ANNEX 5 – ETUC's Priorities for Annual Growth Survey 2015

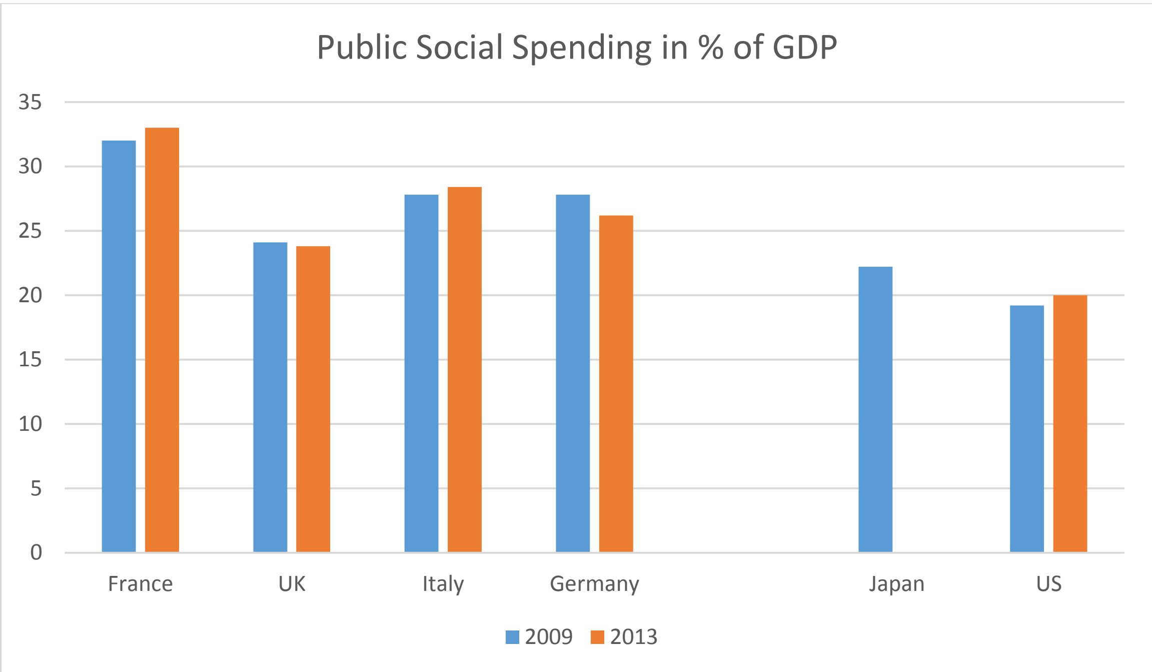
Social spending, non-wage labour costs and exchange rates: looking at the whole picture

The argument that Europe is spending too much on public social security is widespread. Advocates of this view argue that this is resulting in high non-wage labour costs, thus putting European business at a competitive disadvantage with the rest of the world.

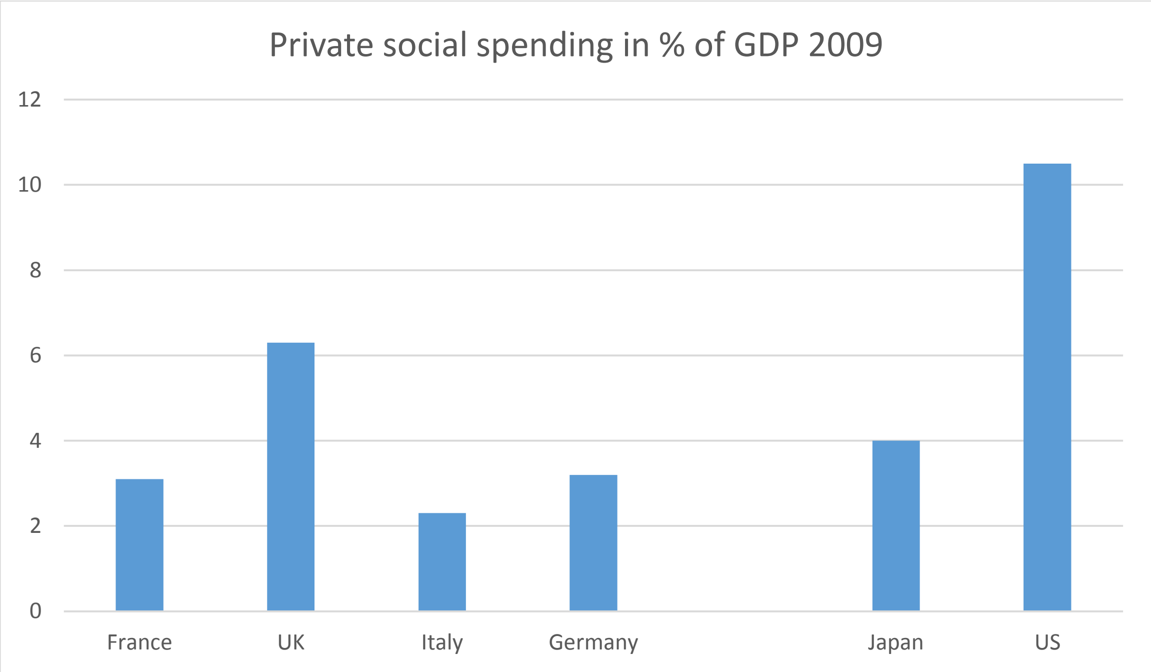
This is a misconception based on the erroneous idea that, by slimming down publicly organised social security systems, employers will be able to push down total wage costs as a result of having to pay much lower employer social security contributions.

