools are first determined through internal discussions among the unions, after which the issue is brought into negotiations with state representatives. The method by which these funds are ultimately allocated is anchored in the final wage agreement concluded between the parties (Hansen, 2025).

There is no dedicated dispute resolution mechanism for wage pools. Disputes over them take place during the collective bargaining process, and as such are resolved through the traditional mechanisms of the Danish bargaining model. If disputes are not resolved through negotiations, the parties are free to take collective industrial action (strikes or lockouts). To prevent such actions, the Official Conciliator can mediate. If he is unable to reach agreement within this process, strikes or lockouts will break out, which can be ended through legal intervention by parliament. In any case, once the collective agreement comes into effect, both sides are obligated to maintain industrial peace throughout its duration (Hansen, 2026).

In most cases, these wage pools constitute only a very small share of the overall cost of wage agreements. For example, the 2018 wage agreement included a dedicated wage pool amounting to 0.3% of the total agreement cost, a figure considered unusually high (Hensen, 2025; Lønstrukturkomitéen, 2022). It should also be noted that these funds are politically sensitive, since allocated resources reduce the remaining budget available for general wage increases across the public sector (Hensen, 2025). Dedicated wage pools are mostly directed toward wage increases in female-dominated occupations or for groups of low-wage earners (Hensen, 2025).

These pools typically represent a small share of wage agreement costs, usually in female-dominated occupations or low-wage groups. They are politically sensitive because they reduce funds available for other wage increases.

Public-Sector Wage Bargaining in Israel: An Overview

Wages and employment conditions for public-sector workers in Israel are determined through multi-year national collective agreements known as Framework Agreements (Blumenberg, 2025; State Comptroller, 2022). These agreements, signed between the various public employers - including the Government of Israel, the Federation of Local Authorities, institutions of higher education, and others - apply to all workers represented by the Histadrut, approximately 250,000 workers in total (Blumenberg, 2025). Teachers and physicians employed in the public system are not covered by this framework, but rather through separate agreements concluded between their respective public employers and their own trade unions.

Wages and employment conditions for public-sector workers in Israel are determined through multi-year national collective agreements known as Framework Agreements.

Framework Agreements in the public sector provide uniform wage increases (in fixed nominal sums and/or percentage-based adjustments) that are applied broadly across all covered workers. From the perspective of the public employer, their principal significance lies in securing long-term fiscal certainty as well as maximum industrial peace throughout the duration of the agreement (Blumenberg, 2025).

The Problem-Solving Box

General Background

In July 2023, the Histadrut and the Salary and Employment Agreements Department at the Ministry of Finance signed a Framework Agreement that remains in force until December 31, 2027. The agreement provided percentage-based and nominal wage increases amounting to an average of approximately 11%, as well as a one-time grant of 6,000 NIS (approximately €1,500). It also included a reduction in the public-sector workweek in two stages, and measures aimed at improving the delivery of public services, such as worker

mobility arrangements and the introduction of new technologies. For the first time, this agreement also introduced a Problem-Solving Box mechanism, amounting to 3% of the total cost of the agreement, intended to enable the resolution of targeted disputes in specific occupations and sectors, in order to preserve the industrial peace agreed upon by the parties (Ministry of Finance, 2023).

Although the Problem-Solving Box was formally included for the first time in the most recent Framework Agreement, it may be understood as the outcome of a longer process of gradual development across several previous agreements between the Histadrut and the state. Accordingly, before turning to a detailed discussion of the Box mechanism, the following section reviews the arrangements that preceded it and ultimately led to its inclusion in the 2023 agreement.

The Emergence of the Problem-Solving Box

As noted above, Framework Agreements establish fixed and broad-based wage increases for public-sector workers. The Framework Agreement signed between the Government of Israel and the New Histadrut in April 2016, which was in effect retroactively from January 1, 2013 through December 31, 2017, included not only these general increases but also a series of sector-specific wage adjustments benefiting, among others, social workers and para-medical professionals (Blumenberg, 2025).

This agreement expired as scheduled at the end of 2017, yet a new Framework Agreement was not concluded until the signing of the 2023 agreement. During this interim period, an early example of a mechanism resembling the Problem-Solving Box can be identified. In June 2020, following a 16-day strike, an agreement was reached to end the labour dispute declared by the Social Workers' Union. The decision to end the strike did not follow the conclusion of a collective agreement, but rather a prior understanding between the parties regarding the allocation of 200 million NIS (approximately €50 million), which would serve as the budgetary framework for such an agreement even before negotiations formally began (Blumenberg, 2025).

