

## 5. WAGE DEVELOPMENTS

At the ETUC Congress in Seville in 2007, wage developments in Europe were among the most debated issues. One of the key problems highlighted in this respect was the need to achieve fairer wages. After many years of wage moderation in most countries in Europe, it is high time that productivity increases are reflected in real wage growth, thereby awarding workers their fair share of economic growth. Furthermore, continuing wage differences between rich and poor, between men and women, as well as between countries, were highlighted as problems that negatively affect both society and the economy in Europe.

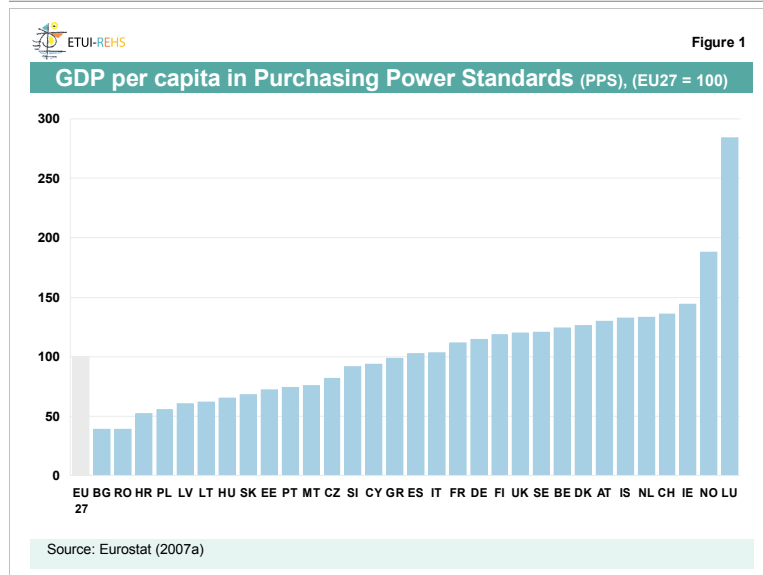
To shed more light on these challenges, this chapter will present recent data concerning wages and income in Europe.

### Themes

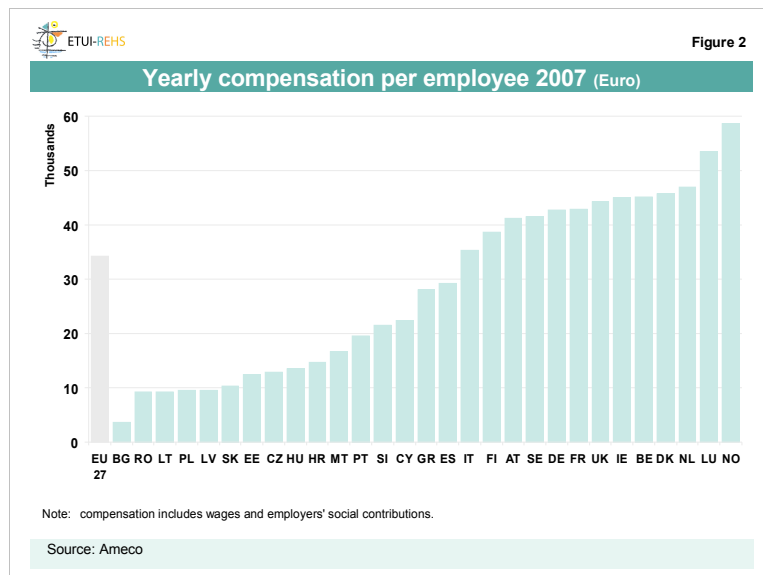
- 5.1. Income and wages in Europe
- 5.2. Wages, productivity and the wage share
- 5.3. Working poverty and minimum wage
- 5.4. The gender pay gap
- 5.5. Conclusions

