

THEORETICAL FOUNDATION OF THE GREAT DECOUPLING BETWEEN PRODUCTIVITY AND LABOR COMPENSATION

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Abstract: The dynamic increase in labor productivity has led to a complete distortion of the equilibrium in the distribution of national income between the factors of production - labor and capital. The postulates of the classical economic thought that the increase of labor productivity provides a solid base and automatically leads to an increase of labor compensation, in the last 3 decades do not correspond to the empirical trends. In most countries of the world, the increase in workers' compensation significantly lags behind the increase in labor productivity, which contributes to the "fruits" of the intense increase in labor productivity becoming more difficult to access for the average worker. In most countries of the world, although the increase in labor productivity contributes to increasing the economic "cake", fewer workers participate in its distribution. The theoretical postulates that the relationship between labor productivity growth and workers' compensation growth is one-to-one relation that is the subject of analysis and debate among economists around the world.

The analysis of the theoretical arguments and postulates, but also the empirical confirmation of the existence of great decoupling between productivity and labor compensation will be the main focus of this paper. Namely, the widespread trend of separation of workers' incomes from the increase of labor productivity, is increasingly gaining strength and leads to a significant separation of productivity from workers' compensation, in almost all developed economies. Some of the theoretical aspects that will be analyzed focus on the factors that influence the intensification of labor productivity growth such as technological progress, structural factors, and institutional factors. Furthermore, the paper will describe the main trends in labor productivity and workers' compensation, following the example of Europe and the United States. The results of this paper will provide a summary of the theoretical foundations and key empirical results associated with the existence of a growing trend of great decoupling.

Keywords: great decoupling, labor market, productivity, compensation

1. INTRODUCTION

In the last few decades, there has been a significant change in the functional distribution of income between factors of production, more specifically between labor and capital. The postulates of the classical economic theory that the relationship between labor productivity and workers' compensation is positive, and that the growth of marginal labor productivity has been accompanied by a direct proportional increase in wages since the 1970s, are in crisis. This tendency is challenging economists in academia, as well as economic policymakers, to conduct a series of studies focusing on the relationship between rising labor productivity and rising workers' compensation around the world. The widespread thesis that "rising tides will lift all ships" after the 1970s did not correspond to practical results. Namely, the widespread trend of separation of workers' incomes from the increase of labor productivity, is intensifying and leads to a significant separation of productivity from workers' compensation, in almost all developed economies.

Empirical results indicate the fact that since the 1980s, many countries have been experiencing a declining share of labor income in total income. Accordingly, although macroeconomic performance has improved in most countries, the reduction in the share of labor income in total income is due to the fact that the "fruits of the economic pie growth" are not transferred to proportional improvements in personal income. workers and their families.

It should also be noted that compared to European countries, the US case shows a larger gap in the distribution between productivity and labor compensation compared to most European countries. Additionally, this statement can be confirmed by the growing inequality in the last 30 years, which is primarily driven by the growing inequality in the distribution of labor income (wages and compensation), which leads to an increase in the share of national income intended for capital, and at the expense of labor income. In the example of the highly developed countries of Europe (Norway, Great Britain, Iceland and Switzerland), on average, there is a proportional transfer of the increase in labor productivity to workers. On the other hand, Japan is the most obvious example in which the relations between the increase of labor productivity and the increase of the real compensation of the workers are the weakest.

In this paper an attempt is made to analyze the theoretical postulates of the main schools of economics and provenances through the prism of the so-called great separation between productivity and labor compensation. Additionally, in order to determine the trend of the movement and the degree of separation, the trend of the movement of labor productivity and the compensation of workers has been analyzed, on the example of the USA, Japan and the EU.

2. THE CONCEPT OF LABOUR PRODUCTIVITY AND LABOUR COMPENSATION

2.1. MINIMUM WAGE – COMPENSATION OF THE LOWEST PAID WORKERS

In order to determine the scope of the minimum wage, and in order to further elaborate it, two definitions of the minimum wage are presented. The minimum wage is defined by the International Labor Organization (ILO) as "the minimum amount of compensation that an employer is required to pay to an employee for work performed during a given period, which cannot be reduced by collective or individual agreement. (ILO, 1970, p.131).

