

## The study of the solidarization of the wage system. The experience of the European Union

### *El estudio de la solidarización del sistema salarial. La experiencia de la Unión Europea*

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#### Abstract

The article is devoted to the research of the main aspects of the solidarity economy, the substantiation of the expediency of implementing the principles of solidarity labor remuneration, as they are fundamental for the development of a solidarity directed social policy within the national economy. In the course of the study was considered principles of "solidary wage policy", indicators of labor mobility, wage growth, costs for wages, employment of the able-bodied population, influencing the solidarity of the wage system by the example of the countries of the European Union, as well as solidarity oriented system of the organization of calculation of the salary. In the article was considered the relevance of a solidarity economy as an economic activity organized for sustainable individual and collective development.

#### Keywords

Solidarity economy, sustainable development, social policy, solidary wage policy, national economy.

#### Resumen

*El artículo está dedicado a la investigación de los aspectos más importantes de la economía solidaria, la comprobación de la conveniencia de implementar los principios de la remuneración laboral solidaria, ya que son fundamentales para el desarrollo de una política social solidaria dentro de la economía nacional. En el curso del estudio se consideraron los principios de "política salarial solidaria", indicadores de movilidad laboral, crecimiento salarial, costos salariales, empleo de la población no discapacitada, influyendo en la solidaridad del sistema salarial por el ejemplo de los países la Unión Europea, así como el sistema orientado a la solidaridad de la organización del cálculo del salario. En el artículo se consideró la relevancia de una economía solidaria como una actividad económica organizada para el desarrollo sostenible individual y colectivo.*

#### Palabras clave

*Economía solidaria, desarrollo sostenible, política social, política de salarios solidarios, economía nacional*

Recibido: 08-01-2018

Aceptado: 09-02-2018



## Introduction

In recent years, there has been a growing awareness of the need to monitor wage trends and the development of long-term measures aimed at preventing wage stagnation, increasing the remuneration of millions of working people around the world, ensuring an equitable distribution of incomes, reducing excessive wage inequality and income, and on stimulating consumption as one of the fundamental elements of a sustainable economy [International Labour Office, 2017].

The modern model of the national economy as a single system is formed in the process of evolution of all components of the life activity of the population [D. Bubykin, O. Molchanova, 2017]. The intensive formation of national economies begins with the era of the industrial revolution, as a result of which mass production arose with its inherent deep specialization and cooperation. It was these processes that made the enterprises of different economic sectors, different regions of the country interdependent from each other, which led to the formation of the phenomenon "national economy" [L. Leontieva, N. Fetisova, 2013]. Social, environmental and economic problems show that it is necessary to search for more efficient business models. Each socio-economic model is pursued and created for specific purposes. One of such models, according to many authors [E. Miller, 2014, A. Rees, 1984] is a solidarity economy. It should be noted that according to E. Kawano (2013), a solidarity economy is a new form of organization of economic life, which encompasses all business entities at all levels. This is an ethical, reciprocal and cooperative way of consumption, production, financing, exchange, communication, education, development, which contributes to a new way of thinking and life, aimed at an equitable distribution of the work and benefits obtained as a result.

In this model, one of the primary roles is played by social policy, which is designed to create normal conditions for the reproduction of highly skilled labor. In a solidarity model, social policy facilitates the transformation of social relations in the spirit of social justice, equalization of incomes, smoothing out class inequalities and, as a result, building a new society oriented towards the introduction of the principles of sustainable development. One of the driving forces of this policy is the creation of normal conditions for a "solidary wage policy".

Therefore, the aim of the article is to study the principles, indicators of labor mobility, wage growth, wage costs, employment of the able-bodied population, influencing the solidarity of the wage system by the example of the countries of the European Union.

## 1. Theoretical framework

The labor market consists of a multitude of sectors, each of which sets its own level of wages, and arises the problem of choosing the level of its differentiation [V. Iokhin, 2001]. In recent years, the policy of solidary wages, based on the principle of "equal wages for equal work" that is leading to a reduction in the wage gap.

