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Opinion of the European Economic and Social Committee

The role of trade unions in improving productivity

(own-initiative opinion)

(C/2025/5139)

Rapporteur: **Philip VON BROCKDORFF**

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1. Conclusions and recommendations

1.1. The European Economic and Social Committee (EESC) strongly recommends productive investment in capital, technology and human capital which in turn would help boost labour productivity. These investments would help increase productivity growth and in time match productivity levels in the US. That said, the EESC recognises that most businesses across the EU are SMEs with limited trade union representation. The EESC advocates government support such as strategic advisory and capacity-building support to boost productivity in SMEs.

1.2. Trade unions play an important part in labour productivity through the mechanisms to which only they can contribute, namely collective bargaining and/or sector-based agreements, and specifically by facilitating innovation at the workplace which in turn could enhance labour productivity. In this connection, the EESC believes that collective bargaining and social dialogue could extend to the design of new work models that boost innovation, such as collaborative team structures, working time flexibility and shared leadership initiatives.

1.3. The EESC is of the view that trade unions could be involved in setting sector-specific productivity benchmarks and performance indicators. Their input ensures that metrics reflect quality work, innovation and sustainable business practices, rather than short-term cost-cutting.

1.4. The EESC encourages a stronger workers' voice at the workplace based on information sharing and effective consultation with workers in line with national legislation and practices, while not affecting companies' ability to take decisions. While co-management or participation of employee representatives in the governing structures of businesses is effective in some EU countries and could serve as a model for others, the responsible management of companies' management, including SMEs should be preserved.

1.5. The EESC highlights the role of works councils which have the potential to help achieving higher job satisfaction, higher salaries and greater job stability compared to companies without works councils.

1.6. Besides supporting productivity by allowing workers to contribute to workplace decision-making, by providing them with the necessary information and effective consultations, trade unions may also improve business outcomes by helping companies maintain experienced workers who could be more productive. This supports the stability necessary for investments in the company-specific human capital and training needed to boost productivity.

1.7. Trade unions could also be part of the equation to reduce any existing high levels of absenteeism, since high absenteeism rates represent a significant cost to businesses and public finances. Through collective bargaining and workplace cooperation, trade unions can help address the root causes of absenteeism.

1.8. The EESC is of the view that collective bargaining can contribute to productivity by promoting a positive and supportive working environment, recognising employee value, and encouraging collaboration and innovation including the application of worker-centric digital methods and Artificial Intelligence in the workplace.

1.9. The EESC also recommends stronger collaboration between trade unions and businesses in co-designing and implementing continuous training and upskilling programmes, particularly in sectors undergoing technological transformation.

1.10. Trade unions could also play a supportive role in schemes that encourage voluntary mobility of unemployed workers to regions with labour shortages, including through mobility agreements, housing support and recognition of qualifications, while ensuring fair working conditions.

1.11. The EESC reaffirms that social dialogue and collective bargaining can help increase productivity and raise wages through the participation and involvement of trade unions, according to national rules and practices. Furthermore, the process of collective bargaining could also take into account how productive investment and new technologies impact workers at the workplace.

1.12. Finally, the EESC highlights that the Adequate Minimum Wage Directive aims to improve living and working conditions in the Union and to promote collective bargaining in wage setting.

2. **General comments**

2.1. The Draghi and Letta reports conclude, among other things, that the EU is losing its competitive edge compared with the US and China. The reasons for this are various but increasing costs, which include wages, is mentioned as one of the main causes. Wage developments since 2022 have been shaped to a large extent by inflation and the increasingly difficult economic climate. The inflation spike in 2022 caused by high energy and food prices led to a delayed increase in nominal wages, resulting in significant losses in real wages and households' purchasing power ([1]).

2.2. Over the last two years, nominal wages in the EU have increased in part to compensate for higher prices. The growth in nominal compensation per employee reached 6,1 % in 2023, but increases slowed in 2024. In the first quarter of 2024, it reached 5,6 % year-on-year but the increase continued to slow in the subsequent quarters of 2024 as inflation subsided ([2]).

