Pay in Europe in the 21st century: Pay outcomes and wage bargaining regimes

For over a decade now, Eurofound has been reporting annually on developments in collectively agreed pay across Europe.[1] Against the background of intensified discussions at European level within the European Semester on pay outcomes and wage-setting regimes, it is now an apt occasion to look back in time and bring more facts to the table.

Eurofound's report *Pay in Europe in the 21st century* seeks to contribute to the policy debate on wages by adding the dimension of collectively agreed pay to the picture, set in context to differences in wage bargaining regimes.

Collectively agreed pay is often neglected in discussions on pay developments: no harmonised data are available and data and knowledge gaps around how pay is set are persistent.

However, collectively agreed pay is an important driver of actual pay in many countries and it is the component of pay that can be most influenced by the actors involved.

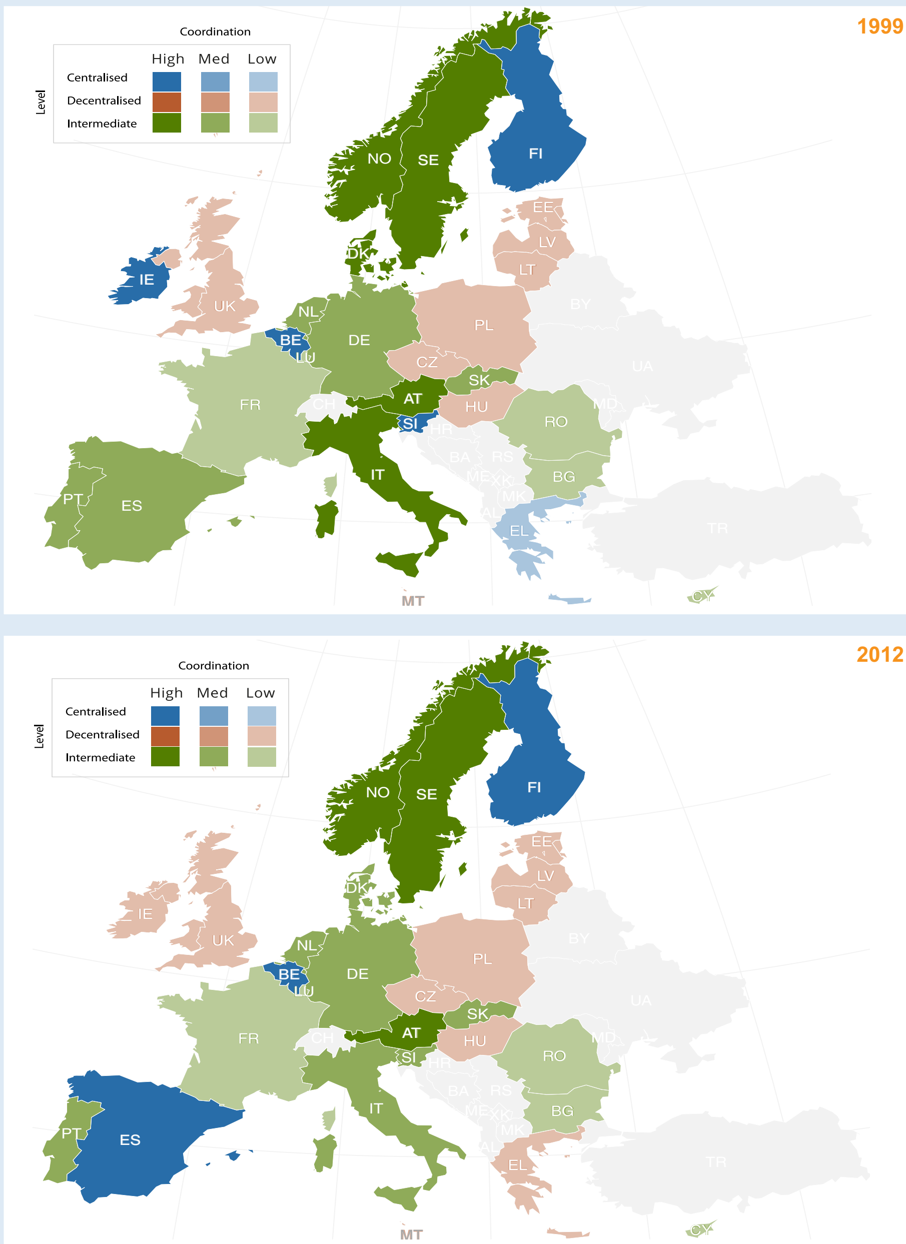
Eurofound's new online portal on collectively agreed pay summarises quantitative and qualitative information on pay outcomes in the 21st century.[2]

Pay outcomes across wage bargaining regimes

Despite an ongoing trend of more decentralised bargaining, wage bargaining regimes have remained quite stable across the EU since the turn of the millennium (Figure 2).