In November 2021, against the backdrop of mounting pressure to conclude a new Framework Agreement, but in response to the economic crisis resulting

from the COVID-19 pandemic, the Histadrut and the Ministry of Finance agreed not to sign an agreement that would include broad-based wage increases. Instead, the parties agreed on a budgetary framework of 500 million NIS (approximately €125 million) to be allocated to specific groups of public-sector workers, according to understandings reached between the Chair of the Histadrut and the Director of Wages at the Ministry of Finance (Blumenberg, 2025; Perry, 2025). These funds were ultimately directed toward agreements covering health workers, administrative and support staff in hospitals, para-medical professionals, radiology technicians, and microbiologists. The fact that the financial framework for these agreements was guaranteed significantly reduced labour disputes in the public sector (Blumenberg, 2025).

The Problem-Solving Box in the 2023 Agreement

As noted above, the 2023 Framework Agreement included an allocation of 3% of its total cost for the purpose of problem-solving, primarily to finance targeted wage agreements, to address differentiated needs in ways that ensured stability and certainty in public-sector labour relations throughout the agreement period, and to provide focused responses across a wide range of sectors, including social workers, administrative and support staff, nurses, radiology technicians, psychiatric hospital workers, medical technologists, court administration staff, and others (Ministry of Finance, 2023).

The Framework Agreement signed in July 2023 introduced for the first time a Problem-Solving Box mechanism, amounting to 3% of the total cost of the agreement.

The details of this mechanism were anchored in a separate agreement signed between the Government of Israel and the New Histadrut on July 17, 2023 (hereafter, the "Problem-Solving Box Agreement"). The total scope of the Box is estimated at more than one billion NIS (approximately €250 million) (Perry, 2025).

According to the Problem-Solving Box Agreement, the full budgetary scope of the mechanism is to mature in five stages over the duration of

the agreement. At the same time, the parties may reach agreements whose financial scope exceeds the portion of the Box that has matured at a given point in time, provided that such agreements do not exceed the full budgetary envelope guaranteed under the Framework Agreement. The agreement also included several additional revenue channels for the Box beyond the guaranteed 3%, deriving from accounting differentials or compromises reached between the parties regarding broad-based wage issues (Blumenberg, 2025).

The use of Problem-Solving Box funds is determined through a multi-year outline agreed between the Histadrut and the Salary and Employment Agreements Department at the Ministry of Finance, specifying the sectors and occupations to be addressed as well as the estimated costs of the agreements to be concluded (Blumenberg, 2025). It is important to note, however, that the agreement does not include a formal dispute-resolution mechanism. Instead, it stipulates that decisions regarding the allocation of funds must be made jointly by the Director of Wages and the Chair of the Histadrut (Dori, 2023). Accordingly, implementation of the Problem-Solving Box relies on the parties' ability to reach mutual understanding without recourse to industrial action.

Beyond the guaranteed 3% anchored in the Framework Agreement, the Problem-Solving Box has funding from additional revenue channels.

Problem-Solving Box funds follow a multi-year plan with targets agreed between the Histadrut and the Finance Ministry.

Instead of a formal dispute-resolution mechanism, the agreement calls for allocation of funds to be determined jointly by the Finance Ministry and the Histadrut.



The Problem-Solving Box: Opportunities and Challenges

As noted above, two of the case studies discussed in this paper (Ireland and Israel) are relatively recent and have therefore not yet been subject to systematic academic evaluation. Accordingly, the analysis of the opportunities and challenges posed by the Problem-Solving Box mechanism in this chapter relies primarily on the interpretations advanced by the parties behind it – namely, the public employer and the trade unions.

Opportunities of the Problem-Solving Box

The allocation of a significant sum of money to address targeted wage-related problems, as in the Irish and Israeli cases, rests on the assumption that such resources generate benefits for both sides within the system of industrial relations. From the perspective of the public employer, the existence of an agreed budgetary framework for resolving financial labour disputes, alongside a general understanding regarding the sectors or workplaces to which these resources will be directed, ensures above all long-term industrial peace. In practice, the Problem-Solving Box guarantees the settlement of existing disputes – some of which have persisted for many years – and reduces the likelihood that new wage-related conflicts will emerge during the duration of the wage agreement. A further implication of this industrial peace is the fiscal certainty that no additional wage-related budgets will be required beyond those already agreed within the Box framework (Blumenberg, 2025).