Conducted researches of a labor market have revealed the following important moments:

- a more even pay structure leads to the emergence of many comparable jobs, which helps structural changes in the economy;
- payment of relatively equal wages in all enterprises, regardless of the level of profitability, leads to an intensification of competition based on production costs. Thus, inefficiently operating enterprises are forced either to go to a certain level of income, which will allow them to pay a decent salary, or to stop their activities more quickly than if they continued to compete by paying low wages. In turn, highly profitable enterprises can use an increasing part of the profits to expand and improve production, avoiding the additional costs of raising wages;
- revealed the similarity between equalization and increase in the wage gap, which manifested itself in the less mobility of the labor force (especially young people) in the labor market. On the one hand, wage leveling does little to stimulate regional and sectoral labor migration. On the other hand, the labor force that is attracted to developing areas or to areas that are in short supply of labor, with high wages, is unlikely to leave them, even if demand for labor is reduced.

According to the researchers [S. Abylkalikov, M. Vinnik, 2012] knowledge of the labor market requires careful and thorough study of structural shifts in labor activity, conditioned by trends in the development of scientific and technological progress and changes in the social division of labor. Have to be noted that to date about 70% of the types of labor activity are those that did not exist at the beginning of the twentieth century. Other factors that have a significant impact on the labor market are the continuation of the period of the labor activity of a person approximately in twice, as well as a later entry into the labor activity, in addition, a person previously acquired a specialty for the rest of his life, and at present he will be forced to change his occupation no less than 2-3 times during the period of his labor activity.

It should be mentioned that the problem of employment and unemployment is inseparably linked with the ongoing structural shifts in the national economy and the world economy, demographic and cultural enlightenment and other processes, as well as the deformations and inertia of the labor market. A study of long-term trends in the labor market shows that each year there is a significant influx of labor, and noticeable changes in the structure of free workplaces.

## 2. Analysis and interpretation of the collected information

To conduct the analysis of the structure of labor market we have to consider the main indicators influencing on changes in the labor market, such as labor mobility, wage growth, wages, employment of the able-bodied population, changes in the structure of the employed population, and capital as a factor influencing the efficiency of differentiating the labor market.

According to the data of Eurostat (2017) mobility of EU citizens of working age in 2015, a little fewer than 11.3 million EU-28 citizens and 168,000 EFTA citizens of working age were residing in a Member State other than their country of citizenship, totaling some 11,434,000 people. This is an increase of 5.3% on 2014. With another 1.2 million EU-28 citizens living in an EFTA country and around 10,000 EFTA citizens living in an EFTA country other than their country of citizenship, the total number of mobile EU-28 citizens of working age within the EU and EFTA reached 12.5 million. The main countries of residence of EU-28 movers of working age remained unchanged from 2014, i.e. Germany (2.7 million), the UK (2.1 million), Spain (1.4 million), Italy (1.1 million), France and Switzerland (around 950,000 each) – these six countries host almost 75% of the EU-28 movers in the EU-28/EFTA region. These were also the countries with the highest numbers of inflows of working-age EU-28 movers in 2014. The countries in which EU-28 movers have the highest proportion compared to the overall population are Luxembourg (43%), Switzerland (19%), Cyprus (15%), Ireland (10%) and Belgium (9%). With respect to countries of origin, Germans, Italians, Polish, Portuguese and Romanians together make up more than half of all movers in the EU-28/EFTA region, with 6.6 million people combined. Concerning developments since 2009, the largest increase in inflows of EU-28 movers between 2009 and 2014 can be seen in Germany (+219%), Austria (+86%), the UK (+57%), Denmark (+54%) and Finland (+60%). Despite an overall increase in intra-EU mobility in recent years, emigration rates have decreased in most of the countries with traditionally high emigration. Several countries show an increase in emigration rates between 2009 and 2012 (i.e. Lithuania, Ireland, Poland, Switzerland and Estonia) and then a decrease in 2014, indicating a slow recovery from the economic crisis. Nevertheless, several EU-13 Member States – Slovakia, Bulgaria, Latvia, Lithuania, Croatia, Poland and Romania – still register overall negative net migration. While emigration rates have stagnated since 2012 in several of the crisisstruck EU-15 countries (Spain, Italy, Portugal, Greece) and even receded in Ireland, all of these countries, except Italy, still registered overall negative net migration in 2014.

