EUROPEAN WAGE RECOMMENDATIONS: THE 2012 GOVERNANCE CYCLE

On 30th May, the Commission published a bundle of policy recommendations for member states to implement. This bundle contains both the 2012 country recommendations that are issued in the context of the EU 2020 strategy as well as policy advice from the in depth country review that is part of the new policy process on 'excessive macroeconomic imbalances'. The June European Council will be endorsing these Commission recommendations.

Both sets of policy advice also concern the specific domain of wages, wage formation systems and collective bargaining systems. The table attached to this note provides a detailed overview of the different wage recommendations issued for individual member states.

Based on this overview, following general points can be made.

- With 17 out of 27 member states receiving a recommendation on wage policy, wages and wage formation systems continue to be in the spotlight of European policy makers.
- The wage standards the Commission is putting forward continue to be based on the idea that wages are an instrument of economic adjustment and should become more flexible so as to regain competitiveness and revive job creation.
- In this context, the Commission systematically questions wage indexation systems and calls for a reform of such systems in those five member states where these still exist.
- Besides questioning systems of indexation, the other general line is to urge for a 'better' alignment of wages on productivity in many countries. Taken literally, this implies limiting wage dynamics to the evolution of productivity, while removing inflation as a determinant of wages. This is also the wage standard specific surplus countries have been following over the 2000-2008 period, with as a result, a stagnation or, even in some years, a fall in average real wages..
- Moreover, alignment of wages on productivity should not be seen only in the macroeconomic sense of the wording. This is also meant to include the micro dimension of more wage differentiation between workers so as to take account of differences in productivity at local and plant level. In other words, the Commission is openly arguing in favour of higher wage inequalities, as is done for example in the case of the recommendation for Sweden ('more wage flexibility especially at the lower end of the wage scale').
- The fact that member states in which wages have been stagnating over the past are not really being targeted , whereas member states in which wages have been somewhat more dynamic are being put on the operating table and are receiving very precise policy prescriptions, constitutes a negative bias. This bias works to promote a policy of downwards wage competition across Europe, thereby also potentially creating a deflationary bias for the economy.
- Not even minimum wages are excluded from this 'competitiveness' or 'flexibility' drive: France, Slovenia and Hungary receive specific

recommendations to control or avoid growth in minimum wages so as to improve competitiveness.

- Meanwhile, (and with the exception of the UK where the in-depth report goes into a discussion of retained business profits not being used for investment), the big absentee in the Commission documents is profits; indeed, increased profit rates are the other side of the coin of 'wage stagnation' and at least the question of how these increased profit margins are being used by business should be raised: Are they going into dividends, bonuses, capital pay outs or investments?
- Whereas the Commission does make sure that every recommendation on wage reform is accompanied by the standard reference that reform should be carried out in consultation with the social partners and that national systems need to be respected, the Commission's recommendations are very precise and detailed, in such a way that they boil down to a serious change in the balance and characteristics of some national wage formation system. There is a clear contradiction between what the Commission does (putting member states under high pressure to reform in a certain way) and what the Commission says it is doing (respecting national systems of wage bargaining).
- These wage policy recommendations are not always in line with the ideas on wages expressed in the Commission's employment package, with the latter text calling for 'real wage increases in line with productivity' and opening the discussion on minimum wages and symmetric wage policy (the latter also implying, besides wage depression in 'deficit' countries a more dynamic wage pattern in 'surplus' member states). On the other hand, the two Commission initiatives are consistent with the fact that minimum wages would need to be 'adaptable' and 'reflect overall economic developments as well as being 'differentiated so as to uphold labour demand'.
- Finally, it is to be noted that the Commission does not intend to mobilize the new powers it has received from the regulation on macroeconomic imbalances since not one single member state is being declared as finding itself in a situation of 'excessive' imbalances. It may be the case that the Commission's strategy is to use these new powers in a gradual way, as well as being concerned by the fact that actually sanctioning member states for not following up on wage recommendations may not be in line with the Treaty. Or it may be the case that the Commission is of the opinion that the existing pressure on member states coming from both the 2012 country recommendations as well as financial markets and the ECB is already sufficient enough to force governments into policies of deregulation, in particular, that of labour markets.

