RESEARCH REPORT

Industrial relations and social dialogue

Tackling rising inflation in sectoral collective wage bargaining

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Eurofound

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When citing this report, please use the following wording:
Eurofound (2023), *Tackling rising inflation in sectoral collective wage bargaining*, Publications Office of the European Union, Luxembourg.

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Research project: Developments in collective bargaining following the health, social and economic crisis

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Luxembourg: Publications Office of the European Union, 2023

Print: ISBN 978-92-897-2344-2 doi:10.2806/303867 TJ-04-23-772-EN-C
PDF: ISBN 978-92-897-2343-5 doi:10.2806/004554 TJ-04-23-772-EN-N

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Introduction

According to the European Commission's spring 2023 economic forecast, EU inflation will fall to 6.7% in 2023 (from 9.2% in 2022), before easing to 3.1% in 2024. While headline inflation is expected to continue declining, amid a sharp reduction in energy prices, core inflation, which excludes energy prices, is projected to remain elevated at 6.9% for 2023 and 3.6% for 2024.

In 2023, the European Central Bank announced that inflation is projected to remain too high for too long, as it continues to increase interest rates, raising them by 25 basis points in May 2023 to ensure the medium-term target of 2% inflation in 2025.

The macroeconomic data and forecast show that, while the threatening recession risks have been disregarded, inflation continues to erode the purchasing power of households, workers and consumers.

Policy context

The Commission forecasts that real wages will decrease in 2023, with inflation continuing to erode the purchasing power of workers and households, although a slight pickup in real wages is expected towards the end of the year. This trend in wages does not reflect the rising cost of living; nominal wage growth is below inflation rates, resulting in further purchasing power losses for employees, whose wages are unlikely to catch up with inflation in the near future.

Governments have enacted extensive relief packages aimed at mitigating the impact of inflation on households and families, and on sectors. Fiscal measures, such as tax reductions, have been used extensively. These measures are usually temporary, but have been extended regularly. However, hardly any specific measures have influenced collective wage negotiations, except the inflation allowance in Germany.

Key findings

Collective wage bargaining regimes and pay-setting mechanisms vary greatly across the EU. Major differences exist as regards the predominant level of bargaining and the links between these levels. Wage indexation aims to link wage development to the actual change in living costs to ensure that real wages are not overtaken by inflation. However, while in most Member States collective wage bargaining processes determine wages based on negotiations and the autonomy of social partners at sector and company levels, only a few Member States apply automatic wage adjustment procedures.

An analysis of the adaptation of sectoral collective bargaining to inflation was carried out for four sectors: chemical and pharmaceutical, metalworking, and services (hospitality and domestic work). The evidence collected in these sectors and analysed in three Member States (France, Germany and Italy) shows how negotiated wages have struggled to keep up with inflation developments. In most cases analysed, negotiated wages have been growing slower than inflation.

Wage-setting practices suggest the existence of a variegated picture: in some sectors, negotiated wages seem to catch up with inflation developments, while in other sectors wages are lagging behind. Explaining the differences encountered points towards some kind of redistributive pattern whereby real wage increases have been higher for those workers with lower wages, either because they are at the bottom of the wage scale or simply because they are in sectors with comparatively low wages (hospitality and domestic work).

The role of minimum wages in the wage-setting process deserves particular attention. Even though there is no direct role for it in collective agreements in France and Germany, it nonetheless affects collective bargaining indirectly.

Despite the prominent role played by wages in the most recent collective bargaining renewals, this has not led to other topics, such as working time or adaptation to technological change, being left out of agreements. It is, however, true that wages have become more contentious in the bargaining process, and this may have indirectly contributed to collective bargaining paying less attention to other topics in the agreements, although there is no subordination.

Compared with the conditions for wage-setting during the Great Recession, when the threat of unemployment led trade unions to make (wage) concessions to secure jobs, in 2022 labour and skills shortages made this largely unnecessary, with distributional aspects of shortages playing a more prominent role during negotiations.

The analysis of collective agreements shows marked differences between sectors, which do not always align with existing explanations of wage developments. Wage increases have been significantly higher in the hospitality and domestic work sectors. Even though it is hard to estimate the real wage increase in each sectoral collective agreement, since wage increases have been accompanied by one-off payments in some cases, the data suggest there have been more significant increases in the service sector, which are characterised by lower productivity, skills, union membership and collective bargaining coverage than the chemical and metalworking sectors.

Explaining this discrepancy between developments and expectations requires consideration of the role of labour shortages, which have pushed up wages in service activities, notwithstanding the weakness of trade unions in this sector. Moreover, institutions also play a role. The existence of a formalised mechanism for indexing wages to consumer prices also helps explain higher wage increases in the service sector.

Policy pointers

- Inflation is back and, even though it is expected to steadily slow down by 2025, projections forecast that price growth is set to be persistent in the medium term. An overall persistent decline in real wages would not be sustainable in the longterm, as social conflicts, industrial action and labour disputes in collective bargaining may escalate in the short term, potentially jeopardising the EU's strategic goals for the twin green and digital transition.
- Sectoral bargaining has evolved over the past few years and different patterns have started to emerge across the EU. Further research is needed to investigate these divergent trends, as is urgent action to improve the collection and timely provision of wage data in the EU, helping to support decision-making in economic policy.
- New drivers such as labour and skills shortages are considerably influencing sectoral collective bargaining. Although labour shortages are usually connected with jobs linked to the green and digital transition, activities in the service sector are also experiencing labour shortages in lower paid jobs. Investment in upskilling and reskilling, training and improving work incentives, and other targeted policies for specific sectors should be reinforced to reduce labour shortages, as proposed by the European Commission as part of the 2023 European Year of Skills.
- In line with the implementation of Directive (EU) 2022/2041 on adequate minimum wages and the key objectives of the 2030 Sustainable Development Agenda, public policies and action that respect social partners' autonomy should be taken to strengthen collective wage bargaining and ensure that minimum wage growth rates and updates remain in line with inflation and protect low-paid workers.

