

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(93) 388 final

Brussels, 01 September 1993

## COMMISSION OPINION

on an equitable wage

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Explanatory Memorandum

INTRODUCTION

1. Article 118 of the Treaty of Rome provides that the Commission "shall have the task of promoting close cooperation between Member States in the social field, particularly in relation to ... labour law and working conditions... To this end the Commission shall act in close contact with the Member States by making studies, delivering opinions and arranging consultations both on problems arising at national level and on those of concern to international organisations."
2. Attached is the Commission's Opinion on the introduction of an equitable wage by the Member States, formulated after consultation of the Economic and Social Committee in accordance with Article 118 of the Treaty and section 2 of its Action Programme relating to the implementation of the Community Charter of Basic Social Rights for Workers. The Commission's Opinion takes account of the Opinions of the Economic and Social Committee<sup>(1)</sup> and of the European Parliament<sup>(2)</sup>, to whom the draft Opinion was sent for information. In implementation of the Charter the Commission has also put forward a draft Council Recommendation on common criteria concerning sufficient resources and social assistance in the social protection systems (COM(91) 161 final)<sup>(3)</sup>. A clear distinction needs to be made, however, between that document, which is essentially about a guaranteed minimum income from all sources, and this document, which is about fair remuneration for work performed with particular attention being paid to the more vulnerable members of the labour force.
3. The Charter of Fundamental Social Rights establishes the principle that all employment shall be fairly remunerated, stating that "in accordance with arrangements applying in each country workers shall be assured of an equitable wage, i.e. a wage sufficient to enable them to have a decent standard of living". In order to implement the above Charter and in full respect to the principle of subsidiarity, the Commission has no intention either to legislate or to propose binding instruments on remuneration or to set operational definitions, since these can best be established at national, regional or sectoral levels. It considers, however, that it is appropriate to outline certain basic principles on equitable wages, while taking into account social and economic realities and using the normal instruments of economic and social policy, in particular those designed to raise productivity and stimulate economic growth, combat discrimination, and ensure solidarity across social groups. In this task, all partners in society have their part to play.
4. In drawing up this Opinion the Commission took into account the various international instruments, that have a bearing on this issue, notably Article 23 of the Universal Declaration of Human Rights, the Council of Europe Social Charter as well as Conventions and Recommendations of the International Labour Organisation. Furthermore, before drawing up this Opinion, the Commission undertook widespread consultations with the Member States and the social partners.

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(1) OJ No C 223, 31.8.1992, p. 57.

(2) OJ No

(3) This Recommendation was adopted by the Council on 24 June 1992 (OJ No L 245, 26.8.1992, p. 46).

THE RELATIONSHIPS BETWEEN WAGES, PRODUCTIVITY, EMPLOYMENT AND SOCIAL FACTORS

5. Differences in levels of average incomes from employment between economies are largely determined by differences in productivity. In the long-run, convergence in such income levels across the Community will result primarily from improvements in productivity in low wage areas of the Community relative to high wage areas.
6. Improvements in productivity result basically from increased capital investment, increased investment in human resources through training and education, and better business organisation as well as more effort on the part of workers and learning-by-doing. These are the main sources of increased wages - at any one time, there is only a limited opportunity for raising wages by reducing profit margins. However the process is dynamic rather than static. Increased wages and increased profits rather than being incompatible, tend to go hand in hand as the performance of enterprises improves.
7. Improvements in productivity will be assisted by the completion of the Internal Market and the area without internal frontiers which encourage the exploitation of economies of scale within the Community, while taking into account the need to strengthen its economic and social cohesion. These improvements can also be promoted by encouraging firms to replace low wage - low productivity employment with high wage - high productivity employment.
8. Long-run improvements in both incomes and levels of employment depend on achieving an appropriate balance through time between the rate of investment in capital and the rate of increase in wages. Increases in wage rates cannot run ahead of increases in productivity for long, or they will lead to reduced employment. Equally, however, if wage levels are held down through under-investment in education and training as well as in capital, the economy will be condemned to relying on low grade employment increasingly under threat from more efficient competitors in the world economy.
9. What is true for the economy as a whole, however, is not necessarily true within enterprises or between different activities. Levels of relative wages do not reflect systematically relative levels of productivity. Relative wages within an economy are subject to a large number of forces - social, cultural and historical as much as economic.
10. While relative wages reflect demand and supply to some extent there is no economic law which determines the "right" wage differentials or the ratio between higher and lower levels of pay or that interesting and satisfying jobs (which might be imagined to be poorly paid because they are intrinsically rewarding) should generally be well-paid.
11. Moreover, many jobs are priced administratively outside of any market mechanism, both in the public and the regulated professions. Indeed rates of pay are seemingly often related to certain principles which reflect notions of equity of some sort (e.g. that the more skilled should be paid more than unskilled or those having greater seniority more than younger workers), just as much as economic criteria.

