EUROPEAN WAGE RECOMMENDATIONS:
THE 2013 GOVERNANCE CYCLE

General observations

- Wages are once again a central part of the European Semester. Eight Member States have received a recommendation on wages and/or wage setting systems. On top of that, there are 4 countries under a Troika programme where wage interventions are part and parcel of the adjustment programme. In addition, Austria and Hungary have been told to reduce the tax burden on low wages.

- In almost all cases, the Commission's recommendations are geared towards interventions and reforms that promote downwards wage flexibility.

- In this set of country cases that have received negative wage recommendations, the general line is that, on the one hand, the Commission is satisfied with the reforms of wage formation systems that have already been undertaken but that on the other hand it is insisting on continuing, deepening or at least 'monitoring' these reforms.

- This concerns wage indexation systems in Belgium and Luxembourg. In addition, the fact that central agreements in Italy are being negotiated on a wage increase in line with inflation for all workers in the sector (even if prices of imported energy are now excluded) is being disapproved of by the Commission since it prevents individual companies from enjoying downwards wage flexibility.

- In the case of France and Slovenia, minimum wages are the other wage formation institution the Commission is targeting. France is said to have a high minimum wage – 60% of the medium wage – preventing downwards adjustment. In Slovenia, where the minimum wage was hiked substantially in 2010, the Commission's texts are formulated in very strict language on the compression of the wage distribution and on the automatic nature of regular minimum wage increases.

- In Spain, where unit labour costs have turned the corner but are not yet falling as rapidly as the Commission would wish for, the Commission insists on evaluating the reforms by July and present amendments by September if necessary, in other words to go for possibly even more deregulation.

- There are explicit calls to Denmark and Finland to have low and moderate wage developments in future collective bargaining agreements. For Finland, the Commission warns them about a repeat of the 2007 coordinated bargaining round where one sector after the other based itself on one central sector agreement.

- The one exception is Germany where attention is being paid to the positive role of wages in supporting domestic demand. However, to achieve this aim, the Commission explicitly refers to reducing taxes and social security contributions for low wage earners but not to wage setting as such. Minimum wages do get mentioned but are being downplayed by saying that wage floors would be positive only if they do not lead to significant job losses

- We know that the ECB is pushing for a wage standard by which nominal wages are to follow productivity and not compensate for inflation. This narrow wage standard has been taken up by the European Semester but there are also contradictions. For example, Belgium is explicitly told to prevent a future decoupling of nominal wage evolutions and productivity developments (which amounts to a de facto abolishing of indexation). On the other hand, the Finnish CSR refers to aligning real wages with productivity. However, the latter once again contradicts the indepth review of Finland itself, condemning the fact that wages are expected to outpace productivity in the next years, thus increasing nominal unit wage costs.

- There is no repeat of the recommendation to increase wage inequalities in Sweden, where, last year, the Commission had to retract this sort of recommendation. Instead there's language on 'measures' to improve labour demand for special groups.

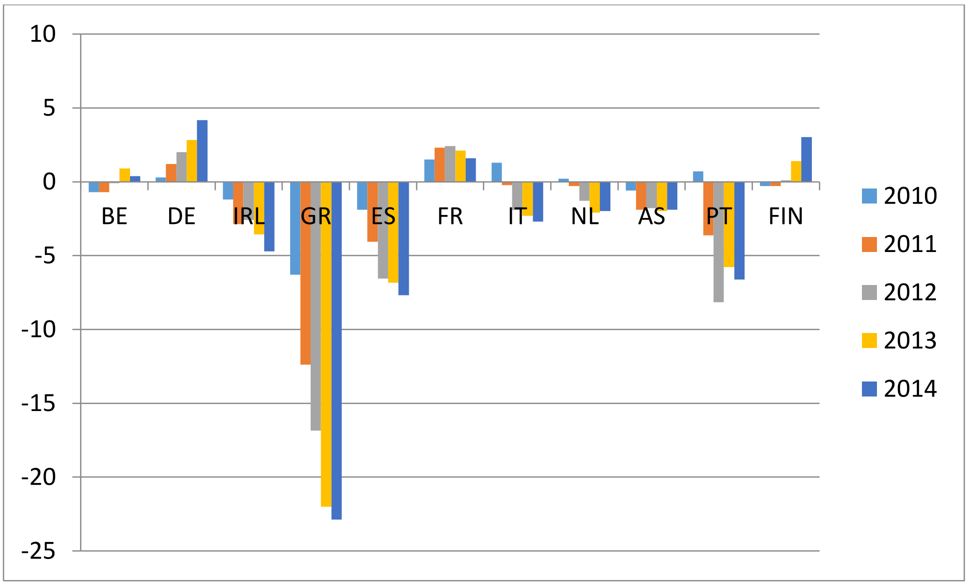
Wages as the main instrument of adjustment: A doubtful approach

The main idea behind the way wages are being approached in the CSRs and the European Semester is that wages are to become the main instrument of adjustment. Whatever the challenge, whether this concerns addressing current account deficits, rebalancing the Euro Area, cost or non-price competitiveness, uneven unemployment rates between regions or categories of workers, skills mismatches between companies, wage flexibility is always the formal policy reply.

