

TOWARDS A EUROPEAN ALLIANCE FOR UPWARD WAGE CONVERGENCE

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Introduction

This document is meant to be a basis for discussion about a European Alliance for Upward Wage Convergence.

An Alliance that should involve the European Commission, EU governments, European and national social partners, companies and other interested stakeholders.

An Alliance to be discussed and implemented in the framework of the European and national social dialogue, the Tripartite Social Summit, the EPSCO Council, and the European Semester.

The document includes macroeconomic analysis backing the need for upward wage convergence, and a list of objectives, actions and tasks to be considered by the various actors involved.

The document is open to suggestions and inputs.

Towards an Alliance

In Gothenburg, on 17 November 2017, the European Pillar of Social Rights was solemnly proclaimed, and institutions and social partners committed to the implementation of its 20 principles.

Institutions and social partners are also engaged in the implementation of the Sustainable Development Goals of the UN2030 agenda and of the Global Deal partnership.

European Commission, Council and social partners are keen to implement the Quadripartite Declaration 'A New Start for Social Dialogue'.

The common objective is that all Europeans benefit from a resilient EU economy based on an efficient and sustainable single market. Having combined economic means within a single market, this means working towards fair wages for all and a fair distribution of the income and wealth that all Europeans help to produce.

The Context

On the basis of the recently issued: [JER] Joint Employment Report 2018, [AGS] Annual Growth Survey 2018, and [EG] Employment Guideline n.5 – some challenges, priorities and policies are listed as follows, as a framework for the proposed Alliance.

Challenges

[JER] Despite the improvements in the labour market, wage growth remains subdued in most countries. The overall modest wage dynamics can be explained by the remaining slack in the labour market, weak productivity growth and low inflation expectations. In addition, in the period 2014 to 2016, real wage growth lagged behind productivity growth. This is a long-term trend: in the EU, from 2000 to 2016, real productivity per person employed grew by 14.3%, while real compensation per employee grew by 10.2%.

[JER] In-work poverty risk has remained on an increasing trend (started with the crisis), affecting 9.6% of the working age population in 2016. Income inequality has stabilised in 2016, after having increased in the aftermath of the crisis, but with considerable variation across countries.

[JER] Compensation of employees varies widely across Europe, ranging from EUR 4.6 per hour worked in Bulgaria to EUR 43.3 in Luxembourg (Figure 9). At the low end, in particular Bulgaria, Poland and Hungary stand out, as well as Romania which recorded a large increase last year.

Priorities

[AGS] This momentum presents the EU with a window of opportunity to reignite sustained economic and social convergence. 18.9 million people are still without a job, investment still remains too low, wage growth is subdued, labour market slack persists, and core inflation is forecast to remain low. There is scope for supporting the continuation of the recovery, notably via structural reforms that create the conditions for boosting investment and increasing real wage growth in support of domestic demand, supporting internal and external rebalancing in the euro area.

[AGS] Ensuring greater convergence and inclusion is particularly relevant for euro area Member States. Narrowing competitiveness gaps also requires stronger growth fundamentals and faster productivity growth in the lagging countries. Faster real wage growth in the euro area as a whole would help to sustain domestic demand.

[AGS] Growth in real wages, as a result of increased productivity, is crucial to reduce inequalities and ensure high standards of living. More dynamic wage developments, when translated into greater domestic demand, would support further the ongoing economic expansion.

[AGS] Increased productivity depends on investment, innovation, education and a skilled labour force. Structural reforms aimed at improving labour markets and social policies should help the workforce to acquire the skills needed and promote equal opportunities in the labour market, fair working conditions, increasing labour productivity to support wage growth, and sustainable and adequate social protection systems. The European Pillar of Social Rights, recently endorsed at the social summit in Gothenburg by a joint proclamation of the EU institutions, should be used as a compass.

[JER] While the employment rate of women reached another record high, they continue to face a significant pay differential.

Policies

[JER] Several Member States have taken steps to enhance the predictability of the wage setting system, with the involvement of social partners [...] for a decent standard of living. [...] Medium-term responsiveness to productivity developments is important in this context.

[AGS] Social partners are essential stakeholders in the reform process. The timely and meaningful involvement of social partners in the design, sequencing and implementation of reforms can improve ownership, impact and delivery. New forms of social dialogue, collective organisation and bargaining need to be developed to meet the challenges posed by new forms of work.

[EG5] Member States should, together with social partners and in line with national practices, encourage wage-setting mechanisms allowing for a responsiveness of wages to productivity developments. Differences in skills and divergences in economic performance across regions, sectors and companies should be taken into account. When setting minimum wages, Member States and social partners should consider their impact on in-work poverty, job creation and competitiveness.

Objectives of an Alliance

Major wage divergences still exist within the EU single market: between countries, between sectors within countries, and within multinational enterprises in the different countries where they are established. Such divergences very rarely correspond to differing productivity rates, or to differentials in economic performance or living costs. On the contrary, wage divergences introduce unfair competition between economies and companies, and negatively affect the overall competitiveness of the single market. They further impoverish low-wage labour markets, provoking a damaging brain-drain effect destroying public and private investment in the education of young people.