Data on actual and collectively agreed pay since 1998 showed no obvious links between pay outcomes and bargaining regimes (Figure 3). Similar bargaining regimes resulted in different pay outcomes and similar pay outcomes were associated with different bargaining regimes. On average, however, it seems that more highly coordinated bargaining regimes did generate more moderate pay outcomes than others. A more 'countercyclical' aspect of collectively agreed pay can also be observed. Collectively agreed pay – to a larger extent than actual compensation – seems to act as a kind of insurance for employees in times of crisis. It does not

***Figure 2*: Level of wage bargaining and degree of coordination**



Source: Based on Visser, ICTWSS 4.0, 2012 updated and partly modified by Eurofound.

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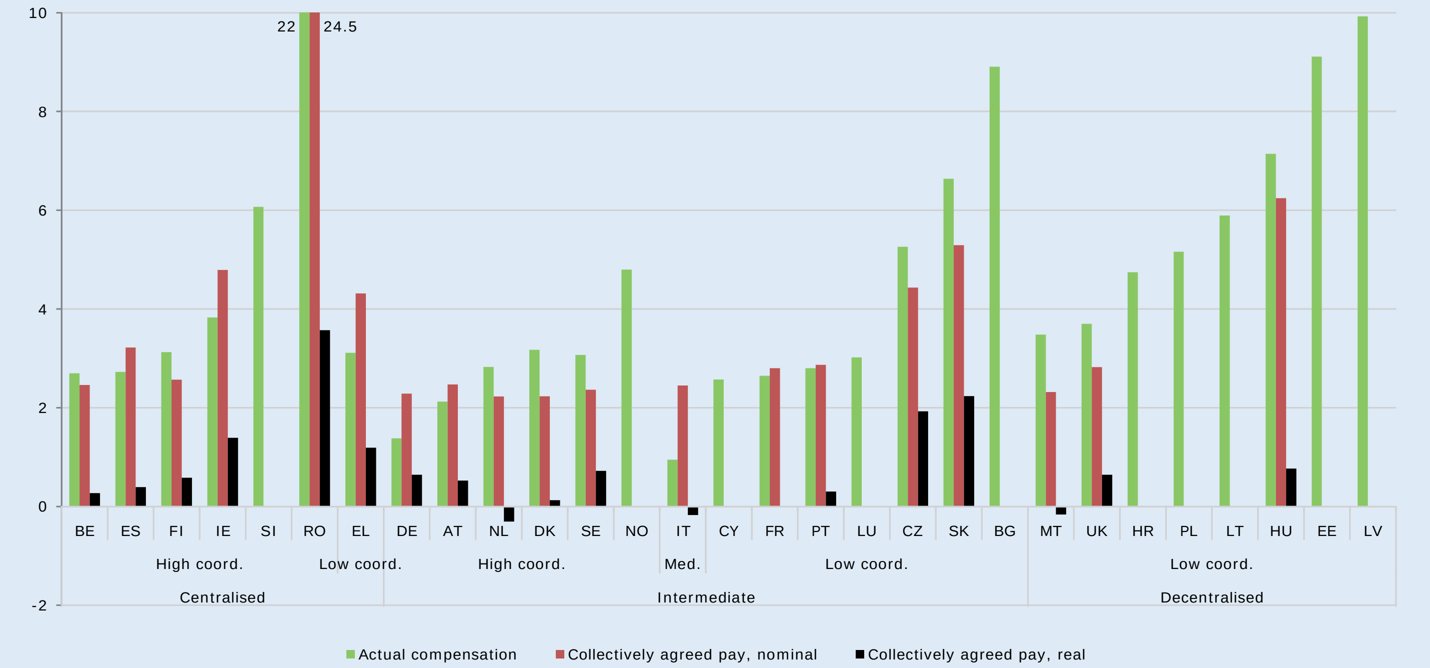
1 See Eurofound, EIRO (2013), *Developments in collectively agreed pay 2012*.