A more detailed elaboration of the definitions of the minimum wage can lead to at least two conclusions: the binding nature of the minimum wage and the social component of the minimum wage. The first aspect is based on the fact that employers are not allowed to pay a salary lower than the legal minimum. On the other hand, the second aspect is based on the fact that it provides the workers who belong to this working contingent with a certain degree of satisfaction of basic needs. So, the minimum wage should be set at a level that covers the basic needs of workers, taking into account economic factors. However, the minimum wage must not be an end in itself, the minimum wage system should be in a complementary relationship with other social and economic dimensions. The minimum wage should be primarily aimed at creating a balance between reducing income inequality and enabling the sustainable operation of enterprises. The main dimensions of the minimum wage are: the volume of coverage, the level of the minimum wage and the degree of compliance (Trenovski & Kozeski, 2018).

Different economic theories have their own views on the minimum wage and its effects. Discussions facing diametrically opposed theses on the minimum wage have not yet been exhausted. In this regard, it is considered useful to emphasize the basic postulates on the need and effects of the minimum wage on the main economic theories.

The neoclassical school of economics advocates that a higher minimum wage leads to higher unemployment. In this context, two reasons can be given: first, low-paid workers who until then received a salary lower than the minimum, become more expensive as a result of raising the minimum wage. Consequently, companies can replace some of them with other factors of production (the so-called substitution effect). Second, if we start from the fact that wages cover a large part of the cost of products, the increase of the minimum wage contributes to the increase of the prices of goods and services and automatically to their reduced competitiveness.

Furthermore, the representatives of Marginalism, guided by the marginal theory, hold that the demand for each type of labor force is a function of the marginal productivity of the individual worker, if all other factors remain unchanged. Which means that the workers who will face forced unemployment are the ones who received the lowest wages.

Representatives of the Neo-Keynesian School of Economics argue that higher wages contribute to increased personal consumption of workers and their families. Furthermore, they argue that not only does it not produce negative effects on competitiveness and employment, but that the positive effects of increased consumption will lead to increased aggregate demand and employment. They claim that although employment at the firm level may decrease, the aggregate level of employment will increase positively. In the context of the level of competitiveness, they represent the view that the companies that have improved the level of productivity and efficiency will survive in the economy.

2.2. MINIMUM WAGE AND LABOUR PRODUCTIVITY

If the economic logic is followed, the labor productivity of the workers should be in function of forming the amount of the salary. However, in the case of workers who belong to the contingent of workers who receive a legally defined minimum wage, it can be concluded that such a relationship has a low degree of impact. On the other hand, the labor productivity of the workers covered by the minimum wage may be in function of increasing the wages of this category of workers. However, this implies that there is a possibility that the employee will receive a higher salary and still his salary will not exceed the level of productivity, ie. be far below the level of productivity.

This constellation of relations can be further explained by two basic views. First, in the case of a monopolistic market situation where the salary that the employer pays to employees is to some extent determined by the salary of the lowest paid worker. In this situation, if this worker receives a wage increase, then there is an increase in the marginal cost of labor, and yet such a wage increase, in addition to affecting the workers receiving the minimum wage, must be added to the wages respectively, which are above the minimum wage.

While the situation for the monopsonic market structure usually applies only to cases such as small towns with one main employer, it is justified to conclude that most employers face a monopsonic market morphology to some degree. Furthermore, in order to obtain a certain level of divergence of the wage level from the marginal product, a certain interdependence in the wage structure is needed. If employers feel the need to maintain a certain wage gradation among workers based on seniority, skills or other considerations, then raising the wages of the lowest paid worker also means higher wages for other workers. In such situations, the employee's marginal product is expected to exceed his wage, ie the employee's marginal cost. Furthermore, it can be concluded that the increase in the minimum wage disrupts the wage link because the level of wages of other workers does not depend on whether he has chosen to hire an additional worker after the new, higher minimum wage. The higher minimum wage reduces the degree of influence that the employer has in the formation of wages above the minimum wage.

Another reason why productivity may depend in part on the wages of low-paid workers is that workers will be more motivated if they receive higher wages (such relationships are largely described in the section Wages on Efficiency). Although such relationships can take many forms, the bottom line is that they would be committed to their work. This relationship can simply be shown through production turnover because higher levels of the minimum wage are often associated with a higher turnover rate. Workers who have been employed by the same employer for a longer period of time, even those with the lowest qualifications, increase their productivity as a result of the increase in the level of wages.

It can be concluded that the above two relations give some explanation why the optimal minimum wage increases are generally associated with little or no job loss (Riley & Bondibene, 2015). The main implication of these arguments is the fact that the optimal increase in the minimum wage does not produce a distortion of the relationship between labor productivity and average wages. On the other hand, it can be concluded that there is no significant relationship between the minimum wage and labor productivity, ie certain social and economic exogenous components have an impact on the creation and movement of the minimum wage.

