Wage developments

For the first time since 2011, there was no explicit CSR on wages and collective bargaining."

Figure 4.1a Country-specific recommendations in the field of wages (2011-2020)

Main trends:
1) Marginal focus on wages;
2) Progressive decrease of CSRs addressing wages as a cost for productivity, in favour of CSRs addressing wages as a labour condition;
3) In 2020 there are only three CSRs, all implict and only addressing jobs in so-called 'essential' sectors

Source: Author's own compilation based on Clauwaert (2011-2019) and Rainone (2020).

Is the Minimum Wage Directive a game changer?

In the field of wages and collective bargaining, the management of the crisis in 2008/2009 generated pressure on wages, imposed cuts and freezes on minimum wages, and forced the decentralisation, and in some countries even the dismantling, of multi-employer collective bargaining systems (Schulten and Müller 2015). In the aftermath of Covid-19, there is no more pressing or urgent a policy question than what the approach of policymakers will be to the issue of wages and collective bargaining in the context of the wider recovery strategy currently being developed. Will it be the same, and largely discredited, mixture of austerity and internal devaluation, or will measures be taken to pursue a demand-side strategy built on fair wages and strong collective bargaining to stabilise and boost internal demand?

The first signs are encouraging. Policymakers at both European and national level responded swiftly with impressive emergency rescue packages to stabilise national economies. Moreover, the fact that the European Commission did not abandon its initiative to establish fair minimum wages across Europe in the face of this crisis can be read as a sign that, this time, the importance of fair minimum wages and strong collective bargaining, and the essential contribution that they can make to the recovery strategy, will receive the recognition it deserves.

After years of political debate (Schulten et al. 2015), the proposal of a Directive on adequate minimum wages is a watershed in the history of European social and economic integration for two main reasons. Firstly, because for the first time ever, the Commission has taken legislative action to ensure fair minimum wages and to promote collective bargaining in Europe. Secondly, the proposed Directive demonstrates that minimum wages and collective bargaining are no longer exclusively

Figure 4.1b Country-specific recommendations in the field of wages (2011-2020)

Category	Sub-category		CSRs 2011		CSRs 2012		CSRs 2013		CSRs 2014		CSRs 2015		CSRs 2016		CSRs 2017		CSRs 2018		CSRs 2019		CSRs 2020	
			Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit
Wages	Reviewing wage indexation		0	5	0	4	0	2	0	3	0	0	0	0	0	0	1	0	0	0	0	0
	Reform wage setting mechanism	Productivity	0	7	0	7	0	6	0	6	0	8	1	4	2	2	2	1	0	1	0	0
		Improvement labour standards	0	0	0	0	0	0	0	0	0	2	0	2	0	4	1	0	0	2	0	0
		Other	0	1	1	0	0	1	1	4	0	3	3	1	2	2	4	2	1	1	0	0
	Reform wage setting mechanism for specific sectors	Productivity	0	0	0	0	0	0	0	0	0	0	1	0	1	0	1	0	1	0	0	0
		Improvement labour standards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Other	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	1	0	1	3	0
	Subtotal		**0**	**13**	**1**	**11**	**0**	**9**	**1**	**13**	**0**	**13**	**5**	**8**	**6**	**8**	**9**	**4**	**2**	**5**	**3**	**0**
	Total		**13**		**12**		**9**		**14**		**13**		**13**		**14**		**13**		**7**		**3**	
TOTAL SOCIAL CSRs			**95**		**106**		**116**		**140**		**143**		**117**		**124**		**124**		**136**		**226**	
% CSRs on wages compared to total social CSRs			**14%**		**11%**		**8%**		**10%**		**9%**		**11%**		**11%**		**10%**		**5%**		**1%**	

Source: authors' own compilation based on Clauwaert (2011-2019) and Rainone (2020).

"Particularly striking is the absence of a clear definition of what the Commission means by 'adequate' minimum wages."

viewed as an impediment to the downward flexibility of wages and competitiveness.

