



# Wage formation in the EU

Systems of wage formation

Wage developments

Minimum wages

Wage formation in the IT sector

Commentary

This report is available in electronic format only.

*This report examines wage formation in the EU from a range of perspectives. It analyses the main systems of wage formation in operation and looks at the main wage developments of the past five years. This includes an overview of recent sectoral agreements, along with an analysis of trends at company level and of the social partners' views. The report also explores key issues pertaining to the minimum wage, including how national rates are set and upgraded. The final section of the report analyses wage formation in the dynamic and fast-growing IT sector, which tends to yield higher wages than elsewhere in the economy. Among the report's findings are the variable levels of wage growth across the EU countries, along with the widespread use of individualised pay and other variable pay elements at company level.*

## **Systems of wage formation**

Systems of wage formation in the majority of European countries covered in this study are based on **collective bargaining** between the employer and employee representatives, although major differences exist in terms of the predominant level of bargaining and the links between these levels. In a significant number of countries, the collective bargaining system is underpinned by legislation. In Ireland, for example, the system is described as a mixture of voluntary collective bargaining and industrial relations legislation. This section will examine the main characteristics of wage formation systems in Europe, looking at levels of bargaining, the main actors involved and the role of the state. It will also examine what happens when bargaining fails, and who is responsible for monitoring bargaining. Table 1 provides an overview of wage formation systems in each country.

## **Levels of collective bargaining**

### *National level*

Wage formation in some countries is determined by the national incomes policy, which is usually set by the government in consultation with the social partners, or set by tripartite agreement. In Finland, for instance, national tripartite bargaining has played an important role in wage formation over the past four decades. Similarly, in Ireland, national incomes policies have been a determining characteristic of **pay** since 1987.

In some countries, wage determination is structured, with the levels interlinked. This is the case in Belgium, for example, where bargaining takes place at national level in order to set a framework for subsequent bargaining at sectoral level and finally at company level. In Hungary, the tripartite National Interest Reconciliation Council (**Országos Érdekegyeztető Tanács**, OÉT) issues to lower-level bargaining parties a recommendation for wage increases. In Ireland also, national incomes policy agreements set a framework within which bargaining at company level subsequently takes place. Norway operates a highly articulated bargaining model, under which sectoral bargaining dominates and takes place every two years; this is followed in the subsequent year by supplementary company-level agreements negotiated under a peace clause. In Spain, bargaining at sectoral and company level has been carried out since 2002 within the framework of annual national agreements that set criteria for overall pay growth.

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### *Articulated bargaining*

In other countries, although bargaining takes place at a range of levels – such as sectoral and company level – there is no formal coordination between these levels. This is the case in Cyprus for example. In countries such as the Czech Republic, although no formal linkage exists between sectoral and company-level bargaining, sectoral agreements are nevertheless seen as framework agreements setting out the minimum standards for a particular sector.

Where bargaining takes place at a variety of levels, many countries operate a system under which agreements at lower level may only improve on what has been negotiated at a higher level. This is the case in countries such as Austria, Belgium, Germany, Greece and Romania.

In some countries, such as Sweden, the articulation takes place between sectors rather than different levels; in this particular country, the industry sector ‘sets the pace’ for bargaining in the rest of the economy. This is also the case in Austria and Germany, where the metalworking sector is usually seen as the pacesetter.

### *Bargaining at sectoral level*

The sectoral level dominates bargaining in some countries, such as Austria, Denmark, Germany, Italy, the Netherlands, Norway, Portugal, Slovakia, Slovenia and Sweden. In the case of Sweden, however, the majority of wage bargaining takes place at company or establishment level, within the framework of a sectoral agreement. In Italy, where sectoral-level bargaining predominates, bargaining has increasingly been taking place at company level over the past decade.

In Spain, agreements at levels higher than company level play an important role in wage determination. In this country, the most important level is the provincial sectoral level, which is an intermediate level between the company and the national sectoral level; it is estimated that this bargaining level represents 20% of all agreements and covers more than half of all workers covered by collective bargaining. In order to negotiate at a level higher than the company level, trade unions must be the ‘most representative’ – that is, the unions that have obtained more than 10% of representation at national level or 15% at autonomous community level.

### *Decentralised bargaining*

In a number of other countries, bargaining is decentralised, operating predominantly at the company or enterprise level. This is the case in countries such as Cyprus, Malta and the United Kingdom (UK).

### *EU15 and new Member States*

In terms of collective bargaining, it should be noted that a certain divide remains between the 15 ‘older’ EU Member States (EU15) and some of the new EU Member States (NMS). In these latter countries, the social partners may not be as well established as in some of the EU15 Member States. As a result, collective bargaining over pay is not as widespread. This is the case in Estonia and Lithuania, for instance, where agreement between individual employees and the employer is at present the main determinant of pay. In Lithuania, it is estimated that only about 15% of employees are covered by **collective agreements**. In Poland, although bargaining at company and multi-employer level exists, it is hampered by a lack of trade union representation – particularly at company level. Many agreements are reported to simply adhere to existing legal provisions.

## *Differences between private and public sectors*

In many countries, a difference exists between the private and public sectors in the way that wages are set. While wage formation in the private sector in a significant number of countries is governed by collective bargaining, in the public sector the final decision on pay is taken by the government, although the actors may bargain. This is the case in Austria, where the social partners are excluded from formal bargaining, although they do negotiate over pay. In the UK, although the social partners in the public sector negotiate, pay increases are recommended by independent review bodies which the government can then decide whether or not to implement in full. In Ireland, the public sector is also covered by specific national pay review bodies, established by the government. In Denmark, the public sector accounts for about 37% of total employment and is therefore an important factor for the economy as a whole. Wage setting in the Danish public sector has traditionally been highly centralised, although moves have been made in the past decade to inject more **flexibility** into the process.

## **Main determining factors**

Wage formation is generally a relatively complicated process in most countries, taking into account a range of factors such as: productivity, company budgets, the rate of inflation, economic growth, rates of unemployment and employment, labour market supply and demand, and the general health of the economy.

A small number of countries retain a type of index-linking system for pay to ensure that it is not overtaken by inflation. Belgium stands out in this context, as it is one of the few countries in western Europe that still has an extensive automatic index-linking system in setting wages, allowing for pay and social security benefits to be linked to the consumer price index. A system of pay indexation also operates in Cyprus, under which earnings are adjusted every six months on the basis of the developments in the consumer price index. In Luxembourg, pay levels and income for pensioners and those receiving social benefits are automatically adjusted to compensate for inflation on a retroactive basis if the consumer price index rises above 2.5%. In Malta, a Cost of Living Allowance is added to the pay of all workers, based on inflation over the previous 12 months.

In Latvia, although collective bargaining does exist, predominantly at the company level, the main determinant of pay in the private sector is the market: as pay is rising so quickly, negotiated rates fall behind the market level often before they officially come into force.

In the UK, where a voluntaristic and highly decentralised system of bargaining operates, the notion of the ‘going rate’ – that is, the rate that seems to be dominant in other agreements – is important in pay setting at company level.

## **Main actors involved**

On the employee representative side, if national bargaining plays a role, national-level trade union representatives are important actors, as is the state in countries where tripartite bargaining is widespread at national level, such as Finland and Ireland. In some countries, such as Austria, Germany and the UK, trade union representatives at national level have no pay bargaining mandate.

Where collective bargaining is mainly on a sectoral basis, the representatives of sectoral trade unions are the main actors in collective bargaining. If collective bargaining largely occurs on a company basis – as is the case, for instance, in Cyprus, Malta and the UK – trade union representatives or employee representatives at company level are the main actors. In some cases, pay is negotiated directly between employees and the employer.

On the employer side, the position is largely the same as it is for employee representatives: in other words, the main actors depend on the predominant level of bargaining, at national, sectoral, company, or a mixture of these levels. In the public sector, the government often takes on a role in bargaining, either as an employer in the case of local authorities or central government organisations, or as the party which sets or approves of pay levels.

## **Role of government bodies**

Government bodies do not generally play a role in wage formation in the private sector in most countries. However, if a country has tripartite bargaining in place – that is, in the form of an incomes policy, as seen in countries such as Finland and Ireland – the government will play a role in bargaining.

In the public sector, the government often plays a decisive role in pay setting, either by accepting independent pay recommendations (UK) or by unilaterally deciding pay increases (Austria). In Ireland, the government plays a role in public sector pay review bodies and the [Public Service Benchmarking Body](#).

In some countries, the government will intervene following certain pay trends. For example, in Belgium, government intervention will take place if average overall wage increases result in an upsurge in relative labour costs per head and in a deteriorating external performance of private sector companies. In the Netherlands, although the government does not intervene directly in the bargaining process, it has on several occasions called for a wage freeze. Most recently, the social partners agreed to a wage freeze in 2004 and 2005.

The government can sometimes play a role in extending collective agreements to employers and employees in the relevant sector who are not bound by the agreement – as is the case in countries such as France, Germany and Portugal.

## **Failed bargaining**

Most countries have a system in place to deal with cases of failed collective bargaining. This sometimes takes the form of a decree issued by a government body, in order to set pay in the area covered by the failed bargaining, as is the case in Austria.

In some countries, such as Bulgaria, sectoral tripartite councils play a role in dispute resolution, as do national bodies dealing with conciliation and arbitration. The UK also has a national conflict resolution agency, the [Advisory, Conciliation and Arbitration Service \(Acas\)](#), to which parties in a dispute may refer the matter for conciliation or arbitration. In Malta, disputes can be voluntarily settled through mediation and conciliation and, ultimately, disputes can be referred to an industrial tribunal. Furthermore, in Greece, one or both parties can refer a dispute to the independent Mediation and Arbitration Service ([Organismos Mesolavisis ke Dietisias](#), OMED).

In Ireland, the state dispute resolution institutions play an important role when bargaining fails. The most prominent of these are the [Labour Relations Commission \(LRC\)](#) and the informal dispute resolution institution, the [National Implementation Body \(NIB\)](#). In Luxembourg, all disputes that arise from collective bargaining are required to undergo a conciliation process at the country's National Office for Conciliation ([Office National de Conciliation](#), ONC). In Sweden, the National Mediation Office ([Medlingsinstitutet](#)) mediates between the parties if bargaining fails.