For the public employer, an agreed budget for resolving financial labour disputes, with agreed priorities across sectors and workplaces, primarily secures long-term industrial peace.

Furthermore, the situation prior to the establishment of the Box created, from the perspective of the Ministry of Finance, an organizational culture that incentivized workers to engage in labour disputes in order to secure responses to their demands, and in many cases to “invent” reforms or frame even minor workforce adjustments as major “organizational changes.” By contrast, the Box mechanism establishes a culture in which the available budgetary framework for resolving wage-related issues is known in advance, as are the worker groups expected to benefit from it. Thus, it does not reward worker groups for resorting to industrial action (Malkin, 2025⁷).

At a broader level, the Israeli Ministry of Finance has argued that prior to the Box, worker groups that did not engage in organizational action – and therefore typically did not receive wage increases – may indeed have “saved” additional public expenditure, yet the consequences for service quality were substantial. For example, psychologists in the public service struggled for many years to secure a new wage agreement without taking industrial steps, and as a result, until the implementation of the Problem-Solving Box, the public mental health system deteriorated significantly (Malkin, 2025).

For the public employer at the workplace level, the Problem-Solving Box created a defined budgetary framework around which joint deliberation could take place, both with the budgeting authority – the Ministry of Finance – and with workers’ committees. This generates organizational stability, in contrast to situations in which the funding source is unknown or unavailable. Moreover, prior to the Box, relatively “strong” worker groups – those capable of significant organizational pressure – were often the ones rewarded. The fact that the budgetary framework is predetermined, as are the sectors or occupations it is intended to address, has enabled the system to respond to the needs of other worker groups as well. In other words, the Box has made it possible to resolve “real” and longstanding problems, rather than responding primarily to pressure dynamics (Sharvit, 2025⁸).

⁷ Interview with Ephraim Malkin, Director of Wages, Ministry of Finance, September 28, 2025.

⁸ Interview with Shani Sharvit, Senior Deputy Director General of Human Resources & Administration at the Ministry of Health, November 26, 2025.

For trade unions, this mechanism also entails several advantages. First, unions similarly benefit from the budgetary certainty provided to the state, as significant resources are guaranteed for the purpose of addressing specific wage claims, without the need to renegotiate their overall scope. Formally, the use of Problem-Solving Box funds requires negotiations with the state. However, an additional advantage for trade unions lies in the authority they are granted to determine the allocation of substantial resources toward resolving persistent and long-term wage-related challenges, based on their own priorities – authority that would not exist without such a mechanism. Furthermore, while the overall framework is agreed and known in advance, the specific sectoral agreements are not fully priced beforehand, providing unions with flexibility in allocation. Thus, if the cost of a sectoral agreement exceeds its estimated level, unions may allocate additional funds from within the Box and adjust the implementation timetable of the remaining budget accordingly (Blumenberg, 2025).

A further significant advantage of the Problem-Solving Box concerns its role in addressing income inequality within the public sector, both substantively and practically. Substantively, all case studies included in this paper allocate Box resources in advance toward vulnerable or weaker worker groups. This is most explicit in the Danish case, where the funds are directed toward closing gender wage gaps and improving pay for low-wage earners (Hansen, 2025). Industrial peace and the exhaustion of wage claims are components of any wage agreement, whether or not it includes a

Under the Problem-Solving Box, trade unions are guaranteed significant resources for addressing specific wage claims, without the need for further negotiations over their overall scope.

Trade unions are granted substantial authority to determine the allocation of significant resources toward resolving persistent and long-term wage-related challenges, based on their own priorities.

A further significant advantage of the Problem-Solving Box concerns its role in addressing income inequality within the public sector, both substantively and practically.

Box mechanism. Yet in practice, in previous Israeli Framework Agreements, stronger worker groups – those with significant leverage – could engage in industrial action and secure wage increases beyond what was included in the agreement. The Problem-Solving Box reverses this dynamic: since its use is subject to union discretion, the resources within the mechanism are tilted toward weaker worker groups (Blumenberg, 2025).

The practical advantage of the Box is reflected in the fact that the resources within the mechanism are tilted toward weaker worker groups.

A further positive outcome of the Problem-Solving Box is the strengthening of social dialogue⁹. While reaching a broad and long-term wage agreement already reflects a significant degree of social dialogue, the agreement to manage such a mechanism, the trust implied by it, and the continuous negotiations surrounding its implementation necessarily expand dialogue between the parties and may serve as a basis for further substantial development.

A further positive outcome of the Problem-Solving Box is the strengthening of social dialogue.