However, this line of thinking does not take into account the fact that workers, in the absence of public social security, will want and need to insure themselves privately. Consequently, they will push up wages so as to be able to pay for these private insurance fees. International comparisons whereby the focus is put on public social spending as a % of GDP can therefore be quite misleading. The graphs below, derived from the OECD statistical database on social spending, illustrate this.

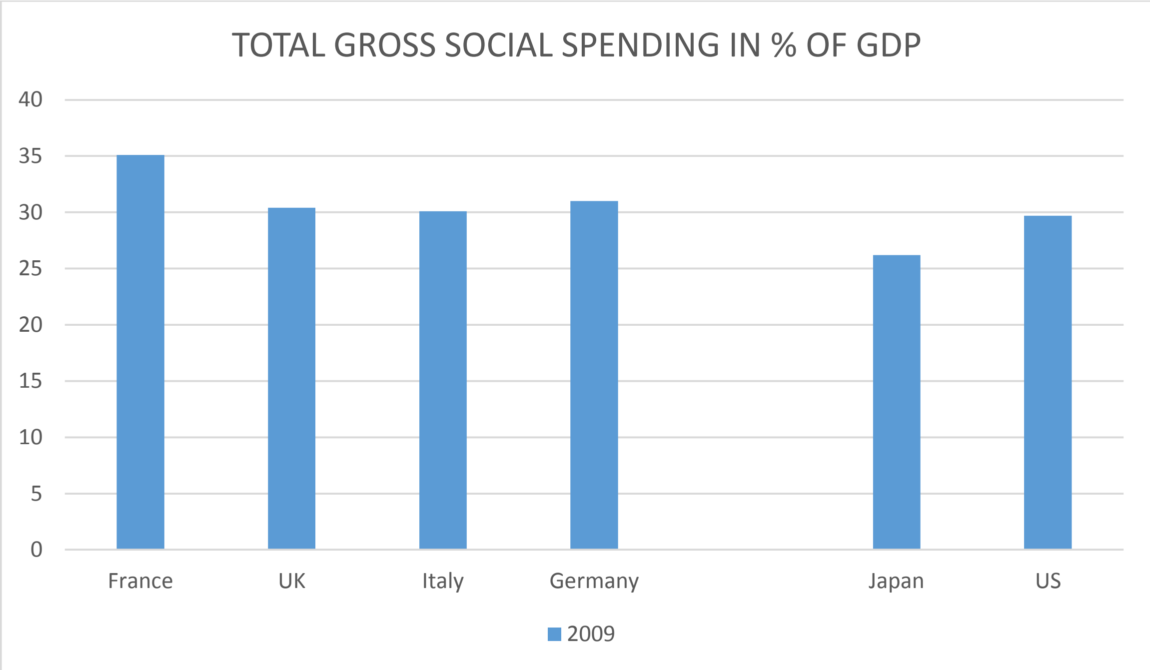
The first graph reproduces the typical business' side mantra about public social spending being higher in European countries compared to the US or Japan. In the former the social spending share is between 24 and 30%, in the latter it is only around 20% of GDP.



