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NOTE

from: Employment Committee
to: Delegations

Subject: Wage Developments: meeting between EMCO and Social Partners
- Summary of discussions

Delegations will find attached the summary of the discussions at the EMCO meeting with Social Partners on Wage Developments, which took place in Brussels on 1 February 2013, with a view to the meeting of the EPSCO Council on 28 February 2013 (Any Other Business item).

Meeting of the Employment Committee with Social Partners on wage developments:
Summary of proceedings

On the 1st of February 2013 the Employment Committee met with representatives of national and European social partner organisations to discuss wage developments across the EU. The meeting was intended to generate a better mutual understanding of the issue and the policy challenges at EU and national level. The meeting was introduced a number of presentations, including by the Commission, and included active participation from the Economic Policy Committee. After initial presentations on wage developments in a global and EMU context, the discussions were structured around three themes concerning the interaction of wages and 1) productivity developments; 2) unemployment and employment; and 3) inequalities.

This meeting was an experiment to test potential ways for a closer involvement of national and European social partners in the governance of Europe 2020. It was also an experiment in terms of structure, format and topic area. Both the Employment Committee and European Social Partner organisations will evaluate this experience and draw lessons for future work together. However, it should be stressed that a broad consensus amongst social partners at the meeting was that the topics and format of any such tripartite meeting should be agreed beforehand by all parties. In particular, some stressed that a broader discussion on all labour costs rather than wages alone would have been beneficial. Seating arrangements, with partners sitting under the flag of their Member State, rather than the banner of their European Organisation did not meet with the approval of many.

The following points reflect a summary of the issues discussed during the day.

Governance issues:

- Both sides of Industry wished to draw the attention of EPSCO Ministers to the fact that wage setting arrangements are and should remain the competence of social partners in line with national industrial relation practice. European and national social partners do not consider there should be any intervention or policy advice from the European level, though some insisted that if such an intervention were to occur anyhow, they should be consulted.

- Whilst the setting may not have been the right forum for such discussions, EMCO did take some value from the event in terms of a further and explicit understanding of the sensitivities of EU level policy advice in general, and on wages in particular. EMCO also gained a broader understanding of some of the practices presented.
- Social partners stressed the importance of proper consultation at National and European level before important milestones in the European Semester; i.e. before the Country Specific Recommendations, national reform programmes and the Annual Growth Survey.

Theme 1: Wages and productivity:

- A rich and varied discussion on the role wages play in relation to productivity took place. Participants noted that this is a complex issue and whilst wages do play a competitiveness role, there are a number of other factors that help determine productivity which needs to be taken into consideration. There was consensus that innovation and investment in skills are important and that there can be a positive link between wages and productivity.
- Many observed that unit labour costs comprise much more than wages alone – and a number of social partners stressed the importance of non-wage labour costs such as taxes on labour.
- There is debate on whether real or nominal wages should be used to compare with productivity developments and thus which indicator should be used in the Scoreboard used to measure competitiveness under the Macroeconomic Imbalances Procedure. Reference was made to the European Social Partners' Joint statement on the Europe 2020 Strategy, which states that real wage developments should be in line with productivity.
- The role wages play also varies by sector, in particular between tradable and non-tradable sectors. Some delegates stressed that any discussion on competitiveness must also take into consideration the wage share and the level of profits.

- There was a discussion on the merits of wage coordination at national level, in light of recent trends on the desirable degree of centralisation/decentralisation. The role wages play in managing imbalances was also discussed, with some arguing that imbalances have a deep structural cause.

Theme 2: Wages, unemployment and employment

- The meeting discussed the link between wages and employment levels. The consensus is that there is a link but the strength is disputed. Many thought that unit labour costs play a more significant role than wages alone, and that a wide range of other factors, including skills, innovation, fiscal policy (taxes on labour), industrial policy and monetary policy play an important role in employment creation.
- The role of wage moderation helping create employment was discussed. Some stressed that public sector wage moderation is carrying too large a burden. Some social partners argued that indexation systems can potentially contribute to wage moderation. Some argued that an excessive push for moderation can create the danger of wage devaluation and an associated fall in purchasing power. Others stressed that without moderation there could be the prospect of a wage price spiral, pointing out that wage shares are falling in some countries while profit shares are up and investment rates down. Attention was also drawn to the fact that moderating wages in a context of high private sector debt loads can lead to negative results in terms of debt deflation. Whilst one Union representative argued in favour for an EU role in promoting wage increases, social partners in general do not see any role of EU policy in wage determination. However, a number of employers underlined the need for wage moderation to reinforce Europe's competitiveness.
- The meeting also discussed the role of minimum wages and if they can help or hinder employment. There was no consensus on this, but strong consensus that there is no role of EU level intervention to generate an EU wide minimum wage.

- The meeting also discussed the role of wages and wider policies to promote (or not hinder) employment of the young and other vulnerable groups. The role of seniority wages and the link with special provisions was also discussed. Some thought opening clauses can help in difficult times but must be subject to strict conditions to ensure abuses are avoided.
- A number of delegations stressed the importance of more and strengthened dialogue.

Theme 3: Wages and inequalities

- Participants generally recognised the impact wages can have on the level of inequalities. Many thought such inequalities can discourage innovation, human capital formation and productivity growth. Both lower end and top end wage levels should be part of the discussion. Some participants stressed that important factors at the root of wage inequalities are competition in labour costs and precariousness within the labour market.
- There was widespread divergence on whether low and or flexible wages represent a stepping stone to further labour market progress, or a low-wage trap.
- A number of delegations stressed the role social dialogue can play in reducing wage inequalities. Minimum Wages can play a role but only within a wider system of collective bargaining, and as part of an integrated system including fiscal policy (for example in-work benefits) and social protection systems.
- A number of delegates thought the relationship between wages and incomes is important with the question of income levels perhaps more important for social cohesion. The point was made that the gender pay gap is becoming a gender income gap.

Next Steps:

- Both EMCO and European Social Partners will reflect on the experience of this meeting.
- As called for in the February EPSCO conclusions, EMCO will now sit down with European Social Partner to develop a specific framework for the closer involvement of partners in the committees work under the European Semester.