⁹ The International Labour Organization (ILO) defines social dialogue as “all types of negotiation, consultation or exchange of information between representatives of governments, employers and workers on issues of common interest relating to economic or social policy.” Social dialogue has been shown to promote stability, democratic governance, and stakeholder participation in the economy, and may also improve industrial relations and contribute to industrial peace.

Challenges of the Problem-Solving Box

The most significant challenge posed by the Problem-Solving Box mechanism is its full implementation in accordance with the strategic priorities of trade unions. As noted, the overall budgetary framework of the Box is guaranteed in advance. However, collective bargaining over the allocation of Box resources may fail to reach agreement. In the absence of a dispute-resolution mechanism, as in the Israeli case, a decision by the state not to release the agreed funding may place trade unions in a deadlock, even if legal or organizational remedies remain available (Blumenberg, 2025).

Another challenge, stemming from the broad authority granted to unions in allocating budgets for dispute resolution, is that unions themselves become the primary address for complaints from workers who feel their needs have not been met. In cases where a particular worker group is dissatisfied with the outcome, the conflict is not directed toward the state, as is usually the case, but rather toward the union representing them, since it is the union that decided where and to what extent the Box resources would be invested (Blumenberg, 2025).

As noted, the Israeli case was built on a foundation of personal trust between the parties and relies heavily on their capacity to reach mutual understandings. These trust relations were also the basis for achieving internal agreement within each side to adopt the Box mechanism. This was made possible, in part, because the parties were not required to regulate the mechanism's operation in detailed terms (Malkin, 2025).

The most significant challenge posed by the Problem-Solving Box mechanism is its full implementation in accordance with the strategic priorities of trade unions.

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Accordingly, the main challenge in negotiating the next Framework Agreement will be to institutionalize the Problem-Solving Box so that it does not depend on the individuals holding the relevant positions (in particular, the Chair of the Histadrut and the Director of Wages). While such institutionalization would help preserve a mechanism that yields benefits for both sides, it may prove difficult to implement (Malkin, 2025).

The Irish public-sector wage agreement that introduced the Problem-Solving Box also generated opposition from the Teachers' Union of Ireland Retired Members' Association (RMA-TUI), since the first tranche of the Box, amounting to 1% of the agreement's total cost, does not apply to retired public-sector workers. The association argued that this arrangement undermines the linkage between the pay of active workers and the pensions of those who have already retired (Retired Members' Association of TUI, 2024).

Finally, as most clearly demonstrated in the Danish case, the mechanism is politically sensitive. Any resources allocated to the Problem-Solving Box necessarily reduce the remaining budget available for distribution across the broader public-sector workforce (Hansen, 2025). This may generate intra-union tensions among different worker groups who feel disadvantaged, and may erode solidarity across occupational groups (Hansen, 2025).

The mechanism is politically sensitive because Problem-Solving Box allocations reduce funding for the wider public-sector workforce, potentially creating intra-union tensions and weakening solidarity across occupations.

Conclusion

The regulation of public-sector wages through collective bargaining at a high level of centralization – that is, agreements that apply to all workers across the sector – creates difficulties in addressing problems arising from workplace-level conditions or specific local needs. This paper has reviewed the Problem-Solving Box mechanism as an alternative to another common response, namely the decentralization of bargaining to the local level, which may lead to higher levels of income inequality and to a weakening of coordination in wage-setting.

The Problem-Solving Box represents a relatively new development that has not yet been widely adopted. For this reason, the paper examined Box-type mechanisms in the three countries where such arrangements have been identified: Ireland, Denmark, and Israel. Comparing the distinct characteristics of these cases, as summarized in the table below, suggests that the mechanism not only enables targeted responses to specific challenges, but may also improve the working conditions of disadvantaged worker groups.

Highly centralized public-sector bargaining can struggle to address workplace conditions and local needs. This paper examines the Problem-Solving Box as an alternative to bargaining decentralization, which may increase income inequality and weaken wage-setting coordination.