This approach has already lead to successive years of real wage falls or stagnation since 2009 for the entire Euro Area on average. However, these Euro Area average figures hide the fact that real wages have fallen quite significantly in a number of Member States. In 2012 for example, Greece and Portugal registered a fall of around 5%, whereas real wages have fallen by around 2% in Spain and Italy.

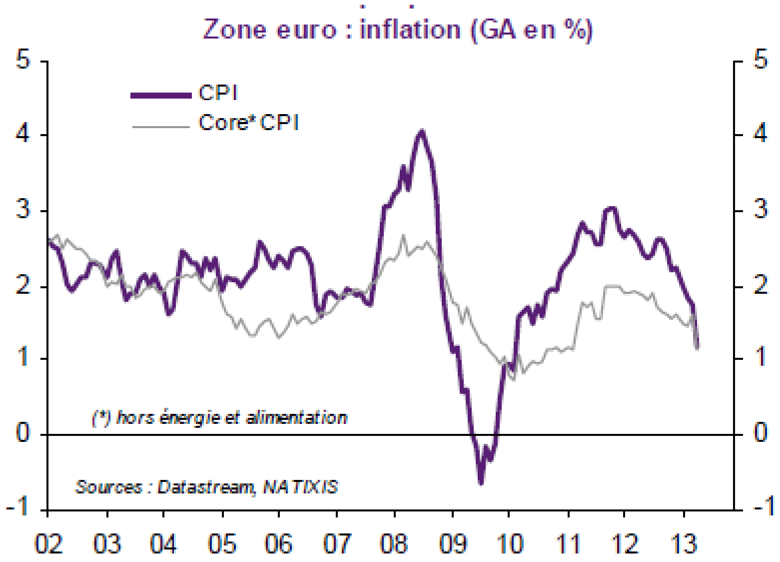
Moreover, these falls in real wages add up, year after year. In Greece and Spain real wages have now fallen for five years in a row. In Italy and Ireland real wages will have been going down over a period of four years. If we start counting from 2009 on and until 2014, real wages per worker will have gone down by 22% in Greece, 7% in Spain and Portugal, 5% in Ireland and 2 to 3% in Austria, the Netherlands and Italy (see graph). In fact, real wage increases in the Euro Area over the past few years have been limited to just two countries: Germany and Finland.

Compounded evolution of real wages since 2009



In other words, a competitive wage policy is now being implemented across a major part of the Euro Area (with the exception of Germany). Such a policy of simultaneous wage cuts will result in a situation in which competitive gains cancel each other out and where the regressive effect of wage cuts on domestic demand will dominate and lead to recession or seriously depressed growth.

A related concern is coming from the inflation front, with headline inflation in the Euro Area rapidly falling from 2% in January down to 1.2% in April. Such a low inflation rate is way below the ECB's official target of price stability ('below but close to 2% inflation') and once again testifies to the fact that wage deregulation combined with fiscal austerity have substantially weakened the Euro Area's economy. The risk here is that, if there were a negative shock or if wage depression were to continue and intensify, low inflation would tip over into outright deflation, a phenomenon that is hard to correct once it has established itself.



To conclude: The whole point of having a European level policy approach such as the European Semester is to check whether 27/17 different national economic policies are consistent with each other. Instead, the European Semester approaches Member States in an individual way, presuming that the sum of all the individual parts will be the effective outcome for the whole of Europe. In that way, it is not the Europe of cooperation but the Europe of 'competition states' that is being promoted.

