SYNDICAT EUROPEÆN TRADE UNION CONFEDERATION

EUROPE NEEDS A PAY RISE

ETUC BACKGROUND INFORMATION FOR CONFERENCE 'TOWARDS A WAGE ALLIANCE'

SOFIA, 26 JUNE 2018

WAGES MATTER

"Workers have the right to fair wages that provide for a decent standard of living."
Principle 6 of the European Pillar of Social Rights, November 2017

ECONOMIC RECOVERY – NOT IN WAGES!

"Despite the long-awaited employment recovery, wages have so far failed to follow."
OECD, report 'Going for Growth', March 2018

"Growth in real wages, as a result of increased productivity, is crucial to reduce inequalities and ensure high standards of living."
European Commission, Annual Growth Survey 2018, November 2017

"More dynamic wage developments, when translated into greater domestic demand, would support further the ongoing economic expansion."
European Commission, 2018 European Semester - Country-specific recommendations

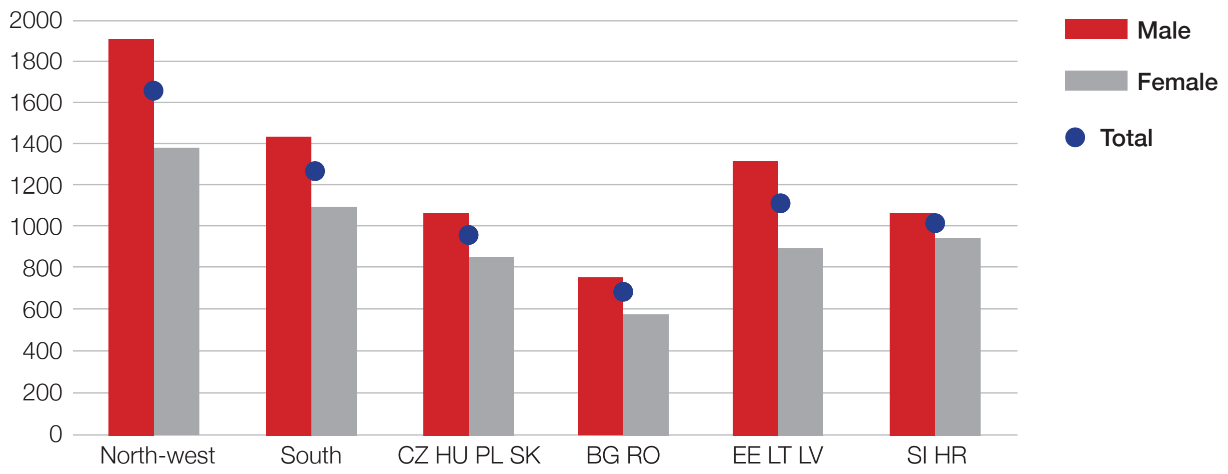
"Working people in 9 EU countries earned less (in real terms) in 2017 than they did in 2010. Working people in 6 of those countries also earned less (in real terms) in 2017 than they did in 2016." ETUI, Benchmarking Working Europe, 2018

THE WAGE GAP

There is a very substantial wage inequality between countries and regions within the European Union even after taking into account the cost of living and the structure of the workforce.

Women in the EU earned on average 16% less than men, 2016, and the gender pay gap narrowed by -0.6 percentage since 2011. However the pay inequality increased for women in 10 EU member states 2011-16.

Workers in Bulgaria and Romania earn less than half in real terms than workers in north-west Europe. Workers in the south of the EU earn over 20% less than in the north-west. The gender pay gap is substantial in all regions, and particularly large in the Baltic region. The figures below show the true size of the wage gap adjusted for price differences.



Average monthly wages (in Euro and adjusted for PPP) by gender and country group, 2015. Drahokoupil & Piasna, ETUI, 2017

The table below shows the difference in net monthly earnings by region and sector adjusted for cost of living and the composition of the workforce, compared to the North-west region. Among the biggest wage gaps are those for professional occupations – which undoubtedly contributes to migration and brain drain. There are also big wage gaps in some regions for education and health and social work as well as public administration.