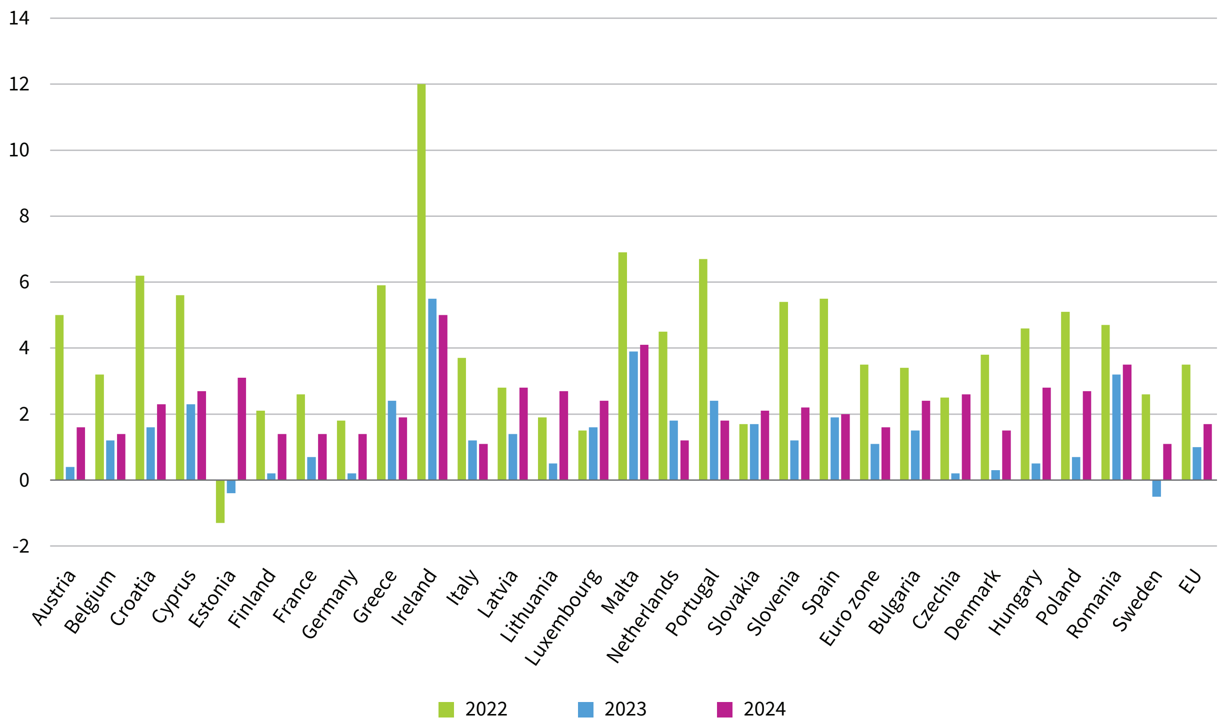
Introduction

Inflationary context in the EU

According to the European Commission's spring 2023 economic forecast (European Commission, 2023a), the EU's GDP growth is expected to be 1.0% in 2023, up from the 0.3% predicted in November 2022, and 1.7% in 2024 (Figure 1). Despite the weak economic growth, declining gas prices are behind the improved forecast due to the diversification of supply sources and decreased gas consumption, and a range of government policies to support resilient household spending. Although the conditions vary among sectors, the labour markets' functioning in the EU is relatively robust – a record-high at an employment rate of 74.6% (213.7 million people in employment), and the unemployment rate expected to remain close to the all-time low of 6.2% recorded at the end of 2022 (European Commission, 2023b).

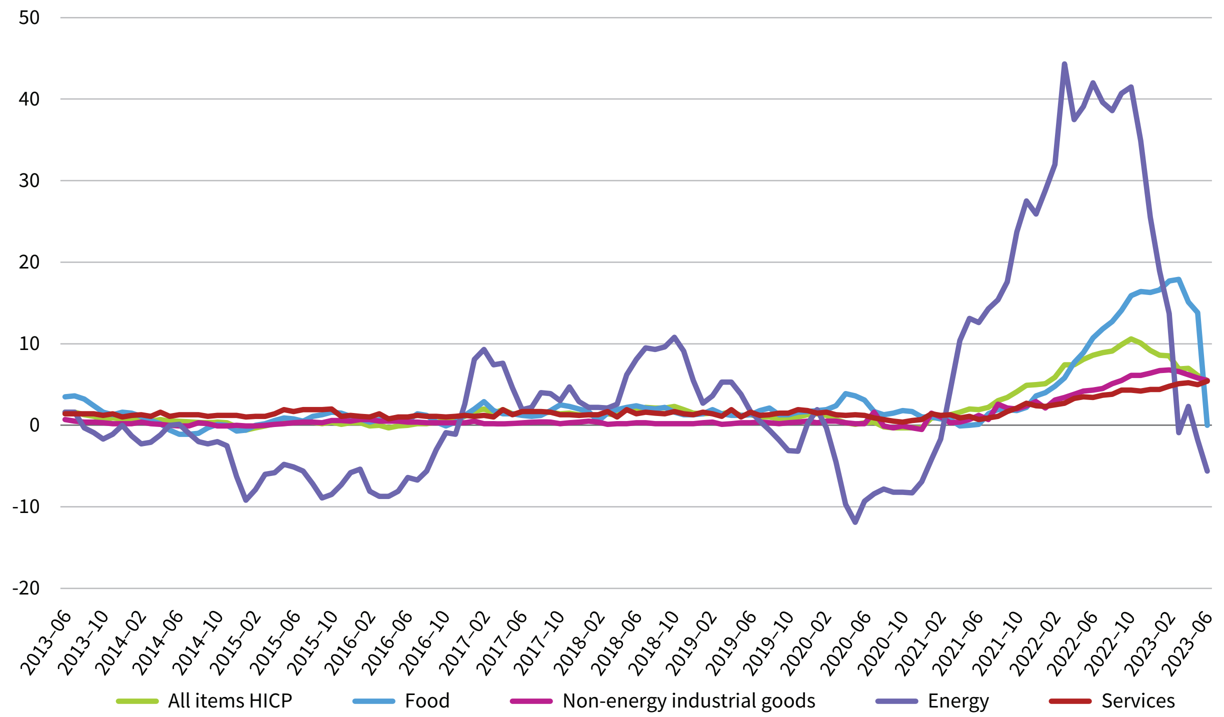
Food and energy prices have been, and still are, the main components of euro zone inflation (Figure 2). The Commission also predicts that EU inflation will fall to 6.7% in 2023 (from 9.2% in 2022), before easing to 3.1% in 2024. However, core inflation, which excludes energy prices, is projected to remain elevated at 6.9% for 2023 and 3.6% for 2024. Meanwhile, the European Central Bank (ECB) has announced that 'inflation is projected to remain too high for too long' (ECB, 2023), as the ECB continues to increase interest rates, raising them by 25 basis points in May 2023 to ensure the medium-term target of 2% inflation in 2025.

