ANNEX 3 – ETUC's Priorities for Annual Growth Survey 2015

Wages as an engine for jobs and growth

Europe cannot compete against itself

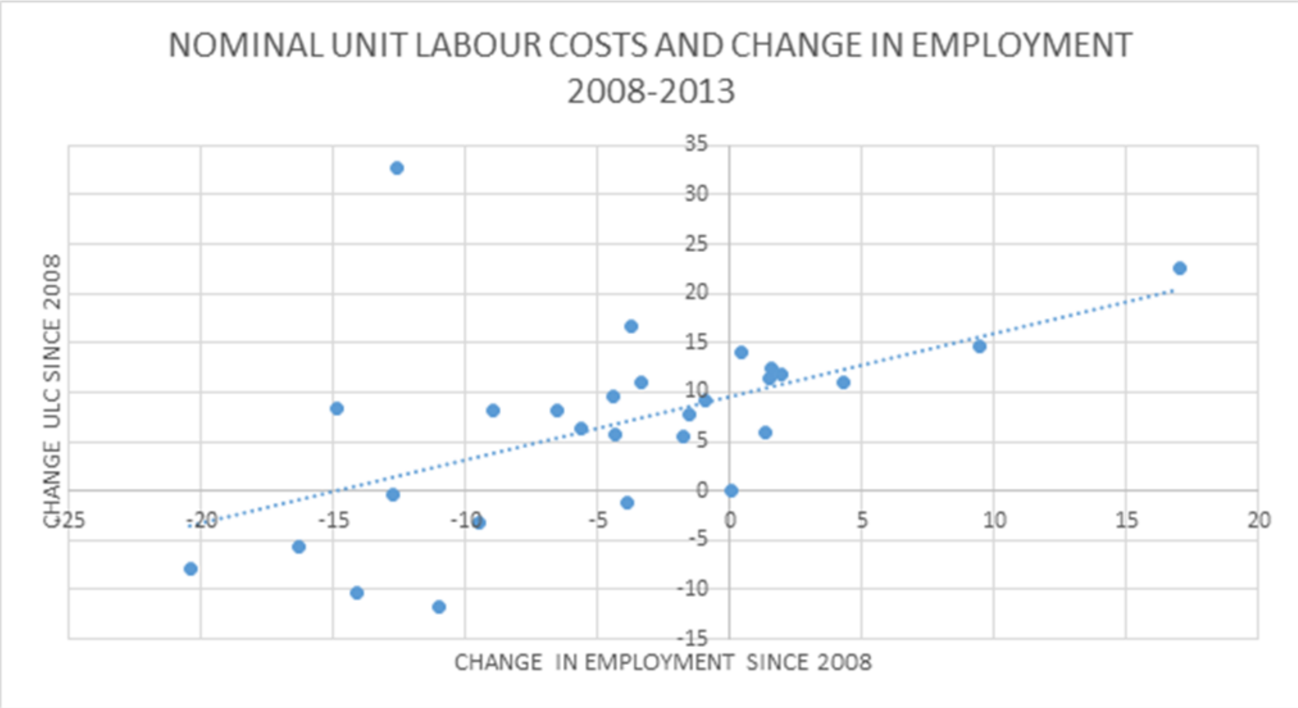
The role of wages is not one of simple cost adjustment. Besides playing a role as an anchor for price stability (see Annex 2), wages are most of all a motor for demand, growth and jobs. This is especially true for the European Union, which is anything but a small open economy. This makes the strategy of using downwards wage flexibility to stage a process of export-led growth a very risky one. Trying to increase exports, which only make up 17% of European GDP, by depressing internal demand representing the rest or 83% of GDP does not make sense and is suicidal for demand and economic activity. In the end, Europe cannot steal jobs from itself.

Lower wages means lower job performance

The important role that wages have in supporting demand and jobs, is illustrated by the graph below which sets out the cumulated evolution of wages since 2008 against job performance. In contrast to widespread economic thinking, the correlation is positive, implying that higher wage growth over this period tended to be associated with relatively better job performance.

The graph shows that this correlation can be explained by looking at two sets of Member States. On the one hand, there are Member States such as Germany and Austria that reacted to the crisis by introducing 'short term work schemes'. These schemes upheld wages while at the same time maintaining existing jobs even in the face of depressed demand. The result is job stability combined with rising unit wage costs