## 5.1. INCOME AND WAGES IN EUROPE

### MAJOR DIFFERENCES AND SLOW CONVERGENCE BETWEEN EUROPEAN COUNTRIES



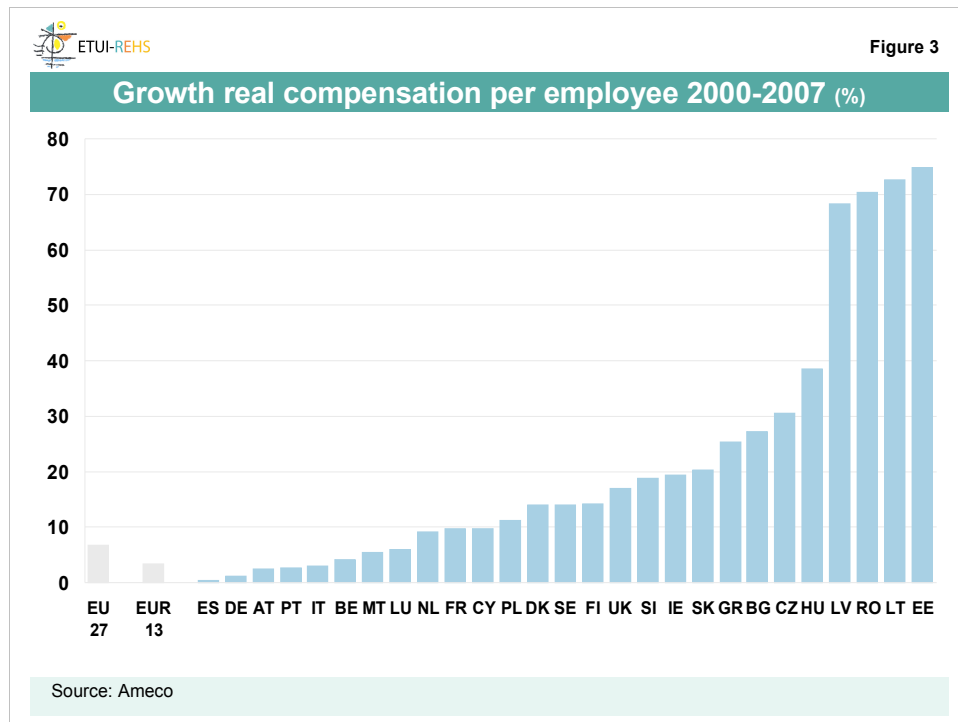
The first aspect to highlight here relates to the continuing strong differences between the countries of Europe in terms of income and purchasing power. Figure 1 presents GDP per capita corrected for purchasing power as an indicator for income. On the one hand, four countries remain below 60% of the average income for the EU27, which could be considered the relative poverty line: Bulgaria and Romania, the newest EU members, are just below 40% of this average, while Croatia stands at 52% and Poland at 55%. On the other hand, six countries – Iceland, the Netherlands, Switzerland, Ireland, Norway and Luxembourg – are more than 30% above the EU average. In recent years, however, there has been some degree of convergence, albeit slow, following high growth especially in the new member states. Accordingly, Cyprus, Slovenia, the Czech Republic and Malta are now above 75% of the EU average and each of these four countries outperforms one of the old members, namely, Portugal.



Similar differences can be observed for compensation of employees (which includes wages and salaries and employers' social contributions) expressed in euro (Figure 2). Average yearly compensation per employee ranges from 3410€ in Bulgaria to 58710€ in Norway. Generally speaking, compensation in the new members (NMS) is lower than in the old ones; yet in Portugal, for example, compensation is lower than in Slovenia. Among all EU members, compensation is highest in the Netherlands, Denmark, Belgium and Ireland, and in all these four countries it is some three or four times higher than in most of the NMS.

## 5.1. INCOME AND WAGES IN EUROPE

### MAJOR DIFFERENCES AND SLOW CONVERGENCE BETWEEN EUROPEAN COUNTRIES



On overall average, there has been very limited real growth of compensation in the EU27 in the last seven years: between 2000 and 2007, real compensation increased by only 6.7%, or less than one percent per year. However, major growth differences prevail. Most noticeably, compensation growth has been absolutely minimal in the low-growth Euro area, amounting to a meagre 3.3% in 2000-2007 or less than half a percent per year. The Euro-area countries are clearly the worst performers in this respect and especially in Spain, Germany, Austria and Italy it is possible to speak of stagnation. Of the Euro countries, only Slovenia, Ireland and Greece have seen substantial real wage growth in this period. A number of the NMS, on the other hand, have seen very high real compensation growth in the last seven years. In the Baltic countries and Romania this has been around 70% and in Hungary and the Czech Republic it exceeded 30%. As a result of these developments, and although absolute wage differences in Europe remain high, there is some slow degree of convergence.