Figure 1: Economic forecast for spring 2023 – gross domestic product growth in the EU, euro zone and 27 Member States (%)



Source: *European Commission, 2023a*

Figure 2: Euro zone annual inflation and its main components, June 2013–June 2023 (annual rate of change)

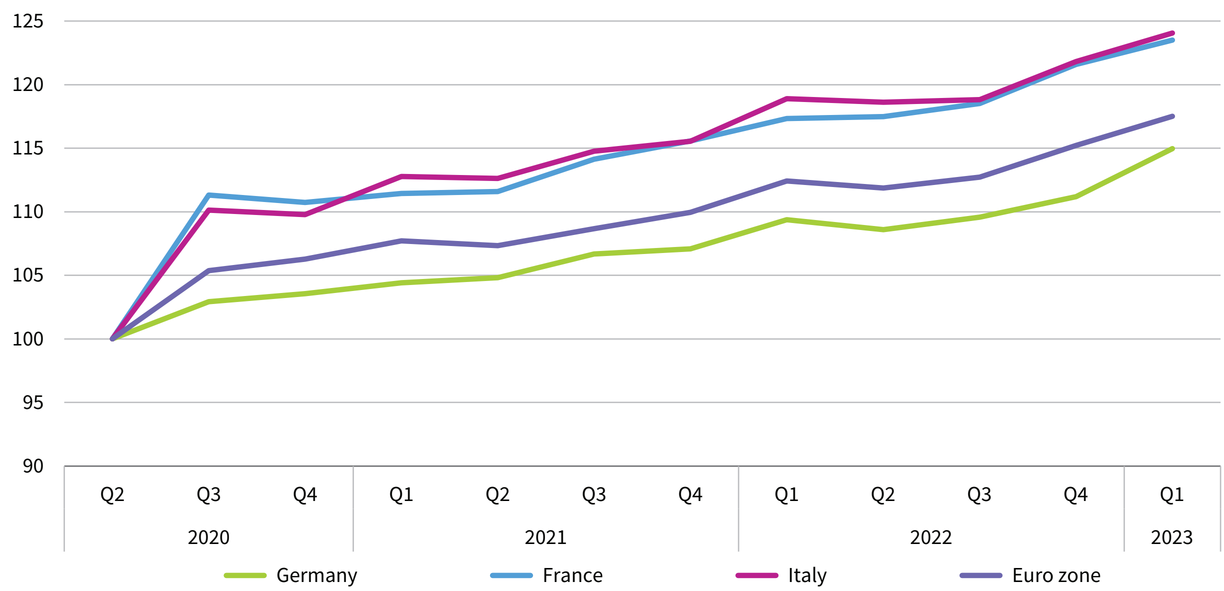


Note: *HICP, Harmonised Index of Consumer Prices*
Source: *European Commission, 2023a*

According to these macroeconomic data and forecast, economic activity in the EU has disregarded the threat of recession risks. As with any forward-looking exercise, economic projections are intrinsically surrounded by ongoing uncertainty. For example, questions remain regarding the impact of the withdrawal of the various government relief packages and fiscal measures, and whether a rebound effect could be expected in 2024, mostly in terms of energy inflation.

Regarding inflation's impact on wages, in 2022, compared with 2021, hourly wages and salaries grew by 4.9% in the EU business economy (Eurostat, 2023); however, nominal wage growth (Figure 3) lagged behind inflation, leading to a decline in real wages in 2022 in

Figure 3: Nominal wage growth (consumer wages)



Note: *The figure measures the evolution of nominal wages and real wages respectively, with Q2 2020 = 100. Compensation per employee is seasonally adjusted.*
Source: *Eurostat and authors' own calculations*

the selected countries covered in this study (France, Germany and Italy) (Figure 4). Renewals during 2022 have allowed for an update in negotiated wage increases and a partial recovery of the losses registered in 2021, although these wage increases remained below inflation at the end of 2022, despite pressure from trade unions to recover lost purchasing power through collective bargaining in the second half of 2022.

The extent of the decline in real wages varies between countries. The different levels of inflation in each country help explain these variations, as do the differences between sectors in terms of wages paid, and the weak or strong bargaining power of trade unions at the time of collective bargaining. Furthermore, the wide range of substantial state policy measures aimed at mitigating the impact of the rising cost of living (particularly energy prices) implemented during 2022 and 2023 should also be considered, including the raising of the statutory minimum wage in those countries where the wage is set by the government or directly linked to the increase in the cost of living.

According to the European Commission's forecast (European Commission, 2023a), real wages should be set to decrease again in 2023, with inflation continuing to erode the purchasing power of workers and households, although a slight pickup in real wages is expected towards the end of the year. Projections from the ECB foresee increases of around 5% in negotiated wages in 2023, followed by 4.4% in 2024 and 3.6% in 2025 (Bobeica et al, 2023).