	North-west	South	CZ HU PL SK	BG RO	EE LT LV	SI HR
Manufacturing	***0.0***	***-368.7***	***-776.3***	***-1124.0***	***-737.6***	***-840.6***
Construction	0.0	-386.7	-667.1	-1165.9	-618.7	-770.1
Wholesale and retail	0.0	***-273.1***	***-508.9***	***-816.0***	***-410.1***	-644.8
Transport and storage	0.0	***-236.2***	***-621.5***	-1035.9	-487.5	-713.8
Accommodation and food	0.0	***-148.8***	***-332.6***	***-828.2***	***-314.9***	-592.6
Information and communication	0.0	***-843.4***	-872.6	***-620.4***	-824.2	-806.1
Finance and insurance	0.0	***-150.1***	-822.7	-1315.8	-812.0	-713.5
Professional, scientific and tech	0.0	-469.0	-860.2	-1062.5	-832.5	-966.4
Admin and support services	0.0	***-242.1***	***-599.6***	***-773.8***	***-290.8***	-509.2
Public administration	0.0	-271.7	-782.3	-1200.2	-791.5	-782.8
Education	0.0	***-173.5***	-689.5	-1030.3	-754.4	-595.7
Health and social work	0.0	***-226.5***	-790.0	-1047.6	-777.1	-681.2
Arts, entertainment	0.0	***-154.4***	***-224.7***	-958.9	-870.9	-468.5
Other services	0.0	-318.3	***-383.3***	-925.3	-562.3	-445.4
Activities of households	0.0	***101.5***	***-46.1***	***-632.1***	-381.0	-487.4

Differences in net monthly earnings (in Euro and adjusted for PPP) relative to the north-west group, selected sectors. In italics = reference category. In bold = differences from the negative return in manufacturing that are statistically significant ($p \leq 0.05$). Drahokoupil & Piasna, ETUI, 2017

WAGE CONVERGENCE OR DIVERGENCE?

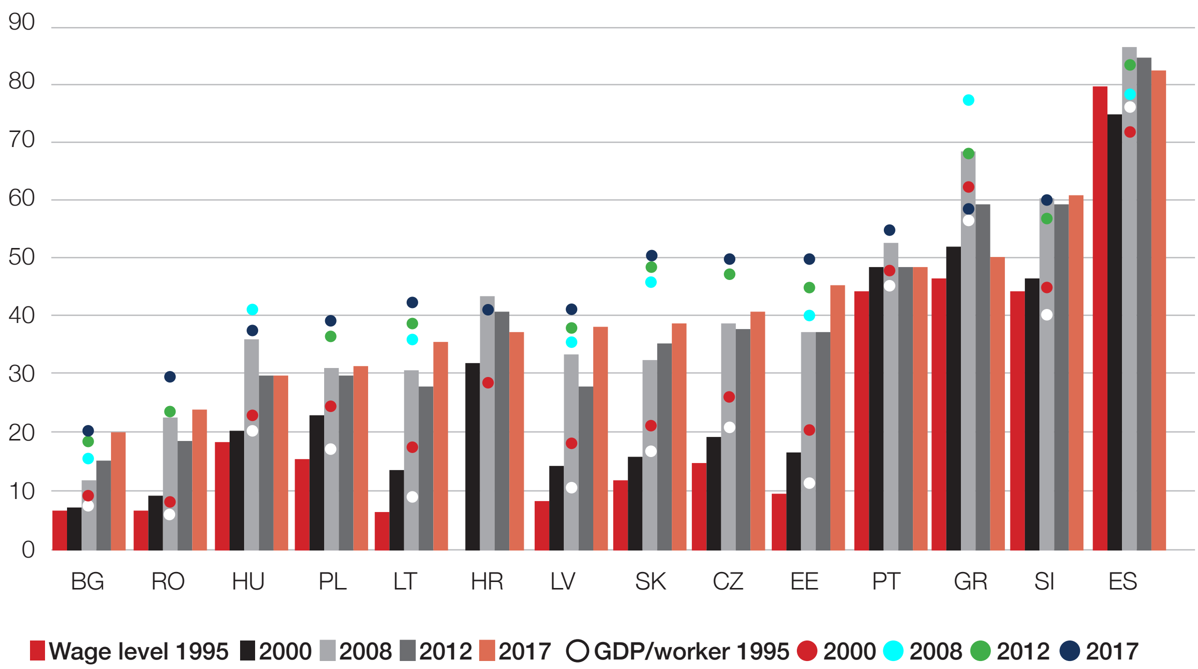
In 6 out of 11 east EU countries the wage gap with western EU member states got bigger between 2008 and 2016.