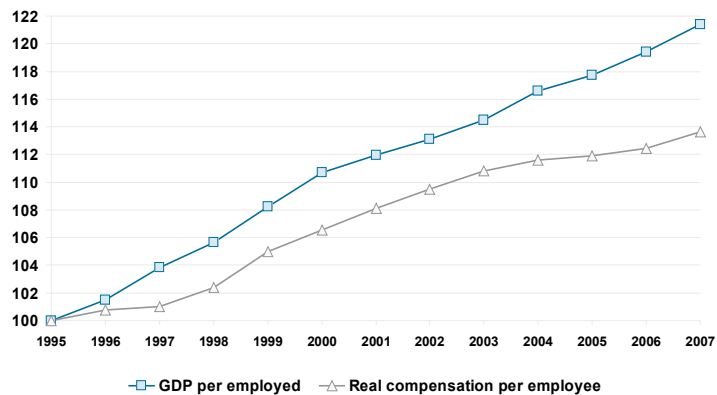
## 5.2. WAGES, PRODUCTIVITY AND THE WAGE SHARE

### A CONTINUOUS SHIFT OF INCOME FROM LABOUR TO CAPITAL



Figure 4

#### GDP per employed and real compensation per employee, EU27 (1995=100)



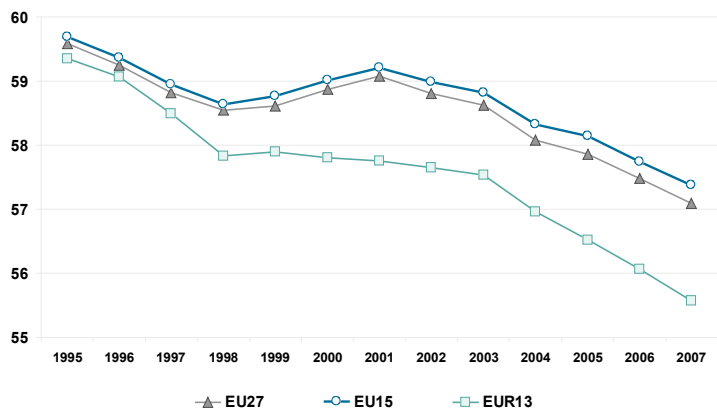
Source: Ameco

In spite of different levels of wage growth, a common characteristic of most EU countries is that wage moderation prevails and that real wage growth remains behind productivity growth. Figure 4 demonstrates this by showing that since 1995 GDP per employed person has grown faster than compensation per employee. Indeed, improvements in productivity have been greater than the growth in compensation. What is also important to notice is that divergence between these two sets of figures has increased since the start of EMU in 2002 and the enlargement of the EU in 2004. Both these factors have served to exert pressure for greater wage moderation.



Figure 5

#### Adjusted wage share 1995-2007 (% GDP)



Source: Ameco

Figure 5 shows the same development in a different manner. It shows how the wage share in GDP declined in the EU27 in 1995-2007, from 59.6% to 57.1%. Again this decline has been stronger for the Euro area where it fell from 59.4% to 55.8%. And here too the decline accelerated in recent years following the start of EMU and the enlargement of the EU.