Analyzing the data of Trading economics (2017) have been found that hourly labor costs in the Euro Area went up 1.8 percent year-on-year in the second quarter of 2017, the biggest gain since the first three months of 2016 and following a downwardly revised 1.4 percent increase in the previous period. Wages and salaries per hour worked grew by 2 percent, the most since the first quarter of 2015 and above a downwardly revised 1.3 percent in the previous period. The non-wage component went up 0.8 percent, below 1.6 percent in the first quarter. By sector, labor costs increased 1.5 percent in industry; 2 percent in construction; 2.1 percent in services and 1.4 percent in the nonbusiness economy. Labour costs went up in Germany (2.3 percent compared to 2.2 percent in Q1); France (1.4 percent compared to 1.1 percent) and Italy (0.9 percent compared to 0.8 percent). Labour Costs in the Euro Area averaged 99.67 Index Points from 2008 until 2017, reaching an all time high of 112.30 Index Points in the fourth quarter of 2016 and a record low of 85.10 Index Points in the first quarter of 2008.

Research of the data for the period from 2009 to 2017 [Trading economics, 2017] shows that wages and salaries per hour worked in the Euro Area grew by 2 percent year-on-year in the second quarter of 2017, the most since the first quarter of 2015 and above a downwardly revised 1.3 percent in the previous period. Wage Growth in the Euro Area averaged 1.75 percent from 2009 until 2017, reaching an all time high of 3.40 percent in the second quarter of 2009 and a record low of 0.70 percent in the third quarter of 2010.

The data of employment change for 1995-2017 [Trading economics, 2017] shows that the number of employed persons in the Euro Area increased 0.4 percent on quarter to 155.6 million in the second quarter of 2017, reaching a new record high. It follows an upwardly revised 0.5 percent rise in the previous period and compares with market expectations of a 0.3 percent gain. Among Member States for which data is available employment increased the most in: Malta (+1 percent), Spain (+0.9 percent) and Greece (+0.8 percent) while in Germany, France and Italy grew 0.3 percent respectively. Year-on-year, employment went up 1.6 percent. Employment Change in the Euro Area averaged 0.20 percent from 1995 until 2017, reaching an all time high of 0.80 percent in the first quarter of 2000 and a record low of -0.70 percent in the first quarter of 2009.

In the same time the number of employed persons in the Euro Area increased to 155.60 Million in the second quarter of 2017 from 154.95 Million in the first quarter of 2017. Employed Persons in the Euro Area averaged 133.40 Million from 1980 until 2017, reaching an all time high of 155.60 Million in the second quarter of 2017 and a record low of 117.36 Million in the second quarter of 1984 [Trading economics, 2017].

Analyzing the above mentioned indicators, we come to the conclusion that it is necessary to rethink the wage system in terms of the possibilities for its solidarization. The peculiarities of a solidary wage system include its focus on the principles of a solidary economy, namely, fair income distribution, staff motivation, equality between employees of different sexes, effective resource-intensive production and consumption of benefits, redistribution of excess profits.

As the examples of successful implementation of the model of solidarity labor remuneration can serve a number of European countries such as Sweden, Switzerland, Finland, where the calculation and payroll to employees is based on the principles of a solidarity economy and is regulated at the state level, since the policy of solidary wages is aimed at the solution of a number of target tasks. First of all, along with market competition it additionally stimulates the process of constant renovation of production on the basis of the latest achievements of science and technology. This approach is based on a number of principles, of which the most important are: an equitable distribution of income in proportion to the severity of work and its effectiveness; equal pay for equal work for men and women, different age categories of employees, workers in the same industry, but with different incomes (the worker should not suffer because of low profitability of his enterprise); decrease in wage differentials for the sectors of the economy between workers and employees.