## Monitoring of bargaining

Systems for monitoring collective bargaining vary widely between the countries. In some countries, formal monitoring is carried out by the state or institutions belonging to the state. In Sweden, for example, the National Mediation Office monitors the bargaining process. The country also has an Institute for Labour Market Evaluation ([Institutet för arbetsmarknadspolitisk utvärdering, IFAU](#)), which conducts a number of studies on wage bargaining and its effects on the labour market. In Latvia, the Department of Industrial Relations and Social Dialogue ([Darba attiecību un Sociālā dialoga nodaļa](#)) at the Ministry of Welfare ([Labklājības ministrijas, LM](#)) collects data on trade union activities, including collective bargaining. In Malta, bargaining is monitored by the [Ministry of Finance, the Economy and Investment](#), in addition to the Central Bank of Malta ([Bank Ċentrali Ta' Malta](#)). In Austria, the Federal Arbitration Board ([Bundeseinigungsamt](#)) files all collective agreements and carries out some monitoring. In Estonia, the Ministry of Social Affairs ([Sotsiaal Ministerium](#)) has a registry of collective agreements.

The Labour Inspectorate carries out monitoring in some countries – such as the Netherlands, Poland, Romania and Slovenia. In Finland, the Labour Court ([Työtuomioistuin](#)) monitors the implementation of collective agreements.

In some countries, all, or specific types of, collective agreements have to be registered with the relevant ministry. This is the case in Lithuania, for example, although only in relation to sectoral, not company, agreements. In the Czech Republic, so-called higher level agreements – that is, those above company level – must be registered with the Ministry of Labour and Social Affairs ([Ministerstvo práce a sociálních věcí České republiky, MPSV ČR](#)). In Bulgaria, a new draft labour code would introduce compulsory registration of collective agreements at the [National Institute for Conciliation and Arbitration \(NICA\)](#).

Tripartite organisations carry out monitoring of bargaining in some countries, such as Spain, where the national Advisory Board on Collective Agreements ([Comisión Consultiva Nacional de Convenios Colectivos](#)) carries out a range of studies and reports on collective bargaining. In Denmark, trade union, employer and government representatives in the country's Statistical Committee ([Statistikudvalget](#)) follow trends in labour costs in Denmark and other countries, with a view to ensuring the competitiveness of Danish companies. This includes reporting on wage developments as part of an annual report. Some monitoring of bargaining takes place through ad-hoc public or bipartite committees in Norway. In Hungary, the tripartite OÉT compiles annual reports on the implementation of agreements within its remit, in preparation for the coming year of bargaining. In Ireland, the tripartite NIB has, in recent years, played an increasingly prominent role in monitoring collective bargaining and dealing with disputes that arise from social partnership agreements. In Italy, collective bargaining is monitored by the tripartite National Council for Economic Affairs and Labour ([Consiglio Nazionale dell'Economia e del Lavoro, Cnel](#)).

In some countries, the social partners or organisations funded by the social partners carry out monitoring of collective bargaining. In the UK, for example, the [Trades Union Congress \(TUC\)](#) and the trade union-based [Labour Research Department \(LRD\)](#) monitor the country's collective bargaining. In the Czech Republic, the Czech-Moravian Confederation of Trade Unions ([Českomoravská konfederace odborových svazů, ČMKOS](#)) monitors collective bargaining and collective agreements that cover its members. In Germany, monitoring of collective agreement is regularly undertaken by the Collective Agreement Archive ([Tarifarchiv](#)) of the Institute of Economic and Social Research ([Wirtschafts- und Sozialwissenschaftliches Institut, WSI](#)), within the Hans Böckler Foundation ([Hans-Böckler-Stiftung](#)). In Hungary, trade union confederations and employer organisations sometimes map the outcome of annual wage rounds. Similarly, in

Portugal, the main trade union confederations monitor the collective bargaining carried out by their member organisations.

In other countries, independent bodies collect and publish information about collective bargaining. In the UK, for instance, data on the main settlements is collected and published by [Incomes Data Services \(IDS\)](#) and [Industrial Relations Services \(IRS\)](#), both of which are private sector research and publishing organisations. In Slovakia, monitoring of collective bargaining has been carried out by the research and consultancy company [Trexima](#) in the country's capital city of Bratislava, as part of a study by the Ministry of Labour, Social Affairs and Family ([Ministerstvo práce, sociálnych vecí a rodiny SR](#), [MPSVR SR](#)). The monitoring of bargaining in France is carried out by the research group [Liaisons Sociales](#), which reports on all major agreements.

A small number of countries have no monitoring systems in place for collective bargaining. These include Cyprus and Luxembourg.

**Table 1: Overview of wage formation systems, by country, public and private sectors**

Country	Private sector	Public sector
<b>AT</b>	Collective bargaining occurs at sectoral level. Some regional bargaining takes place. Company-level agreements are the exception.	Bargaining between trade union and government representatives takes place but the parliament ultimately determines pay.
<b>BE</b>	National bargaining takes place every two years. Bargaining also takes place at sectoral level to implement the national agreements. Some company-level bargaining also takes place, although the Belgian system is characterised as being centralised.  An index-linking system also links pay and social security benefits to the consumer price index.	Employment relationship is governed by legislation, although negotiations on pay leading to agreements can take place. Automatic wage indexation also covers the public sector.
<b>BG</b>	Bargaining takes place at sectoral and company level.	Bargaining takes place at sectoral level.
<b>CY</b>	Bargaining is decentralised and takes place predominantly at enterprise level, although the industry level is also seen as important in terms of coverage. Index linking also exists.	N/A
<b>CZ</b>	Bargaining takes place predominantly at company level, although some sectoral	N/A



	agreements exist, which are seen as framework agreements on minimum standards.	
<b>DE</b>	Sectoral-level collective bargaining predominates. Some company-level agreements also exist.	Collective bargaining takes place at sectoral level.
<b>DK</b>	Bargaining takes place predominantly at sectoral level, with some company-level bargaining also occurring.	Collective bargaining is characterised by centralised sectoral agreements, although more flexibility and some decentralisation has been introduced over the past decade.
<b>EE</b>	Agreement between individual employees and the employer is the main determinant of pay, although some collective bargaining at sectoral and company level takes place.	Wage formation is dependent on wage scales set by government decrees.
<b>EL</b>	National collective agreements set overall minimum wage increases. Sectoral and company-level agreements also regulate wages – they must be more favourable than those set at a higher bargaining level.	Pay is determined by law according to the government's annual incomes policy. Pay is excluded from bargaining in the public sector.
<b>ES</b>	National multi-sector agreements set the framework for bargaining at national sectoral, provincial sectoral and company levels. The most important level is the provincial sectoral level.	Pay for civil servants and public administration staff is determined within the limits established by the state budget.
<b>FI</b>	National tripartite incomes policy agreements set the framework for sectoral and company bargaining.	National tripartite incomes policy agreements set the framework for sectoral and company bargaining.
<b>FR</b>	Bargaining is predominantly at company level, although sectoral-level and multi-industry agreements exist.	N/A
<b>HU</b>	A national-level agreement sets the framework for sectoral and company agreements.	National-level bargaining sets the framework within which pay increases for civil servants and public service employees are agreed by the National Public Service Interest Reconciliation



		Council ( <a href="#">Országos Közzszolgálati Érdekegyeztető Tanács, OKÉT</a> ), which comprises government, local government and trade union representatives.
<b>IE</b>	National incomes policy agreements set the framework for company-level bargaining.	Pay is determined by national incomes policy agreements, along with specific national public pay review bodies.
<b>IT</b>	Industry-wide bargaining takes place at national level, with second-level bargaining occurring at company level.	Public administration employers are represented in negotiating activities by the Public Sector Bargaining Relations Agency ( <a href="#">Agenzia per la rappresentanza negoziale delle pubbliche amministrazioni, Aran</a> ). Public sector agreements are reviewed every two years, within the limits set by the government's national budget report ( <i>Documento di programmazione economica e finanziaria, DPEF</i> ).
<b>LT</b>	Individual agreements reached between the employer and employees is the main determinant of pay – company-level collective bargaining is estimated to cover a maximum of 15% of the workforce.	Pay for civil servants and central government workers is determined by legislation.
<b>LU</b>	Collective bargaining takes place at sectoral level. Bargaining can also take place at company level or for groups of companies. An automatic wage indexation system exists.	Public sector pay is set by legislation.
<b>LV</b>	Pay is determined by the market rather than collective bargaining, although collective bargaining does take place, predominantly at company level. Some sectoral agreements also exist.	State bodies play a major role in establishing wage systems and levels in the public sector.
<b>MT</b>	Collective bargaining takes place at company level. A mandatory Cost of Living Allowance is paid to all workers, based on inflation over	The government has a collective bargaining unit that negotiates collective agreements on behalf of government departments and other government-run or owned

	the previous 12 months.	enterprises.
<b>NL</b>	Bargaining takes place predominantly at sectoral level, although an increasing number of company-level agreements are emerging.	Sectoral-level bargaining sets the framework.
<b>NO</b>	Sectoral-level bargaining occurs every two years; this is followed the subsequent year by supplementary company-level bargaining. Some individual pay determination also exists.	Sectoral-level bargaining occurs every two years; this is followed the subsequent year by supplementary company-level bargaining.
<b>PL</b>	Bargaining takes place at company level, although it is hampered by a lack of trade union representation at company level. Limited multi-employer bargaining also occurs. Individual agreements are also reached in small and medium-sized enterprises (SMEs), of which there are many.	The tripartite national body oversees public sector remuneration. Bargaining in the public sector largely produces company-level agreements.
<b>PT</b>	Bargaining takes place predominantly at sectoral level.	Bargaining is carried out between representatives of the central government and local and regional authorities, as well as public sector trade unions. After the bargaining has been completed, the government sets the pay increases.
<b>RO</b>	Collective bargaining at national level sets the framework for bargaining at sectoral and company level.	N/A
<b>SE</b>	Bargaining takes place at sectoral level, although there is a trend towards a more decentralised and individual system of wage determination.	Bargaining takes place at sectoral level.
<b>SI</b>	Bargaining takes place at sectoral level.	Bargaining takes place at national level.
<b>SK</b>	Bargaining occurs at both sectoral and company level	Bargaining takes place at sectoral level, with some company-level bargaining also occurring. Pay for civil servants and some public employees is defined by state

		bodies.
<b>UK</b>	Highly decentralised bargaining takes place predominantly at company and/or workplace level. The idea of the 'going rate' is important in pay negotiations.	Sectoral and company-level bargaining takes place. Pay for certain groups of workers is set by the government after considering the recommendations of independent pay review bodies.

*Note: N/A = not available*

## Wage developments

### Pay trends

Looking at the pay data supplied by national centres for the previous five years, a variety of trends can be seen. In some countries, pay is on an upward trend. This is particularly true for many of the NMS. In other countries, pay moderation is the key trend, particularly in those where pay setting operates within the framework of pay norms. In some of the countries where pay has stagnated, this is due to the economic framework rather than conscious adherence to pay norms.