ANNEX: OVERVIEW TABLE

Country	2013 recommendation	2012 recommendation	Commission evaluation of 2012 implementation	In depth review Macro imbalances
Austria	Reduce tax and social burden on labour for low wage earners			
Belgium	Continue with ongoing efforts to reform wage indexation, ensure wage setting responds to productivity developments and reflects local differences in productivity and labour market conditions , automatic ex post corrections	"All in' indexation, 'ex post' wage corrections, opt out clauses to reflect local productivity)	The effectiveness of several measures addressing labour costs still needs to be established. Decisive reforms are called for, including not just addressing past hikes in unit labour costs but a thorough modernisation of the wage-setting system in order to prevent any future decoupling of nominal wage evolutions from productivity developments.	Idem plus take past wage developments into account in wage norm
Bulgaria				Unit labour costs under control but without reforms ULC growth may become excessive again

Cyprus	Under Troika programme	Reform wage indexation system	Indexation suspended in public sector, negotiations to do this in private sector as well, longer term: limit indexation to 50% of inflation, automatic suspension in economic crisis	
Denmark				Wage developments need to be moderate Correcting accumulated wage competitiveness gap requires low wage growth/high productivity growth for some time to come
Finland	Align REAL wages with productivity in current low growth environment	Continue to align wage and productivity developments	Agreement between social partners on wages should take due account of competitiveness	Wages expected to outpace productivity in 2013 and 2014, thus increasing nominal unit labour costs. Next agreement to aim for lower wage growth in line with productivity. Sectoral agreements instead of one central agreement (No ??replay of the 2007 coordinated

				bargaining round)
France	Take further action to reduce employer social security contributions. Ensure developments in the minimum wage support job creation and competitiveness, taking wage supports schemes and social contributions exemptions into account	Ensure that any development in the minimum wage supports jobs and competitiveness	Substantial increase in labour costs over last ten years including a real increase in the minimum wage of 16%. Tax credit on payroll will influence competitiveness in a limited way (manufacturing will not benefit primarily, firms will first restore their financial situation)	High minimum wage (60% of median) prevents downwards adjustments while its indexation formulae may led to average wage pressure. Profitability of firms among the lowest in Europe, hinders non price competitiveness. . Wage developments need to be looked at closely to avoid further erosion. January 2013 social partner agreements positive but needs to be complemented to enable firms to redress their competitive edge, in particular over Spain and Italy where labour costs have been reduced and significant reforms undertaken.
Germany	Sustain conditions that enable wage	Create the conditions for wages to grow in	Real wages have increased more strongly	

	growth to support domestic demand. To this purpose, reduce high taxes and social security contributions, especially for low wage earners	line with productivity	than productivity since the crisis. Wage floors would have a positive impact on overall income of workers only if they do not lead to significant job losses.	
Greece	Under Troika programme		Extensive labour market reforms introduced in 2012 are delivering results in terms of wage flexibility and improved competitiveness but need to be complemented with measures to promote employment, including by making Greece a better place to invest.	
Hungary	Alleviate tax burden on low wage earners			
Ireland	Under Troika programme		Earlier loss of competitiveness has been erased by a mix of wage moderation and productivity increases	
Italy	Ensure implementation of wage setting reforms to allow		Lacklustre productivity not reflected in wages over past	Wages still not sufficiently responsive to productivity

	better alignment of wages with productivity		ten years; adjustment in wage setting along lines of social partner agreement are thus required	developments, promote shift in wage bargaining towards company level. Low share of company level agreements, especially in the South
Luxembourg	Beyond the current freeze, take further structural measures, to reform the wage setting system, including wage indexation, to improve its responsiveness to productivity and sectoral developments and labour market conditions and foster competitiveness.	Reform indexation by indexing only one a year and reduce impact of energy prices	Nominal unit wage costs increased by 16% between 2008 and 2012, two times faster than neighbouring countries	
Malta		Further reforms of wage indexation and limit impact of import prices	Malta's wage indexation mechanism could still pose a challenge to the flexibility of real wages in the event of a very adverse economic situation.	
Netherlands				Although wage moderation could create jobs in the trade sector, it could also depress domestic demand and

				have a potentially negative effect on innovation.
Portugal	Under Troika programme			
Spain	Finalise evaluation of 2012 reform by July, present amendments if necessary by September	Implement labour market reform including bargaining system	Reform agenda goes in right direction, implement reforms so they can start generating positive effects	Monitor whether labour market reform is attaining its objectives (align wages with economic conditions, greater use of permanent contracts)
Slovenia	Ensure wage developments including minimum wages support jobs	Wage growth, including minimum wages to support jobs	Public sector wage bill has been reduced but minimum wages have continued to rise	Adaptation of minimum wage setting (2010 hike compresses wage distribution, annual automatic increases magnify tensions)
Sweden	Measures to improve labour demand for young low skilled and migrant background	"Encourage increased wage flexibility at the lower end of the wags scale ' (scrapped by Council)		
UK				Flexible with regards to labour markets