POSITION PAPER
WAGE POLICY IN EUROPE

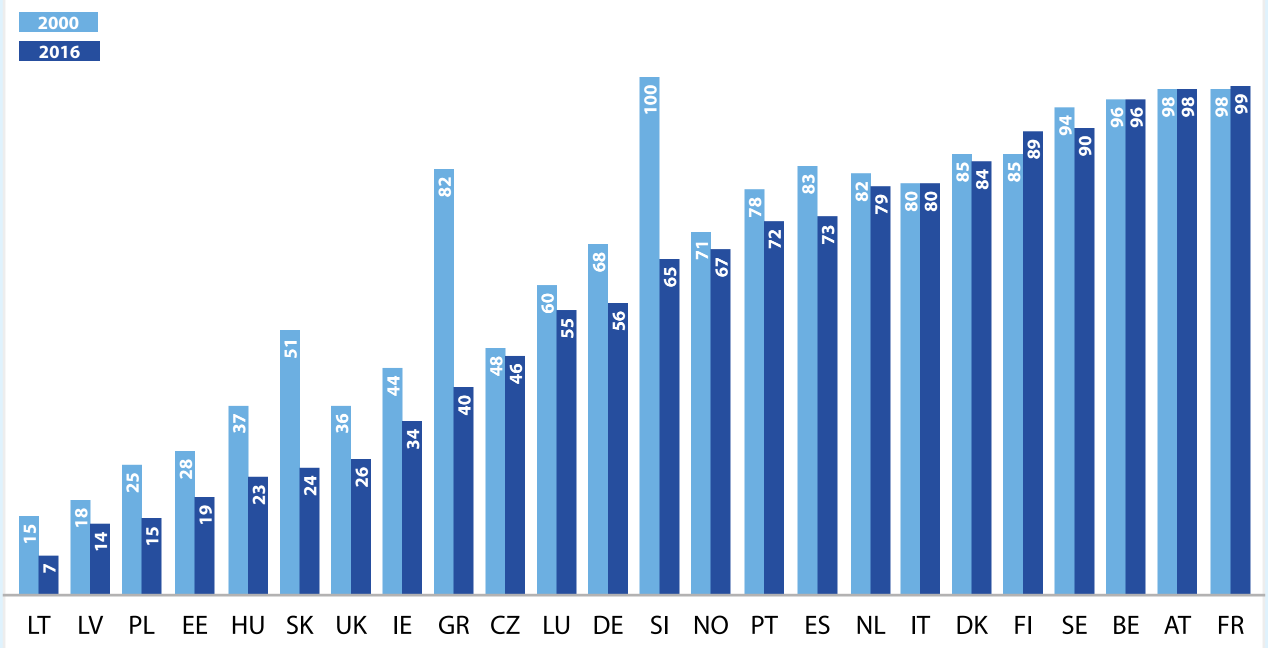
Europe has seen an unprecedented rise in inequality following the financial crisis. The recent recovery varies from country to country, but many countries still evince the negative impacts of the austerity measures imposed by neoliberal governments. Wages have not risen sufficiently, and real wages are lagging far behind productivity. In some countries, real wages have even dropped. East-west wage convergence stalled after the crisis and we even see a movement of de-convergence. The picture of European wages is thus rather bleak.

1. Changes to Wage Formation Systems

A trend of forced decentralisation of wage formation systems is emerging. This trend started with the Memoranda of Understanding (MOUs) imposed on the hardest-hit countries such as Greece and Portugal, which is now regarded as a standard tool to improve flexibility and competitiveness and is being applied in a range of countries.

As figure 1 shows, the general trend is that collective bargaining coverage is decreasing across Europe, which leaves an increasing number of workers without the benefits of being protected by a collective agreement and instead only enjoying the minimum rights defined in national legislation and EU law.