#### *Rising trend*

A slight upward trend in pay is evident in some of the countries under consideration, particularly in recent months, due to rising inflation and the increasing cost of fuel. For example, in the UK, the average wage settlement level has risen from 3% in January 2004 to 3.5% in January 2008. Pay experts in the UK are undecided whether rising inflation will have an impact on pay in the future, as employers are expected to try to keep down their wage costs. In France, a rising trend in pay settlements has also been evident in recent years, albeit only a small increase, with real net pay rising by 0.34% between 2002 and 2006 – although pay rose faster for the lowest paid workers. In Finland, recent sectoral agreements, within the context of the centralised national incomes policy agreement, have provided for relatively high pay increases for all employees.

The rising trend in some countries, particularly the NMS, has been more significant in recent years. In Estonia, for instance, pay rose by 16.5% in 2006. Similarly, in Bulgaria, average wage growth amounted to 18% in the 12 months up to March 2007 and 24.4% in the 12 months up to March 2008. In the Czech Republic, the fast pace of economic growth has resulted in relatively high wage increases over the past five years, although significant sectoral variations are evident: for instance, wages are highest in computer technology occupations and lowest in the textiles industry. In Hungary, it is estimated that real wages have risen by 49% between 1999 and 2006, ahead of gross domestic product (GDP) and productivity growth. This is thought to be due to rapid increases in the minimum wage (see also below) and government measures to increase public sector pay. Nevertheless, it should be noted that real wages subsequently fell in Hungary by 4.8% in 2007 due to the government's austerity package, which was introduced in 2006 ([HU07080291](#)). In Lithuania, pay is reported to have been growing by up to 20% a year since the country joined the EU. Similarly, in Latvia, pay growth is strong and rising: real wage growth amounted to 9.7% in 2005, 15.6% in 2006 and 19.9% in 2007 and is rising fastest in the public sector.

In some countries, there has been an uneven increase in pay over the past few years in the different sectors. In Malta, for example, although the average increase amounted to 12% over the four years up to the end of 2007, pay in the hotels and restaurants sector rose by only 2% over that period. In other countries, such as Norway, there has been an uneven development in the pay of blue-collar and white-collar workers: in particular, pay for white-collar workers in the manufacturing sector has increased by more than blue-collar workers' pay. Sectoral differences are also significant in Bulgaria, where workers in the mining sector have enjoyed the highest pay growth. In Ireland, one of the main developments in recent times has been the increase of explicit comparisons between public and private sector pay trends when setting wages.

## *Pay moderation and adhering to wage norms*

Pay moderation has characterised wage developments over the past few years in some countries, particularly those that are aiming to achieve the macroeconomic convergence criteria required to join the European [Economic and Monetary Union](#). This is the case in Cyprus, for instance, where pay increases have been low in many sectors, and in some cases negligible. Overall, it is estimated that pay increases have been significantly lower than productivity increases in Cyprus over the past 10 years.

In some countries, wage norms have been set in order to keep wage growth to a certain level. This is the case in Belgium, where it has been reported that wage growth over the past five years has largely remained within the wage norm of 5% set by national inter-sectoral agreements. Ireland is another country where pay bargaining has been taking place within the framework of nationally-set norms: since 1987, national tripartite pay deals have established minimum and maximum pay awards in unionised workplaces. The country's 10-year national social partnership agreement, [Towards 2016 \(2.86Mb PDF\)](#), has set a 10% pay increase over 27 months.

Low inflation coupled with pay moderation have resulted in steady, modest increases in real pay in some countries, such as Sweden, where this contrasts sharply with the rapid pay increases and high inflation of the 1970s and mid 1990s. Pay moderation has also been a feature of wage formation in Spain over the past few years, although it is reported that purchasing power has increased, largely due to the wage guarantee clauses that apply to about 75% of the workers covered by collective agreements in Spain; this would trigger extra increases if inflation rises above forecast levels.

In Italy, although pay growth has maintained workers' purchasing power over the past five years, it has not outpaced inflation. In Portugal, pay growth has been moderate since 2000 and real pay decreases have occurred in the public sector. In Germany, collectively-agreed pay growth has been moderate over the past five years, as have increases in average earnings.

## **Equal pay**

[Equal pay](#) remains a key issue for debate as, although the gender pay gap is closing in many countries, it remains larger than desired. A number of new initiatives have been launched to try to close the gender pay gap. For example, in the UK, in February 2006, the government-appointed [Women and Work Commission \(WWC\)](#) published recommendations for combating job segregation and the gender pay gap ([UK0603019I](#)). In Greece, although the gender pay gap persists, efforts are being made to increase women's participation in the labour market to 60% from the current 46.2%, as well as to boost female entrepreneurship. To this end, the [General Secretariat for Gender Equality \(GSGE\)](#) signed in 2006 a protocol for cooperation with employers.

Sectoral bargaining is the main channel used to close the gender pay gap in Finland. For instance, in the public sector at local and central government level, an equality allowance will provide for an extra increase of about 2% for qualified employees in female-dominated occupations.

The issue of labour market segregation and the role that this plays in equal pay is also a concern in some Scandinavian countries. In Norway, for example, pay for female-dominated professions in the public sector has emerged as a key issue, such as for those in the nursing and teaching professions, in comparison with private sector employees with the same level of education. Similarly, in Sweden, occupational segregation and sectoral pay differences have resulted in a significant gender pay gap, although women's pay is increasing at a faster rate than men's pay. Women's overrepresentation in low-paid sectors is also reportedly a problem in Austria, coupled

with the alleged practice of classifying women at a lower level than men in company grading systems.

In some countries, trade unions have made efforts in recent years to close the gender pay gap. In Austria, for instance, trade unions have since the early 2000s made a commitment to analyse collective agreements and try to eliminate any gender-related discriminatory provisions. Furthermore, Austrian trade unions have been campaigning for a cross-sector minimum gross wage of €1,000 a month ([AT0707019I](#)), which will boost women's pay. In Denmark, where the gender pay gap is significant, trade unions in the public sector – particularly in female-dominated occupations such as teaching, nursing and the care sector – demanded high wage increases in the 2008 bargaining round to try to close the gender pay gap. They also called on the Danish government to set up a commission to examine the issue of gender-related pay. In August 2008, the Danish Prime Minister, Anders Fogh Rasmussen, announced that a commission would be set up, but that it would look at public sector pay as a whole, rather than focus exclusively on gender-related pay. In Belgium, trade unions organised an 'equal pay day' in March 2008 to try to communicate to the public their demands for [equal opportunities](#) and improved working conditions ([BE0803019I](#)). In Cyprus, a trade union study published in May 2008 looked at factors affecting wage inequalities between women and men.

In Lithuania, the gender pay gap is actually reported to be increasing rather than decreasing: in the first quarter of 2008, for example, women earned 79.3% of male gross earnings, down from 83.1% in the first quarter of 2005. This is reported to be due to vertical and horizontal segregation of the labour market, whereby women occupy lower-status positions and work in lower-paid industries than men. At present, there seem to be scant efforts to redress this trend.

One country where the gender pay gap does not seem to be a central issue is Malta, where, at 2.5% in 2006, the gender pay gap was among the lowest in the EU. Interestingly, in Luxembourg, although there is an overall gender pay gap, in the case of civil servants, women's average gross hourly salary is 103% of that earned by men, due to the high proportion of male civil servants in subordinate positions.

Legal redress can also play an important role in pay equality. This is evident in Ireland, where a range of high-profile equal pay cases have arisen in recent times. In 2007, for instance, the [Equality Tribunal](#) ruled in favour of 27 female directors of public health nursing, concluding that they were entitled to the same pay as comparable male directors of nursing. Moreover, in Spain, a new law is seeking to address the issue of equal pay by requiring medium-sized and large companies to negotiate equality plans ([ES0704019I](#)).

## **Main sectoral agreements**

Collective bargaining at sectoral level is ongoing in those countries that are dominated by sectoral bargaining (see above). Among the most prominent developments in 2007 and 2008 are the following:

- a two-year collective agreement in the financial services sector in Greece ([GR0701059I](#));
- renewal of the national collective agreement in Italy's metalworking industry ([IT0802039I](#));
- public sector pay deals in the UK for prison officers, police officers ([UK0804029I](#)), doctors and dentists;
- agreements in Germany's steel industry ([DE0803029I](#)), textile and clothing industry, public services sector ([DE0804029I](#)) and the chemicals industry;

- agreements in the chemicals and metalworking industries in Finland, which were expected to serve as a benchmark for negotiations in other sectors ([FI0707019I](#)), along with agreements in the Finnish public sector ([FI0712049I](#));
- a new agreement in Austria's metalworking industry, concluded in late October 2007 ([AT0711029I](#)) – this is an example of where the metalworking industry has set the trend in terms of collective bargaining in other parts of the economy;
- agreements renewed in Denmark's trend-setting private sector in 2007 – for example, at the end of February 2007, pay was increased by 8.4% in the manufacturing sector over the subsequent three years ([DK0703019I](#));
- an agreement in Spain's construction sector, providing for a 3.6% pay increase, along with an agreement in the personal services industry which provided for a 4.1% increase; other significant agreements included those in the air transport and banking and insurance industries, which all provided for a lower pay increase of 2.2%;
- a number of high-profile recent agreements in Portugal, including: a sectoral accord in the construction sector, providing for a pay increase of 3% over 12 months; an agreement in the clothing industry, providing for a pay increase of 4.9%; and an agreement in the cleaning services industry, providing for an increase of 19.2% over 84 months;
- renewal of around 500 out of 600 collective agreements in Sweden, following the 2007 major bargaining pay round at sectoral level – pay was increased by 3.4%, on average, in the 2007 bargaining round;
- major agreements recently concluded in the following industries in Luxembourg: insurance, road haulage, assistance, care work and social services, and building and civil engineering.

### **Trends at company level**

In some countries, there has been a shift away from higher levels of bargaining to the company level in recent years. This is the case in Finland, where the main employer organisation, the Confederation of Finnish Industries ([Elinkeinoelämän keskusliitto, EK](#)), is trying to increase the proportion of locally bargained pay increases. Similarly, in Denmark, there is a trend away from the sector to the company level. In Greece also, there has been a trend in the financial services sector towards more agreements at company level. Decentralisation of bargaining towards the company level is also taking place in Norway, particularly in the state and municipal sector, linked to a deregulation of job structures. In Austria, an 'organised decentralisation' is taking place, under which issues defined at national and sectoral level are settled in more detail at company or plant level. A shift towards company-level bargaining was also encouraged in Italy by the tripartite agreement of July 1993, and since that time, the incidence of company-level bargaining has increased significantly.

### *Individualised and performance-related pay*

In many countries, an increase in the incidence of performance-related pay has become evident in recent years, particularly in those countries with decentralised systems of wage bargaining, such as the UK. In the Netherlands also, a trend towards an increased individualisation of pay setting at company level is emerging, mainly in the form of the introduction and spread of flexible pay systems. Pay also tends to be more individualised in the case of skills in high demand. In Ireland, the growth of individualised pay setting is thought to be linked to the decline in trade union density and collective bargaining coverage in the private sector.