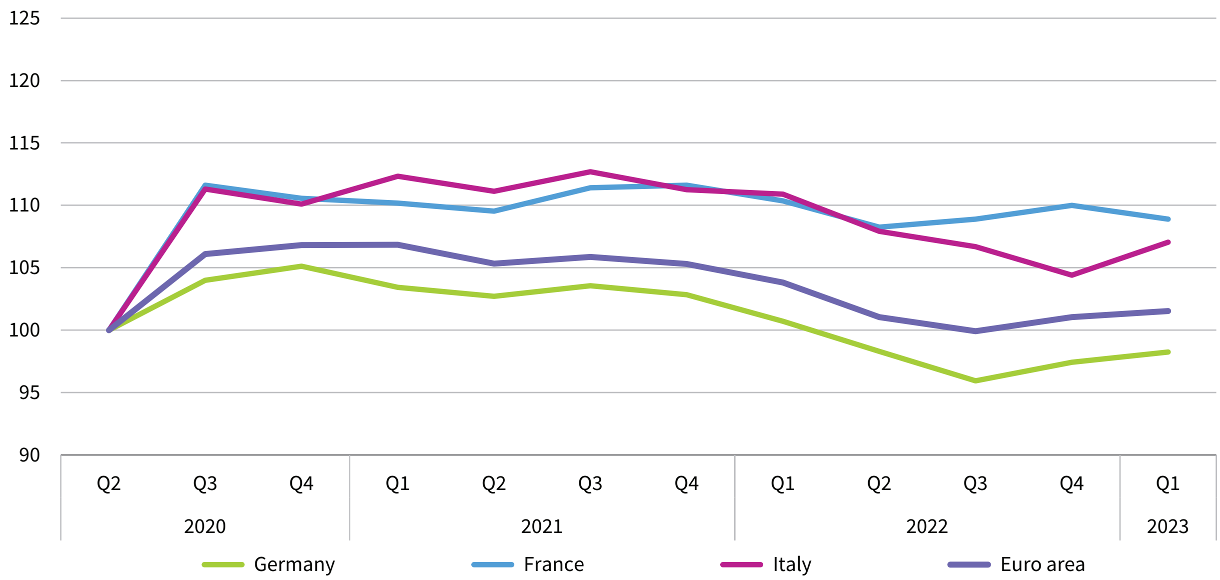
The impact of inflation on wages

This report presents an analysis of wage-setting and collectively agreed wages in four sectoral collective agreements in the private sector in three Member States: France, Germany and Italy. These countries were selected for having strong sectoral collective bargaining systems illustrating simultaneously different features, coverage and factors influencing wage-setting. The research analyses how collective bargaining in the same sectors across the three countries covered have adapted to the challenges of the abrupt rise in inflation rates during 2022. The report illustrates the diversity of existing mechanisms that link wages agreed through collective bargaining at sectoral level to inflation across EU countries. Higher inflation rates may affect sectoral wages negotiated in sectoral collective agreements in two main ways.

The first is through the existence of indexation mechanisms, which can adopt many forms. Formal wage indexation can be defined as the presence of clauses in legislation or contracts whereby wages (either public or private) are to a large degree automatically linked to price developments. The impact of using wage indexation mechanisms depends on two variables.

The inflation indicator used for indexation: There are differences in relation to the use of energy prices within the cost-of-living indicator used for indexation. There are also differences in relation to the inflation indicator, that can be forward- or backward-looking. Backward-looking indicators imply a lagged adjustment of wages to observed inflation,

Figure 4: Real wage growth (consumer wages)



Note: *The figure measures the evolution of nominal wages and real wages respectively, with Q2 2020 = 100. Compensation per employee is seasonally adjusted, deflated by the harmonised index of consumer prices.*
Source: *Eurostat and authors' own calculations*

while forward-looking indicators need to rely on forecasts. In some cases, like Spain or Italy, backward- and forward-looking indicators are combined – linking wage growth to inflation forecasts but incorporating, for example, ex post compensation for inflation forecast errors.

The type of indexation mechanisms: These may range from automatic wage indexation schemes to regimes with no formal role for inflation in wage-setting. The first, more general automatic wage indexation scheme functions in a way that inflation developments automatically feed into wage-setting – therefore aiming to neutralise the effects of inflation on the purchasing power of labour incomes. Under the second regime, inflation plays a formal role in wage negotiations, for example in the form of an explicit inflation benchmark guiding wage negotiations. However, this may only apply to some sectors of the economy, and the effects of inflation on wage-setting are also often less direct and less automatic than under automatic wage indexation. The third regime deploys inflation indexation for minimum wages only – therefore aiming to neutralise the effects of inflation on purchasing power for employees on the lowest labour incomes. All other regimes which have no formal role for inflation indexation in wage-setting fall into the fourth category (Koester and Grapow, 2021).

The second way in which higher inflation rates may affect sectoral wages negotiated in sectoral collective agreements is through the influence of other wage variables (minimum wage) or sectors (manufacturing sector, public sector) that serve as leaders or have spillover effects over negotiations of sectoral collective agreements. This second channel tends to be non-formalised, thus making it more difficult to assess its role. However, the existence of statutory minimum wages represents an evident channel for this since indexation mechanisms that include inflation can be found in many EU Member States.

Methodological steps

The report covers collective agreements signed mainly in 2022, although others signed before the rise in inflation have also been considered, since some bargaining rounds take a long time.

The research relied on the following steps.

- Relevant sectoral collective agreements signed around the beginning of 2022 were identified using secondary sources. Through this exercise, five sectoral collective agreements in the private sector of each country were selected to be potentially analysed, covering a substantial number of companies, firms and employees.
- Once the collective bargaining had been analysed, considering the content and the similarities among the Nomenclature of Economic Activities (NACE) references [1], four sectoral collective agreements were finally selected to be analysed in depth. Two collective agreements were in the industrial manufacturing sector (metalworking and electronics, and chemical and pharmaceutical) while the other two collective agreements belong to the service sector (hospitality in Germany and France, and domestic work in Italy [2]).
- National experts conducted fieldwork in order to undertake semi-structured interviews with the negotiating or signatory parties involved in each collective agreements; interviews were about the purpose of the contract. Guidelines for the interviews were prepared by Eurofound. Both sides of the agreements (employer and worker representatives) were contacted in all cases. Additional desk research was carried out to gather background information, sectoral context and supplementary evidence regarding developments in inflation at national level.

The research was conducted between November 2022 and March 2023.

Structure of the report

The report comprises five chapters. Chapter 1 provides a brief literature review of the types of wage mechanisms in the EU and their relationship with collective bargaining. It also addresses some debates on the impact that wage increases and statutory minimum wages have on inflation, and addresses the policy measures that the three Member States selected have adopted in an attempt to mitigate the negative effects of inflation.

Chapter 2 provides an overview of the collective wage bargaining systems in the selected countries. Chapter 3 analyses the practices put in place as part of the selected sectoral collective agreements to tackle rising inflation across the three Member States. Chapter 4 discusses the main tendencies identified and other key findings. Chapter 5 presents concluding remarks based on the key findings from the analysis.

1 The Nomenclature of Economic Activities (NACE) refers to the Statistical Classification of Economic Activities in the European Community.

2 Domestic work in Italy was analysed as the hospitality collective agreement covering hospitality in Italy had not been updated by the time fieldwork in this report commenced.

1 Review on collective wage bargaining in the EU

Wage formation depends on various factors. Factors related to market developments, including the labour market and prices, state intervention and collective bargaining, are considered the most important ones.

The labour market influences wages due to variations in the level of employment or unemployment. State intervention mainly affects wage levels through regulations on collective bargaining or establishing statutory minimum wages, or in some cases setting automatic indexation mechanisms (European Commission, 2015). Furthermore, the state also plays a role as public employer, and public sector wages may be taken as an informal benchmark for setting wage increases in some sectors.

Besides regulations and indexation mechanisms, other variables also affect wage formation, for example price stability, incidental labour shortages, or top-down wage moderation policies (for example, minimum wage freezes), which have been agreed in many Member States, such as those seen following the 2007–2008 financial crisis.