Upward wage convergence is therefore needed to reinforce European integration and restore people's confidence in the European Union. Fairer wages will boost internal demand and will support profitability, entrepreneurship, productivity and therefore potential growth over the medium to long term. A cohesive European economy will reinforce our companies in the global market.

Upward convergence of wages has to take place in both the private and public sectors, driven by sound macroeconomic policies, autonomous and co-ordinated collective bargaining for transparent wage-setting, and minimum wages that ensure dignity for households depending on wage earners.

Positive macroeconomic effects of upward wage convergence include:

- Turning cash accumulation in European companies into a driver for new investments, more productivity and quality jobs.
- Ensuring price stability and warding off new financial bubbles.
- Supporting an orderly transition towards low-carbon, innovative and sustainable industry 4.0, where new job opportunities will need to be generated in innovative production and services.
- More inclusive labour markets with a motivated workforce.
- Redirecting our economies towards higher, more balanced and sustainable growth paths.

Wages in Europe need to rise to catch up with productivity advances and at the same time to ensure equal pay for equal work. This is especially true for workers on precarious contracts, non-standard and economically dependent self-employed workers. Women's wages across Europe need to rise to close the gender wage gap. Preventing wage discrimination will make social protection systems more sustainable.

But this is not all. Recent research assessed the impact of weak post-crisis demand – due to low wage increases and low private and public investment levels – on capital intensity growth, as one of the primary drivers of the productivity slowdown, supporting the view that wage rises would lead to productivity increases.

Globalisation and technological progress should be an opportunity for all. But this requires modern education and training systems. The way forward is to give people the capacities they need to make the important transition from old to new ways of working. Investing in people means ensuring better remuneration and remuneration progress throughout the professional career.

Role of the actors

All actors potentially involved in this alliance (the European Commission, EU governments, European and national social partners, companies and other interested stakeholders) should consider the following **actions and tasks**, according to their competences.

Setting collective bargaining and minimum wages at the core of sustainable growth: in order to concretely achieve upward wage convergence, the commitment should be conducive to stronger EU and national frameworks that open new opportunities for collective bargaining and minimum wages in a fast-changing world.

To this end, the alliance should promote:

1. **Extended coverage of collective agreements** at national level, including where applicable by promoting universal application of collective agreements through legal extension mechanisms or giving sole recognition to agreements signed by most representative social partners. **Specifically, targeted extension of collective agreements/minimum wage** coverage to precarious, non-standard, platform and economically dependent self-employed workers.
2. **Legislative/non-legislative frameworks and capacity-building measures/funding at national level** to support, strengthen and (where necessary) establish efficient and adaptable collective bargaining institutions and industrial relations, to enable social partners and companies' and workers' representatives, autonomously to negotiate wage increases and improvement of working conditions.
3. **Minimum wage systems**, where applicable, aiming at increasing minimum wages to converge towards living wage levels, through mechanisms fully involving social partners in minimum wage-setting.
4. **Reinforced transnational and cross-border social dialogue and industrial relations**, able to address dumping phenomena and to build a level playing field for companies and within sectors.
5. **Frameworks and capacity-building measures at EU level**, supporting the actions and tasks listed above.

For such actions to lead to fairer wages, sound economic and social governance is needed, generating investment and quality jobs, while supporting competitiveness and productivity and contributing to a well-trained workforce.

The Alliance should therefore pursue upward wage convergence through common macroeconomic and labour market policies, that will empower non-labour related productivity components, and actions such as:

1. **Boosting productivity.** Productivity gains should come from investment in infrastructures, education, training, health, research and not necessarily from labour flexibility and labour-cost related competition. Additionally, evidence shows that efficient collective bargaining leading to real wage increases in line with productivity advances further boosts productivity, while not harming competitiveness and job creation. On the contrary, wage depression generally leads to productivity stagnation.
2. **Investing in people.** Learning from countries that traditionally perform better, there is a need to equip people with the skills that the labour market needs. The training offer for adults at work should be improved. High-level education and a skill guarantee for young people should be provided.
3. **Restarting social mobility based on equal treatment.** This is the way to build confidence in the future. Nobody must be left behind. All those who, regardless of their level of skills, contribute to the successful performance of the production cycle should be better compensated.
4. **Exploiting the potential of the European Pillar of Social Rights and the European Semester.** In addition to the necessary legislative initiatives, the implementation of the EPSR through the Semester, based on the best use of the Social Scoreboard, can contribute to setting benchmarks and standards for upward wage convergence, including increasing the number of workers and employers

covered by collective agreements. Such benchmarks and standards should be based on the countries and sectors that better perform in terms of wage developments boosting productivity and addressing inequality. Social partners at all levels have a key role to play in this context.

5. **Building solidarity for sustainable growth through social dialogue.** Social partners are essential stakeholders in the reform process. Involvement of social partners should be timely and meaningful in the design, sequencing and implementation of reforms. Social dialogue, collective organisation and bargaining are also key to addressing the challenges posed by new forms of work.