Individual bargaining is the main determinant of pay in Belgium for 20% of white-collar workers and 40% of higher professional and managerial staff, although it is not clear whether this is a rising trend. In Spain, there has been a trend towards individual awards, which have in practice resulted in dual pay scales within companies. In Luxembourg, individualised pay setting has generated conflict in the banking sector, proving to be an obstacle to the renewal of the sector's collective agreement, which was eventually signed by only one trade union ([LU0208101N](#)); employers, on the other hand, would like to abolish linear pay growth in favour of individualised awards.

In some of the NMS, a greater move towards the individualisation of pay is also becoming evident, as seen, for example, in Bulgaria. More individualisation of pay setting is also emerging in Hungary, although this is attributed to the shrinking coverage of company-level agreements, which constitute the dominant level of bargaining in this country.

### *Bonuses, variable pay and team-based pay*

Bonus payments are an important part of the remuneration package for employees in many countries. For example, in Germany, it is estimated that bonus payments related to the business performance of the company are in place in about 35% of companies. Meanwhile, in Slovenia, variable pay elements are becoming more common, with the Christmas bonus and 13th month payments being the most widespread; in 2007 alone, it is estimated that 30% of employees received variable payments (for more information on variable pay, see [TN0803019S](#)).

Team-based pay appears to be increasing in importance in some countries. In the Czech Republic, for instance, according to the Pay Well 2005 survey report, there is a growing trend for companies to tie the variable element of pay solely to team performance rather than the individual's performance.

### **Recent actions and protests relating to wages**

Pay has always been an issue that has generated conflict and protest, either in the case of specific groups of workers, specific sectors or, on occasion, on a national level. In the past couple of years, a range of pay-related protests and actions have arisen in many countries over issues such as pay increases and the minimum wage. Table 2 gives an overview of the main actions and protests pertaining to wages in recent years.

**Table 2: Main actions and protests relating to wages, by country, 2007–2008**

Country	Actions
AT	In general, Austria has very low levels of industrial action: over the past two years, there has only been one case of protest action related to wages. This took place at <a href="#">Austrian Airlines</a> , where a new performance-related pay scheme was strongly opposed by trade unions and the works council. Threats of industrial action finally resulted in a new agreement, in which employer and employee representatives made a commitment to further negotiations on a new pay scheme ( <a href="#">AT0706029I</a> ).
BE	Only low levels of conflict over pay arose in the 2007–2008 bargaining round, although there have been some tensions due to rising inflation. A wave of unofficial strikes took place during the first quarter of 2008 in the private sector, and demands for higher pay have also recently been made in the public sector ( <a href="#">BE0804019I</a> ).
BG	Strikes in education and forestry took place in the autumn of 2007, followed by demonstrations in healthcare in the spring of 2008 and warning strikes in the electricity supply industry in the same period.
CY	No major recent actions or protests have occurred relating to wages.
CZ	Discontent has arisen among employees in the public service, education, healthcare and state administration. In addition, employees at <a href="#">Škoda Auto</a> staged a protest against pay developments in 2007 ( <a href="#">CZ0703029I</a> ).
DE	The most high-profile recent strikes over pay included an 11-day strike at the German rail company <a href="#">Deutsche Bahn AG</a> (DB) in 2007, in addition to thousands of small stoppages since April 2007 involving the United Services Union ( <a href="#">Vereinte Dienstleistungsgewerkschaft, ver.di</a> ) and employers in retail in the context of negotiations for a new collective agreement. Warning strikes have also taken place in the steel industry and the public sector in the context of collective bargaining.
DK	Disputes arose over wage setting in the public sector in the spring of 2008 in connection with the renewal of collective agreements in the state, regions and municipalities. In addition, nurses, social and health care workers, as well as and child and youth educators (representing over half of the public sector workforce), staged an eight-week strike in support of efforts to close the gender pay gap.
EE	Generally, levels of industrial action are low in Estonia. Recent actions included a picket on 31 August 2006 by tram and trolleybus drivers, who were seeking equal pay with bus drivers. Subsequently, on 14 September 2006, a demonstration was held calling for an increase in pay in the civil defence sector ( <a href="#">EE0605029I</a> ). A one-hour warning strike was also held by bus drivers in October 2007 in support of demands for an increase in minimum wages ( <a href="#">EE0801019I</a> ).
EL	Public sector workers resorted to strike action in May 2007, in protest against the government’s incomes policy and the non-implementation of

	new pay scales for public servants ( <a href="#">GR0706029I</a> ).
<b>ES</b>	Limited industrial action arose due to national agreements on collective bargaining, which set a framework for pay negotiations at sectoral and company level.
<b>FI</b>	The most significant protest of 2007 was a dispute staged by over 12,000 nurses in support of demands for a wage increase of 24% in the municipal sector ( <a href="#">FI0710039I</a> ). Employers had offered an increase of 12.7%.
<b>FR</b>	Major industrial action was held in February 2008 by workers in the large-scale retail sector, in protest against low pay and reduced purchasing power ( <a href="#">FR0803049I</a> ).
<b>HU</b>	Recent pay-related disputes included a threat by the Hungarian Chamber of Physicians ( <a href="#">Magyar Orvosi Kamara</a> , <a href="#">MOK</a> ) in 2008 to boycott the National Health Insurance Fund in support of demands for increases in the pay of general practitioners ( <a href="#">HU0806029I</a> ). Other recent disputes included strikes in April 2008 in Budapest's public transport system ( <a href="#">HU0804039I</a> ) and strikes in the rail sector between February and April 2008 ( <a href="#">HU0802069I</a> ).
<b>IE</b>	Up to 40,000 nurses staged a high-profile campaign of industrial action in 2007 in support of demands for a 10% pay increase ( <a href="#">IE0705039I</a> ). The action was called off after a settlement framework was concluded, although the pay demands remain unresolved at present.
<b>IT</b>	Workers in the construction sector staged an eight-hour general strike in April 2008 following the breakdown of negotiations for a new collective agreement.
<b>LT</b>	Strikes were held in the education sector in 2008 in support of demands for higher wages and better working conditions ( <a href="#">LT0802019I</a> , <a href="#">LT0803019I</a> ).
<b>LU</b>	Protests took place over pay in the banking, cleaning, wholesale, manufacturing and educational sectors. The main point of conflict is the employers' desire to replace linear pay increases with more flexible, individualised elements.
<b>LV</b>	Protest actions were organised by trade unions in 2007 in support of demands for minimum wages and real wages in the education and healthcare sectors ( <a href="#">LV0710029I</a> ). Actions also took place in the health sector ( <a href="#">LV0707039I</a> , <a href="#">LV0712019I</a> , <a href="#">LV0802029I</a> ), the postal services ( <a href="#">LV0708019I</a> ) and the security services industry ( <a href="#">LV0705029I</a> ).
<b>MT</b>	Disputes over pay in 2008 included a dispute at <a href="#">ST Microelectronics</a> over unpaid bonuses and wage increases agreed in the collective agreement covering this company ( <a href="#">MT0805029I</a> ). Moreover, teachers at the <a href="#">Malta College of Arts, Science and Technology</a> (MCAST) staged a two-hour stoppage to express their dissatisfaction over the collective agreement negotiations ( <a href="#">MT0809019I</a> ), while midwives threatened industrial action over payment of an increase in an allowance, agreed in a collective agreement signed in October 2007. The action was called

	off, however, after agreement was reached on payment of the increase.
<b>NL</b>	Recent disputes over wages have mostly been in the context of the bargaining round. Disputes took place in the information and communication technologies (ICT) industry, in postal services and in regional transport.
<b>NO</b>	Teachers, kindergarten teachers and nurses staged a strike over pay in 2008, with teachers in particular claiming that they lag behind other similarly qualified groups of workers in terms of remuneration.
<b>PL</b>	A significant increase in industrial action occurred in 2007, when some 1,736 strikes were staged compared with only 27 in 2006. The majority of the actions centred on the issue of pay.
<b>PT</b>	A general strike was held in November 2007 in protest against the government's decision to impose a 2.1% pay increase in the public sector ( <a href="#">PT0711049I</a> ).
<b>RO</b>	Protests took place over pay in 2008 at the companies <a href="#">Mittal Steel Galati</a> , <a href="#">Automobile Dacia</a> ( <a href="#">RO0804029I</a> ) and the National Hard Coal Company <i>Petroșani</i> ( <a href="#">Compania Națională a Huilei Petroșani</a> , CNH) ( <a href="#">RO0802049I</a> ), and also in the education sector ( <a href="#">RO0711019I</a> ) and rail sector ( <a href="#">RO0802019I</a> ). In the case of teachers, protests were held over the issue of minimum wages in 2007 ( <a href="#">RO0711019I</a> ).
<b>SE</b>	The main recent protest action over pay was a strike held in the healthcare sector in 2008 following the failure of pay negotiations ( <a href="#">SE0805039I</a> ). Moreover, in July 2008, about 6,000 bus drivers went on strike, demanding higher wages and better working conditions ( <a href="#">SE0808019I</a> ).
<b>SI</b>	Trade unions organised a mass rally in November 2007 in support of demands for higher pay and a fairer distribution of company profits in the light of strong GDP growth, as well as rising inflation and living costs ( <a href="#">SI0709019I</a> ). This was followed by a general warning strike in the private sector in March 2008 ( <a href="#">SI0803039I</a> ). A one-hour strike over pay classifications in the public sector was also held in May 2007.
<b>SK</b>	Strikes were held in individual companies in the engineering industry following the failure of collective agreements negotiations. In addition, healthcare workers also staged a protest in 2008 in response to what they see as a discriminatory approach to the remuneration of employees in non-state healthcare facilities ( <a href="#">SK0806019I</a> ).
<b>UK</b>	Teachers held a one-day strike over pay in April 2008, the first national teachers' strike since 1987 ( <a href="#">UK0804029I</a> ). There is also wider trade union unrest over public sector pay restraint among groups such as police officers, prison officers and school inspectors. Furthermore, postal workers at <a href="#">Royal Mail</a> held two 24-hour strikes in June and July 2007 against pay and modernisation plans ( <a href="#">UK0707069I</a> ).

## Social partner views on wage developments

Overall, it is to be expected that trade unions and employee representatives generally seek to exert as much influence over pay increases as they can for the workers they represent. Employers and employer representatives, on the other hand, usually endeavour to keep all costs, including pay costs, down to levels that promote competitiveness. However, there are a range of other pressures that influence these basic positions, such as the need for pay moderation in certain circumstances and the need for employers to compete for skills and talent in the marketplace.

