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## **ILO-EC CONFERENCE ON MINIMUM WAGES**

### **SPEAKING NOTES FOR THÉRÈSE DE LIEDEKERKE MANAGING DIRECTOR OF BUSINESSEUROPE**

- The European economy currently faces turbulent times. The degree of uncertainty for companies and households has increased tremendously and the knock-on effect on growth and job creation will unfortunately be considerable.
- Looking beyond the current crisis, we need to reflect on ways to re-launch the European economy and to strengthen the competitiveness of our companies. Obviously, wage policies play a crucial role in this respect.
- On wage policies: BUSINESSEUROPE insists that wage developments should reflect the diversity of productivity levels and trends. In addition, they should reflect the specific conditions of the labour market and take into account competitiveness challenges.
- That being said, companies acknowledge that there are legitimate concerns about purchasing power. We need to find the right response to deal with such concerns. The answer is not spiralling wage increases in the current economic environment. We know that this would only lead to higher prices, less employment and greater anxiety. Inflation can wipe out companies' pay efforts.
- We therefore need to look for win-win solutions which reconcile wage policies and companies' competitiveness. One way to do so could consist in the development or further improvement of financial participation schemes which give employees a stake in the success of a business.
- Financial participation schemes intend to give, usually to all employees, access to the enterprise's profits and/or results. They can be divided in two main categories:

- participation in profits: sharing of profits between those providing the capital and those providing the labour by giving employees a variable income, in addition to their fixed pay, linked with the profits or another measure of the enterprise's results, e.g. annual bonuses;
- employee shareholding: offers employees indirect participation in the enterprise's results in the form of dividends and/or appreciation of the value of the capital they hold, e.g. share purchase;
- Financial participation schemes have several advantages: They involve employees more closely in the life of the company; they allow them to share in the success of their company and they are conducive to a longer term relationship between the employee and the company.
- Financial participation schemes must be voluntary. The introduction of financial participation schemes is a decision for the individual company or employer, in the light of existing national law and practice, and depending on the financial situation of the company.
- On minimum wages: 21 Member States of the EU already have a statutory minimum wage. In those countries that do not rely on statutory minimum wages, (sectoral) collective agreements play the main role in setting minimum pay rates. The level can therefore vary from country to country as well as between sectors or occupations. In most EU Member States for which longitudinal data exist, minimum wages have increased rapidly over the last 10 years. This is particularly the case in the Member States from Central and Eastern Europe but also, for example, in Greece and the UK.
- Decisions to introduce a minimum wage or to raise the level of minimum pay are usually prompted by concerns about income inequality or fighting poverty. These are legitimate concerns. However, the question is which mechanisms or policies are the most appropriate to address these concerns.
- For example, if minimum wages are set at a level which is too high, they will negatively impact on employers' capacity to hire lower skilled workers. According to the OECD, social contributions and other payroll taxes add, on average, around 18% to the cost of employing minimum-wage workers. Clearly, this constitutes an obstacle for some companies to hire lower skilled workers. Young workers, in particular, are most vulnerable in this respect.
- Moreover, recent research from the European Employment Observatory indicates that there are seven countries – Greece, France, Cyprus, Latvia, Hungary, Malta and Poland- where the minimum wage, in particular because of the high level at which is set, is contributing to the prevalence of undeclared work.

- A recent report adopted by the European Parliament proposed the establishment of a European minimum wage. BUSINESSEUROPE is strongly opposed against the introduction of a minimum wage at European level. A common European minimum wage would seriously hamper further convergence across European regions, including of employment rates. Moreover, when defined in absolute figures, it would simply not be feasible as the differences between the EU Member States are too great for that (at what level would it be set?). But also when expressed in relative terms (such as a % of the average gross wage or median wage), a European minimum wage would not make sense as it would not allow to tailor the minimum wage to specific country-specific situations or categories of workers.
- To conclude, setting minimum wages at levels which are too high or which are not in line with productivity reduces the employment chances of less skilled workers and of the unemployed.
- A better way to make work pay for the low-skilled and/or unemployed is through changes in the tax and benefit system. For example, a considerable number of countries charge similar rates for minimum-wage labour and higher-earning employees, thereby substantially reducing the net take-home pay of minimum wage workers. Easing the tax burden on low or minimum incomes should therefore take precedence over attempts to raise the level of the minimum wage.

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