12. In addition, there are many cases where - because of imbalances in the labour market or because of forms of social discrimination - workers with particular skills, or doing particular jobs, or workers in particular sectors or types of firm, do not receive wages equivalent to what others are receiving for similar work.
13. There can be several reasons for which employees can receive different pay for the same work. In some cases it may be seen as socially acceptable to make a distinction between different categories of worker, for example where young people are paid less than older workers for the same work. In other cases, discrimination cannot be tolerated for example, when immigrant workers receive lower pay than other workers for the same work. Another type of more indirect discrimination occurs because some categories of workers, particularly women, are often concentrated into low paid jobs.

#### WAGE LEVELS WITHIN THE COMMUNITY AND INSIDE EACH MEMBER STATE

14. There are very considerable differences in wage levels both within and between Member States, reflecting the sorts of factors discussed above. A comparison of relative levels of wages across the Community shows that there are substantial differences between the more prosperous, developed countries and the poorer, less developed Member States. For example, in April 1991 average hourly earnings of manual workers in manufacturing, gross of tax, ranged from over ECU 12 in Denmark and ECU 10 in Germany to around ECU 2 in Portugal and a little over ECU 3 in Greece. If differences in levels of prices and in patterns of consumption from one country to another are taken into account, the difference in earnings between Member States is reduced markedly. Indeed the gap between Denmark and Portugal is nearly halved. A reduction of these disparities would require a convergence of their economies and the approximation of improvements in living and working conditions in the context of European integration.
15. This opinion, without neglecting these structural problems, focuses on the existence of low wages, especially those resulting from discrimination, inside each Member State and specific to each one of them.
16. Differences in levels of wages within countries are less well documented. The Commission therefore set up an expert working party, to assist in the study of these issues, particularly with regard to low pay. The working party identified various categories of worker who are at the lower end of the earnings scale, notably women, young people and those in certain sectors such as agriculture, textiles, clothing, leather goods, footwear, retailing, hotels and catering and personal services. While inadequate statistical information is available about other low paid categories, these almost certainly include workers with low levels of qualification, those in less well developed regions, those in peripheral employment, the immigrant population and those with disabilities.

PRINCIPLES FOR COMMUNITY ACTION

17. Within Member States a great deal is already being done using the normal policy instruments - legislation, administrative action, consensus building - in order to deal with problems of low wages and discrimination. Community action needs to be varied and subsidiary to the main action in the Member States if it is to steer the European economy in the direction of employment expansion and decent levels of pay.
18. This action by the Member States should be developed in the light of the following objectives:
  - to look for appropriate levels of equitable wages;
  - to promote the objective of high quality, high productivity employment;
  - to place particular emphasis on increased investment in education and training; and
  - to encourage a reassessment of attitudes to traditionally low paid groups and the strengthening of measures to combat discrimination.

ACTION PROPOSED

19. The Commission considers that these principles can best be implemented by action under the following headings.

Improvement of labour market transparency

20. Improved arrangements for the collection and dissemination of information about wage structures at Community, national and local levels would improve knowledge about the functioning of the labour market, enable more effective policies to be developed and thus remove some of the causes of unfairness, particularly in the context of the Internal Market.
21. In addition, the Commission considers it to be essential to ensure, at the level of each Member State or at regional or sectoral levels, a widespread dissemination of provisions and practices with regard to existing reference wages. The Commission does not wish to put forward one particular model but suggests that the relevant bodies at the appropriate levels in each Member State should build on their own practices (agreements, legal provisions, etc.) in order to introduce the references which are best adapted to their own national context.