Over recent months, the worsening economic climate has played a part in shaping pay negotiations, with trade unions seeking compensation for higher inflation and an increased cost of living, and employers trying to keep all costs, including wages, down in order to remain competitive in this difficult climate.

It should also be noted that the positions and views of employer and employee representatives depend on the bargaining system in place in a particular country. In some countries, employer and employee representatives work together in national tripartite bodies, whereas in others, they have a more adversarial, bargaining role at sectoral or company level.

Nevertheless, in some cases, employer and employee representatives have reached consensus on wage developments in the context of the general economic situation of their country. This is the case in Luxembourg, for instance, where it was agreed by the tripartite coordination committee in April 2006 that wage policy must reflect changes in the general productivity of the country's economy. In Lithuania, the social partners have agreed in the country's tripartite council that the monthly minimum wage should be increased rapidly, by 45% between 2006 and 2008. In the Netherlands, the bargaining parties have agreed on a policy of wage moderation, as well as reaching consensus on a wage freeze during 2004 and 2005, under pressure from the government. In Denmark, the social partners in the private sector have agreed since the end of the 1980s to ensure competitiveness and employment rather than push for pay increases. Therefore, wage increases over the past two decades have been moderate and similar to those with which Denmark compares itself.

The following sections summarise the views of the employer representatives and trade unions in this respect.

### *Employers*

In countries where a particular system of wage determination operates, discussion tends to focus on this issue, with employers often trying to introduce an element of flexibility in order to maximise the competitiveness of individual companies. This is true in Luxembourg, where employers' focus has largely been on trying to limit the effects of the country's wage scale, which makes adjustments in line with the cost of living index. The country's main employer organisation the Union of Luxembourg Enterprises ([Union des Entreprises Luxembourgeoises, UEL](#)) believes that the system of automatic wage increases needs to be modernised in order to limit any negative effects on company productivity. Similarly, employers in Belgium have criticised the country's wage formation framework for not being flexible enough to withstand economic shocks and changes in regional employment.

In Austria, employers are trying to refine the criteria on which pay bargaining is based: at present, wages are calculated on the basis of inflation and productivity. Employers would like to remove the productivity criterion, with additional elements contingent on profitability at company level. However, this proposal has been rejected by trade unions. In Ireland, where bargaining has been carried out for two decades within the framework of national tripartite agreements, employers are now keen to secure more flexibility, particularly in cases where companies are not in an economic

position to pay agreed increases. In Malta, debate is ongoing about the relevance of automatic wage indexation through the Cost of Living Allowance, with employers arguing for its abolition, but trade unions supporting it.

Employers in some countries are pushing for more decentralised bargaining, particularly in those countries where national sectoral bargaining dominates. In Italy, employers believe that the company should be the main level at which pay is determined; moreover, the incidence of company-level bargaining, within the framework of sectoral agreements, has increased over the past 10 years in this country. In Sweden, where the national sectoral-level is the main bargaining level, the main employer organisation believes that wages should be negotiated at a more local level in order to allow the individual circumstances of companies to be taken into account.

Wage flexibility is the main goal of employers in some countries. For example, employers in Estonia are pushing for greater wage flexibility in response to the current economic downturn. Finnish employers are also focusing on trying to introduce more wage flexibility in order to allow individual parts of a business to tailor pay negotiations to their own circumstances.

Employers in some of the NMS – having experienced rapid wage growth since joining the EU – are now pushing for wage moderation in light of the more difficult economic climate. In Hungary, for instance, employer representatives have been critical of wage increases between 2000 and 2006 and are now calling for wage restraint.

Labour market issues also influence the wage formation process in some countries. For example, in Bulgaria, employers often feel that they are obliged to offer higher wages in order to compete for employees in a labour market characterised by skills shortages.

### *Trade unions*

Pay has been a high-profile issue in many of the NMS over the past 10 years, as trade unions seek increases in minimum and actual pay rates to ensure increases in the standard of living for their members. A range of pay issues have also arisen in relation to state-owned and non state-owned enterprises in these countries. In Romania, for instance, trade unions are reportedly dissatisfied with the discrepancy between pay for similar workers in state-owned and non state-owned companies and are calling for the adoption of a bill that will reform public sector pay ([RO0802039I](#), [RO0610039I](#)). In Bulgaria, trade unions are pushing for strong pay growth to compensate workers for the inflation of the past 12 years.

Nonetheless, in the current difficult economic climate, some trade unions have been engaging with employers in discussions over pay moderation. In Estonia, however, trade unions believe that pay should continue to rise, as this will in turn boost income tax and social contribution receipts. At the same time, the current climate of increasing costs has also prompted some trade unions to press for higher pay increases. In the UK, trade unions have been expressing some concern that average wage settlements have been running below retail price inflation over the past year. Trade unions in the UK's public sector are also dissatisfied with the government's policy of public sector pay restraint.

In countries where economic growth has been uneven between sectors, such as Slovakia, trade unions are pushing for higher growth in those sectors – in this case, the engineering sector. In Slovakia, trade unions are also pressing for increases in sectors where pay is lagging behind the average for the rest of the economy. In Cyprus, trade unions have also been pushing for higher wage growth after a number of years of pay moderation ([CY0712019I](#)). These demands have, however, been rejected by employers and the government.

Differences have also occasionally arisen in the bargaining power of public and private sector trade unions. This is the case in Malta, for example, where the public sector trade unions have



more power. In addition, trade unions in particular sectors experiencing skills shortages are often able to agree higher increases – as seen in the case of the Maltese [Airline Pilots’ Association \(ALPA\)](#) ([MT0804039I](#)) and the [Medical Association of Malta \(MAM\)](#), owing to the fact many experienced and skilled staff in these areas have left to work abroad, thus creating skills shortages.

Concerns about the bargaining structure have been the focus of trade unions in Italy in recent years. The unions in this country have been particularly critical of wage developments over the past 10 years; as a result, they have issued their own proposals to reform the bargaining structure in order to ensure earnings’ protection for workers by guaranteeing compensation if actual inflation exceeds forecast levels ([IT0806049I](#)).

Differences in aims and demands have also sometimes arisen between trade unions in the same country. In Sweden, for example, white-collar trade unions are more in favour of performance-related pay than the country’s blue-collar workers, largely due to the make-up of these unions’ membership. In Spain, where collective bargaining has been operating under national framework agreements for many years, some trade unions are now questioning the policy of pay moderation agreed on by the signatory trade union confederations, claiming that this has prevented workers from benefiting from the recent cycle of expansion in the Spanish economy ([ES0707049I](#)). In Ireland, where bargaining also takes place within the context of a national agreement, trade unions have recently been pushing for additional increases to compensate for the rise in the cost of living. In Finland, two of the three main trade union confederations – the Central Organisation of Finnish Trade Unions ([Suomen Ammattiliittojen Keskusjärjestö, SAK](#)) and the Finnish Confederation of Salaried Employees ([Toimihenkilökeskusjärjestö, STTK](#)) – have supported the continuation of centralised bargaining, whereas the third organisation, the Confederation of Unions for Academic Professionals ([Akateemisten Toimihenkilöiden Keskusjärjestö, AKAVA](#)) has supported a more flexible model ([FI0604019I](#)).

## Minimum wages

A wide diversity of law and practice is evident in terms of minimum wage setting across Europe. The majority of European countries have a statutory national minimum wage in place, although this varies in terms of its level, uprating mechanisms and coverage. Some countries – notably Austria, Germany and the Scandinavian countries – set collectively-agreed minima in sectoral agreements; others, however, do not have any statutory or formally agreed minimum wage mechanisms in place. Table 3 gives an overview of the minimum wage provisions in place in each country.

**Table 3: Minimum wage-setting mechanisms, by country**

Country	Type of minimum wage	Level, setting and uprating	Coverage and other comments
AT	No national minimum wage exists. Instead, minima are set by sectoral collective agreements. Furthermore, national-level social partners have agreed on a €1,000 monthly minimum rate (paid 14 times a year), which were to be	Collectively-agreed minima are bargained between employer and employee representatives at sectoral level.	About 98%–99% of employees are covered by sectorally agreed minimum wage rates, due to the country’s high level of collective bargaining coverage.



	implemented by the sectoral bargaining parties by 1 January 2009.		
<b>BE</b>	A national minimum wage is in place.	The minimum wage is set by national collective agreement. The social partners negotiate over its uprating, and the minimum wage is also linked to the country's automatic wage indexation system.	The main debate has focused recently on the 'unemployment trap', whereby the net income difference between low-paid work and unemployment benefits is less than work-related costs, thus discouraging the movement into work.
<b>BG</b>	A statutory national minimum wage is in place.	The rate and uprating of the national minimum wage is negotiated by the social partners and the government, although the final decision rests with the latter. The current rate is BGN 220 (about €112 as at 22 January 2009) a month.	The average wage is more than twice the national minimum wage, at BGN 484 (€247) a month.
<b>CY</b>	A statutory minimum wage is in place for some occupations, such as: sales workers, clerical staff, auxiliary healthcare workers and auxiliary staff in nursery schools, crèches and schools.	The minima are set and implemented by the government. The minimum wage rate as at 29 June 2007 was CYP 435 (€743) a month for new labour market entrants and CYP 462 (€789) for people with six consecutive months of work experience with the same employer.	The minimum rates have been uprated significantly in recent years, as part of a government policy to increase the minima to 50% of the national average wage before the end of 2008. Moreover, the number of occupations covered by statutory minimum rates was extended in July 2008 to cover guards and caretakers working in clinics, private hospitals and nursing homes.
<b>CZ</b>	A statutory national minimum wage is in place.	The monthly minimum wage was CZK 8,000 (€289) in 2007.	It is estimated that about 2.5% of employees earn the minimum wage.
<b>DE</b>	No statutory national minimum wage exists,	Minimum rates that are legally binding under the	Heated debate is ongoing about whether