Collective wage bargaining plays a significant role in wage developments at sectoral and company levels, thus interacting with EU and national policies. In this regard, collective wage bargaining works as a microeconomic barometer, supporting or correcting macroeconomic policy decisions. However, collective bargaining coverage in the EU has been declining over the past few decades: it is estimated that 4 out of 10 employees in the private sector in the EU are not covered by any collective agreement (Eurofound and Cedefop, 2020).[3]

Different national approaches to wage-setting in collective bargaining

In most EU Member States, collective wage bargaining processes determine wages at sector and company levels. As they are embedded in complex industrial relations systems, collective wage bargaining regimes and wage-setting mechanisms vary considerably across the EU. Major differences exist as regards the predominant level of bargaining and the links between these levels. The involvement of either multiple individual employers or an employer association ('multi-employer bargaining') is a major feature contributing to group collective bargaining systems. The degree of state intervention in collective bargaining, in contrast to more self-regulating bargaining systems, is another decisive criterion for classification. While the state usually acts as an employer in the public sector, involvement in wage-setting for the whole economy can result from the setting of statutory rates, arbitration processes on wage disputes or the practice of extending collective agreements to whole branches of the economy (Eurofound, 2010).

It must be noted that, while collective wage bargaining has been studied extensively from different angles, the various wage-setting forms and mechanisms and how negotiating parties develop their proposals for discussion in the bargaining rounds and at bargaining tables have been addressed in detail to a much smaller extent.

The analysis of wage-setting practices across collective bargaining systems in the EU has been strongly influenced by the institutional frameworks in which these practices take place and particularly the role played by the state – either dominant and influential or absent – and the actors and bargaining processes. Among the actors and bargaining processes, the strength and representativeness of the bargaining parties have received attention, for example in relation to the influence of trade union density.

Wage formation and level of bargaining

In relation to institutional frameworks and the state's role in wage formation, attention has been paid to the rules governing the relationship between different levels of bargaining (extension mechanisms, opt-out clauses or procedures to derogate from higher-level agreements), and the capacity of negotiating parties to coordinate (articulate) strategies across bargaining units. Thus, much of the debate about wage-setting has been centred on the bargaining structure, following corporatist analyses in the mid-1980s and the hypothesis developed by Calmfors and Driffill in 1988 (Visser, 2013).

3 In the private sector, in establishments with more than 10 workers.

Literature on wage bargaining regimes was strongly influenced by work studying the relationship between the degree of centralisation of the bargaining system and employment levels (Calmfors and Driffill, 1988). Under this microeconomic theoretical model, both highly centralised and highly decentralised regimes align wages and productivity, ensuring a high level of employment, while intermediate levels of centralisation (such as industry-level wage bargaining) tend to result in higher wages, greater unemployment and lower macroeconomic growth (Eurofound, 2015a).

This hypothesis, and the subsequent importance of the predominant level of bargaining and the degree of coordination in the wage bargaining process, have dominated mainstream economic thinking in this area and been discussed in many academic works. More recent literature has questioned this assumption, based on the positive employment performance in some countries with stable intermediate-level bargaining (Eurofound, 2015a). However, the extent to which collective bargaining is coordinated horizontally (across sectors) and vertically (between bargaining levels) – greatly influencing wage-setting – remains widely accepted as an indicator of better protection of at least low-paid groups.

These approaches have led many authors to group the wage bargaining systems around the concepts of centralisation versus decentralisation in combination with coordinated versus uncoordinated systems. Revolving around these opposing concepts, some literature has stressed the capacity of decentralised coordinated bargaining systems (‘organised decentralisation’) to support good economic performance at least as well as, and possibly even more effectively than, ‘unorganised decentralisation’ (Traxler, 1995; Traxler and Mermet, 2003; Müller and Schulten, 2019). However, it has not been possible to fully confirm this correlation between particular features of the wage bargaining system and macroeconomic outcomes, as quite different bargaining structures can be associated with positive or negative economic performance, depending on the period and the groups of countries concerned (European Commission, 2015).

Analysis of the relationship between coordinated collective bargaining systems and wage formation have been repeated over recent years when inflation has been low or nearly non-existent. The extent to which collective bargaining relates to productivity and reflects differences between sectors, companies and geographical areas is relevant for economic purposes. Coordinated negotiation of wages tends to reduce wage dispersion across sectors, while partly decoupling wages from productivity (European Commission, 2017; OECD, 2019), since lower levels, such as company collective bargaining, do not have the same possibilities to align productivity with wages. While more centralised and coordinated systems tend to produce more wage equality, by contrast, more decentralised wage-setting systems, with company-level pay-setting, tend to result in aligning wages more closely with changes in productivity (European Commission, 2020).

In turn, more coordinated systems have the advantage of lower wage fluctuations (OECD, 2018), since sectoral coordination of collective bargaining aims to maintain the purchasing power of employees in the sector and to achieve balanced participation in productivity increases (Delahaie et al, 2015; Eurofound, 2018a).

Collective wage bargaining outcomes have been analysed from the perspective of employment, unemployment and wage inequality (Garnero, 2020). Using information from the Organisation for Economic Co-operation and Development countries between 1980 and 2015, the results drawn from the analysis of the level of bargaining cautiously question the usual assumptions linking decentralisation and good labour market outcomes, and the connected hypothesis of Calmfors and Driffill suggesting that centralised and decentralised systems perform better than intermediate ones.

It should also be acknowledged that collective bargaining depends on trade unions’ and workers’ bargaining power, as well as labour market conditions. For example, high unemployment tends to reduce the bargaining power of trade unions and exert a downward pressure on collective wage rates, but not in all circumstances (European Commission, 2013). Using the Phillips curve, an analysis of the relationship between unemployment (and economic activity) and workers’ bargaining power in 11 countries has shown that the curve has flattened since the 1990’s due to the progressive decline in bargaining power (Lombardi et al, 2020). Following the same Phillips curve method, recent research has investigated the role played by other structural and institutional factors, as well as the compositional effects and possible non-linear reaction to cyclical drivers to explain the relationship among slack economic activity, productivity growth and inflation expectations in low wage growth despite the remarkable increase in employment from 2013 to 2017 in the euro zone (ECB, 2020).

