



# The Employment Committee

*The Support Team*

ADHOC/10/030511/EN

## **The role of wages in preventing and rectifying macro-economic imbalances and enhancing competitiveness Exchange of views with the social partners Steering note**

The Big recession and its impact on European national budgets have prompted an important debate on the sustainability of the Euro and the need for reinforced economic coordination at EU level. There is a wide consensus on the need to prevent macro-economic imbalances within the Euro zone which could endanger the monetary union.

Among labour market institutions influencing macroeconomic performance, wage bargaining institutions play an important role. Nominal wages and labour costs and their development in comparison with labour productivity across occupations and economic activities are generally seen as one of the main variables influencing competitiveness at national and EU levels.

Acknowledging the need to understand better the role of wages in influencing competitiveness and the macro-economic outlook, the March 2011 EPSCO Council<sup>1</sup> invited *'the Member States and the Commission, in cooperation with social partners at EU and national level, to examine how wage determination at national level can contribute to preventing and rectifying the macro-economic imbalances and enhancing competitiveness'*.

Also in March 2011, Heads of State and government of 23 Member States committed to the Euro Plus Pact in order to foster competitiveness, whereby Member States are called to *'review [...] the wage setting arrangements, and where necessary the degree of centralisation in the bargaining process, and the indexation mechanisms, while maintaining the autonomy of the social partners in the collective bargaining process'*.

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In the spirit of the new governance of the European Employment Strategy within the context of Europe 2020 and the European Semester<sup>2</sup>, EMCO is expected to examine employment policies and their potential impact on the macroeconomic situation and macroeconomic imbalances and report to the EPSCO Council in December. The surveillance of employment policies and their role vis-à-vis macro-economic imbalances should consider issues such as wage bargaining systems, wages and non-wage labour costs and evolution of unit labour costs vis-à-vis productivity.

The Committee will also explore possible ways of monitoring at EU level wage developments in each Member State on a regular basis. The meeting with social partners and the Committee's sub-groups is a first step in this process.

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<sup>1</sup> See Council Doc. 7397/11

<sup>2</sup> See Council Doc. 14478/10

The exchange of views with Social Partners should therefore aim at:

1. Understanding better the features of the different wage bargaining systems across the EU

Wage setting institutions vary widely between Member States, and reflect the diversity of national industrial relations, customs and practices. Wage bargaining stability, coverage and the degree of centralisation depend largely on the strengths and weaknesses of industrial relations actors (in particular employers' organisations); minimum wage setting institutions also interact with wage bargaining institutions<sup>3</sup>.

In many countries, there has been a trend towards decentralisation of wage-setting arrangements which accelerated during the crisis. Decentralisation has also facilitated the development of variable pay systems (currently half of EU workers have some form of variable pay).

- Are the features of wage setting mechanisms identified in the Commission note the most relevant?
- Which trends can you observe with regards to decentralisation of wage-setting arrangements, minimum wages, indexation and variable pay?
- How could wage bargaining systems be more responsive to the changing economic conditions? How could they help to strengthen and restore competitiveness?

2. Exploring possible cooperation and working methods between Member States, Commission and Social Partners to examine wage determination and their impact on macro-economic imbalances

The current dialogue at EU level between social partners, the Commission and Member States takes place in different formats and occasions: i) a Tripartite Social Summit precedes the Spring and Autumn Councils; ii) meeting with EPSCO representatives prior to each of the two informal Council meetings, typically in January and July each year; iii) the Macro Economic Dialogue (MED) with the Commission featuring ECFIN and EMPL Commissioners in the Spring and Autumn; iv) three meetings a year with EMCO.

Wage policies are already a subject of discussion in the framework of the MED.

Monitoring of wage trends should be discussed in order to avoid macroeconomic imbalances among EU MS. Examples of monitoring should be taken into consideration and reflected upon for an EU monitoring system.

The Euro Plus Pact states that progress to foster competitiveness will be assessed on the basis of wage and productivity developments. To assess whether wages are in line with productivity, unit labour costs will be monitored over a period of time for the economy as a whole and for each major sector. Nominal unit labour costs have also been suggested as an indicator of the scoreboard to monitor competitiveness and external imbalances

In view of monitoring the Europe 2020 employment guidelines, the Joint Assessment Framework agreed with EMCO and SPC also includes one policy area on wage setting mechanisms. The current list of main indicators to monitor developments in this area includes

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<sup>3</sup> See Commission discussion note ADHOC/11/030511/EN

real and nominal unit labour costs, compensation per employee and labour productivity growth.<sup>4</sup> The EMCO Indicators Group also wants to look further into wage and labour cost indicators, including on the adequacy of (minimum) wages and on wage distribution at its following meetings.

- What are the experiences of Member States and the social partners in examining and monitoring national wage and labour costs trends and their impact on competitiveness and macro-economic imbalances?
- What are the main indicators used? To what extent is nominal unit labour cost a useful indicator? Should it be supplemented with other indicators?
- In which format could an– examination of national wage trends take place at EU level? Could a system– of monitoring and coordination of wage trends be reflected upon? Which conditions should be fulfilled at EU level?

### 3. Taking stock of the current undertakings with respect to wage formation in countries with a Memorandum of Understanding (MoU) with the Commission and IMF

Some Member States have already made specific commitments within Joint Commission/IMF agreed MoU on aspects of wage formation. Some of these specifically involve the Social Partners.

#### **Greece**

In 2010, Greece agreed that private sector wages need to become more flexible to allow cost moderation for an extended period of time in line with the lowering of public sector wages. Following consultation with social partners and within the frame of EU law, the government will reform the legal framework for wage bargaining in the private sector, including by eliminating asymmetry in arbitration. The government will adopt legislation for minimum entry level wages in order to promote employment creation for groups at risk such as the young and long-term unemployed.

#### **Ireland**

In 2010 the government committed to reform the benefits system and legislate to reform the national minimum wage, in order to reduce long-term unemployment and to facilitate re-adjustment in the labour market.

#### **Romania**

In Romania a major pension reform was approved to increase retirement ages, move indexation from wages to inflation, and reduce incentives for early retirement, while continuing to build the second pension pillar. The government almost completed a package of labour reforms to improve labour flexibility, increase labour force participation, and enhancing the representativeness of collective bargaining while making the wage-setting

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<sup>4</sup> For an overview of wage and labour cost indicators used in the previous EMCO Indicators Compendium, as well as the LIME Assessment Framework (LAF) see doc. INDIC/06/150211/EN.

process more flexible and allow for a better orientation of wage growth on productivity developments.

### **Latvia**

In 2009 the government committed to review the new public-sector wage grid to minimize discrepancies in pay between similar positions and skill levels across institutions by narrowing salary ranges for specific grades.

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| <ul style="list-style-type: none"><li>– How could social partners be involved in the preparation and implementation of the MoUs in the area of wage setting, taking account of their autonomy in the collective bargaining process?</li></ul> |
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This first exchange with social partners will be followed with another meeting in the autumn once the Committee has prepared a draft of its report to EPSCO. In the meantime the Committee and its sub-groups (on 26 of May and 8 of June) will analyse how wages are evolving in the EU in relation to productivity trends and advance the discussion on appropriate indicators based on further Commission input.