Action designed to ensure that the right to an equitable wage is respected

22. Certain categories of workers on the labour market are particularly vulnerable and risk to be discriminated against. Protection against such discrimination might be provided by a combination of legislation, in particular the strict application of Community Directives on equal treatment between men and women, administrative arrangements, collective negotiations, development of codes of good practice and improvements in information about the labour market. At the same time, care is needed to avoid pushing low paid workers into the informal economy.
23. Even when employees have agreed an equitable wage they do not always receive it. Measures are therefore needed to ensure that wages may be withheld, seized or transferred only in accordance with national law. Arrangements are also needed to ensure that employees are correctly paid in respect of periods of leave or sickness.

Development of human resources

24. The close relationship between productivity and wages has already been emphasised. It is appropriate to strengthen the measures already under way to increase productivity and thus the earnings potential of the workforce, in particular with regard to investments in human resource development at all levels: secondary and tertiary education, initial training, retraining, continuous training and individual development. The Commission will contribute towards a better matching of vocational training arrangements to the developing needs for qualifications and retraining of both workers and businesses, by ensuring the collection and dissemination of experiences in this area and encouraging co-operation between those concerned.

ROLE OF SOCIAL PARTNERS

25. The social partners at all levels - Community, national, regional and local - have a crucial part to play in the implementation of a successful policy to assure an equitable wage to all workers. The Commission expects that they will be fully involved within the Member States and for its part will support the development of discussions on this subject at Community level in the context of the social dialogue, as recommended by the Economic and Social Committee and the European Parliament. The social partners will also be invited to collaborate in the studies, which the Commission proposes to undertake, to promote a convergence of equitable wage policies within the Member States.

COMMISSION OPINION

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THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 118 thereof,

Having regard to the opinion of the Economic and Social Committee<sup>(1)</sup>,

Having regard to the opinion of the European Parliament<sup>(2)</sup>,

Whereas reinforcing social and economic cohesion within the Community requires respect for the principles of equity and social justice;

Whereas the completion of the internal market will bring dynamism and employment opportunities and will assist the growth of the European economy; whereas this increase in riches should benefit all the inhabitants of the Community;

Whereas this development will enable the companies within the Community to establish a strong position with regard to those sectors of the market which have a potential for a high added value and for development;

Whereas the quality, performance and commitment of the European labour force are fundamental advantages in world competition;

Whereas the persistence of very low wage levels raises problems of equity and social cohesion, which could be harmful to the effectiveness of the economy in the long term;

Whereas the Community Charter of the Fundamental Social Rights of Workers, emphasized, in its Point 5, the principle that all employment shall be fairly remunerated;

Whereas the Commission in its Action Programme relating to the implementation of the said Charter acknowledged that wage-setting is a matter for the Member States and the social partners; whereas the Commission recognized that it has a responsibility for asserting its views on an important problem for a significant proportion of the working population;

Whereas on 24 June 1992 the Council adopted Recommendation 92/441/EEC on common criteria concerning sufficient resources and social assistance in social protection systems<sup>(3)</sup>; and whereas this Opinion complements that Recommendation;

Whereas the report of an expert working party has shown that in spite of the mechanisms already in place the problem of low pay is an issue in all countries of the European Community;

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(1) OJ No C 223, 31.8.1992, p. 57.

(2) OJ No

(3) OJ No L 245, 26.8.1992, p. 46.

Whereas it is recalled that with regard to pay Community Law prohibits discrimination on the grounds of sex<sup>(4)</sup> or nationality,

**HEREBY DELIVERS THE FOLLOWING OPINION:**

1. The right, referred to in the Community Charter of the Fundamental Social Rights of Workers, of all workers to be assured of an equitable wage should be reaffirmed, with particular attention being paid to the more vulnerable members of the labour force; the concept of "an equitable wage" means that all workers should receive a reward for work done which in the context of the society in which they live and work is fair and sufficient to enable them to have a decent standard of living.

