12 September 2015

Eurogroup statement

Structural reform agenda - thematic discussions on growth and jobs: *benchmarking the tax burden on labour*

Following our agreement in September 2014 on common principles guiding euro area Member States' reforms to reduce the tax wedge on labour, the Eurogroup has discussed benchmarking as a tool to further inform and support reforms in this area.

The Eurogroup recalls that lowering the tax burden on labour has the potential to boost growth and support employment, as well as contributing to the smooth functioning of the EMU. The reforms undertaken recently in this area are steps in the right direction, and additional efforts should be pursued. Against this background, the Eurogroup considers benchmarking to be a useful tool for highlighting the possible need and scope for reform in this field in individual Member States and in the euro area as a whole.

The Eurogroup has agreed to benchmark euro area Member States' tax burden on labour against the GDP-weighted EU average, relying in the first instance on indicators measuring the tax wedge on labour for a single worker at average wage and a single worker at low wage. We will also relate this to the OECD average for purposes of broader comparability. This benchmark fulfils a number of criteria which should be met for a benchmark to be effective. It is simple, measurable and under the control of policy makers.

This benchmarking exercise, together with a continued exchange of best practices within the Eurogroup, can provide valuable support for further labour tax reform initiatives at the national level where applicable, thus giving fresh impetus for carrying reforms forward in euro area Member States. The benchmarking exercise will take place within the context of existing processes and surveillance mechanisms, in particular the European semester monitoring. The Eurogroup will also take stock of the state of play in the reduction of the tax burden on labour when discussing the draft budgetary plans of euro area Member States.

As the tax burden on labour interacts with other labour market features, monitoring needs to be part of a more comprehensive approach, examining the level of labour taxation in its full country-specific policy context, in line with the common principles adopted in September 2014. A full assessment of the urgency – and the potential benefit – for any given Member State to reduce the labour tax wedge should also make use of, indicators and country-specific information on, inter alia, the actual economic situation, in particular employment levels in specific demographic groups and overall, the level and design of social protection (including its impact on the level of social security contributions), total labour costs dynamics over the medium run and other labour market features. Moreover, in line with the common principles adopted in September 2014, given limited fiscal space, reducing the tax burden on labour should be accompanied by either a compensatory reduction in (non-productive) expenditure, or by shifting labour taxes towards taxes less detrimental to growth, in full respect of the existing EU economic surveillance framework, in particular the Stability and Growth Pact.