Between 2010 and 2017, real wages stagnated or even decreased. Despite the recent recovery of real wage growth, in nine Member States real wages are still below the level of 2010. Between 2010 and 2017, real wages dropped most dramatically in Greece (-19.1%), followed by Cyprus (-10.2%), Portugal (-8.3%) and Croatia (-7.9%). Only in three Member States – Bulgaria, Poland and Germany – did real wage grow between 2010 and 2017.

The crisis also put an end to upwards convergence in nominal wages between most CEE new Member States and southern European Member States and those in Europe's core. In certain Member States (Croatia, Hungary, Romania, Slovenia, Greece, Portugal and Spain), wage convergence went into reverse, while in others dynamic wage convergence between 1995 and 2008 gave way to a slower catch-up process. Only in Bulgaria, Slovakia and Estonia did wage convergence continue.

Wage developments are lagging behind productivity in most Member States, and relative wage levels remained lower than relative productivity when compared to the EU15. Productivity in CEE new Member States, (expressed as GDP per employee), as a percentage of the EU15 average, shows a more dynamic convergence with EU15 productivity than in wages. For Spain and Portugal relative productivity levels were more in accordance with relative wage levels up to the crisis, but then both wages and productivity levels fell.

Wage and productivity levels as % of EU15 average (in nominal EUR terms)



ETUI Benchmarking Working Europe 2018

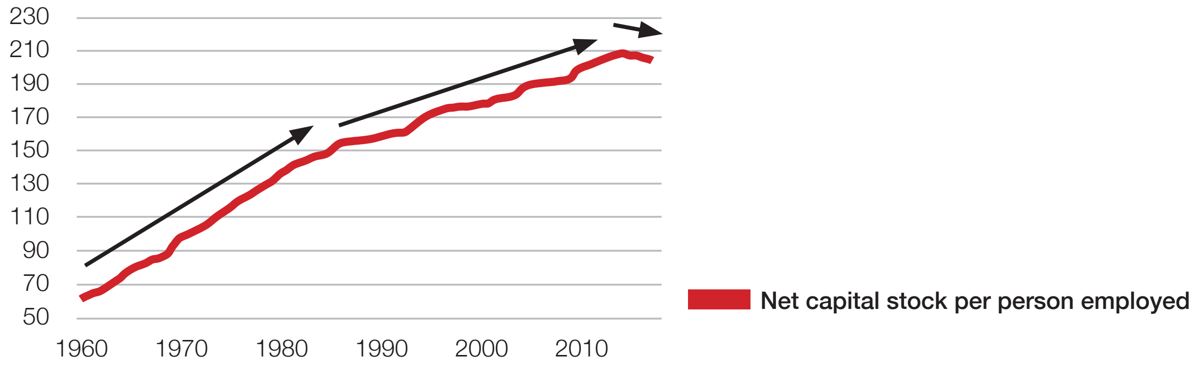
"The crisis has put an end to wage convergence of the poorer Central and Eastern European new EU member states towards wage levels in the West."
Galgoczi https://www.socialeurope.eu/2008-year-east-west-wage-convergence-came-standstill