## 5.2. WAGES, PRODUCTIVITY AND THE WAGE SHARE

### A CONTINUOUS SHIFT OF INCOME FROM LABOUR TO CAPITAL

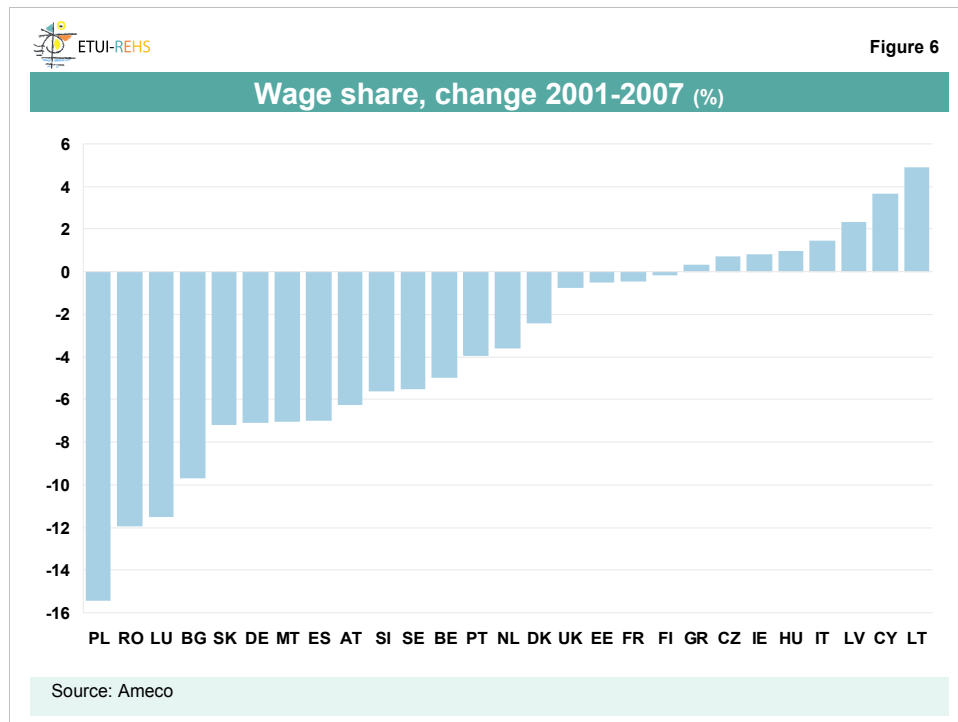
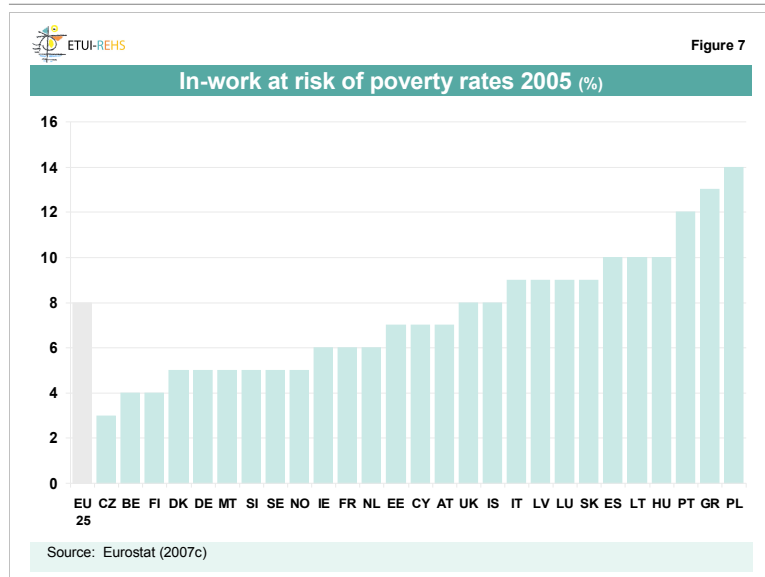


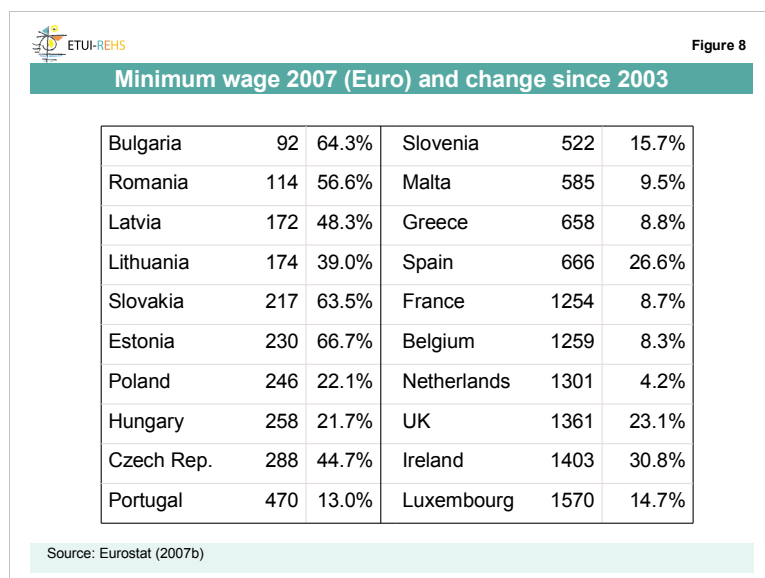
Figure 6 shows the development of the wage share per country since 2001. In 19 countries this share has declined since 2001, while in only eight countries has it increased. What is more, the declines have been much more substantial than the increases. The wage share declined in these six years by more than 10% in Poland, Romania and Luxembourg, while substantial declines can also be observed for Germany, Slovakia and Spain. Where increases in the wage share are concerned, only in Cyprus and Lithuania has the increase been greater than 3% in this period. It should also be noted that in Italy the small increase in the wage share is most likely a result of falling productivity rates rather than increasing real wage growth. In addition, it should be noted that some of the capital income gains may benefit workers through e.g. returns on pension funds, or can be explained by wage moderation compensated by employers' contributions to pension plans.