2 http://www.eurofound.europa.eu/eiro/cwb/

Figure 3: **Average annual growth rate of pay, 1998–2012 (%)**



Source: Annual maceconomic database of the European Commission (AMECO) (national accounts), various national sources for collectively agreed pay

follow entirely the ups and downs of fluctuations in output. Systems with more decentralised bargaining structures and lower bargaining coverage seem to have less of this insurance function for employees, leading to greater exposure of employees in terms of risks to wages (and jobs).

Wage drift: positive or negative trend?

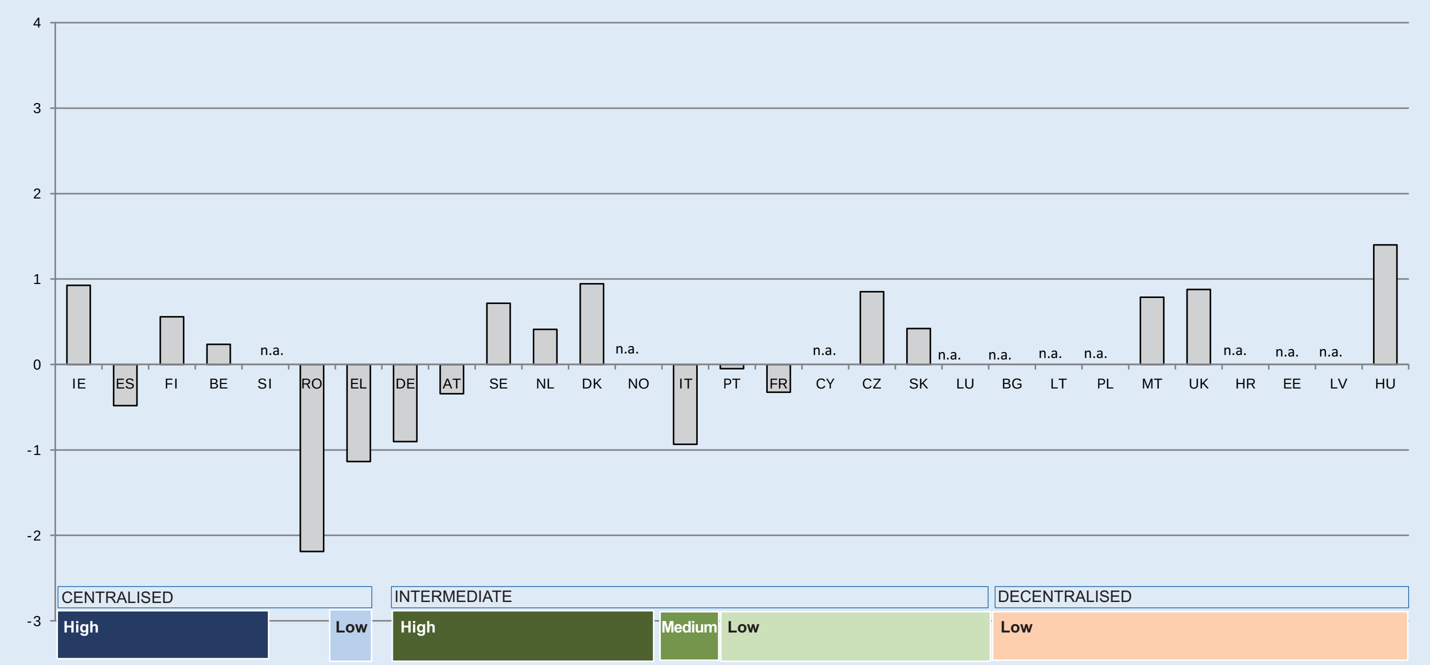
There are a number of reasons why collectively agreed wages might differ from actual compensation.

- Collectively agreed pay most likely refers to basic wages only, while actual wage bills include overtime payments, bonuses, stock options or other forms of variable pay.
- Companies might be willing to pay more than what has been collectively agreed.
- In countries where collective bargaining coverage is not high, the non-covered sector might end up paying different market wages per employee than the covered sector.
- The existence of derogation mechanisms could explain differences.