WAGES AND PRODUCTIVITY

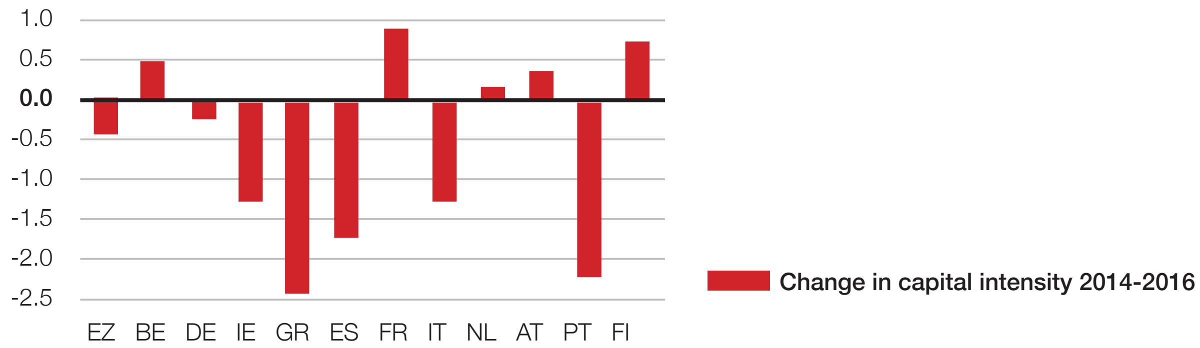
From 1993 to 2007 labour productivity in the Euro area grew 1.1% per year on average.

From 2008 to 2013 it declined to almost zero. Although it has picked up since then, it remained at a subdued average rate of 0.6% between 2013 and 2016, around half the level of the pre-crisis years. According to a report by the ECB[1], the drop in labour productivity growth in the eurozone was due to an absence of growth in capital intensity. The net capital stock per employee in the eurozone economy rose non-stop between 1960 and 2014. However, between 2014 and 2016 this trend ended, and capital intensity declined. It is clear that low productivity developments we are now experiencing are the results of the collapse in public investment and reinforced downward pressures on wages, the real impediment to private investment, as reported in the ECB[2] and Mckinsey[3] surveys.

Net capital stock per person employed. EUR bn



Average annual growth %



S. Schuiling (2017), "Euro Watch – Why is productivity growth so low?", ABN-AMRO

With low demand and excess capacity, investment, particularly in equipment and structures, fell significantly; McKinsey research confirms the impact of weak post crisis demand and a slow recovery of capital intensity growth as one of the primary drivers of the productivity slowdown, while the ECB found less evidence for a similarly influential role for capital market issues like balance sheet weakness, or credit constraints.

The research concludes that demand may help boost productivity growth not only for recovery from the I crisis but also for longer-term structural leakages and their impact on productivity. Suitable tools for this longer-term situation include: focusing on productive investment as a fiscal priority, growing the purchasing power of low-income consumers with the highest propensity to consume, unlocking private business and residential investment, and supporting worker training and programs to ensure that periods of transition do not disrupt incomes.

[1] Economic Bulletin, Issue 3/2017.
[2] ECB (2018), Survey on the Access to Finance of Enterprises in the euro area, October 2017 to March 2018.
[3] McKinsey Global Institute (2018), Solving the productivity puzzle: the role of demand and the promise of digitization.

COLLECTIVE BARGAINING, WAGES AND INEQUALITY

Research suggests that firms with enterprise-level collective agreements have higher wage inequality compared to firms with collective agreements at regional or sectoral level. A number of studies also show that centralised bargaining is associated with lower wage inequality[4]. Bargaining coverage can also influence inequalities: A study of 32 OECD member states finds a strong negative association between collective bargaining coverage and wage inequality and concludes that coverage accounts for 50 per cent of wage inequality.

The erosion of collective bargaining in several Member States has coincided with the increase in low pay (workers paid below two-thirds of the median wage), often stimulated by labour market reforms in which the social partners are not involved (although sometimes despite their opposition)[5]. Conversely, in Sweden, a centralised and coordinated collective bargaining system and a compressed wage structure have prevented the development of low paid/low skilled jobs and have boosted policies for upgrading skills and led to the lowest wage dispersion among OECD countries. Multi-level bargaining with extension mechanisms have given Belgium the lowest share of low paid workers and put it into the three best performers on wage equality.

However, the possibility to deviate from the provisions of a collective agreement through opening clauses, opt-outs or other forms of issue-specific deviation practices became much more widespread in the EU after 2008, and legal changes since 2008 have been more intensive than before.