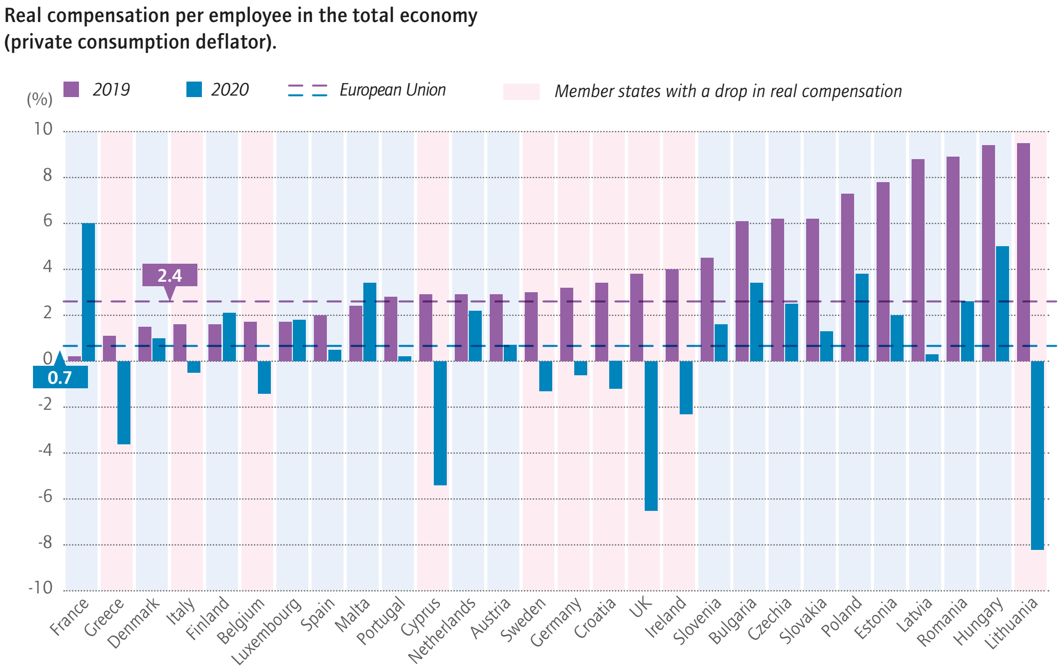
However, while in principle the proposed Directive represents a welcome new approach to minimum wages and collective bargaining in the context of the Covid-19 crisis, it also leaves important questions unanswered. Particularly striking is the absence of a clear definition of what the Commission means by 'adequate' minimum wages. All the proposed Directive has to say in Article 5, dealing with adequacy, is that 'Member States shall use indicative reference values to guide their assessment of adequacy of statutory minimum wages in relation to the general level of gross wages, such as those commonly used at international level' (European Commission 2020b: 24). While this hints at what can be called the 'double decency' threshold of 60% of the median wage and 50% of the average wage, a combination which is mentioned in the recitals, the Commission still shied away from setting a clear minimum threshold, below which no minimum wage should be set. Without such a clear minimum threshold, all the criteria that should guide the setting and updating of statutory minimum wages mentioned in the proposed Directive, such as the purchasing power of statutory minimum wages, the growth rate of gross wages, and labour productivity developments can just as easily be used to cement the status quo of inadequate minimum wages.

CSRs offer no support for fair minimum wages

In the absence of a clear definition proposed by the Commission, the country-specific recommendations (CSRs) could provide a first pointer as to how the Commission is approaching the issue of wages and collective bargaining. In the past, the CSRs for countries with high relative levels of minimum wages, such as France and Portugal, had repeatedly contained provisions designed to ensure that minimum wage developments do not harm competitiveness. Figure 4.1, which is based on Clauwaert (2011-2019) and Rainone (2020), provides a quantitative overview of the development of CSRs in the field of wages and collective bargaining from 2011 to 2020. In the analysis, a distinction is made between 'explicit CSRs', which are formal recommendations to be addressed by the respective Member State, and 'implicit CSRs', which are recommendations that only appear in the recitals. The relevance of the 'explicit CSRs' is higher because the Member States generally report the progress made in relation to those recommendations, but not necessarily to the implicit ones.

Figure 4.1 illustrates three key findings: first, in quantitative terms, the 2020 CSRs confirm last year's trend of a decrease in the number of CSRs addressing wages and collective bargaining. In 2020, there were only three CSRs in this particular area. Second, all three CSRs are 'implicit CSRs' in the recitals, which means that for the first time since 2011, there was no explicit CSR on wages and collective bargaining. Third, and perhaps more crucially as regards content, all three CSRs aim at wage increases to make jobs in so-called 'essential' sectors more attractive: in Austria in the health sector and in Hungary and Poland in the education sector (Rainone 2020). There are no longer any CSRs, implicit or explicit, demanding that minimum wage increases be moderate, or the decentralisation of collective bargaining. The absence of bad news, however, is not necessarily good news. Also entirely absent are any recommendations supporting the restoration of multi-employer bargaining where it was dismantled as a consequence of the management of the crisis in 2008/2009. There is also a noticeable absence of any recommendation of minimum wage increases to ensure fair minimum wages in those countries where they are particularly low. Against this background, with the 2020 CSRs, European policymakers missed