Wage- and pay-setting mechanisms

Some EU Member States apply a system of automatic wage adjustment procedures – also known as ‘wage indexation’. Systems of wage indexation, where some form of general index prescribes the development of employees’ wages, are in place in four countries: Belgium, Cyprus, Luxembourg and Malta. Wage indexation aims to link wage development to the actual change in living costs to ensure that real wages are not overtaken by inflation. Adjustment is based on general changes in price levels, depending on several indexes, for example the consumer price index (Aizenman, 2008; Eurofound, 2010) or more recently the harmonised index of consumer prices.

This system is sometimes referred to as the cost-of-living allowance or the cost-of-living adjustment in Cyprus and Malta. However, it should be noted that it works differently from the general indexation mechanisms in other countries: the cost-of-living allowance is an allowance that is updated in line with the cost of living, while in Belgium and Luxembourg the entire wage is indexed to take inflation into account.

Wage indexation establishes a floor of wage developments for all wage groups that cannot be undercut by autonomous collective bargaining outcomes or individual agreements – although derogation procedures do exist. By contrast, while autonomous collective bargaining rounds between employers and trade unions often consider indicators such as overall inflation rates and price developments, it is still up to the bargaining parties to determine and agree on the outcome of these negotiations.

Tellingly, past wage indexation systems were abolished mostly before the end of the 20th century, as was the case in Denmark, France, Italy, the Netherlands and Spain.

Debates on wage–price spirals

The rise in inflation starting in 2021 has been explained by a combination of factors. In the aftermath of the COVID-19 crisis, monetary resources put into the market as a result of the pandemic interacted with long standing low interest rates. To this exceptional mix was added the shock of the energy crisis spurred by Russia’s war of aggression against Ukraine and the further disruption of the international supply chain. The war intensified, and drove up the prices of commodities and goods, which remain high, particularly for food.

At first, the debates on rising inflation, and therefore the connection to decreasing real wages, revolved around the very nature of the current inflation, which was in an economic region that had enjoyed reasonable price stability for more than two decades. Whether the inflation could be considered a transitory phenomenon or, by contrast, it should be acknowledged as a long-term issue – as it ultimately became – was the main concern. Regardless of the arguments and forecasts expressed, that discussion triggered new debates on inflation after a long time of it being merely a theoretical academic topic.

A subsequent topic of debate linked to the nature of the rising prices in connection with collectively agreed wages was the impact on wage–price spirals or second-round effects. With the economic crisis of the 1970s and 1980s in the rear-view mirror, employers and some governments have warned of the similarities between it and the ongoing inflation period, and the risks of sparking a wage–price spiral if wage bargaining intends to use the increased inflation rate as the basis for wage demands and for wages to catch up with headline inflation in the short term, particularly in a context of high economic uncertainty and financial volatility. Following the orthodox theory and well-known practice, in this context the ECB would have to use a neutralising interest rate policy to counter a price trend driven by strong wage increases. That in turn would have a dampening effect on growth and the labour market (Institut der deutschen wirtschaft, 2021). Employers warned that increases in the statutory minimum wage would also drive up prices, since the minimum wage serves as a benchmark in collective wage bargaining by compressing the wage structure, and serves as a reference for certain social minimums, such as social benefits and pensions, in some countries (OECD, 2022).

Box 1: Social partners’ traditional views on wage indexation mechanisms

Employers are usually highly critical of the established wage indexation systems. From their point of view, wage indexation implies rigidity, preventing wages from reflecting actual worker productivity and company performance. According to these views, this uniform application does not allow wages to mirror productivity differences across economic sectors and geographical areas.

Trade unions have mixed views across Member States. In those few countries with some sort of automatic wage indexation systems, the trade unions firmly support this mechanism in order to protect real wages against rises in the cost of living. In some countries, wage adjustments would depend heavily on the trade unions’ bargaining power in the absence of such a mechanism. In addition, wage indexation is seen to guarantee social fairness in ensuring the redistribution of national income to workers (Eurofound, 2010).

By contrast, trade unions in most of the Member States disagree with wage indexation systems, as they see them as interfering with their autonomy to collectively agree wages.

Box 2: Eurofound research on wage formation and pay-setting mechanisms in the EU

Eurofound has extensively researched wage developments across Member States. For example, the 2009 report *Wage formation in the EU* provides information on national wage-setting mechanisms, with a focus on levels of collective bargaining, the main determining factors, the actors involved and the role of government bodies (Eurofound, 2009).

Another report explores the impact of the crisis and of the EU's new economic governance regime (the country-specific recommendations and memoranda of understanding) on wage-setting mechanisms (Eurofound, 2014a). It also looks at changes in wage bargaining levels, the extent of horizontal coordination across bargaining units, links between the different levels involved in wage-setting, mechanisms for setting the minimum wage and wage indexation, and the volume and duration of collective wage agreements.

According to another Eurofound report, four types of national schemes on the extent and evolution of supplementary pay in EU Member States can be identified: (a) performance-related schemes, (b) wages and salaries in kind, (c) supplementary social security contributions and (d) financial participation schemes (Eurofound, 2016). Some of these are more widespread than others, and some are more predominant in certain EU countries. Another report analysing wage bargaining regimes from 1998 to 2012 focused on the ways in which pay-setting and wage bargaining vary between the Member States (Eurofound, 2015a).

Recent data on wage-setting mechanisms can be found in Eurofound's database of wages, working time and collective disputes, which includes a supporting Excel spreadsheet with coded variables and a code book. The database includes information on features of collective wage bargaining systems, the setting of minimum wages, public sector pay-setting, collective wage outcomes and collective bargaining coverage.

However, the inflation crisis looks different for the time being and cannot be easily equated to other inflationary periods. In the current crisis, most workers are experiencing a reduction in real wages and thus not contributing to any bottom-up price race. By contrast, corporate profit margins have increased in some specific sectors and companies, and it is controversial how much of the inflationary operational costs impacting companies have been passed onto consumers. Rather, the ongoing inflation presents some intricate features, particularly because it has developed under a combination of shocks, and in a different environment and economic framework from the past. This highlights the importance of well-targeted policy measures being put in place by governments to help workers preserve their purchasing power, particularly for those at the bottom of the wage scale, as they are proportionally more affected by high inflation rates for food and energy prices.

The risk of a wage–price spiral seems to be more likely to take place in those countries implementing automatic wage indexation, such as Belgium and Luxembourg. At the time of writing, this spiral has not happened all over the EU, even in a context of low unemployment and with the ECB, which is responsible for maintaining the price levels, firmly and steadily increasing interest rates.