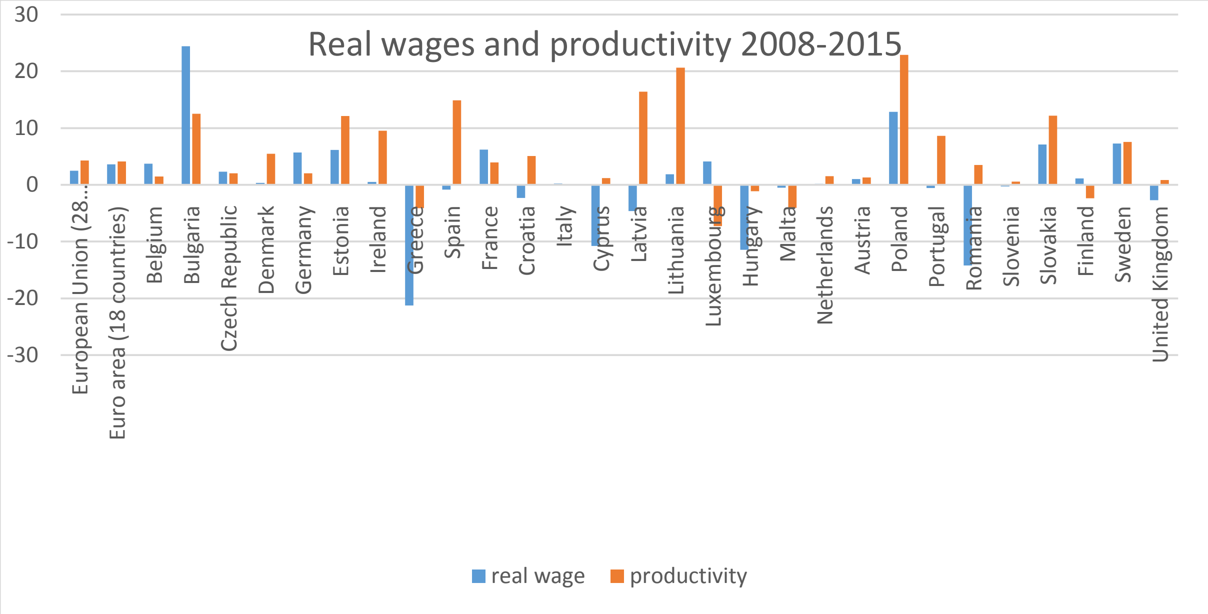
On the other hand, there are those Member States (e.g. Greece, Spain, and Portugal) that resorted to significant internal wage devaluation. In these countries, wage costs did drop significantly but so did jobs. The price of cutting wage costs was paid for by a collapse in domestic demand, a collapse that was not made up for by a sufficient revival of export demand. If anything, the graph shows that those who repeatedly push the issue of wage flexibility should not be so sure of themselves.



Wages and productivity

The positive link between wages and productivity can be further demonstrated by examining the extent to which real wages and productivity increases are in line with each other. If real wages rise in line with productivity, this can be thought of as constituting a sort of equilibrium: productivity rises but because workers are paid their fair share of the resulting economic benefit, there is also sufficient household demand to go around, implying an increased level of production supporting job performance.

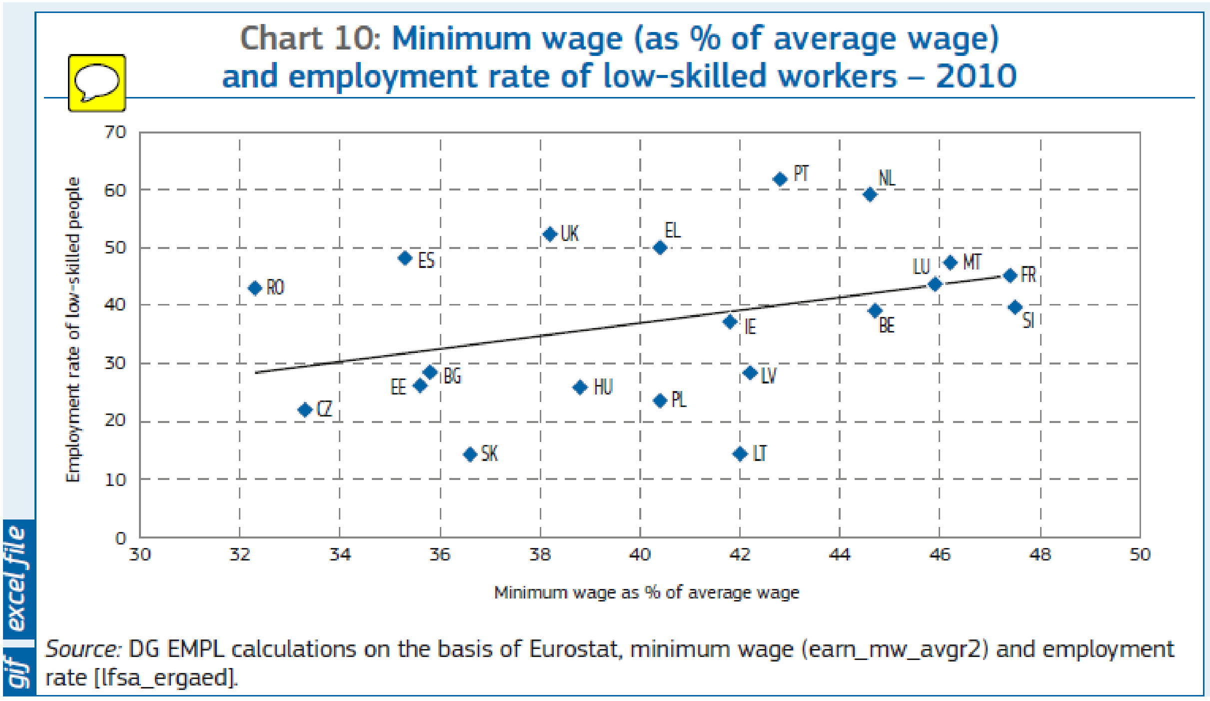
The next graph, however, compares the compound increase in real wages between 2008 and 2015. It shows that real wages, contrary to a widespread and cultivated opinion, have in fact systematically lagged behind productivity dynamics in no less than 18 Member States. In other words, workers in a clear majority of Member States do not receive their fair share of income and this is pulling down the economy and job creation.



Minimum wages raise workers' income and do not destroy jobs

Business and certain policy-makers claim that minimum wages destroy jobs. However, there is no evidence for his claim. If this were the case, then lower skilled workers would especially suffer job losses with higher minimum wages. The reality, however, is that higher minimum wages tend to be associated with higher employment for lower skilled workers (see graph below).

One explanation for this is that supply side effects are more important than demand side ones: minimum wages force employers to pay wage levels at which it pays to look for and maintain a job. Another explanation is that workers' productivity is not a given and that minimum wages push employers to reorganise the work place and work place practices so that their productivity can be increased.



Source: DG EMPL calculations on the basis of Eurostat, minimum wage (earn_mw_avgr2) and employment rate [lfsa_ergaed].

Source: Commission 2013