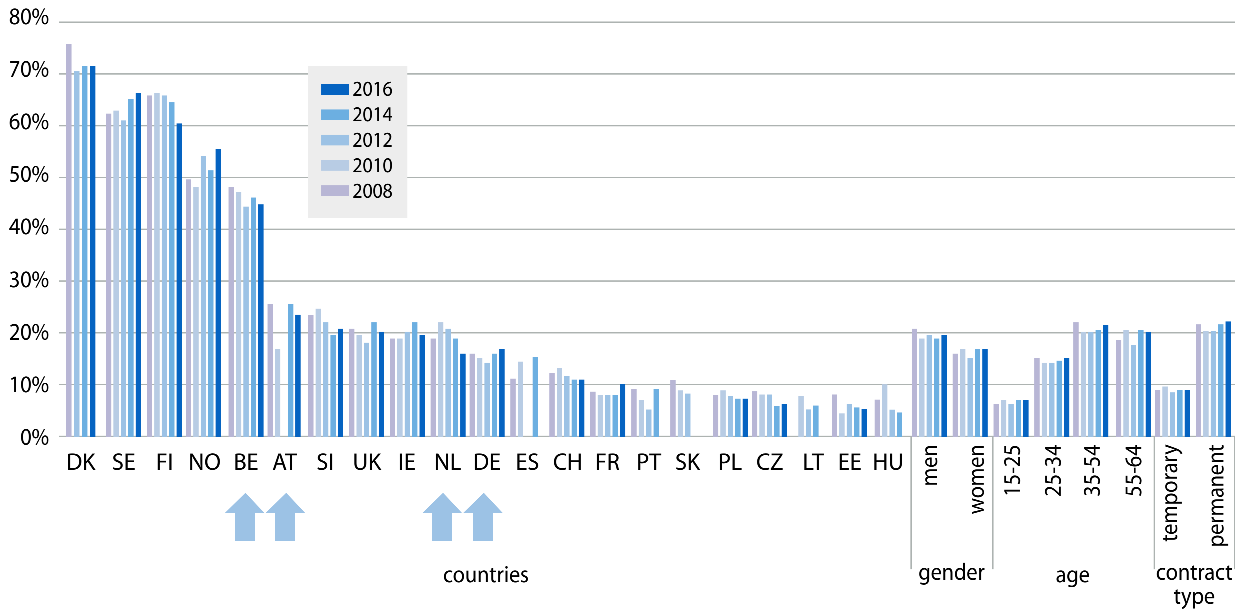
Figure 1 General Collective Bargaining Coverage Rate 2000/2016



Source: Dr. Torsten Müller, ETUI (presentation at IA-E CB Workshop 21-22 February 2018)

Figure 2 portrays another worrying trend connected to the changes in wage formation systems. Most countries have been experiencing a decrease in density since 2008 and, only a very few countries are recording growth. Furthermore, temporary workers have a very low trade union density and since this category of workers is increasing, it will exert a downward pressure on the overall density.

Figure 2 General Trade Union Density 2008/2010/2012/2014/2016



Source: Dr. Torsten Müller, ETUI (presentation at IA-E CB Workshop 21-22 February 2018)

2. Development of Wage Share

Wage share as a percentage of GDP used to be rather high in the western EU countries. In the sixties and seventies, this share ranged from 65% to 75% in Germany, Denmark, Spain, Italy and France. It was in the eighties that the share started to fall. However, developments differ from country to country. Several countries began a modest recovery after the crisis but not all EU countries have been able to deal with the wage share decline unfortunately.

In Italy and in Spain, the curve is still decreasing. It is in these countries that the crisis has negatively influenced collective bargaining mechanisms. Governments in some countries decided to dismantle collective bargaining and many provisions were implemented to weaken the power of social dialogue. Forced decentralisation of collective bargaining, suspension of the process of extension of sectoral and occupational collective agreements, or the possibility to opt out of applicable agreements, have all led to the weakening of trade union bargaining power. Some countries are still struggling with the consequences.

In some of the new Member States (e.g. Czech Republic and Slovakia), the wage share is still low in comparison with western and northern Europe. In other countries (e.g. Poland), the wage share was rather high in the past but has recently been declining. In the years post-crisis, the wage share in central Europe was permanently significantly lower than in Germany or Denmark. Experts have calculated that if the wage share in the Czech Republic was at the same level as the European average, wages in the Czech Republic would be 20% higher than they actually are.