Changes in deviation clauses and practices

		Opening classes	Opt-outs	Other deviation practices
Introduction or strengthening of deviation possibilities	Before 2008	Finland, Germany, Itlay, Norway	Estonia	Denmark, France, Italy, Lithuania, Poland, Slovenia
	Since 2008	Austria, Cyprus, Germany, Italy, Norway, Portugal, Sweden	Bulgaria, France, Greece, Ireland, Italy, Slovenia, Spain	Croatia, Cyprus, Denmark, France Lithuania, Romania
No Change		Belgium, Czech Republic, Hungary, Latvia, Luxemburg, Malta, Netherlands, Slovakia, UK		

Collective bargaining in Europe in the 21st century, Eurofound, (2015)

Since 2008, especially in Member States badly hit by the crisis, not only has it been made easier for companies to deviate from sectoral or national collective agreements, but legal changes have also weakened the ‘favourability principle’. In countries with multilevel collective bargaining systems, this principle has established that standards concluded at a higher level can only be improved on (for employees), and not worsened, at a lower level. The favourability principle has been weakened by in labour market reforms in response to the economic crisis.

[4] See Hayter, S. (2011) Bargaining in the Global Economy – Negotiating for social justice, Cheltenham, UK and Northampton, MA, USA: Edward Elgar and Geneva: ILO.
[5] D. Vaughan-Whitehead (2017) ,”Curbing Inequalities in Europe – How Can Social Dialogue and Industrial Relations Help to Close the Gap?”, ILO

COLLECTIVE BARGAINING AND GROWTH

The IMF[6] makes the case for trade unions and collective bargaining as means to keep inequalities in check. Whereas previous research already showed the existence of such a link, the IMF paper went further by pointing out that trade unions and collective bargaining tend not only to reduce inequalities by pushing up wages at the lower end of the pay scale, but also limit the income share taken by the top 10% of income earners. The IMF research also found that high union membership influences the extent to which the tax system and welfare state redistribute revenues in a more equal way.

Additionally, the IMF shows a strong negative relation between net inequality and growth in income per capita in the next ten years.

Consequently, one could safely conclude that strengthening strong high level collective bargaining, especially in South and Eastern Member States would be growth-enhancing and favourable to European economic and social convergence.

[6] F. Jaumotte and C. O.o Buitron (2015), “Inequality and Labor Market Institutions”, IMF Gap?”, ILO

3 REASONS WE SHOULD BE WORRIED ABOUT WAGE INEQUALITY

1 WAGES ARE NOT KEEPING UP WITH PRODUCTIVITY

Everyone agrees that wage increases should follow productivity increases. But productivity increases have far outstripped wage increases.

Wage increases in the European Union over the last 16 years would have been FOUR TIMES higher if they had fully reflected productivity increases. Between 200-2016 productivity in the EU28 rose 10% but wages only increased 2.5%. In some member states productivity increased while wages decreased.

https://www.etuc.org/press/pay-rises-would-have-been-4-times-higher-if-they-matched-productivity
https://medium.com/@ETUI_org/the-increasing-gap-between-wages-and-productivity-its-time-to-act-a74ddb99e961

2 WAGES ARE GOING DOWN AS A PROPORTION OF GDP

The proportion of GDP allocated to wages has been in decline since the mid-1970s. Wages made up 72% of EU GDP in 1975, and in 2017 made up less than 63%.

Calculating wages lost from a 'wage share' set at a very moderate 66% (the level it reached in the EU in the early 1990s) would give workers in the EU an extra €1764 in 2017 alone.

Working people are not getting a fair share of the wealth they generate – more is being kept than in the past as profit.

https://www.etuc.org/press/shareholder-greed-cost-every-worker-%E2%82%AC1764-lost-wages%E2%80%A6just-2017

3 WORK IS NO LONGER A GUARANTEE OF A DECENT LIFE

Minimum wages are well below the official low-wage threshold in many EU countries.

In 2016, in 10 EU countries, the statutory minimum wage was at or below 50% of the national median wage - clearly making it difficult for those on the minimum wage to make a living from the money they earn.

Minimum wages would have to increase by between 20% and 62% in those 10 countries to reach the low-wage threshold (set by the OECD at two-thirds of the national median wage).

ETUI Benchmarking Working Europe 2018, 2018, fig 4.6