ANNEX

Country	**2012 recommendation**	**2011 recommendation**	**Commission evaluation of implementation of 2011 recommendation**	**In depth review Macro Imbalances**	**National Reform plan OR Euro plus Pact**
Belgium	Wages to reflect better productivity and competitiveness by ‘all-in’ indexation, ‘ex post’ wage correction mechanism, opt-out clauses (to reflect local level productivity)	Reform system of wage bargaining and wage indexation to better reflect productivity and competitiveness	Belgium did not implement the recommendation, no plans to reform wage formation system	Idem plus Reduce the weight of energy prices in the indexation system	Target real wage growth of 0.3-0.4% for 2011/2012. Keep ULC growth below trade partners. Latter target not met because of higher than expected inflation
Bulgaria		Wage growth should better reflect productivity and sustain competitiveness while paying attention to ongoing convergence	Partially implemented: Wage growth slowed down towards productivity growth. Public sector wage bill freeze for 2010-2012 period		
Cyprus	Reform system of wage indexation to improve competitiveness	Idem	Partially implemented. Two year freeze of COLA (in public sector) Social partners negotiate a reform, government undertook to reform by July 2012	Moderate wage growth because of unemployment and spill over from public sector freeze in indexation and seniority pay	
Denmark				Problem of competitiveness and exports seem to be	

				linked to relatively high wage growth and poor productivity growth performance. Reference to Productivity Commission and educational perform, not to wage reform	
Finland	Continue to align wage and productivity developments			The temporary increase in relative unit wage costs should be reversed over time. Reference to Tripartite Wage Agreement (Background: Hike in ULC's due to crisis in 2008 and 2009)	
France	Continue to ensure that any development in the minimum wage supports job creation and competitiveness	Ensure that any development in the minimum wage supports job creation	Partially implemented: Minimum wage has increased in line with inflation and the gap with the average wage has increased	Continue to contain the increase in the minimum wage	
Germany	Create the conditions for wages to grow in line with productivity				
Greece	No specific recommendations. Follow through of Troika programme				Minimum wage cut by 22% (32% for under 25 year olds). Any kind of wage increase is outlawed until unemployment falls

					below 10%. Firm level agreement takes precedence over other agreements as long as national agreement is not underbid. Worker associations (3/5ths of staff) can be set up easily and conclude firm level agreements. Maximum duration of three years for collective agreements, validity of three months afterwards and only on wages. Access to arbitration system only if employers allow agree
Hungary				Avoid further increases in the minimum wage and discourage excessive contractual wage growth	
Ireland	Follow through of Troika programme				Independent review of Employment Regulation Order published and amendment on Industrial Relations Bill published in Q1 2012

Italy	To boost competitiveness, strengthen link between wages at sector level and productivity through further improvements of the wage setting framework	Wage growth better reflect productivity as well as local and firm conditions, including clauses that allow firm level bargaining in this direction	Partially implemented. A social partner agreement allows firm level bargaining to derogate from labour law. Impact on collective bargaining depends on the behaviour of social partners	Uprating sector wage increase with national forecasts may have negative effects. Further action to ensure a better alignment with productivity developments in sectoral bargaining framework	
Luxembourg	Reform indexation system First step: Maintain current one year indexation interval beyond 2014, reduce impact of energy prices on index	Reform wage indexation system	Temporary limitations on indexation system between 2012 and 2015 are not enough, there should be permanent measures		
Malta	Take further steps to reform indexation system and limit the impact of import prices	Reform indexation system to ensure alignment with productivity and competitiveness	No implementation		
Portugal	See Troika programme				In Portuguese
Roumania	See Troika	Increase flexibility of collective bargaining system	New Labour Code has made collective bargaining more flexible		Elimination of national collective bargaining agreement
Slovenia	Wage growth, including minimum wages, to support job creation and competitiveness				Euro plus: Target ULC growth lower than in main trading partners; public sector wage restraint until 2012. Target not met but

					public wage restraint strengthened and extended.
Spain	Implement labour market reform	Comprehensive reform of bargaining system and indexation system to better reflect productivity and local and firm level conditions	Not yet clear whether reform is enough to address the challenge. Government needs to monitor whether social partners take opportunity to negotiate firm level trade offs. Indexation clause simply put on hold by social partners until 2014. Period of two years of validity after expiration of collective agreement is too long. Opt-out clauses hampered by possibility of arbitration.	System of ex post indexation has not been tackled	
Sweden	Encourage increased wage flexibility, notably at the lower end of the wage scale	Improve labour market access for youngsters and vulnerable groups	Political debate on how to increase flexibility at the lower end of the wage scale has been launched but this is not enough		
UK					