2.3. CEO – PRODUCTIVITY AND COMPENSATION

Previously, the main relations and influences of the legal minimum wage were emphasized as a tool for increasing the compensation of the workers belonging to this contingent of employees. In this section it is considered useful to briefly explain the compensation of people who enjoy a higher level of income. The income of CEOs in the last few decades has shown an intense growth trend. In the mid-1970s, the relative proportion of CEOs' compensation versus average employee compensation was 30: 1. In the last two decades it has ranged from 200: 1 to 300: 1 (Baker, 2016). If the increase in labor compensation should be closely related to the increase in labor productivity, it is entirely justified to expect CEOs to see an intense increase in productivity. This relationship indicates the fact that the CEOs of large corporations are far more productive today than in the 60s, 70s, etc. However, the current situation does not confirm such tendencies. Some empirical research has found that large corporations have not seen above-average productivity growth in the last few decades (Fernandes, 2009). The growth of labor productivity in the period 1980-2015 in the case of large corporations in the United States averaged 1.9%. While in the period 1947-1980, it recorded an average annual growth of 2.4% (Baker, 2016). Comparing the compensation received by CEOs of large corporations in the United States with those in Europe and Asia, it can be concluded that CEOs in the United States receive far higher compensation compared to their counterparts in Europe and Asia (Fernandes, 2009). By comparison, the compensation of CEOs of large corporations in the US in 2019 amounted to 21.3 million USD, which is an increase of 14% compared to 2018. On the other hand, if we take the period after the global recession from 2008, ie the period 2009-2019, there is an increase of 105.1% of the compensation received by CEOs in the United States. On the other hand, within the same period, the average compensation increased by about 7.6% on annual basis. The highest level of CEO compensation can be observed in 2000, where in relative proportion to the average American employee it is 366: 1 (Shue & Townsend, 2016). At the end of 2000, the compensation of the CEOs decreased as a result of the reduction of the economic activities. After the recovery period and the increasing trend of the compensation of the CEOs, as a consequence of the financial crisis in 2008-2009, the compensation decreases again. In 2019, the relative proportion of CEOs' compensation versus average employee compensation was 320: 1, far higher than in 1995 (118: 1), 1989 (61: 1), 1978 (31: 1) and 1965 year (21: 1) (Shue & Townsend, 2016).

It can be concluded that some of the empirical studies that analyze the relationship between compensation and productivity of CEOs did not find a strong relationship between compensation and realized performance. Some papers provide empirical confirmation that CEO compensation is not closely related to the return they provide to shareholders (Balsam, 2007). Instead, there seems to be a large element of happiness in the CEO's salary. Factors that have little or nothing to do with CEO performance but that lead to increased profits and stock prices can lead to higher CEO salaries. For example, one study found that jumps in world oil prices led to increases in the salaries of CEOs in oil companies (Bivens & Mishel, 2013).

3. THE CONCEPT OF THE GREAT DECOUPLING BETWEEN PRODUCTIVITY AND REAL COMPENSATION GROWTH

One of the major challenges of economic science discipline is to provide an answer to the functional distribution of income between factors of production (Smith, 1776; Ricardo, 1817). In this regard, this chapter will attempt to answer the causal link between labor productivity and real worker compensation. According to the market economic thought, the dynamics of the movement of the workers' compensation should be a reflection of the productivity growth, ie both sizes should record a synchronized movement. In the last few decades the concept of the so-called Great Decoupling, or the separation of labor productivity trends and the actual compensation of workers, has become one of the main topics of discussion and research between the academic community and economic policy makers.

It should be noted that labor productivity growth provides a sound basis for real wage growth. However, although labor productivity is a significant determinant in the formation of wages, it should be noted that since it is about the price of labor, the formation of the level of wages is influenced by other non-market components, primarily the social component. The data on the increase of wages and the increase of the rate of the real compensation of the workers indicate a modest increase of the incomes which include the expected inflation and part of the increased labor productivity. Labor productivity is the most important segment in wage formation, and is the starting point for understanding the consequences of stagnant real wage growth rates. It is important to note here that the separation in the trends between labor productivity growth and workers' wage or compensation growth does not automatically mean that the correlation between them is lost, but that certain factors affecting individual variables increased the degree of influence.