	although some legally binding minimum rates are provided for under the 1996 German Posted Workers Act ( <i>Arbeitnehmer-Entsendegesetz</i> , <a href="#">AEntG</a> ), which covers construction and construction-related industries.	Posted Workers Act are bargained for by the social partners in the relevant sectors and then extended across the sector to cover all workers in that sector.	Germany should have a statutory national minimum wage, with many trade unions in favour, but employers against such a move.
<b>DK</b>	No statutory national minimum wage exists. Minimum rates are negotiated by sectoral agreement.	Minimum rates of pay are bargained for between employer and trade union representatives at sectoral level, as part of that sector's collective agreement.	It is not known how many employees receive the minimum negotiated rate, but it is thought to be relatively few. Employees working in the retail industry and in restaurants are more likely to be paid the minimum rate.
<b>EE</b>	A statutory national minimum wage is in place.	Uprating of the minimum wage is carried out through bipartite negotiations each year and subsequently implemented by the government. The monthly minimum wage at the time of writing was EEK 4,350 (€278).	Estimates of how many workers are covered by the minimum wage vary from 15,000 (employer estimates) to 100,000 workers (tax and customs authority estimates).
<b>EL</b>	A national minimum wage is in place.	The national minimum wage is uprated regularly based on rises in inflation, as anticipated by Greek and international organisations. As from 1 January 2008, the rate for a newly-hired single worker without children was €681 a month.	Coverage of the minimum wage is estimated to be relatively high, as half of the country's employees have net incomes of between €501 and €1,000 a month.
<b>ES</b>	A statutory national minimum wage was introduced in 1963.	The national minimum wage is uprated annually by the government, in line with forecast inflation and after consultation with the social partners. The minimum wage rate stood at €600 a month in 2008.	It is thought that the minimum wage covers 3.3% of workers, although statistical evidence indicates that about 20% of wage earners receive incomes below the annual level of the minimum wage, due to

			high levels of temporary employment and employee turnover.
<b>FI</b>	No national minimum rate is in place. Minima are set by sectoral collective agreements.	Collectively-agreed minima are bargained between employer and employee representatives at sectoral level.	Collective agreements are usually applicable to everyone in the sectors to which they apply.
<b>FR</b>	A statutory national minimum wage ( <i>salairé minimum interprofessionnel de croissance</i> , SMIC) is in place.	The SMIC is updated each year in line with inflation and half the increase in the purchasing power of manual workers' basic hourly pay. The government also decides on whether to award an additional increase. The SMIC is also increased automatically when inflation rises above 2%. At the time of writing, the SMIC was set at €8.63 an hour or €1,028 a month for a 35-hour week.	The proportion of employees who receive the SMIC has increased from 12.6% in 1993 to 16.3% in 2005, largely due to the transition from a 39-hour to a 35-hour week, which meant that the government had to increase the hourly SMIC rapidly in order to maintain its monthly level.
<b>HU</b>	Statutory national minimum wages are set by the country's tripartite body of employer, employee and government representatives.	Decisions on updating the minimum wage rates are made by the tripartite body.	Employers tried to introduce sectoral minimum wage rates below the national minima in 2007, although this strategy proved largely unsuccessful.
<b>IE</b>	A statutory national minimum wage (NMW) has been in place since April 2000.	The Labour Court decides on whether an increase in the NMW is appropriate, after examining submissions from interested parties. However, the final decision rests with the government. The NMW was €8.65 an hour for adult workers as of 1 July 2007. Younger workers receive a proportion, depending on their age, length of time in employment and whether they are undergoing training.	It is estimated that 4.5% of people employed in private sector non-agricultural companies are earning the NMW.
<b>IT</b>	No national minimum wage exists. Minimum rates are set by sectoral	Minimum wage rates are bargained for by the sectoral social partners.	Trade unions are not in favour of a national minimum wage,

	collective agreements and apply to everyone in the particular sector.		fearing that this would weaken sectoral bargaining and decentralise pay setting.
<b>LT</b>	A statutory national minimum wage is in place.	The national minimum wage is uprated following a tripartite recommendation. As of January 2008, the minimum wage rate was LTL 800 (€232) a month.	The debate on the minimum wage has focused on the uprating mechanism, specifically on whether it should be uprated according to certain well-defined mechanisms rather than by tripartite agreement.
<b>LU</b>	A statutory national minimum wage is in place.	The national minimum wage is uprated in line with automatic indexation linked to the consumer price index, and by the government in accordance with economic growth. In general, this latter adjustment takes place every two years.	It is estimated that about 11% of the workforce receive the minimum wage.
<b>LV</b>	A statutory national minimum wage is in place.	The national minimum wage is set and uprated by the government. The minimum wage rate in 2008 stood at €227.7 a month.	It is estimated that the minimum wage amounts to just over 30% of the average wage in Latvia.
<b>MT</b>	A statutory national minimum wage is in place.	The national minimum wage is uprated each year in accordance with the country's Cost of Living Allowance. The 2008 rate amounted to €142.50 a week. Special rates also exist for young people under 17 years of age and for 17–18 year olds.	Coverage of the national minimum is low, at an estimated 1.5% of the workforce.
<b>NL</b>	A statutory national minimum wage has been in place since 1969.	The minimum wage is uprated twice a year – on 1 January and 1 July – in accordance with a formula based on wage developments in collective agreements. Employees between 15 and 23 years of age receive a	The minimum wage is generally an uncontroversial issue in the Netherlands.

		percentage (ranging from 30% to 85%) of the adult rate.	
<b>NO</b>	No minimum wage mechanisms exist.		
<b>PL</b>	A statutory national minimum wage is in place.	The national minimum wage is updated annually within the tripartite commission for social and economic affairs, by 15 July each year. If there is no agreement, updating is set by statutory order. As of 1 January 2008, the national minimum wage was PLN 1,126 a month (€258).	It is estimated that about 4% of workers in Poland receive the national minimum wage.
<b>PT</b>	A statutory national minimum wage is in place.	The national minimum wage is set and updated by the government. A tripartite agreement signed in 2006 sets an agenda for minimum wage increases in 2011.	It is estimated that the national minimum covers about 5.5% of Portugal's workforce.
<b>RO</b>	A statutory national minimum wage is in place.	The national minimum wage is updated by government decision, after consultation with the trade unions and employers. The 2008 minimum wage rate amounted to RON 500 (€115) a month.	It is estimated that about 30% of workers in Romania receive the national minimum wage.
<b>SE</b>	No national minimum wage exists. Minimum rates set by collective bargaining at sectoral level.	Sectoral minimum rates are bargained for by the social partners at sectoral level, as part of collective agreement negotiations.	It is estimated that about 90% of Swedish employees are covered by some kind of minimum wage, as regulated by collective agreement.
<b>SI</b>	A statutory national minimum wage is in place.	The national minimum wage is updated annually by law on 1 August, in line with forecast increases in consumer prices. As of 1 March 2008, the minimum wage rate stood at €566.60 a month.	It is estimated that between 2.3% and 3.4% of workers covered by collective agreements are paid the statutory national minimum wage.
<b>SK</b>	A statutory national minimum wage is in place.	The national minimum wage is updated on 1 January of each year. The law allows for	It is estimated that between 2% and 3% of employees are covered

		uprating by bipartite or tripartite agreement, or as a default, uprating by law based on annual average wage growth. The 2008 rate stood at SKK 8,100 (€269) a month.	by the minimum wage.
<b>UK</b>	A statutory national minimum wage (NMW) was introduced on 1 April 1999.	The adult rate – that is, for those aged 22 years and over – is currently GBP 5.52 (€5.85) an hour. The development rate for employees aged 18–21 years is GBP 4.60 (€4.88) an hour, while the rate for 16–17 year olds is GBP 3.40 (€3.60) an hour.  The government makes the final decision on uprating, following recommendations from the <a href="#">Low Pay Commission (LPC)</a> .	The LPC estimates that the NMW at the current rate covers about 5% of jobs held by adults in the UK, which is the equivalent of up to 1.2 million jobs.

*Note: Euro amounts are based on conversion rates as at 22 January 2009.*

## **Debate on minimum wage and views of the social partners**

### *Statutory national minimum wage*

The minimum wage is a subject for discussion in many countries, with the nature of the debate depending on the situation of the particular country. Some countries – such as Ireland and the UK – have introduced a statutory national minimum wage relatively recently, and so the debate in these countries tends to focus on the effects of the national minimum wage on the labour market and on wages at the bottom end of pay scales. In general, the views of the social partners in both Ireland and the UK are relatively similar. The national minimum wage is supported by trade unions in both countries, in the belief that it has been a key element in the fight against low pay and exploitation and has helped to close the gender pay gap. Employer representatives in both countries were initially wary of the national minimum wage, but now support it as there is little evidence that it has undermined the labour market and had a knock-on effect on pay throughout the economy. However, employers in both countries are keen to ensure that it remains at the appropriate level.

In Denmark, no statutory national minimum wage has been put in place, with employer and trade union representatives staunchly defending the present system, under which they bargain for minimum rates. Some Danish politicians have at times expressed interest in the idea of introducing a statutory minimum wage, but this has always been resisted by the social partners.

The level of the minimum wage is high on the agenda in some countries, particularly given the current uncertain economic climate and rising inflation. In Greece, for example, trade unions believe that the minimum wage should be increased significantly, with the aim of having it converge with average earnings as a means of combating poverty. Greek employers, however,

would rather concentrate on increasing employment and boosting the competitiveness of the Greek economy. In Hungary, employers tried to negotiate sectoral minimum rates during the 2007–2008 bargaining round that were below the nationally-set minima, arguing that the national minima were too high. However, these attempts were largely unsuccessful. In Spain, the uprating of the national minimum wage has been a subject for debate for many decades, with trade unions claiming that the minimum wage has been devalued in relation to the average wage. The minimum wage has been increased considerably in this country over the past four years, although trade unions would like it to be increased further to reach 60% of the average wage by 2012. In Portugal, a tripartite agreement signed in 2006 provides for increases in the national minimum wage from then until 2011. This agreement has been welcomed by the trade unions, as it will uprate the national minimum wage significantly. Employers signed the agreement, but have been more reserved, acknowledging that the Portuguese minimum wage is low by international comparison, but expressing concerns about that knock-on effects that the uprating may have on pay more generally.

Employers in some countries have been calling for greater flexibility in the setting and uprating of the minimum wage. In Estonia, for instance, employers have made a range of suggestions, including setting minimum rates at sectoral rather than national level, and being more conservative in uprating the minimum wage in order to support the labour market at the lower end.

The debate over the minimum wage has been most prominent in recent years in France and Germany. France has had a national minimum wage (SMIC) in place for many decades and, as a consequence, it is well embedded in the country's wage formation system. However, in recent years, it has become a high-profile issue following the country's transition from a 39-hour to a 35-hour working week, after which the government rapidly increased the hourly SMIC in order to maintain the monthly SMIC level. At present, employers are arguing that the SMIC is too high at about 60% of median pay, while trade unions are criticising the government for not awarding an additional discretionary increase, which it has the power to do. Furthermore, the French government appears to want to change the way that SMIC is uprated, abandoning automatic indexation in favour of uprating based on the opinions of experts. In Germany, there is no statutory national minimum wage, although legally binding minima apply to the construction and construction-related sectors and, most recently, to part of the mail delivery sector under the country's Posted Workers Act. However, many trade unions have been advocating the introduction of a statutory national minimum wage, putting forward suggestions for the likely rate. Employers, nevertheless, are united in their opposition to a statutory national minimum wage, while the German government remains undecided.