Figure 4.2 Development of nominal wages* in 2019 and 2020** (change in percentage compared to previous year)



Source: AMECO database (autumn 2020).
** Nominal compensation per employee*
*** figures for 2020 are forecasts*

an opportunity to support the minimum wage initiative, one of the Commission's flagship social policy initiatives.

Solid nominal wage growth in 2019

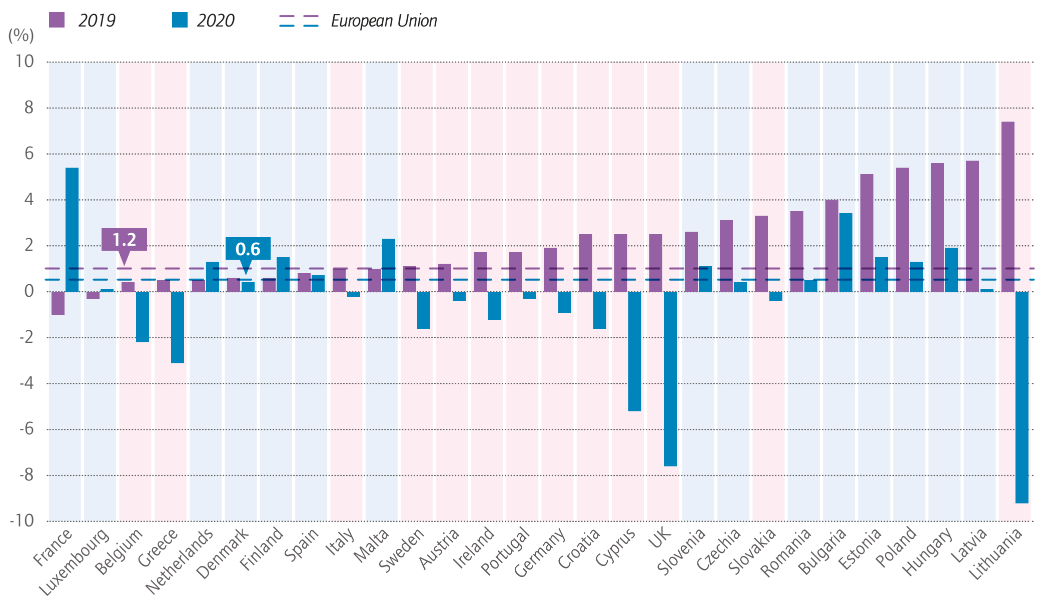
Figure 4.2, which shows the development of nominal wages in 2019 and 2020, illustrates the full impact of the Covid-19 pandemic and, with it, the importance of fair minimum wages in stabilising workers' wages as a driver of the economic recovery. In 2019, nominal wages continued to grow dynamically, particularly in the central and eastern (CEE) European countries. The group of nine countries with a nominal wage growth of 6% is exclusively comprised of CEE countries ranging from Bulgaria (6.1%) to Hungary (9.4%) and Lithuania (9.5%). This group is followed by another group of 11 countries in which nominal wages grew between 2% and 6%. This group ranges from Malta, with 2.4%, to Slovenia, with 4.5%. The third group, with a nominal wage growth of 2% or less, consists entirely of western European countries, and ranges from France, with 0.2%, to Spain, with 2%. It is important to bear in mind that in accordance with the AMECO database, nominal wages are measured as nominal compensation per employee, a figure which not only includes wages and salaries, but also employers' social contributions. Under normal circumstances, nominal compensation and wages develop largely in parallel. In case of changes in the national social security systems, however, the two may diverge. This effect explains the low nominal wage growth in France, for instance: employers' social security contributions were lowered considerably in 2019 (Lübker 2020: 272). The opposite effect can be observed in Spain, where employers' social security contributions slightly increased and therefore contributed to higher nominal wage growth (Lübker 2020 272).