In most countries in Europe, the relationship between labor productivity growth and real labor compensation differs significantly, ie real labor compensation lags significantly behind labor productivity growth. The average growth of real workers' compensation does not follow the increase in labor productivity. Labor productivity has increased significantly in the last 3 decades, but still this growth is not followed by a proportional increase in workers' compensation. The growth of compensation received by workers is more than below average, especially in the last 10 years. Such tendencies have caused the so-called the decoupling phenomenon to become the focus of the academic community, but also among economic policy makers both within the EU and at national level. Historically, the gap between labor productivity growth and workers' compensation growth has widened significantly since 2000. For comparison, the growth rate of labor productivity and the growth rate of real labor compensation, grow together in the period after World War II, until the 70s, i.e. the growth of real workers' compensation is almost identical with the increase in labor productivity for the period 1948-1973. However, after 1973, the rate of increase in labor productivity became more and more intense, especially after 1995, when the real compensation of workers stagnated. It should be emphasized here that the "fruits" of the intensive increase in labor productivity are not transferred to a satisfactory degree to the majority of workers, i.e. that the economic system does not automatically allow the benefits to be transferred to the majority of workers. In summary, the increase in real workers' compensation, on average, does not correspond to the increase in labor productivity. The main consequence of the low level of real compensation of workers is the increased inequality in income distribution.

Initially, the correlation and causal relationship between labor productivity and workers' compensation is significant given that this relationship is a major determinant of employee living standards and income distribution between labor and capital. In essence, although labor productivity growth creates a solid foundation for further wage growth (or labor compensation in general), one should not assume that this relationship is automatic and fully achievable. Hence, it can be concluded that the increase in labor productivity is not automatically transferred to the increase in workers' compensation. Empirical research indicates three possible scenarios in explaining the concept of the separation between labor productivity growth and workers' compensation growth (Stansbury and Summers, 2018). Hence, the following relations are possible: first, in the case of the relationship between labor productivity and workers' compensation does not exist, ie the increase in labor productivity does not generate positive effects on workers' compensation; second, the link between labor productivity and workers' compensation exists, yet certain factors influence the extent to which the benefits of labor productivity growth are transmitted to workers; third, the link between labor productivity and workers' compensation exists, yet certain changes in technology contribute to increasing the downward pressure on rising labor compensation (Stansbury & Summers, 2017). Depending on which of the three separate relations largely corresponds to the individual cases in practice, the results of the implemented measures and policies can be drawn. Do the implemented policies give the expected results on the increase of labor productivity, are they relevant in terms of increasing real wages, etc. This set-up is intended to provide a clearer picture of whether the link between labor productivity growth and wage growth is still strong and significant, enabling the effectiveness of individual measures and policies to be assessed. In most of Europe countries, the relationship between labor productivity growth and real labor compensation varies considerably, with

real labor compensation lagging significantly behind labor productivity growth. The average growth of real workers' compensation does not follow the increase in labor productivity. Labor productivity has increased significantly in the last 3 decades, but still this growth is not followed by a proportional increase in workers' compensation. The growth of compensation received by workers is more than below average, especially in the last 10 years. Such tendencies have caused the so-called the decoupling phenomenon to become the focus of the academic community, but also among economic policy makers both within the EU and at national level. Historically, the gap between labor productivity growth and workers' compensation growth has widened significantly since 2000. For comparison, the growth rate of labor productivity and the growth rate of real labor compensation, grow together in the period after World War II, until the 70s, ie the growth of real workers' compensation is almost identical with the increase in labor productivity for the period 1948-1973. However, after 1973, the rate of increase in labor productivity became more and more intense, especially after 1995, when the real compensation of workers stagnated. It should be emphasized here that the "fruits" of the intensive increase in labor productivity are not transferred to a satisfactory degree to the majority of workers, ie that the economic system does not automatically allow the benefits to be transferred to the majority of workers. In summary, the increase in real workers' compensation, on average, does not correspond to the increase in labor productivity. The main consequence of the low level of real compensation of workers is the increased inequality in income distribution.

4. REVIEW OF RELEVANT EMPIRICAL LITERATURE

The analysis of the movement trend and the causal relationship between labor productivity and the real compensation of employees, is increasingly the subject of discussion among economic policy makers on the one hand, and is the focus of empirical research of economists in the world, on the other. The postulates of the classical economic theory that the causality between labor productivity and workers' compensation is positive, and that the growth of marginal labor productivity has been followed by a direct proportional increase in wages since the 1970s, are in crisis. That is, starting from the 70s, the trends of movement between individual variables do not show a synchronized movement, ie. there is an increase in the range of motion between the increase in labor productivity and the increase in real labor compensation.