3. Worldwide and European Inequalities

Inequality within the world's regions varies greatly. According to the 2018 World Inequality Report, the share of total national income accounted for by just the top 10% earners (top 10% income share) was 37% in Europe. This is somewhat lower than Russia, US, China etc. In recent decades, income inequality has increased in nearly all countries. In 2016, 22% of global income was received by the top 1% against 10 % for the bottom 50%.

In the period between 2006 and 2015, ordinary workers saw their incomes rise by an average of just 2% a year, while billionaire wealth rose by nearly 13% a year – almost six times faster. 82% of all growth in global wealth in 2017 went to the top 1%, while the bottom half of humanity saw no increase at all.

In Europe, many people are at risk of poverty, including in-work poverty. The working poor face significantly more social problems than the population as a whole. In-work poverty is associated with lower levels of subjective and mental well-being, problems with accommodation, as well as poorer relationships with others and feelings of social exclusion.

The increase in in-work poverty during the financial crisis has had a broad social impact and is not merely a statistical issue. In-work poverty is a significant problem across Europe that requires special attention from governments and social partners. One of the reasons for increasing in-work poverty is the permanent growth of precarious employment. People working in non-standard forms of employment (temporary contracts, involuntary part-time work or self-employed) are much more threatened by poverty or material deprivation.

4. The Gender Pay Gap

The average difference between remuneration of European women and men is 16.2% (Eurostat). Unequal pay has a negative impact on people's lives and significantly influences the standard of living of families and, as a final consequence, the functioning of the whole society. The economic independence of women is made harder due to unequal pay and women are also more threatened by poverty than men. This phenomenon can be seen not only during working life, but in retirement too, because gender inequality in remuneration is reflected in the different levels of pensions.

The gender pay gap varies across the EU, from less than 10% in Romania, Italy, Luxembourg, Belgium, Poland, Slovenia and Croatia to more than 20% in Estonia, the Czech Republic, Germany, the United Kingdom and Austria. Compared with 2011, the gender pay gap has dropped in most EU Member States. At EU level, the gender pay gap has decreased by 0.6 percentage points to 16.2% over these six years.

5. The North-South Pay Gap

The crisis has caused major problems in almost all European economies, but in some countries the impact was just enormous. This is especially the case of the south of Europe. The consequences of the crisis have been amplified by the imposition of severe austerity measures. These measures have also negatively affected national bargaining systems. Changes in labour laws, decentralisation of collective bargaining and other measures have dismantled functioning systems and have weakened trade union power.

Despite all the talk of economic recovery, working people in many large countries are still worse off than before the crisis. Working people in southern European countries earned less in 2017 than they did in 2010!

Table 1. Development of Real Wages 2010-2017

Country	2010-2017
Greece	-19.1%
Portugal	-8.3%
Spain	-4.4%
Italy	-4.3%

Source: ETUI

6. The Wage Gap between Eastern and Western Europe

Huge disparities between wages in eastern and western European countries are well documented. Differences in payments may be caused by different kinds of work, but the differences remain huge even when tasks appear to be very similar. We cannot generalise and say that workers from eastern European countries are less productive, thus their productivity is lower and therefore their wages are lower too. Many elements influence productivity in eastern European countries. Low productivity is often linked to the type of production and especially prices. In the vast majority of cases, moreover, the production volume per worker and the value of labour productivity in the East is not far from that of western Member States.

Also, it seems as if the strategy for many CEEC economies relies on high levels of foreign direct investment (FDI) attracted by relatively low wages. This can only fuel convergence up to a certain level but will not lead to full convergence. There is a tendency not to pay workers according to the actual value they produce in the CEEC countries since profits are being repatriated and multinational companies are reluctant to use CEECs as a base for the full range of their activities. Instead, they limit themselves to either outsourcing the part of their production chain that is least demanding in terms of labour skills, or the least profitable production, or they use CEECs as a supplementary production base. Thereby, the salaries of workers in Central and Eastern European countries do not benefit from the value-added innovation that normally takes place in the multinational enterprises' home countries. Research and development are normally not outsourced to eastern European countries.

The wage convergence of central European countries with Germany stalled in 2008. Between then and 2015, there has been a wage reduction vis-à-vis Germany of 6.8 percentage points in Hungary, 4.0 percentage points in the Czech Republic and 3.7 in Poland.