### *Collectively-agreed minimum rates*

In other countries, minimum wages are set by sectoral collective agreements. This is the case in Finland, for example, where sectoral minimum wages are about half of average full-time earnings. In Denmark, minimum rates are set by the sectoral bargaining partners. Minimum rates are also set by sectoral bargaining in Austria, where the national social partners agreed that a monthly minimum rate of €1,000 should be put in place by the sectoral social partners by 1 January 2009. The national-level social partners on both sides in this country believe that statutory pay regulation would interfere with the domain of the social partners. In Italy, minimum rates are set by sectoral agreement, and trade unions are generally opposed to a national minimum wage, fearing that this would erode the power of sectoral bargaining.

In countries that do not have a statutory national minimum wage, or any formal method of minimum pay setting, such as Norway, there seems to be less debate about minimum wages. However, in Norway, the question of a minimum wage has recently been raised in connection



with labour [migration](#) from the NMS. Employers have raised the topic but have not gained the support of the trade unions, which argue that the extension of sectoral agreements is a better way to combat low pay.

## Effects on average wages and employment

In some countries, data is available on the minimum wage as a proportion of average earnings. In this respect, rates range from just over 30% of average earnings to over 50%.

In the UK, the LPC has carried out extensive research on the effects of the country's national minimum wage. It has found that there has been an increase in the 'bite' of the NMW – that is, its relative level when expressed as a proportion of the average hourly wage – which now stands at 51.1% of median hourly earnings (April 2007). In Malta, it is estimated that the national minimum wage amounts to 51% of average gross monthly earnings in industry and services. In Slovenia, the minimum wage is 44.1% of average gross wages in industry and services and 55% of the average gross wages of employees covered by collective agreements in manufacturing, according to the Slovenian Chamber of Commerce and Industry ([Gospodarska zbornica Slovenije, GZS](#)). In Spain, the minimum wage was 41.6% of the average wage in 2006 and trade unions would like to increase this to 60% by 2012, although employers are concerned about the inflationary effects of significant increases in the minimum wage. In Slovakia, the national minimum wage is thought to be about 40% of the gross average monthly wage across the economy. In the Czech Republic, the minimum wage was 35.7% of the gross average wage in 2007. In Poland, it is estimated that the national minimum wage is around 35%–37% of the average wage and this proportion is likely to increase in the future. In Estonia, the minimum wage is just over 33% of the average wage, although under an agreement between national-level employers and trade unions, the minimum wage level should have risen to 41% of the average wage by 2008. In Romania, the national minimum wage is estimated to be 31.2% of the gross average salary.

In Sweden, where minimum wage rates are set by collective agreements at sectoral level, it is estimated that these minima are high – amounting to at least 60% to 70% of the average wage – and even higher in the services sector.

A gender dimension is also evident in relation to minimum pay. In the UK, the LPC has found that women are more likely to be paid the national minimum wage due to the fact that they are disproportionately represented in low-paying sectors. It is thought that the national minimum wage has helped to close the gender pay gap in the UK, although it has not had an impact further up on the earnings distribution scale.

In many countries, the minimum wage does not appear to have had any major effects on employment and operates in a relatively stable way. This is the case in the Netherlands, for example, where the gross average wage was 1.74 times the gross minimum wage in 1995, a figure which has remained stable over time. One exception is Hungary, where labour economists carried out research on the substantial increase in minimum wages in the period 1999–2000. They found that the increase had weakened the position of low-wage industries, resulting in offshoring and making it harder for low-skilled unemployed people to gain access to the labour market.

In Ireland, a body of research exists on the effects of the national minimum wage, with one study showing that as few as 5% of employees had their pay increased as a direct result of the national minimum wage. In companies with between four and 100 workers, it is estimated that 7%–8% of employees were directly affected by the minimum wage, whereas in companies with 100 or more workers, only 2.5% of employees were directly affected.

In some countries, a debate has arisen about minimum pay and migrant workers. In the UK, for instance, relatively large numbers of migrant workers have come to work in the country, with a significant proportion of these working in low-paid jobs. However, there is no evidence that their arrival has placed a downward pressure on pay in the UK. In Finland, the debate has centred on concerns that some companies and subcontractors are paying foreign workers below the minimum agreed rates of pay ([FI0801039I](#)).

## **Minimum pay, taxation and benefits**

The threshold between the minimum wage and unemployment benefits is also a focus for debate in some countries, where the difference between the two is relatively narrow. In Malta, for example, it is reported that the marginal difference between the minimum wage and unemployment benefits results in some workers registering as unemployed and engaging in [undeclared work](#) to supplement their benefits. In Estonia, some research has been carried out on the potential disincentives for low earners to work. The research found that these groups are not large: only about 1% of employed people and 2% of inactive people face a potential loss of a proportion of their earnings due to increased taxation when increasing their work or entering employment on the minimum wage. In Belgium, the debate has focused specifically on the so-called ‘unemployment trap’, where low-paid workers find that their income is not significantly above the level of unemployment benefits. As a result, the Belgian authorities have recently put in place taxation measures designed to make work more financially attractive. The debate in Denmark has also focused on the difference between minimum rates of pay and unemployment benefit, with right-leaning parties claiming that unemployment benefit is too high, and left-leaning parties calling for an increase in minimum pay in order to avoid a growth in the number of working poor.

In terms of tax treatment, in most countries, minimum wages are taxed at a lower rate than higher levels of earnings. For example, in Finland, minimum pay is taxed at about 12%, compared with an average of 18% taxation on average earnings. In Hungary, the minimum wage is not taxed, as of September 2002, which has increased its net worth by 15.8%. In Bulgaria, the tax treatment of the minimum wage was altered at the beginning of 2008: the minimum rate is now taxed at 10%, whereas it used to be untaxed.

## **Wage formation in the IT sector**

### **Characteristics of sector**

Defining what constitutes the information technology (IT) sector can be difficult, as definitions vary across Europe and the sector itself can be relatively fluid. Generally, the IT sector encompasses companies involved in the design, manufacture, delivery, installation and maintenance of computer hardware and software, in addition to those operating in internet provision, telecommunications and general IT services and related activities. Moreover, workers employed by companies in other economic sectors may be classed as IT professionals due to the nature of their job.

Overall, the IT sector is a fast-growing and dynamic sector in most countries, in line with the growth in IT over the past two decades and the emphasis at EU level on building the job creation potential of the knowledge economy. Consequently, in virtually all of the countries under consideration in this study, the number of companies and size of the workforce in this sector has grown, although the sector is usually not one of the main sectors in countries in terms of the size of the workforce and its contribution to GDP. One exception is Lithuania, where, although the

sector has grown, its share of GDP is falling due to even more rapid growth in other sectors of the country's economy.

In a small number of countries, the IT sector is considered highly significant for a number of reasons. In Finland, for instance, it is estimated that the sector accounts for about one third of total Finnish exports, although only around 9% of total jobs in the country. In Ireland, foreign direct investment in the IT sector over the past four decades is considered an extremely important part of the economy and labour market. Similarly, in Belgium, the sector is seen as an important driver of productivity growth. Portugal is a country that has been characterised by relatively low wages and low productivity and, as a result, this country also views the IT sector as an important element in its attempts to boost income growth and economic output.

In some of the NMS, the sector is growing at an exceptional rate. In Poland, for instance, many companies in the IT sector have predicted revenue increases of as much as 20% or more in 2008. Some of the NMS are describing this sector as a major dynamic force in their economies. In Slovakia, for example, the government believes that the IT sector is the backbone of the knowledge economy and will be the main driving force behind the country's competitiveness: it is estimated that 10,000 jobs have been created in Slovakia's IT sector over the past five years. In Bulgaria, it is estimated that the sector grew by 25% in 2007, while in the Czech Republic, the IT sector is expected to grow significantly over the next four years. In Estonia, the sector is growing so rapidly that demand is outstripping supply significantly: sectoral employers reported that, in 2007, the number of IT graduates only filled 15% of the total demand in the sector.

A difference seems to emerge between the new and the older EU Member States in terms of trends. While the sector is growing in many of the NMS, in some of the older Member States, it has experienced a slump in recent years, following the burst of the so-called 'dotcom bubble'. This has been the case in the UK, although the labour market now seems to have recovered. Similarly, in the Netherlands, after the collapse of large parts of the IT sector in 2001, it has recovered robustly, with strong competition arising between companies for IT specialists. In Austria, the sector suffered a crisis in 2001, when demand for labour fell significantly, as did pay.

In many countries, the sector is characterised by a high proportion of SMEs with fewer than 250 employees. In Luxembourg, the vast majority of IT companies have 10 or more employees. In France, it is estimated that the average company in the sector has 11 employees. Companies in this sector are predominantly private sector organisations, although some former state companies or public companies are operating in areas such as telecommunications. In this country, the public telecommunications company [France Télécom](#) has 191,000 employees and negotiates on pay with the trade unions. This is one of the few companies in the sector in France that has a collective agreement with trade unions. The presence of self-employed IT contractors is also significant in some countries, such as the UK. Similarly, in Malta, the number of workers in small private IT providers is reported to be growing rapidly.

**Outsourcing** has been a common feature of the IT sector in many of the older EU Member States, including the UK, although there appears to be a growing trend of bringing many services back in-house in the latter country. In Finland, many jobs have been outsourced to China, where labour is cheaper.

Conversely, in some of the NMS, such as Romania, the early part of the 1990s was characterised by a 'brain drain' of IT professionals, who left the country to find work in the older EU Member States. However, the past few years have seen something of a reversal, with IT professionals choosing to work in their own country, often for the subsidiaries of foreign companies situated in Romania. The emigration of skilled personnel in this sector has also been a problem in Lithuania since its accession to the EU, resulting in significant labour shortages as well as an upward pressure on pay.

In many of the NMS, foreign-owned companies are a significant presence in the IT sector, in many cases having taken over domestic businesses. The presence of foreign-owned companies is also significant in Ireland, where many ICT companies from the United States (US) have invested since the late 1960s. As a result, the Irish ICT sector has expanded rapidly since that time and the country's economy is heavily reliant on investment from IT companies. Nevertheless, Ireland has witnessed large-scale job losses in this sector in recent years, primarily as a result of a downturn in the US technology sector.

One of the common characteristics of this sector is that the workforce is often younger than in other sectors and also contains a high number of students working on a temporary basis. Moreover, many of the jobs in the sector are highly skilled and specialised; as a result, the labour market is tight and often characterised by skills shortages. These skills shortages are compounded by the fact that the set of competencies needed to work in the sector is constantly changing. Overall, the skills levels required in this sector are above the average for the whole economy. In Denmark, for example, the proportion of employees with a university degree (17.4% in 2004) is double that in the private sector as a whole.