It should be noted here that empirical research to date on the causal relationship between labor productivity and worker compensation varies in its conclusions. Based on the methodology used in the research of the relationship between labor productivity and workers' compensation, as well as the individual indicators that are taken into account, some authors confirm (deny) the widespread thesis about the so-called. Great Decoupling, ie increasing the gap between labor productivity and real workers' compensation.

The first research on this issue, which was consulted in the paper, was conducted in 1970. Given that the early 1970s were the period when the trend of separating labor productivity from workers' compensation began, some economists began by analyzing the causes and major determinants and repercussions of unsynchronized productivity growth and compensation. labor. The research conducted a sectoral analysis in order to examine the impact of demographic trends, especially rural migration in urban areas on the growth of labor productivity and wages of workers. The main conclusion of the research is that there is a further widening of the wage gap in rural and urban areas caused by the influx of rural population in urban areas (Harris & Todaro, 1970). Furthermore, in 1974, Mincer analyzed the causal relationship between human capital growth, marginal labor productivity, and wages. Econometric analysis concludes that an increase in human capital causes an increase in workers' wages (Mincer, 1974).

Part of the conducted empirical research that covers the phenomenon of separation, the so-called decoupling is largely carried out on the example of the United States. Descriptive analysis of workers' wages and labor distribution was conducted in the research of Michel and Bernstein (1994). The research concludes that there is a declining trend in workers' wages, which in turn is the reason for the increase in unequal income distribution. Some of the recent papers that analyze the phenomenon of the so-called The Great Decoupling between labor productivity, worker compensation, and unemployment (Bringolfson and McAfee, 2014). The authors note that the synchronized growth of labor productivity and workers' wages after the 1970s marked significant distortions. Namely, after these years, there is a significant growth of GDP and labor productivity, which increases the opportunities for a higher level of welfare of workers and their families. However, after the 1970s, private sector employment stagnated, widening the gap between GDP growth and employment growth, with the authors calling it a "jaws of the snake" that showed no signs. that it will close in due course. This phenomenon also results in a certain decline in wages of workers, who have a higher degree of distortion compared to the increase in employment. Adjusted for inflation, household income was lower in 2010 compared to the level of household income available in 1997. In this regard, it should be emphasized that the share of wages in GDP is at an all-time low. Although the authors state several reasons that influence such tendencies, there is an agreement that the high level of technical-technological progress affects the

deepening of the so-called Decoupling between labor productivity, workers' wages, and employment (Brynjolfsson & McAfee, 2014).

Furthermore, in the case of the United States, an empirical study of the causal relationship between labor productivity and workers' compensation for the period 1970-2006 was conducted by Feldstein. The main purpose of the research is to examine the causal relationship between labor productivity and the compensation received by employees for the period of the second half of the last century. From the results obtained in labor, Feldstein concludes that there is no statistically significant separation in the trend of movement between labor productivity and employee compensation. The author argues that the level of labor productivity in the non-agricultural sector of the US case in the period 1970-2006 is doubling. Furthermore, the research of the movement trends concluded that the labor compensation has the same annual growth rates on average, if the same deflator is used in the calculation of the real values of labor productivity and workers' compensation. If the analysis of movement trends covers the period 2000-2007, then labor productivity has an average annual growth rate of 2.9% while compensation has an average annual growth of 2.5%, which is not a significant difference between the analyzed indicators (Feldstein, 2008).

On the other hand, we have an empirical study conducted by Stansbury & Summers in 2018. In addition to previous research, this paper aims to examine the degree of compensation that workers receive as a result of increased productivity. In other words, it is the extent to which rising labor productivity improves the living standards of workers in the form of improving real labor compensation. In this analysis, in order to reduce the variables to their real value, the authors use the consumer price deflator. It should be further noted that since the ultimate goal of the research is to examine changes in the living standards of workers, the consumer price indicator is considered appropriate for this purpose. Based on the results obtained in the paper, it is concluded that the increase in the period from 1973 to 2016 of 1% increase in labor productivity will contribute to an average increase in real labor compensation of 0.4 to 0.7 percentage points per employee (Stansbury & Summers, 2017). Based on the results obtained in this research, it can be concluded that they are aimed at confirming the research conducted by Feldshain, ie that the relationship between labor productivity and workers' compensation in the US case, exists and is positive. However, it can be concluded that in the research of Stansbury and Summers, the existence of the so-called Decoupling between productivity and labor compensation.