2.3. The growth in negotiated wages has been a major driver of these wage dynamics and, as expected, this growth was necessary to compensate for purchasing power losses as explained in point 2.1 above. Negotiated wages are, of course, the outcome of wage bargaining and agreements reached between employers and trade unions. According to the European Commission's *European Economic Forecast Autumn 2024*, nominal compensation per employee is expected to grow by 3,5 % in 2025. This is above the average increase of around 1,8 % recorded between 2013 and 2019, and reflects legitimate demands by trade unions to compensate for the high rates of inflation seen in 2022 and 2023 ([3]). The expected growth in 2025 is considerably lower than the 2023 levels (6,1 %), due to the slowdown in inflation and a very challenging economic environment.

([1]) Labour Market and Wage Developments in Europe, Annual Review 2024, European Commission: https://op.europa.eu/webpub/empl/lmwd-annual-review-leaflet-2024/.

([2]) Labour Market and Wage Developments in Europe, Annual Review 2024, European Commission: https://op.europa.eu/webpub/empl/lmwd-annual-review-leaflet-2024/.

([3]) Tightness in the labour market has also exerted upward pressure on wages.

2.4. It should be noted that, despite the strong growth in nominal wages in 2023 and, allowing for considerable differences across Member States, on average real wages ([4]) in 2024 were 1,1 % below their pre-pandemic levels. The gap between real wage changes (%) compared with pre-pandemic levels (2019) was particularly large in Italy, Greece (which recorded low nominal wage growth) as well as Czechia (which faced very high inflation), Germany, France and Finland ([5]). In 2025, nominal wage and real wage growth are expected to converge, which implies that workers' compensation should cover price hikes due to inflation.

2.5. In the EU, the labour income share as a percentage of GDP was 58,9 % in 2004 and reached a peak of 60 % in 2009. This ratio fell to 57 % in 2021, which is the lowest figure since 2004 ([6]). This is corroborated by the Commission in *Labour market and wage developments in Europe, Annual Review 2024* ([7]), which concludes that in the last two decades the labour share declined (albeit not by much), amid cyclical fluctuations. The labour share is the part of national income allocated to workers as compensation. This decline is likely to have been caused by cyclical fluctuations in EU economies and is explained by the fact that wages and employment take time to adjust to cyclical fluctuations due to the rigid nature of labour markets. The labour share tends to increase during recessions and falls during recoveries. Evidence of this is what happened during the Great Recession of 2009, and the economic crisis in 2020 following the outbreak of COVID-19.

2.6. It is also important to look at how expected wage dynamics correlate with inflationary pressures in the short term. According to the Commission, wage dynamics have not caused inflationary pressures. That said, there are continued concerns about competitiveness in some Member States, including in central and eastern Europe, which call for a micro-level assessment of the impact of wage increases on competitiveness. Of course, one cannot exclude businesses adjusting prices to cover part of the recent pay rises. However, as was the case at the height of the energy crisis, businesses recorded higher unit profits and these higher profits ([8]) acted as a buffer and absorbed any inflationary pressure that could have resulted from wage increases. Corporate profits increased substantially in some sectors with the energy crisis, from 51,3 % in 2021 to 53,2 % of GDP in 2022 ([9]). However, they started to fall in 2023 and are forecast to continue decreasing in 2024, although remaining high.

2.7. Finally, if we analyse cost competitiveness (and draw comparisons with the US), commonly measured as unit labour cost (UCL), that is the ratio of nominal compensation to productivity, UCL in the EU has increased at practically the same rate as in the US, about 15-17 %. The issue insofar as competitiveness is concerned is not necessarily cost, part of which is labour cost, but the fact that productivity has increased at a slower pace in the EU as compared to the US (0,7 % in the EU between 2019 and 2023; 6,4 % in the US). On the other hand, nominal compensation growth stood at 15,9 % in the EU between 2019 and 2023 compared to 20,5 % in the United States.