Taking into account all considered above principles of a solidary wage policy, should be added the principle of equal pay for equal work regardless of the form of ownership, which means that employees of different enterprises, private or public sector, having the same qualifications and performing similar work receive the same salary regardless of the results of the economic activity of the enterprise (organization).

The basic goal of such a solidarity-oriented approach is a general increase in the standard of living in the country in accordance with the priorities of sustainable development.

According to the Eurostat (2016), the real wage growth rates in the world, which began to recover in 2010 after a sharp decline as a result of the economic crisis of 2008-2009, have slowed again since 2012, falling from 2.5% to 1.7% in 2015, i.e. up to its 4-year low. Excluding China, which was ahead of other countries in the world in terms of real wage growth, they declined from 1.6% in 2012 to 0.9% in 2015. In 2015, real wages in Latin America and the Caribbean fell by 1.3% (mainly as a result of the reduction in labor remuneration in Brazil), and in the countries of Eastern Europe - by 5.2% (mainly due to the reduction of wages in the Russian Federation and in Ukraine). In developed countries, on the contrary, wages have increased. In developed countries, real wage growth rates rose from 0.2% in 2012 to 1.7% in 2015, reaching its peak in the last decade. In 2015 real wage growth rates rose to 2.2% in the US to 1.5% in the countries of North, South and West Europe and up to 1.9% in the EU countries. Reducing the difference between developed and developing countries in the rate of growth of wages means a slowdown in the process of convergence of these two groups of countries in terms of wages.

Proceeding from the given statistical data, it can be concluded that there is a worldwide tendency to increase the income level of various categories of the population. However, at the same time, it should be noted that the average wage can not be understood the process of distribution of wages for various categories of employees. It is known that the inequality in pay for the last decades has increased in many countries of the world. Although, to some extent, this inequality reflects individual and production differences between workers, the excessive deepening of inequality increasingly makes us afraid of its negative social and economic consequences.

In recent years, in order to protect low-paid workers and reduce wage inequality, many countries have introduced or strengthened a mechanism for setting a minimum wage, and there has also been a trend to introduce a solidarity approach to the distribution of profits, payroll, and the use of a solidarity reward system within enterprises [International Labour Office, 2017].

According to Eurostat (2017), over the years, the gap in wages has generally declined in most countries for which data are available, but has not disappeared. The recent estimates of the gender gap in hourly wage [International Labour Office, 2017] in a number of countries reflect a huge variability - from about zero to almost 45%, which means that the disparity in wage inequality is still significant. Between 2002 and 2010, the gender gap has narrowed, but is retained in most European countries, with its magnitude greater at the upper end of the distribution than at its lower end or in the middle. If in Europe as a whole the gender gap in hourly wage is about 20%, then among 1% of the recipients of maximum wages it reaches about 45%. At the heads of companies, which are 1% of such employees, the gender pay gap exceeds 50%. Moreover, it is more in those enterprises where the average wage is higher. At enterprises that are part of 1% of European enterprises with the largest average wage, the gender difference is almost 50%.

Basing on the researches of International Labour Office (2017) have to be noted that wages and wage inequality depend not only on the qualification of the worker (educational level, age or seniority), but also on a multitude of other factors of great importance, such as gender, enterprise size, type of employment contract and the industry in which he works.

The impossibility of explaining an essential part of the observed differentiation in pay with the help of classical argumentation, based on the qualification characteristics of workers, makes one wonder about the role of enterprises as one of the factors determining the inequality in pay. Inequality in wages between enterprises, as a rule, is greater in developing than in developed countries. According to Eurostat (2016), if in developed countries 10% of enterprises with the largest payroll average wage is 2-5 times higher than 10% of enterprises with the lowest wages, in developing countries this ratio increases to 8 (Vietnam) and even up to 12 times (South Africa). While in Norway, the average wage in a large part of the enterprises is in the middle range, and in the UK a significant proportion are enterprises with a low or high average wage. In developing countries, due to structural differences, there is usually a significant difference between the majority of enterprises with low and medium wages and a minority with a much higher average wage.

Analyzing the given data, we want to draw your attention to the fact that the policy of solidary wages is aimed at solving a number of the above-mentioned target tasks, which are currently acute for the world economic community.