The study, conducted by Robert Lawrence, provides results related to the long-term trend of movement and the causal link between the actual compensation of workers and the labor productivity of the US case. The real labor compensation in the period from 1947-1970, recorded an annual growth rate of 2.6%. Since the early 1970s, real worker compensation has averaged below 1% per year. On the other hand, it is important to note that the movement of real labor compensation and labor productivity until 1970 was synchronized, ie these two quantities on average moved together. Starting in the late 1960s, the trend towards real labor compensation began to show lower growth rates compared to labor productivity. In the period after 1970, labor productivity increased by 2% per year on average, while for the same period the growth rate of real labor compensation was 1%. Such rates of movement of these sizes have resulted, for a period of more than 4 decades, in the increase of labor productivity to exceed the increase in real labor compensation by about 48%. (Lawrence, 2016). In the same research, in addition to the real labor compensation, the movement of workers' wages was analyzed (this analysis does not include people in managerial positions, managers, supervisors in order to get a more realistic picture of workers' wages movement), a category that covers more than two-thirds of U.S. employment and 80% of private sector employment. The analysis of the movement of the real value of wages and labor productivity, adjusted with the help of the CPI deflator for the period 1970 and 2012, concludes that wages almost did not increase, compared to the increase in labor productivity, which increased by 124%. Hence, reduced in value from 1984, the average hourly wage in the United States in 2014 was 8.96 USD, which is a slight increase compared to 8.70 USD in 1970. However, it should be mentioned here that in order to reduce the nominal value to real value, the CPI deflator was used, which is considered to additionally contribute to disabling wage growth (Lawrence, 2016). Hence, in Lawrence's own research, it was concluded that the link between labor productivity growth and workers' compensation was strong until 1970, but after 1970 such a link began to weaken.

One of the theses in support of the US economic system is that "rising tides will lift all boats" and the benefits of economic growth will tend to be widely distributed. However, most workers do not feel the benefits of the increased labor efficiency and productivity produced by the US economic system. This has led some economists to question the basic idea that wages reflect workers' social contribution (marginal product) (Bernstein, 2015). They argue that the weak wage growth is primarily due to the decline in the bargaining power of trade unions (Stiglitz, 2002). Furthermore, it is considered essential to analyze the long-term trends of labor productivity on the one hand, and the trends of compensation or wages that workers receive. The Global Wage Report (ILO), created annually by the International Labor Organization (ILO), notes a significant reduction in the share of labor income in GDP in many

countries (International Labor Organization, 2012). The study, created by the International Labor Organization, found results related to the share of labor income in GDP in the case of OECD countries. The results show that the median share of labor income decreased from 66.1% in 1990 to 61.7% in 2009. Given that GDP, by definition, is equal to the sum of total value added in the economy, the declining share of total wages in GDP means that average wages are not in line with average productivity (ILO, 2015).

5. CONCLUSION

The widespread thesis that "rising tides will lift all boats" after the 1970s did not correspond to practical results. Namely, the widespread trend of separation of workers' incomes from the increase of labor productivity, is intensifying and leads to a significant separation of productivity from workers' compensation, in almost all developed economies.

The postulates of the classical economic theory that causality between labor productivity and workers' compensation is positive, and that the growth of marginal labor productivity has been followed by a direct proportional increase in wages since the 1970s, have been marked by a crisis. That is, starting from the 70s, the trends of movement between individual variables do not show a synchronized movement, i.e. there is an increase in the range of motion between the increase in labor productivity and the increase in real labor compensation.

Namely, it is an undeniable fact that labor productivity is the basis for increasing workers' compensation. However, it should be noted that since it is about the price of labor, the formation of the level of wages has some impact on other non-market components, primarily the social component.

Here it is considered important to note that the separation in the trends between the growth of labor productivity and the growth of wages or compensations of workers, does not automatically mean that the correlation between them is lost, but that certain factors affect the individual variables increased the degree of influence.

In most countries in Europe, the relationship between labor productivity growth and real labor compensation differs significantly, i.e. real labor compensation lags significantly behind labor productivity growth. The average growth of real workers' compensation does not follow the increase in labor productivity. Labor productivity has increased significantly in the last 3 decades, but still this growth is not followed by a proportional increase in workers' compensation. The growth of compensation received by workers is more than below average, especially in the last 10 years.

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