3. **General observations and recommendations**

3.1. If productivity is to grow in the EU at least at the same rate as in the US, as referred to in point 2.5 above, the EU needs to invest heavily in capital, technology and human capital. At the same time, efforts are also needed to boost labour productivity ([10]) which is largely driven by investment in capital, technological progress and human capital. Whereas labour productivity is expected to remain structurally low at 0,9 % in 2025 ([11]), strengthening productivity ([12]) could allow further scope to increase wages sustainably (through improved labour productivity) in the EU. Based on the evidence provided in Section 2, both productivity and wages can increase at the same time without having any negative impact on competitiveness.

([4]) Real wages are the value of wages in terms of purchasing power. Nominal wages (or 'money' wages) are simply the monetary value of a wage, whereas real wages are nominal wages adjusted to take into account price inflation, which erodes the purchasing power of nominal wages.

([5]) Labour Market and Wage Developments in Europe, Annual Review 2024, European Commission: https://op.europa.eu/webpub/empl/lmwd-annual-review-leaflet-2024/.

([6]) https://www.euronews.com/business/2024/04/19/workers-slice-of-the-gdp-pie-how-do-income-shares-compare-across-europe.

([7]) Labour Market and Wage Developments in Europe, Annual Review 2024, European Commission.

([8]) Unit profits approximate corporate profits as the difference between gross value added and compensation of employees. This definition includes gross operating surplus and mixed income per unit of real GDP.

([9]) Labour Market and Wage Developments in Europe, Annual Review 2024, European Commission: https://op.europa.eu/webpub/empl/lmwd-annual-review-leaflet-2024/.

([10]) Labour productivity is a measure that compares economic output against the amount of labour required to produce that output.

([11]) Labour Market and Wage Developments in Europe, Annual Review 2024, European Commission: https://op.europa.eu/webpub/empl/lmwd-annual-review-leaflet-2024/.

([12]) The impact of absorptive capacity on innovation can provide sustainable competitive advantages to service companies.

3.2. Evidence of this is put forward in the study by Genz et al. (2019) ([13]) which found that companies' investment in digital technologies in Germany has positively impacted workers' wages, both in knowledge-intensive manufacturing (e.g. car and machine manufacturers) and in non-knowledge-intensive services (e.g. wholesalers and restaurants). Primarily, it is investment by companies that will boost labour productivity. If companies fail to invest enough in product innovation or greater productivity, they will not be able to move up the value chain and remain competitive ([14]).

3.3. Governments play a key role in boosting productivity, with public spending on technology, physical capital and human capital, as well as through support schemes aimed at enhancing productivity in small and medium-sized enterprises where trade union representation is limited. Trade unions, on the other hand, play an important part in labour productivity through the mechanisms to which only they can contribute, namely collective bargaining and/or sector-based agreements which cover other key aspects besides wage negotiations. They can also influence the direction of policy by steering it towards higher value-added economic activities. Moreover, trade unions, by design, combine the power of individual workers through collective bargaining and collective action. In so doing, they could shape labour market dynamics in support of competitive markets. Through negotiations, trade unions can support business strategies by aligning the interests of businesses with those of workers, particularly by facilitating innovation at the workplace which in turn could enhance labour productivity. In this connection, the EESC believes that social dialogue could extend to the design of new work models that boost innovation, such as collaborative team structures, working time flexibility and shared leadership initiatives. Trade unions could advocate inclusive experimentation with such models.

3.4. The EESC is of the view that trade unions could be involved in setting sector-specific productivity benchmarks and performance indicators. Their input ensures that metrics reflect quality work, innovation and sustainable business practices, rather than short-term cost-cutting. A productivity benchmarking framework could include aspects such as the return on training, and output per working hour by sector.

3.5. When workplaces have a stronger workers' voice based on workers playing a role in how companies are managed ([15]), they tend to have lower staff turnover, reducing associated costs to businesses while also ensuring workers are paid equal to the value they contribute. Through collective bargaining, market failures can be corrected, income inequality may be reversed, and economic growth can be supported.

3.6. Some research finds that the positive link between productivity, on the one hand, and workers having a voice, on the other, is more pronounced when employees have a direct say in company decisions ([16]). Workers' contributions to decision-making can have a significant and positive impact on business productivity. This also appears to be true even when workers express their views through other channels, such as through some form of co-ownership that aligns workers' interests with those of business. Reigniting interest in the power of worker representation, through information sharing and effective consultation with workers, could be a way for companies to increase their output while furthering workers' interests.