First of all, along with market competition, it can additionally stimulate the process of continuous production renewal based on the latest achievements of science and technology, while the principle of equal pay for equal work is observed, which means that employees of different enterprises having the same qualifications and performing similar work receive the same salary regardless of the results of the economic activities of the enterprise. This encourages entrepreneurs to modernize production or close enterprises. Thus, the policy of solidary wages helps accelerate the process of liquidation of low-profit enterprises.

The policy of a single level of solidary wages has a positive impact on the structure of incomes and expenditures of highly profitable enterprises, their distribution and use. Here, employees do not have formal grounds to demand to use of that part of the profits that is received above the normal average level for raising of wages. As a result, entrepreneurs are able to direct it to expand and modernize production, which certainly contributes to accelerating scientific and technological progress and strengthening the competitiveness of these firms. Moreover, since the difference between enterprises in the average wage is one of the most important factors in the aggregate wage inequality, the promotion of productivity growth in sustainable enterprises can simultaneously lead to a rise in wages.

Following the policy of solidary wages, which stimulates the constant renewal of production and structural restructuring of the economy, this certainly could lead to mass unemployment. But this does not happen due to the unique practice of providing employment for the population. The state can regulate this process and implements a highly effective system of measures for professional retraining, redistribution of labor resources, and social support for temporarily unemployed people, such practice is already in work in Scandinavian countries.

Another characteristic feature of the "solidary salary", which can be effective as one of the tools it is to narrow the gap between the minimum and maximum wage. The very system of determining the average level of wage increase in the mode of its equalization: raising the earnings of the low-paid and restraining the growth of high-paid workers. Wage-restriction measures can also be distributed between men and women occupying managerial positions.

In addition, a solidarity approach to remuneration may also include the availability of quality of professional education through the organization and the availability of programs to improve the skills of the workforce.

But along with this important moments, particular attention should be given to the wage management system, which includes:

- payment of worked time, including non-working days and holiday period (other forms of payment, except of the time-based, are used quite rarely, rather as an exception);
- various types of bonuses;
- payment of overtime;
- partial coverage of food production costs, drinks relying on working conditions;
- subsidies for housing;
- payment for travel on public transport or gasoline for the employee's own car.

An integral part of the system for the regulation of labor relations is foundation of special labor courts, state bodies of mediation, arbitration, etc.



In addition, in some countries of the European Union, there is a practice of attracting employees to participate in enterprise's profits, which is regulated at the state level and is an important link in the national economy. Thus, in this area works a mechanism for creating working property, several types of bonus payments from profits, as well as spreading plans for working savings, providing for the accrual of a certain maximum of funds placed in the shares of the company or in various interest-bearing securities, has been distributed to the workers' accounts.

Based on the above considered analytical materials, it becomes obvious that stagnation of average wages and a reduction in the share of wages is fraught with both social and economic consequences. Socially, the lack of interrelationships between economic growth and wage growth leads to growing frustration among workers and their families due to the feeling that they do not receive the part of the fruits of economic progress that they are entitled to. For the economy, low wage growth rates mean a reduction in household consumption incentives and, as a result, a reduction in aggregate demand, especially in the context of stagnating wages simultaneously in many large countries. In this regard, a positive step may be the solidarization of the social policy in the sphere of wages. We believe that it is necessary to pursue a macroeconomic policy aimed at achieving significant rates of growth in wages and labor productivity, and also to be guided in the field of wages by the principle of joint labor compensation - can contribute to a more adequate correspondence between wage growth and productivity growth, which can be considered positive solidarity effect.

### 3. Conclusions

The implementation at all levels of a solidary social policy that ensures stable growth of wages and an equitable distribution of the fruits of progress requires decisive and ambitious measures that must take into account both long-term trends and the current situation. But above all, such a social policy has in mind specific factors that determine the positive or negative dynamics of wages and wage inequality. Therefore, when formulating a national policy, it is necessary in each case to take into account the models and factors of economic development in the context of the principles of solidarity and sustainable development.

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