In some countries, such as Sweden, the sector can be relatively male-dominated, although companies in this country are reportedly trying to close the gender pay gap. In the Czech Republic, a low proportion of women are also reported to be working in the IT sector.

Another characteristic of the labour market in this sector is that workers seem to move around more frequently than in other sectors. In Malta, for instance, it is reported that many workers in the IT sector change jobs frequently, often in search of better pay. The same trend is reported in France, where employers attempt to increase employee loyalty through increased individualisation of pay, offering profit-sharing measures and, in some cases, distributing stock options.

## **Pay-related characteristics**

As the IT sector is a dynamic, relatively new and fast-growing sector, pay is not usually determined by sectoral collective agreements and governments have virtually no role in pay setting. In many countries, pay is determined at company level or between individuals and their employer. There are, nevertheless, some exceptions to this. In Finland, the IT sector is covered by sectoral-level and company-level bargaining between trade unions and employers, although individualised pay and bonus payments are common. In Austria, a sectoral pay agreement was concluded in 2002, setting a minimum floor for pay. In Denmark, it is estimated that about 60% of the workforce is covered by collective bargaining, mainly in the hardware sectors, whereas coverage within software and IT services is low. Sweden's IT sector is covered by a collective agreement negotiated by employer and trade union representatives in the IT sector. It should be noted that some companies that operate in the IT sector, notably [Ericsson](#), are actually affiliated to the engineering sector. Individualised pay is, however, more common in this sector than in other sectors in Sweden. In Italy, IT workers generally fall within the broader metalworking sector for collective bargaining purposes. Some parts of the sector in Slovenia are also covered by sectoral agreement, although pay for IT experts is usually set by individual contract. In Norway, collective pay-setting occurs for some subsectors, such as ICT manufacturing or some parts of telecommunications, although it appears that even when collective agreements are present, individual pay-setting is the norm among white-collar workers. Some elements of the Portuguese IT sector, such as software and systems engineering, are also covered by sectoral agreements.

Trade unions do not, nevertheless, have a significant presence in the IT sector in most countries and therefore do not play a key role in pay setting, even at company level. In Ireland, pay setting in the IT sector occurs predominantly between individuals and their employer, and increases are

usually over and above the rates stipulated in Ireland's national agreements. Some non-unionised IT companies in Ireland may shadow national pay agreements.

Foreign direct investment has brought some elements of a culture clash in the area of pay in Sweden, as US companies settling in this country had little experience of [social dialogue](#). However, it is reported that they have adapted somewhat to the Swedish model of pay determination.

Nevertheless, bargaining does have some influence over pay in certain parts of the IT sector. For example, trade unions are often still present in formally state-owned companies. In Latvia, social dialogue takes place at the former state-owned telecommunications company and this determines pay for the company and its subsidiaries. In the Netherlands, the company is the dominant bargaining level in the IT sector and the role of the works council in pay setting is more prominent than elsewhere in the economy. It should be noted that in Denmark, pay setting in the IT sector does not differ significantly from elsewhere in the economy, with bargaining taking place at sectoral or company level, and independent companies taking into account and using as a reference point existing collective agreements when setting pay outside these agreements.

Overall, the main determinants of pay and pay progression in the IT sector appear to be labour market considerations – such as demand for certain types of workers, and individual performance and skills. This is certainly the case in the UK, according to a [survey](#) carried out by IDS among organisations in the country's IT sector in 2007. Another key determinant in the UK is whether the organisation is situated in the public or private sector, with private sector organisations paying higher wages for IT staff in general. The 'going rate' is also a key determinant of IT sector pay in the UK.

In terms of pay levels, IT sector employees often earn incomes above those of employees in other sectors of the economy, and pay is increasing faster than the national average in many countries; this is attributed to factors such as a tight labour market and competition among companies for staff with particular types of skills. In Poland, for instance, average pay in the IT sector has risen by 29% since 2006. There is a perceived need in this country to pay comparatively high salaries to prevent IT professionals leaving Poland and working elsewhere. In the Czech Republic, it is estimated that school leavers' earnings in this sector are equal to the average wage.

In Luxembourg, pay is influenced by the cross-border nature of the country's job market: more specifically, the lower salaries of the surrounding countries tend to restrict salary growth, and cross-border workers are numerous in the IT sector due to the limited number of resident workers who have the necessary level of training. Nevertheless, pay development in Luxembourg's IT sector has still been relatively dynamic in recent years.

Flexible pay, individualised pay-setting and performance-related pay are all common features of pay determination in the IT sector. The payment of bonuses to IT staff is significant in the UK, for instance: the aforementioned IDS survey found that two fifths of respondents paid bonuses to their IT staff, ranging from 3% to 30% of basic salary. The awarding of a range of bonuses and perquisites such as mobile phones and IT hardware is common in the sector. In the Czech Republic, for example, this is common practice as a recruitment and retention tool. In Denmark, employee benefits include share options and even annual collective ski trips to Norway.

The gender pay gap appears to be relatively large in the IT sector in many countries, possibly due to the predominance of male workers in senior jobs and technical jobs, and the high level of individualised pay setting. In Slovakia, for example, the gender pay gap was estimated to be about 33% in 2007. In Malta, the gender pay gap in the sector is estimated at around 27%. In France, a collective agreement signed between management and trade unions at the public telecommunications company France Télécom includes specific provisions aiming to close the



gender pay gap; these include a specific increase of €100 or €300 and other individual measures. This agreement also seeks to help employees at the beginning of their career, thus addressing the issue of low pay.

## **Social partner views**

Trade unions are generally aware of the challenges of organising in the IT sector, where the culture of the predominantly young workforce does not sit easily with trade union representation. However, trade unions in many countries are actively trying to put in place more secure terms and conditions, including pay, for workers in the sector. In the UK, the trade union [Unite](#), which organises IT workers, noted that pay determination can be extremely complex in the case of IT workers: within one multinational, pay might be set by collective bargaining for a particular group of employees, due to past mergers and acquisitions, while for another group, pay may be set by individual performance-related pay. It was also noted that performance-related pay systems can be characterised by a lack of transparency, which could theoretically mask issues connected with equal pay.

In Ireland, trade unions tend to regard the larger companies in the sector – such as [Intel](#), [Hewlett Packard](#) and [Dell](#) – as special cases, as they usually pay above the going rate and many have relatively sophisticated human resources (HR) policies. Instead, the unions have targeted their recruitment efforts on smaller indigenous companies or larger companies with relatively unsophisticated HR or industrial relations practices.

As it is sometimes unclear which industry IT workers fall into, for organisation and collective bargaining purposes, this can lead to difficulties between trade unions. In Germany, for instance, disagreement has arisen between the German Metalworkers' Union ([Industriegewerkschaft Metall](#), [IG Metall](#)) and the general union [ver.di](#) over IT workers, with both unions trying to establish a presence in the sector.

From an employer perspective, one of the main concerns in the IT sector is the shortage of appropriate skills, due the fact that much of the work in this sector is highly specialised and that skills needs are changing rapidly, requiring an effective system of continuing training. Employers in the UK noted that although pay is comparatively high in IT, the sector is generally more sensitive than most to economic downturn. In terms of trade union recognition, employers in some countries can be hostile, as seen in Ireland, for example. The Irish government does not actively encourage foreign multinationals in the IT sector to recognise trade unions, as it is unwilling to jeopardise inward investment.

In terms of state intervention, there is virtually no evidence of this in the IT sector across Europe, due to the dynamic and individualised nature of the sector. However, in some countries – as the sector is seen as a flagship for the economy and there is an awareness of a skills shortage – the government has helped to promote IT education and training. This is the case in Estonia, for instance, where government representatives sit on the board of an IT training body.

## Commentary

The subject matter covered by this report is diverse, ranging from information about general wage setting, wage trends and bargaining levels, to research on minimum wages, followed by a specific focus on wage setting in the IT sector. Furthermore, as is usually the case with research looking at countries as diverse as the EU Member States, a wide range of systems and trends exist. It is therefore difficult to summarise all of the trends and main issues dealt with in this study. Overall, however, some key themes can be identified.

In terms of wage setting, a range of trends can be identified. In some countries, particularly the older EU Member States, the past few years have been characterised by wage moderation – either intentionally in adherence to wage norms, or as a result of relatively high inflation and low productivity growth. In some of the NMS, on the other hand, wage growth has been significant since EU accession, linked to the **restructuring** of these economies. Looking to the future, it is clear that the difficult economic context that is underway at present is playing a part in the approach of the main actors and policymakers and that wage moderation is being advocated in many countries. In many of the NMS, employers are also calling for greater moderation in wage growth. Some employers have also been advocating greater flexibility in wage setting, particularly in those countries that have a fixed wage-setting mechanism, often involving some kind of indexation. In a number of countries, debates are taking place about the appropriate level for wage bargaining.

The gender pay gap is an issue for the majority of countries, with many initiatives being undertaken to try to reduce the gap. While the gender pay gap is decreasing in most countries, closing it completely is likely to be a very long-term project, as issues such as occupational segregation, work patterns and **work-life balance** need to be addressed.

The minimum wage appears to work well in the countries that operate a statutory national minimum wage – which is in place in about three quarters of the countries in this study. Discussions are also underway with regard to the minimum wage level in order to ensure that it does not upset the balance of the labour market, particularly at the lower end of the market. Nonetheless, in general, the statutory national minimum wage is supported by trade unions, employers and the government in those countries where it exists. In some countries, notably Germany, a lively debate is underway over the possible introduction of some form of national minimum wage. This debate also seems to be gaining ground in Denmark in the past couple of years, particularly owing to factors such as an increased level of migrant labour in certain sectors.

The IT sector represents an interesting sector in terms of wage formation, as it is arguably one of the most rapidly evolving sectors in Europe. Characterised by dynamic growth and ever-changing technology and therefore job and skills requirements, the sector is fast-paced in all of the countries analysed in this study. Although the sector does not employ a significant number of workers relative to the whole economy in most countries, it is nevertheless seen as significant in terms of its growth potential, innovative qualities and characteristics as the driver of the knowledge economy. The sector's workforce tends to be younger than the average across economies, in some countries predominantly male, and employees are more likely to change jobs more often. One key characteristic in terms of wage determination is the fact that the sector is not heavily unionised as trade unions find it difficult to organise among the fast-moving and young workforce. Pay is therefore usually set by either company-level or individual agreement. On average, pay tends to be higher for workers in this sector than in others, largely due to the tight labour market and demand for certain skills that are in short supply. Individualised pay is widespread, as is the payment of bonuses, and other benefits and incentives designed to aid recruitment and retention, as companies compete for a limited pool of workers with the required

experience and skills. Although the sector suffered a setback at the beginning of this decade, it has now recovered and is growing strongly in most countries. Time will tell whether the economic downturn now facing Europe will have an effect on this most innovative of sectors.

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