A Comparison of the Problem-Solving Box Mechanisms in the Reviewed Countries

	 Denmark	 Ireland	 Israel
Budgetary Source	Budget allocated within the general agreement	Budget allocated within the general agreement	Budget allocated within the Framework Agreement
Scope of the Box	Between 0.02% and 0.3% of total agreement cost	3% of wage cost within a bargaining unit (grade, worker group, category), in two tranches: 1% in the most recent agreement and 2% in the next	3% of the Framework Agreement cost in five tranches, supplemented by additional revenue channels agreed between the parties
Decision-Making Level	Local	National	National
Decision-Making Process	Local-level bargaining	National-level bargaining	Negotiation between the Ministry of Finance and the Histadrut over union-raised priorities
Policy Targets	Closing wage gaps, raising pay for low-wage workers, recruitment and retention in specific occupations	Addressing wage problems or structural issues at the local level	Resolving problems and addressing defined sectors
Dispute-Resolution Mechanism	-	Mediation through the Workplace Relations Commission and adjudication through the Labour Court	No formal dispute-resolution mechanism

Beyond the opportunities and challenges associated with the Problem-Solving Box, the cross-national comparison highlights an additional crucial feature: the overall fiscal scope of the Box. In the Danish case, the mechanism operates at relatively limited and modest levels, whereas in both Ireland and Israel it constitutes a significant share of the total cost of the wage agreement. It should be recalled that the Israeli case also includes the transfer of additional and substantial resources into the Box beyond those formally anchored in the agreement itself.

It is important to emphasize that this feature is not merely technical. The capacity of the Problem-Solving Box to address wage distortions, strengthen disadvantaged groups, and ensure industrial peace is fundamentally dependent on the magnitude of the budgetary resources available to the negotiating parties.

The Israeli model of the Problem-Solving Box includes several additional characteristics from which broader lessons may be drawn:

- **The transfer of supplementary resources** into the Box beyond those formally anchored in the wage agreement. The cumulative scope of these budgetary channels enables the Histadrut to address targeted wage challenges in a broader and more comprehensive manner.
- **The relatively extensive authority granted to the trade union** in planning the use of Box funds, as well as in implementing the mechanism in practice, strengthening its capacity to direct resources toward weaker worker groups.
- **The flexibility afforded to the parties** in managing implementation allows them to reach targeted agreements whose costs exceed initial projections, and to adjust the agreed timetable for resolving additional problems accordingly.

The Box's fiscal scope is more than a technical matter: its capacity to correct wage distortions, strengthen disadvantaged workers, and secure industrial peace depends fundamentally on the resources available to the negotiating parties.

The Problem-Solving Box offers benefits to both sides of collective bargaining, the public employer as well as trade unions. This mutual advantage makes the mechanism a tool with significant potential to optimize collective wage regulation in the public sector and to enhance the ways in which the parties manage the inherent complexity of public-sector wage systems. We hope that this paper contributes to a growing knowledge base that may support the expansion of Problem-Solving Box mechanisms to additional countries in the future.

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In many countries, wage and employment conditions in the public sector are regulated through collective agreements that apply broadly to all public employees. Such arrangements contribute to the establishment of a coherent wage structure and a high rate of income equality, but often have difficulty in addressing challenges stemming from differing conditions across occupations, sectors, or specific workplaces. A common response to this difficulty, the decentralization of collective bargaining to the local level, may undermine the advantages of centralized negotiation and contribute to rising income inequality. This paper examines an alternative response, which we term the “Problem-Solving Box”: a mechanism which earmarks a defined percentage of the overall cost of a public-sector wage agreement for the resolution of targeted wage-related issues through collective bargaining conducted at the national level. For the public employer, this mechanism provides long-term industrial peace and fiscal certainty throughout the duration of the agreement. For trade unions – and largely, also for the public employer – the “Box” enables the resolution of longstanding wage disputes, the reduction of inequality, and the strengthening of vulnerable groups of workers.

The Israeli case of the “Problem-Solving Box” exhibits several distinctive characteristics from which broader lessons may be drawn. First, in addition to the funds allocated to the Box under the terms of the wage agreement itself, additional resources are transferred into it from other sources, following side agreements between the parties on different wage-related issues. This supplementation allows for a more comprehensive response to wage-setting challenges. Second, the Box is implemented according to an outline devised by the trade union (here, the Histadrut) and agreed upon with the state, while the union is granted a measure of flexibility in determining the budgetary allocation of the agreements concluded within this framework. Notably, this budget is preserved even under conditions of fiscal constraint – such as during the war of October 7 – so wage agreements can be advanced even in politically and economically challenging periods. Finally, the extensive authority granted to the trade union in administering the Box strengthens the potential to deploy it in support of disadvantaged groups of workers.

In this paper, we examine three distinct applications of the “Problem-Solving Box” mechanism through international case studies from Ireland, Denmark, and Israel. We further assess the opportunities and challenges associated with this arrangement as they manifest across these three national contexts.