A negative wage drift means that collectively agreed pay rose more than actual compensation, while a positive wage drift means the opposite. In general, the wage drift is likely to be higher in times of boom and lower in times of crisis. In this sense, it is also sensitive to the choice of base year, or more generally the period covered.

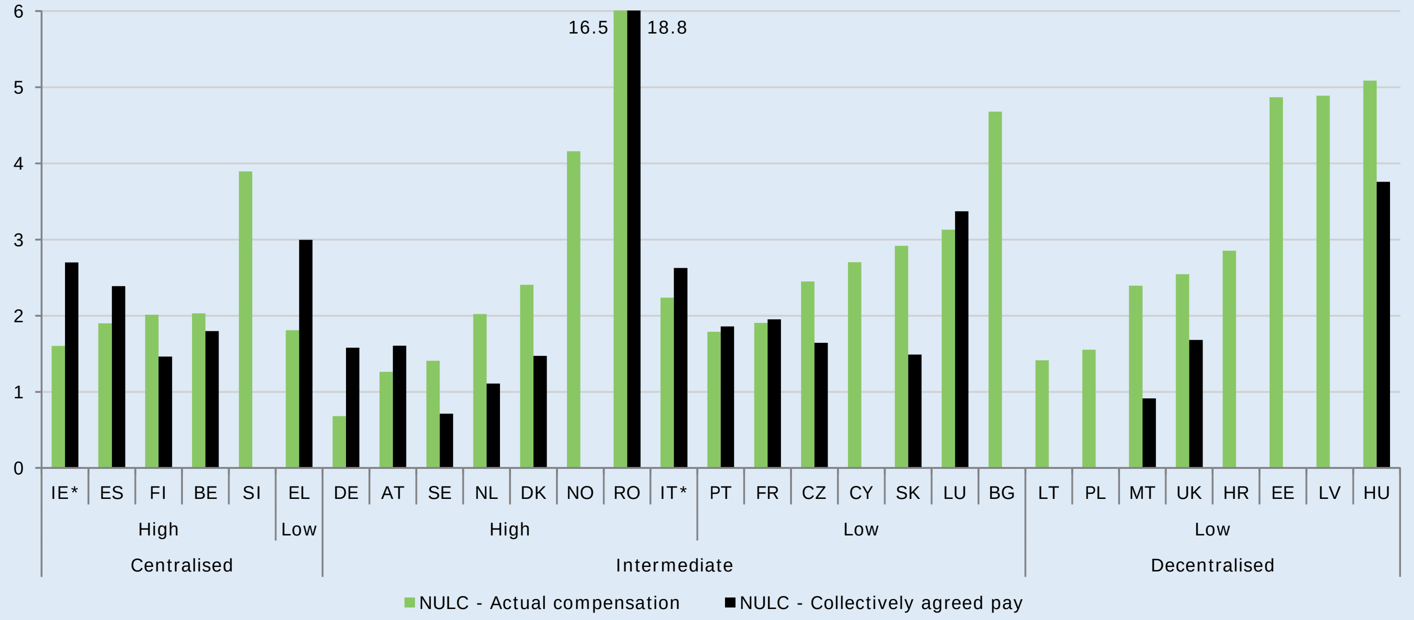
Figure 4 shows that the majority of countries with available data did

Figure 4: **Average increase of wage drift, 1999–2012 (percentage points)**



Source: AMECO, various national sources, Eurofound's own calculation.

Figure 5: **Average annual increase in nominal unit labour costs, 1999–2012 (%)**



*Note: * In countries for which shorter time series of collectively agreed pay are available, the annual average is reported for a shorter period of time.*
Sources: AMECO, various national sources, Eurofound's own calculation.

experience a positive wage drift over time: actual compensation grew faster than collectively agreed pay. Again, there is no clear link between the wage drift and bargaining regimes. In systems with a low degree of coordination, a positive wage drift is more often observed.