Impact of statutory minimum wages on the wage floor

Regulating minimum wages aims to reduce in-work inequality and to spread collectively agreed wages between pay groups. Statutory minimum wages exist in 22 Member States, although other sector- or occupation-level collective agreements in most of the remaining Member States include de facto wage floors for large parts of the workforce (OECD, 2022).

Between January 2022 and January 2023, Member States hiked statutory gross minimum wages, with increases ranging from 5% to over 20% and a median nominal increase across Member States close to 11%, compared with 5% in 2022. Nevertheless, these large increases have resulted in significant gains in purchasing power among minimum wage earners in only very few countries, given the high inflation rates across EU countries. By contrast, the increases have not kept up with inflation in several EU Member States, leading to a decrease in real minimum wages (Eurofound, 2023a).

The existence and implementation of statutory minimum wages have been often discussed as an element that potentially contributes to wage–price spirals and subsequent rising inflation. An increase in the minimum wage may go beyond the direct beneficiaries and spill over to those workers earning more than the minimum wage, as the minimum wage is used, formally or informally, as a benchmark in the negotiation of collective and individual wages and as a reference for certain social minimums (OECD, 2022).

However, given the relatively low share of minimum wage workers, even sizeable increases in the minimum wage have a limited impact on inflation; the contribution of minimum wages to aggregate wage growth appears quite limited (ECB, 2022).

Turning to the countries studied in this report, out of the three countries selected for this study, only France and Germany have statutory minimum wages in place. The French minimum wage (*salaire minimum interprofessionnel de croissance*, SMIC) is partially indexed against inflation (Eurofound, 2023b). The SMIC increases each year in January, based on inflation, for the 20% of households with the lowest income and is increased by half of the purchasing power gain of the hourly wage of blue-collar workers and employees (Institut national de la statistique et des études économiques, 2020). Moreover, it also increases each time inflation is higher than 2%. The national minimum wage has been raised four times recently, due to the four increases resulting in a minimum wage of €11.27 gross per hour in February 2023.[4] Sectoral agreements set the minimum for each group on the classification grid, using the national minimum wage. As collective bargaining cannot index wages to both inflation and the minimum wage,[5] each time the national minimum wage is increased, the first or several of the lower groups fall below this threshold. Therefore, sectoral agreements have been outdated by the last four increases of the national minimum wage between 1 January 2022 and 1 January 2023.

The French Labour Code then established that branch social partners must enter into negotiations to increase the first minimum of the wage grid (Article L2241-10) in order to set it at a legal level or above the minimum wage.

Germany has had a general statutory minimum wage since 1 January 2015. It is the lowest wage limit for almost all employees, excluding apprentices, long-term unemployed people and, in some cases, interns. Under the Minimum Wage Act, the Minimum Wage Commission, on which trade unions and employer organisations are represented, decides on the minimum wage, mainly looking back to the index of collectively agreed pay (‘Tariflohnindex’). It then becomes binding by statutory order. However, in contrast to this rule, in 2022 the new German government deviated from the agreed procedure when it announced quite a significant increase of the minimum gross wage from €10.45 to €12.00 from 1 October 2022. This increase in the statutory minimum wage was originally announced as an election promise, although later on it was justified by the need to compensate the increase in the cost of living resulting from the high inflation during the second half of 2022. The increase in the statutory minimum wage was accompanied by a significantly greater increase in collectively agreed earnings of semi-skilled and unskilled workers. The unscheduled increase in 2022 was criticised by the employer organisations (Tagesschau, 2022). The next regular increase will take place in January 2024 on the basis of a recommendation of the Minimum Wage Commission.

Since the beginning of the statutory minimum wage adjustments (to €9.60 in July 2021), with every minimum wage increase, the lowest collectively agreed wages have risen disproportionately compared with collectively agreed wages in the other groups (Destatis, 2023). Depending on the sector, this has either led to a compression of the wage structure or helped to push up more or less all wages to a higher level (IW and WSI, 2020).

Box 3: Labour shortages impacting collectively agreed wages

Labour shortages may increase the pressure on employers by trade unions and workers’ representatives demanding higher wages and better working conditions in collective bargaining (see Chapter 3).

Following the recovery of the labour market in the aftermath of the COVID-19 pandemic, labour shortages became widespread, if uneven, in some sectors. The reasons for the increase in labour shortages are varied and include demographic ageing and the growing demand for products and services. As a result, employers struggled to hire and attract labour (Eurofound, 2023c).

In 2022, the scale of labour shortages in the EU was captured by the job vacancy rate of 2.9%, the highest rate ever recorded (European Commission, 2023b). For the sectors analysed in this study, in Q1 2023 the job vacancy rate rose to 4.2% in the accommodation and food services activities, while in the industry sectors (except construction) it rose to 2.1% and in manufacturing to 2.2% (Eurostat, 2023).

4 At the time of writing, the French minimum wage (SMIC) was again increased in May 2023.

5 It has been forbidden by law since 1983 and was confirmed by the highest court in 2017 (Court de cassation, Chambre sociale, case of 5 October 2017, No. 15-20390).

Government policy measures cushioning the impact of inflation

Governments have enacted extensive relief packages aimed at mitigating the impact of inflation (Table 1). The vast majority of these measures addressed households and families through funding energy costs, although other target groups included sectors and companies. Fiscal measures, specifically tax reduction, have been extensively used. These measures usually have a temporary duration and their periods of applicability have been extended regularly. However, hardly any specific measures have influenced collective wage negotiations, except the inflation allowance in Germany.

The German federal government put in place a wide variety of instruments to mitigate the impact of the rising energy and commodity prices. At the time of writing, it is estimated that the packages implemented amount to €3 billion. Their aim was to support citizens, curb energy costs and safeguard jobs (Die Bundesregierung, 2023). General measures mainly targeted households and families, with a special focus on tax reduction. Enterprises have also been targeted, with measures focusing on the stabilisation of the labour market and providing security for planning for companies. These measures include an action facilitating easier access to short-time work benefits, which has been extended until 30 June 2023. Other measures aimed at protecting and safeguarding production and jobs have targeted small and medium-sized enterprises and industry, for example energy (electricity and gas) price freezes.

One specific measure, an inflation allowance – an additional payment provided by the employer to all employees of up to €3,000 that may be paid until the end of 2024 as a one-time payment or in several instalments, exempt from taxes and social security contributions – played the most important role in collective bargaining. Social partners were well aware of this measure during negotiations, with some of them lobbying for further relief measures, and particularly the extension of the inflation allowance.