Unions need simple, understandable arguments for wage convergence in order to obtain the support of their members and to convince the employers. The table below illustrates how long it takes in selected countries for a machine operator to work in order to buy certain commodities.

How long does it take to earn money to buy				
Country	VW Polo	Samsung Galaxy J5	Draft Pilsner beer	Milk (1l)
Germany	6m 8d	17hrs 15min	19min	7min
Denmark in EUR (1)	8m 16d	15hrs 13min	21min	5min
Czech Republic	15m 12d	42hrs 33min	20min	10min
Slovakia	19m 14d	55hrs 49min	29min	14min
Hungary	22m 2d	52hrs 50min	36min	14min

Source: WageIndicator and own data collection

Trade unions in the Eastern Region have defined a three-step strategy:

1. Equal pay for equal work in the European workplace
2. Equal pay for equal work in multinational companies across the whole EU
3. Equal pay for equal work throughout the European Union.

Pay rise campaigns are taking place in some eastern European countries. For example, a campaign named "End of cheap labour" is being run in the Czech Republic and is giving positive results. The average wage in the Czech metal sector in 2017 increased by 7% in comparison with the same period of the previous year. A similar campaign has been launched in Slovakia.

An unskilled worker in the Czech Republic earns only 25% of the annual earnings of his/her colleague from Bavaria. Wage differences of this kind are frequently discussed in the Vienna Memorandum Group (a metal union network for Central and Eastern Europe). The view of the European situation regarding wages is not very optimistic. On the contrary, it represents a big challenge for trade unions. Workers need a pay rise and we have to tackle growing inequalities. The economy is breathing again and so it is crucial to take advantage of the situation and call for a pay rise. Wages throughout Europe need to grow to boost demand, to catch up with the reserves in productivity and reduce inequalities.

7. Wage Coordination in Manufacturing Industries

IndustriAll Europe's affiliates have agreed on a Wage Coordination Rule. It is a fundamental instrument to secure compensation for inflation and productivity and thus prevent a fall in the wage share of GDP. By following this rule in the different regions of Europe, trade unions can prevent workers from being played off against each other and avoid a race to the bottom.

However, since the crisis the rule has not functioned in accordance with the intention since the crisis. It now needs to be relaunched and actively promoted.

For countries in the East and South-East, mere compensation for inflation and productivity is not sufficient. They need substantial real wage increases beyond productivity growth because they are lagging so much behind western European countries.

8. Wage Policy Conclusions

IndustriAll Europe demands the following:

- Real wages must increase at least in line with productivity. Trade unions across Europe have a lot of catching up to do after a decade of moderate pay rises and reduced purchasing power.
- Wages must be bargained between autonomous and representative social partners at the level they find appropriate (company, sector, intersectoral, etc.). .
    - Relevant actors (government, companies, employers, etc.) must actively support or at least not hinder the establishing of trade union structures. Special restrictions for the smallest enterprises or overly strict requirements for representativeness are unacceptable.
- Forced decentralisation of collective bargaining must stop and be rolled back.
    - The undermining and weakening of collective bargaining structures through Country Specific Recommendations and other unwanted interference in the collective bargaining process must stop. Sectoral bargaining should be a right in all European countries.
- The use of wage levels as internal adjustment mechanisms must be rejected.
- Collective bargaining coverage level must increase.
    - Trade unions must recruit more members and pursue the establishment of collective agreements in sectors and companies with low coverage.
    - Companies must be encouraged to join employers' associations in order to be bound by collective agreements.
    - The ILO core conventions on the right to collective bargaining and freedom of association must be invoked in relation to relevant actors (for instance governments and companies with global framework agreements). The right to strike is an inseparable part of free collective bargaining.

- The Wage Coordination Rule must be fulfilled and more substantial increases demanded in eastern European countries in order to reverse the declining labour share.
- The EU and its Member States must lead the transformation of low-wage countries into innovation-led growth countries through massive investments in skills, education and research. Both domestic economic activity and FDI are necessary to foster higher wage levels.
- Statutory minimum wages, where they exist, must increase in order to protect workers against in-work poverty.