Wage-related competitiveness

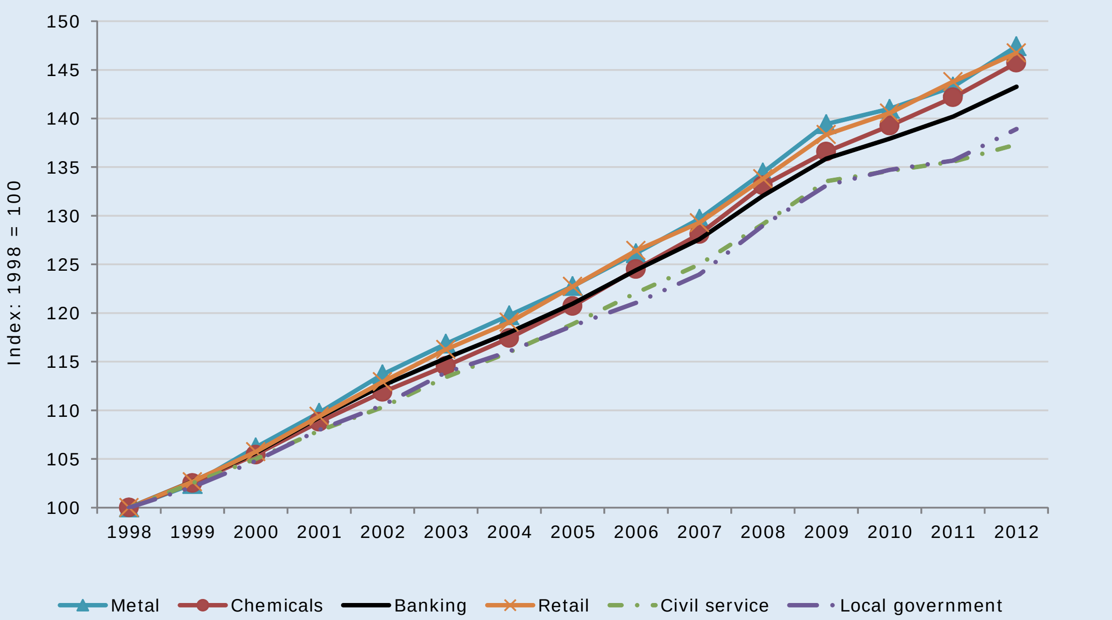
A number of Member States have received a recommendation for some time now to align wage growth more closely with labour productivity growth. The Macroeconomic Imbalance Procedure scoreboard monitors the development of nominal unit labour costs (NULC), which reflects the relationship between growth in wages and growth in labour productivity. If labour costs grow too high (wages growing faster than labour productivity), this is interpreted as a loss of a country's wage-related competitiveness.

Like many other studies, no clear link is evident between bargaining systems and NULC in the medium term. Yet there is some evidence that more coordinated bargaining regimes – where sectoral bargaining is the predominant level – showed the closest link between pay and productivity over the medium term (1999–2012) and hence the smallest loss of wage-related competitiveness (Figure 5).

Return to growth in some regimes

The study looked at yet another aspect of wages – the distributional side – in terms of real unit labour costs or the wage

Figure 6: **Average nominal collectively agreed pay, by sector, 1999–2012**



Source: AMECO, various national sources, Eurofound's own calculation.

share within the economy. While the overall trend was that of a declining wage share in most Member States, a return towards an increase could be seen in many countries in the period during and after the crisis. This is because wages do not fluctuate to the same extent as output over the business cycle.

While the commonly observed decline in the wage share was equally spread across all types of bargaining regimes, the return to growth mostly took place in non-decentralised regimes. However, this cannot be entirely separated from the fact that countries that were affected most by the crisis (and hence experienced the greatest wage cuts) did not see such a shift in trend.

Sectoral disparities in pay outcomes

The research showed that disparities in terms of pay have increased over time between sectors, particularly between the public sector (local governments and civil service) and the sectors illustrated in Figure 6.

This development had started before the crisis, but accelerated in the years following the recession.

Multivariate research framework

This report is only a modest beginning, highlighting the need for more research along these lines.

Eurofound intends to progress this research further by using a multivariate modelling framework to see whether the observed links (or lack of links) between wage bargaining regimes and pay outcomes persist, once other factors are taken into account and controlled for.

Such macrodata-based research should also look into the determinants of any wage drift, and examine to what extent this could be driven by different wage-setting regimes. More disaggregated approaches at the sectoral level could yield further insights.

In the medium and longer term, more harmonised data on collectively agreed pay could help advance the research.

Christine Aumayr-Pintar