A collapse in wage growth in 2020

The figures for 2020 need to be treated with caution because they are shaped by various insecurities resulting from the unforeseeable economic impact of the Covid-19 crisis. First, they are based on European Commission forecasts; these are highly uncertain, since it is of course impossible to foresee the development of the pandemic and the economic impact of measures that Member States may have taken to contain its spread, which will shape the development of wages. Second, in the context of the crisis, wage developments in 2020 are influenced by two opposing effects (Lübker 2020: 273): on the one hand, the wage losses linked to the frequent use of short-time work schemes led to a decrease in nominal wages per employee, but, on the other hand, composition effects suggest an increase in nominal wages per employee. Employees on fixed-term contracts face a particularly high risk of becoming unemployed, and since workers on such temporary contracts typically earn lower wages, their exit from the labour market can potentially lead to an anti-cyclical increase in nominal compensation per employee.

With these caveats in mind, Figure 4.2 illustrates that the Covid-19 pandemic reverses the positive wage development of 2019. According to the AMECO database, nominal wages in 2020 will have decreased to varying degrees in ten countries, ranging from -0.5% in Italy to a startling decrease of -8.2% in Lithuania. A further nine countries are faced with a very modest increase in nominal wages of 2% or less. This group of countries ranges from Portugal, with 0.2%, to Estonia, with 2%.

Figure 4.3 Development of real wages* in 2019 and 2020** (change in percentage compared to previous year)



Source: AMECO database (autumn 2020).
** Real compensation per employee, deflator private consumption: total economy*
*** figures for 2020 are forecasts*

42 million applications for support for workers on short-term work schemes were submitted (by April 2020)

The need to stabilise wages to deal with the demand shock

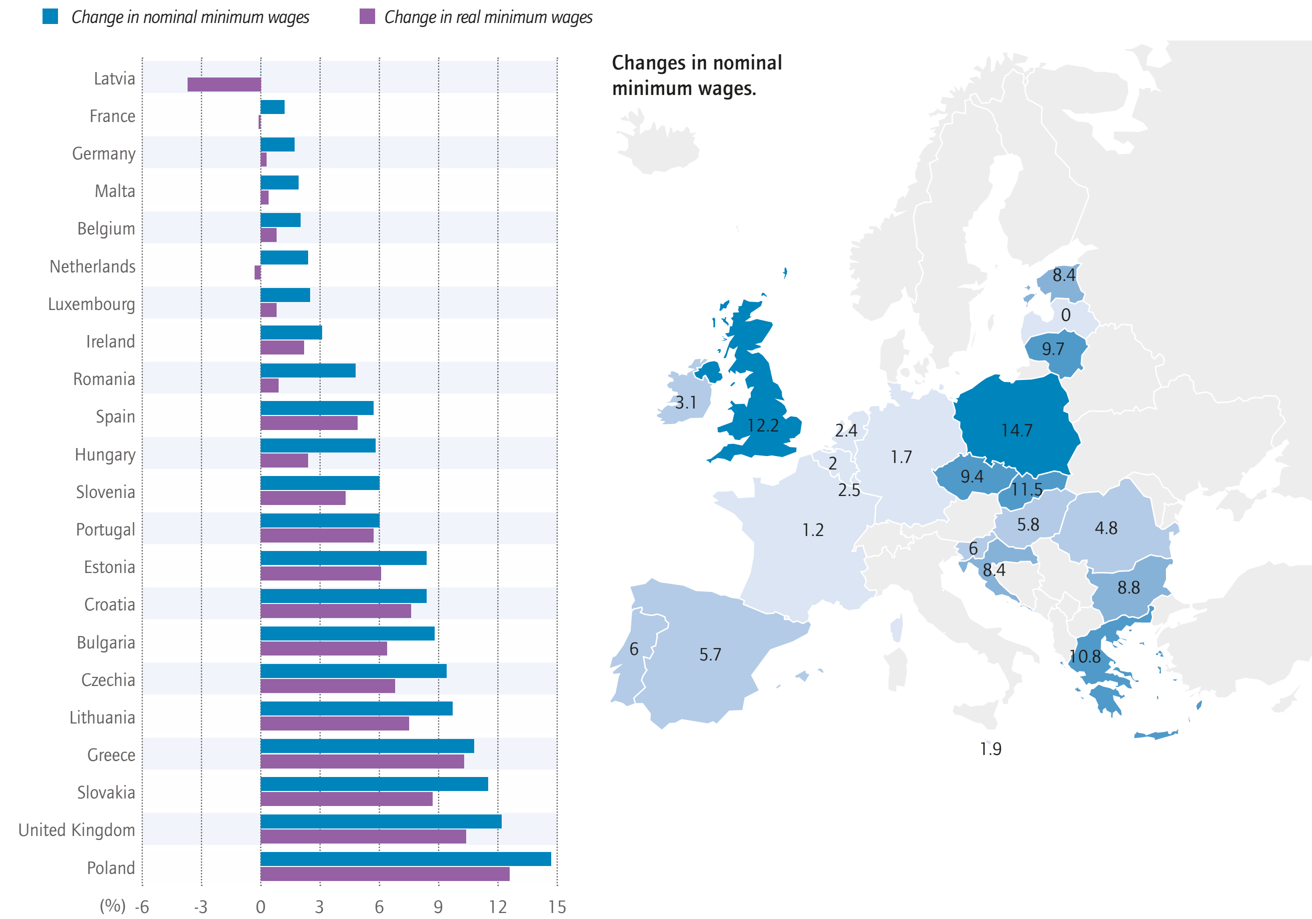
The potential impact of the Covid-19 crisis is even more striking when comparing the development of real wages in 2019 and 2020 (Figure 4.3). According to AMECO data, the number of countries with a negative development in real wages increased from two in 2019 to thirteen in 2020 – with a particularly pronounced drop in Lithuania (-9.2%) and the UK (-7.6%). By the same token, the number of countries with an increase in real wages of 2% or more dropped from thirteen in 2019 to only three in 2020. Even with the uncertainties of the 2020 figures, this illustrates the dramatic extent of the demand shock, resulting from the drop in real wages, which reduces employees' ability and willingness to buy goods and services. Furthermore, since the large majority of EU economies follow a wage-led demand regime (Onaran and Obst 2015; Stockhammer and Wildauer 2015), this demonstrates the need to stabilise the income of households as an important element of the strategy to overcome the current Covid-19 crisis.