2. While operational definitions can best be established at national, regional or sectoral levels, the right can best be assured as far as the Community level is concerned by complying with the following principles:

- the Community's future in the world economy lies in achieving high productivity and high quality employment. This objective should be pursued throughout the Community not only by increasing the rate of investment in capital equipment, but also by increasing investment in education and training, particularly in order to meet the developing needs for qualifications on the part of companies and workers and by the promotion of good industrial relations;
- the pursuit of equitable wages is to be seen as part of the process of achieving the Community's basic objectives of greater economic and social cohesion and a more harmonious development within the framework of an increasingly integrated European economy;
- wages are determined as much by social as by economic factors. While adjustments in wages may reflect structural changes of demand and supply in industries, regions and skills, the increasingly integrated Community labour market may well affect the social preferences which influence national wage hierarchies. The Community should therefore seek ways of eliminating discriminatory wage practices, as part of its wider social and economic objectives;
- attitudes to traditionally low-paid groups should be reassessed. Discrimination should be combated and equal opportunities promoted in a variety of ways, including legislation, taxation and administrative arrangements or consensus or collective bargaining.

3. To this end Member States should:

- give substance to their commitment given in the Social Charter to assure the right of all workers to an equitable wage, irrespective of gender, disability, race, religion, ethnic origin or nationality;

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(4) In particular: Article 119 of the EEC Treaty; Council Directive 75/117/EEC on equal pay for men and women; Council Directive 76/207/EEC on equal treatment between men and women with regard to access to employment; Council Directive 79/7/EEC on equal treatment between men and women with regard to social security.



- take account of the principles outlined in point 2 in the development of their economic and social policies;
- take the following action to implement these principles:

Action to improve labour market transparency with regard to wages

Action is needed at all levels to improve the labour market, in particular:

- by improving transparency of the labour market by a better collection and dissemination of comparable statistical information about wage structures at Community, national and local levels to enable more effective policies to be developed and thus remove some of the causes of unfairness; employment services have an important role in this respect;
- by disseminating widely existing information about equitable reference wages.

Action designed to ensure that the right to an equitable wage is respected

Member States should take appropriate measures to ensure that the right to an equitable wage is protected, in particular by a re-assessment of the adequacy of existing arrangements to protect the right to an equitable wage, including consideration of the following:

- further legislation including legislation on discrimination, in particular on grounds of gender, race, ethnic origin or religion;
- means of ensuring fair treatment for workers in all age groups and for homeworkers;
- mechanisms for the establishment of negotiated minima and the strengthening of collective bargaining arrangements.

These arrangements could be supplemented by:

- . development of codes of good practice with regard to the treatment of weaker groups of workers on the labour market who are susceptible to low wages;
- . improved arrangements for providing information about the labour market, particularly with regard to rates of pay, while avoiding imposing undue burdens on small and medium-sized undertakings;
- . provision of information about discriminatory practices.

The Member States should ensure that the measures taken do not force low-paid workers into the informal economy and do not encourage recourse to unlawful employment practices.

The Member States should also ensure that the measures do not have a negative impact on job creation.

They should take the necessary measures to ensure that the wages agreed in contractual labour relationships are effectively and fully paid and that employees are correctly paid in respect of periods of leave or sickness.

Action in favour of human resource development

Member States should take the necessary measures to improve the long-term productivity and earnings potential of the workforce. These measures should include a major effort to increase investment in human resources at all levels and at all stages of development, including secondary and tertiary education, initial training, retraining, continuous training and individual development.

4. The social partners are invited to:

- address all the issues raised by this Opinion at Community, national, regional and local level, in particular to examine what contribution they can make to ensuring the right of every worker to an equitable wage.

5. For its part the Commission considers that it is pertinent:

- to take appropriate measures to improve the quality of information available at Community level, in particular with regard to wage structures. To this end the Commission proposes to undertake a new, revised, Survey on the Structure of Earnings in order to provide more rapid information and to adapt existing statistical tools. The information so collected will be widely disseminated and can provide a basis for discussion at national and Community levels;
- to contribute towards a better matching of vocational training arrangements to the developing needs for qualifications and retraining of both workers and businesses, by ensuring the collection and dissemination of experiences in this area and encouraging cooperation between those concerned;
- to encourage the development of exchanges across the Community on the practices within firms with regard to remuneration;
- to undertake further studies, in collaboration with the Member States and the social partners, to seek to promote a convergence of equitable wage policies within the Member States.

6. The Commission will submit a report to the Council, the Economic and Social Committee and the European Parliament, after consultation with the social partners, within three years after the adoption of this Opinion on the basis of information which will be requested from the Member States on the progress made and the obstacles encountered. Thereafter, progress will be monitored every two years.

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# DOCUMENTS

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