## 5.3. WORKING POVERTY AND MINIMUM WAGE

### WORKING POVERTY REMAINS SUBSTANTIAL



A further issue where wages is concerned is the extent to which they manage to provide families with sufficient income to stay out of poverty. As shown in Figure 7, in the EU25, 8% of people who are employed are also classified as poor, according to Eurostat definitions. This means that their wages, together with any other sources of income available to the household, are not sufficient to keep them and the other members of their household out of poverty (with poverty here referring to an income below 60% of the median national equivalised income). This problem is especially important – i.e. affecting 10% or more of employed persons – in Portugal, Spain, Greece, Poland, Lithuania and Hungary. By contrast, working poverty is particularly low (i.e. below 5%) in the Czech Republic, Belgium, and Finland.



One instrument that can help to avoid low pay is the minimum wage. Figure 8 shows that there are major differences in minimum wages across Europe among those countries that have a statutory minimum wage. In 2007 the monthly minimum varied from 92€ in Bulgaria and 114€ in Romania to 1403€ in Ireland and 1570€ in Luxembourg. While correction for purchasing power reduces these differences somewhat, they nonetheless remain high. Since 2003, the minimum wage has, however, been growing at very different rates. High growth can be observed especially in the new members but also in Spain, Ireland and the UK. In the latter country, for example, the introduction of the minimum wage in 2000 has led to decreasing wage inequality. Elsewhere, especially in the Netherlands but also in Belgium, France and Greece, the minimum wage has been growing hardly at all, thereby running the risk of gradually losing its function of setting a floor on the labour market and serving as an instrument to promote wage equality.

## 5.4. THE GENDER PAY GAP

### LITTLE PROGRESS IN CLOSING THE GENDER PAY GAP



The gap between the wages of men and women (working more than 15 hours per week) declined, in the period 2001-2005, by one percentage point, from 16% to 15% (Figure 9). In most EU countries a decline could be observed, in some cases quite a substantial one: in Hungary and Greece, for example, the gap decreased by 9 percentage points and in Ireland by 8 percentage points. At the same time, however, in six of the EU25 countries the gender pay gap increased over this period, if only slightly: it grew by 2 percentage points in Denmark and Finland and by one percentage point in Germany, Italy, Latvia and Slovakia. As such, overall improvements in reducing the gender pay gap, a major political goal voiced around Europe by both governments and trade unions, remain slow, and in some countries the progress is actually negative.

Four main conclusions can be drawn from the data presented above. The first is that major income and wage differences continue to prevail in Europe, though these differences are very slowly diminishing. In any case, they represent a serious obstacle to social cohesion in Europe, and also constitute a potentially important driver of relocation processes, as well as an argument on the part of employers in high-wage countries to use the threat of relocation to argue for wage moderation and other concessions.

Secondly, across Europe, wage moderation rules and real wage increases lag behind productivity increases, leading to a continuous shift of income from labour to capital. Very few countries escape this trend, which has accelerated since the start of EMU and the enlargement of the EU.

Thirdly, working poverty remains substantial in the EU, and especially in a number of the Mediterranean countries and new member states. One reason for this is that in many countries the minimum wage remains low, notwithstanding the fact that in most of them it has been increasing substantially in recent years.

Finally, the gender pay gap continues to be significant and little progress has been made in closing it, in spite of lip service from all relevant actors.

The ETUC, at its recent Congress in Seville, called for a number of actions to deal with these problems. One is a more intense coordination of collective bargaining among European countries to dampen regime competition, deal with the increased power and mobility of capital, and guarantee a fair income and increases in wages in line with productivity. Such coordination might include common guidelines and common demands, as well as minimum norms. It can also take the shape of transnational collective bargaining or more intense cross-border cooperation. The ETUC also proposed to explore the scope for united campaigns conducted at European level to achieve common standards on minimum pay and income, and it wishes to support minimum wage campaigns at the national level. Finally, collective bargaining should set clear targets to deal with wage gaps and, in particular, should focus on the mainstreaming of gender equality.