However, as argued above, workers in countries where public social spending is low will turn to private insurance. The next graph shows the cost of private social spending according to the same OECD statistical database. It appears that private social spending and public spending are like two communicating barrels. The lower the public social spending, the higher the private social spending and in countries with well developed public social security systems, private social insurance is almost non-existent.

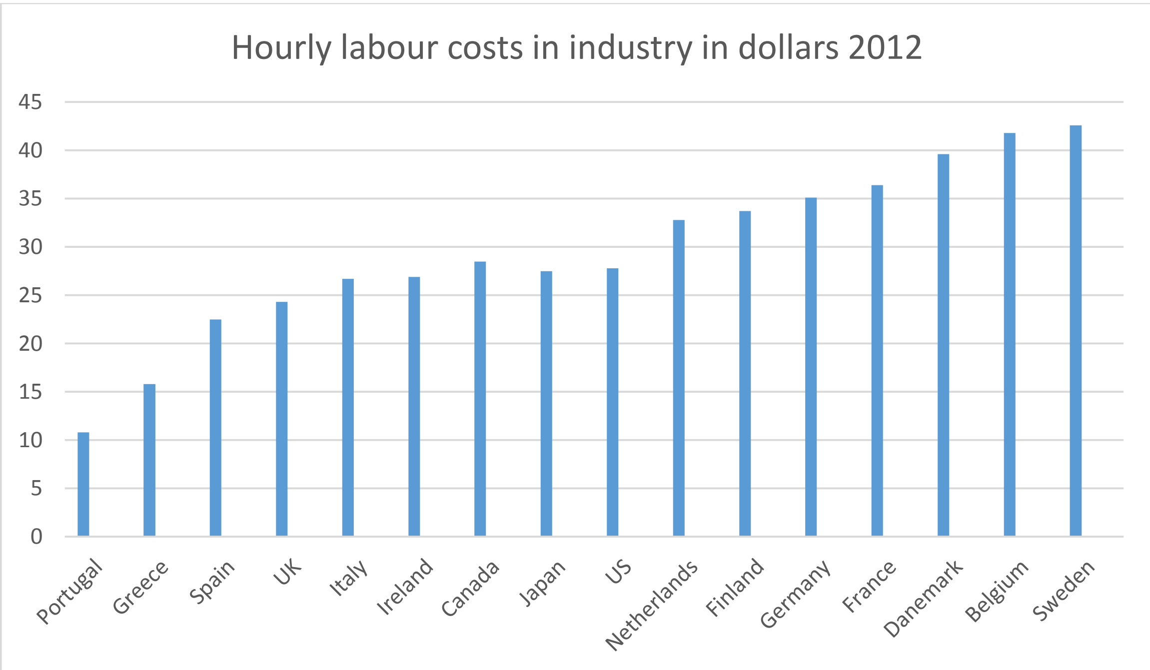


Adding private and public social spending then results in the third graph. It can then be seen that total social spending in key European Member States is not really out of line with such spending in the US or Japan. When the correct international comparison is used, the case that employers are paying too much for social spending in Europe and that this is pushing up total wage costs more than in our major competitors is not convincing.



Comparing total labour costs in industry

Leaving aside the discussion on one particular component of wages and focussing instead on total hourly wages in industry, gives a mixed picture. As can be seen from the next graph, US and Japanese wages are around $27 an hour whereas in Europe there are several Member States above but also below this level.



However, since these numbers are expressed in dollars, exchange rates, and in particular the high value of the euro, play a major role. In 2012, the euro/dollar exchange rate stood at 1,28 or more than 20% above strict parity (when the euro was launched in 1999, the euro/dollar exchange rate went significantly below 1).

The next graph illustrates that if hourly labour costs as shown in the previous graph are recalculated with a strict parity of 1 dollar to 1 euro, this brings hourly wages in the Northern European Members States much closer to US and Japanese levels, while also increasing the already existing wage advantage of Southern European Member States. So, rather than attacking social spending, those who claim that wages are so important for European competitiveness would do well to focus on the exchange rate management of the Euro Area.