Extensive use of short-time work

One measure taken to stabilise income was the widespread use and expansion of national short-time work (STW) schemes, which aimed to avoid unemployment by supporting workers' wages while at the same time allowing companies to flexibly adapt working hours to a temporary drop in demand. At the peak of the economic impact of the first wave of the Covid-19 pandemic, towards the end of April 2020, there were more than 42 million applications for support for workers on STW (or similar) schemes, which amounts to more than one quarter of the whole workforce in the EU27. If one includes Switzerland and the UK, the number rises to more than 50 million (Müller and Schulten 2020a). Even if not all applications led to an actual STW arrangement, these numbers represent an all-time high. The significance of STW in preventing unemployment and in stabilising employees' income is even more evident when comparing these numbers with developments in the United States, where by the end of April, Covid-19-induced unemployment amounted to over 33 million people out of work.

The European Commission also recognised the importance of STW as a means to mitigate the negative impact of the Covid-19 crisis by proposing a 'European instrument for temporary support to mitigate unemployment risks in an emergency' (SURE), which was adopted by the Eurogroup finance ministers on 9 April 2020. The SURE programme provides €100 billion of loans to EU Member States in support of their national STW schemes 'that allow firms experiencing economic difficulties to temporarily reduce the hours worked while providing their employees with income support from the State for the hours not worked.' (European Commission 2020c: 2). In a nutshell, SURE can be seen as a European re-insurance scheme for the kind of national STW schemes which had already proved an effective tool to limit unemployment during the 2008/2009 economic and financial crisis. It operates on the basis that the EU would borrow up to €100 billion on the financial markets, using guarantees of up to €25 billion from the EU Member States. It would then lend the money raised to Member States to promote STW schemes and to close gaps where national STW systems reach their financial limits. The dramatic Europe-wide increase of STW during the current crisis underlines the relevance of the SURE programme, while at the same time raising doubts that its financial scope will be sufficient (Matthes 2020) – even more so in light of the second Covid-19 wave that emerged throughout Europe in October 2020. Furthermore, it is based on loans which will increase the public debt of countries using this scheme (Corti and Crespy 2020). Despite these caveats about the SURE programme, the use and support of STW both at European and national level was an important tool to safeguard employment and wages, and thus also a recognition of the essential role of wages in the European recovery strategy.

Figure 4.4 Changes in nominal and real minimum wages (1 January 2019-May 2020)



Source: WSI Minimum Wage Database (WSI 2020).
Note: Calculation of changes based on minimum wages in Euros. Real development adjusted according to change in national consumer prices in 2019.