3.7. Equally relevant is the role of works councils. A Eurofound study ([17]) found that employees in companies with works councils show higher job satisfaction, have higher salaries and enjoy greater job stability than staff in companies without works councils. These findings can be used as a strong argument for the European social model, in which representative worker participation, social partnership and high standards of working conditions play a crucial role.

([13]) Genz, S., Janser, M. and Lehmer, F. (2019), The impact of investments in new digital technologies on wages – Worker-level evidence from Germany, Jahrbücher für Nationalökonomie und Statistik, Vol. 239, No. 3, pp. 483–521, https://www.degruyterbrill.com/document/doi/10.1515/jbnst-2017-0161/html.

([14]) See *Financial Times*, 20 March 2025. Italy's paper hub loses its story, page by page.

([15]) The International Labour Organization has been encouraging member nations to promote the *Workers' Participation in Management* scheme.

([16]) How Unions Can Increase Firm Productivity and Strengthen Economic Growth, Kate Bahn, Joe Peck, 6 September, 2023.

([17]) https://www.eurofound.europa.eu/en/resources/article/2006/positive-effects-works-councils-working-conditions.

3.8. In addition to supporting productivity by allowing workers to engage in workplace decision-making, unions may also improve business outcomes by helping companies retain experienced workers who could be more productive. Unionised workers are less likely to leave their jobs. This in turn supports the stability necessary for investments in the company-specific human capital and training needed to boost productivity.

3.9. Trade unions could also be part of the equation to reduce any existing high levels of absenteeism ([18]) since high absenteeism rates represent a significant cost to businesses and public finances. Through collective bargaining and workplace cooperation, trade unions can help address the root causes of absenteeism.

3.10. Collective bargaining can contribute to productivity by promoting a positive and supportive working environment, recognising employee value, and encouraging collaboration and innovation including the application of worker-centric digital methods and Artificial Intelligence in the workplace. All of this is extremely important, especially in a very challenging economic environment.

3.11. The EESC also recommends stronger collaboration between trade unions and businesses in co-designing and implementing continuous training and upskilling programmes, particularly in sectors undergoing technological transformation. Their involvement ensures the alignment of worker skills with companies' needs and labour market trends. This is also of relevance in a labour market characterised by an aging workforce. Legal migration to address labour shortages, fill skills gaps and boost economic growth is part of the solution, but adequate working conditions must be ensured across all Member States.

3.12. Trade unions could also play a supportive role in schemes that encourage voluntary mobility of unemployed workers to regions with labour shortages, including through mobility agreements, housing support and recognition of qualifications, while ensuring fair working conditions.

3.13. That trade unions have a positive and significant impact on wages is well established. In particular, union membership is strong among workers with less formal education. This helps boost economic activity, as lower-income workers tend to spend a higher share of their income on consumption. In addition to having a positive impact within companies such as higher productivity and lower staff turnover, ultimately this macroeconomic effect also benefits businesses, as they can share in the gains of greater productivity and higher economic growth. Rather than worker interests being seen as inherently at odds with business interests, aligning them through the collective bargaining process can improve company outcomes and benefit the broader economy. The EESC reaffirms that social dialogue and collective bargaining can help increase productivity and raise wages through the participation and involvement of trade unions. Furthermore, the process of collective bargaining could also take into account how productive investment and new technologies impact workers, workers' training and skills development, industry developments, combating absenteeism, quality of life and general working conditions.

3.14. Finally, the EESC highlights that the Adequate Minimum Wage Directive aims to improve living and working conditions in the Union and to promote collective bargaining in wage-setting. As previously mentioned, collective bargaining that aligns with business strategies can help improve labour productivity and facilitate innovation at the workplace. It can also support the re-skilling of workers, particularly older workers, and raise their productivity.

Brussels, 16 July 2025.

The President
of the European Economic and Social Committee
Oliver RÖPKE

([18]) According to the German Federal Statistical Office, in 2023 German employees were on sick leave for an average of 15.1 working days, an increase of 4 days compared to 2021.