



# 8th European Regional Meeting

## FACTS ON *new wage challenges: trends and policy issues*



International  
Labour  
Organization

*“The legitimacy of globalization and of open economies and societies hinges critically on greater fairness in outcomes. Central to this fairness is the ability of working women and men to obtain a fair share of the wealth they create”.*

Juan Somavia, ILO Director-General

Wages have been one of the most widely discussed issues throughout the region in recent years and will undoubtedly continue to be so in the context of the present financial crisis.

The region from mid-90s has experienced some improvements in terms of real wage growth, particularly in countries of Central and Eastern Europe which are now in the EU. However, income and wage differences have widened over the same period.

There has also been a general fall in the wage share of GDP. This means that workers do not obtain an appropriate share of economic growth and that wages are somehow disconnected from productivity, all of which can lead to economic and social imbalances.

There is also a relatively high incidence of low pay in the EU-27, a phenomenon that has contributed to put the minimum wage at the top of policy-makers' priorities. The new context after EU enlargements – notably with increased capital and labour movements – has also led to debates about the possibility of introducing an EU-wide minimum wage, or at least common EU principles on minimum wage fixing. In fact, a majority of EU countries (20 out of 27) have established minimum wage systems and have allowed the minimum wage to increase in real terms over the last few years – a trend also visible in non-EU countries. The problem is that, despite substantial increases in recent years, minimum wage remains low in many European countries, sometimes still below the official subsistence minimum or poverty line, as in many CIS countries. The role of the minimum wage to protect workers most vulnerable to the current economic crisis – and to address the expected increase in the number of low-paid workers – needs to be discussed.

Beyond the minimum wage, social dialogue – and collective bargaining in particular – can help solve many wage problems, such as ensuring that wages are more in line with price increases and productivity. But even though it is well developed in some EU countries, especially the Nordic countries, there is generally a lack of collective agreements in European countries, particularly at the sectoral level. Strengthening of wage bargaining is thus required.

In the current economic crisis we may also expect renewed attempts to negotiate wage policy at central level, as a way for the governments to reach some consensus with employers and trade unions on the role that wages may play with regard to economic growth, consumption, inflation and employment.

### KEY FIGURES

- Real wages have grown on average a little over 5 per cent across the region between 1995 and 2006, although with different trends among different groups of countries.
- While EU-15 countries have generally experienced wage moderation, many CEE and CIS countries have known a rapid increase in real wages that recovered after their sharp fall in their early transition.
- The wage share of GDP declined in the EU-27 between 1995 and 2007 from an average of 59.6 to 57.1 per cent. A wage share decline was experienced by more than 2/3rds of EU-27 countries. The gap between low and high earners has widened in several countries over the past decade, particularly in the CIS countries, but also in EU-27, and has generated heated debates. Large countries – such as Turkey and Russia – have also experience significant regional differences. On average, the gap between men's and women's wages narrowed in the EU between 1995 and 2006. However, progress remains slow and the situation has deteriorated in some countries. Migrant workers continue to suffer wage discrimination in the region.
- There are major differences in minimum wage levels throughout the region, ranging from 4.3 euros in Tajikistan, 92 in Bulgaria and 114 in Romania to 1,403 in Ireland and 1,570 in Luxembourg.
- Statistics show a renewed interest in minimum wage that has increased in real terms and in proportion to the average wage.
- Despite the definite improvement in comparison with the 1990s, the non-payment of wages remains a problem in many CIS and certain Central and Eastern European countries.
- The practice of the payment of informal wages, sometimes described as “hidden payments”, “shadow wages”, “cash payments”, “under the table” or “envelope wages” also remains a problem.

## The role of the ILO

Wages are undoubtedly among the most important conditions of work and employment at the enterprise level. They are an essential variable for enterprises' competitiveness and an important determinant of labour costs. They also constitute the main source of income for workers. Being a cost for employers as well, wages may be a potential source of conflict and have thus become the major focus of collective bargaining all over the world. At the same time, wages can represent a major source of discrimination and deprivation if no decent wage floor is guaranteed to the workers. All the above factors have led States, together with employers' and workers' representatives, to reconsider their wages policies and undertake crucial reforms in this field or to consider new approaches for which the help of the ILO has been required.

## Key ILO standards relating to wages

Most people work in order to earn money for living. Yet, in many parts of the world access to adequate and regular wages is not guaranteed. ILO standards on wages address these problems by providing for regular payment of wages, the fixing of minimum wage levels, and the settlement of unpaid wages in case of employer insolvency. Relevant ILO instruments include:

Labour Clauses (Public Contracts) Convention, 1949, aims at ensuring respect for minimum labour standards in the execution of public contracts. Protection of Wages Convention, 1949, states that wages shall be paid in legal tender at regular intervals and workers shall be free to dispose of their wages as they choose. The Minimum Wage Fixing Convention, 1970, requires ratifying states to establish a minimum wage fixing machinery capable of determining and periodically reviewing and adjusting minimum wage rates. The Protection of Workers' Claims

(Employer's Insolvency) Convention, 1992, provides for the protection of wage claims in insolvency and bankruptcy by means of a privilege or through a guarantee institution.

*For more information, please read:*

1. «Report of the Director-General to the 8th European Regional Meeting: Delivering decent work in Europe and Central Asia»  
- Volume I, Part 1, ISBN 978-92-2-121867-8  
- Volume I, Part 2, ISBN 978-92-2-121869-2
2. «Policy responses to the economic crisis: A decent work approach in Europe and Central Asia». ISBN 978-92-2-122080-0



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