In France, general policy measures addressing the negative effects of rising inflation focused mainly on freezing energy prices in 2022. Other measures directly or indirectly influencing collective bargaining and potentially affecting the labour market were implemented with the aim of broadening the range of ways employers can transfer money to employees (for more information see Eurofound, 2022a). Four main measures were implemented in summer 2022.

- A value-sharing bonus for employees (*prime de partage de la valeur*), which is a bonus given by employers that is totally or partially exempt from tax and social contributions according to certain criteria (certain time frames and wage levels), was implemented. It is an extension of a scheme that was created during the COVID-19 pandemic to improve employees' purchasing power.
- The threshold at which food and travelling expenses become taxable on the part paid by employers was increased.
- Conditions to negotiate employees' saving schemes have been broadened, and an exceptional option of unlocking funds has been provided.
- Employees have the opportunity to be compensated for unused rest days.

In Italy, the Budget Law for 2023–2025 introduced measures aiming to limit the increase in spending on energy (electricity and gas) by buffering price rises without taking structural action to tackle the underlying causes. These measures were mainly implemented in the first quarter of 2023, and questions have arisen regarding their general rather than targeted scope. For example, except the energy and gas bonus, measures are intended to benefit the whole population (without specifically targeting the most vulnerable households, groups or sectors) and all companies and firms, as opposed to only those in difficulty and/or those engaged in processes relating to the circular economy, the reduction of emissions and the production of energy from renewable sources.

At the time of writing, the main measures with a potential impact on collective bargaining are the detaxation of restaurant and hotel staff's tips and the reduction of tax rates for sums paid as productivity bonuses. In addition, a reduction in the tax wedge has been implemented – currently 2 percentage points for workers who are paid €35,000 per annum (based on thirteen monthly payments) and 3 percentage points for those who are paid €25,000 per annum. Other measures, already tested in previous years, such as the extension of contribution exemptions for new employees, have been announced.

Table 1: Government policies and initiatives to mitigate the impact of inflation

Member State	General measures	Measures directly or indirectly (through increasing workers' or employers' income) influencing collective bargaining
Germany	• Temporarily reducing the sales tax rate on gas supplies from 19% to 7%. • Making emergency aid available to provide consumers with relief from the costs of natural gas and heating (December 2022). • Putting in place an electricity, gas and heat price freeze applying to all customers. • Implementing an energy price flat rate of €300 gross for pensioners, students and employees. • Increasing the limit (to €2,000) for employees paying lower social security contributions in mini-jobs (short-term employment). • Increasing income tax rates and the basic allowance, child allowance and the threshold of the 'Soli' (solidarity surcharge[6]). • Allowing taxpayers to continue to claim the home office flat rate – a lump sum – if they work at home. • Allowing companies to continue to benefit from easier access to short-time working benefits through a further extension (until 30 June 2023). • Extending the period of availability of the highest level of compensation for the energy-intensive manufacturing sector (Die Bundesregierung, 2023).	Facilitating an additional payment by companies of up to €3,000 exempt from taxes and social security contributions.
France	Implementing price freezes on energy prices in 2022.	• Providing a value-sharing bonus for employees. • Relaxing taxation rules on professional expenses and widening the scope of tax exemptions for food and travelling expenses. • Broadening the conditions to negotiate employees' saving schemes. • Providing employees with an exceptional option of unlocking funds from saving schemes. • Giving employees the opportunity to be compensated for unused rest days.
Italy	Providing an energy and gas bonus.	• Removing taxes on restaurant and hotel staff's tips. • Reducing tax rates for sums paid as productivity bonuses. • Reducing the tax wedge. • Extending social contribution exemptions.

Source: *Authors' own elaboration*

6 The threshold of the Soli, a solidarity surcharge (Solidaritätszuschlag), has been increased, resulting in tax cuts for most German taxpayers, including freelancers and self-employed business owners.

2 Overview of collective wage bargaining systems in selected Member States

Collective bargaining is at the core of a balanced industrial relations system and relies on the interplay between the context (political, economic and legal) and the players operating at different levels. The existence of a wide variety of collective bargaining systems across different European countries, depending on their different political and economic conditions, national traditions and practices, has been widely acknowledged. Today, no two national collective bargaining systems are alike (Müller et al, 2019). Over the past 30 years, major, and in some cases ground-breaking, changes have affected collective bargaining, not least the acceleration of globalisation in trade, production and corporate practices and the rapid onset of technological change and digitalisation, as well as the relentless growth in the influence of financial markets and shareholder value orientations in modern economies (Eurofound, 2015b). In addition, the financial crisis of 2007–2008, the COVID-19 pandemic and more recently Russia's war of aggression against Ukraine highlight that crises and external shocks can seriously and unpredictably influence economic and social developments.

The collective bargaining systems selected for this study (France, Germany, Italy) show different industrial relations regimes. While France and Italy have usually been grouped in the same cluster of countries when it comes to industrial relations (southern European countries), there are remarkably different features in their collective bargaining systems. To highlight these differences and to show some potential similarities, the following sections summarise the main characteristics of the systems and how they have handled inflation.

Collective wage bargaining in Germany

In Germany, collective wage agreements are primarily negotiated at regional and sectoral level (regional collective agreements, *Flächentarifvertrag*). Bargaining rounds cover both wages and qualitative aspects of the negotiating agendas of both employer organisations and trade unions (in line with the priorities of their members), although individual companies are increasingly involved too.

Collective agreements apply only directly to the signatory parties' members, although they can be extended by the federal or regional ministries of labour to include other employers and employees in the relevant industry not directly bound by the agreement. Works councils are only allowed to conclude works agreements (*Betriebsvereinbarung*) at company or workplace level, which explicitly exclude remuneration and other working conditions already determined by higher-level collective agreements.

The influence of the state in collective bargaining is weak, and social partners and negotiating parties welcome their autonomy during wage negotiation. Overall, collective bargaining demands are set by the negotiating parties considering the expected rate of price increases, productivity progress and a redistribution component.

Collective bargaining in Germany has exhibited a steady trend of decentralisation over the past 20 years. Collective bargaining coverage has fallen significantly: it is estimated by various national sources that there was a decline in western Germany from 76% in 1998 to 57% in 2017, and in eastern Germany from 63% to 44% in the same period, although there are considerable differences in bargaining coverage depending on the region, industry and company size (Müller and Schulten, 2019). Most recent figures estimate a collective bargaining coverage in 2021 of 43% at national level, with 45% in western Germany and only 34% in eastern Germany. While coverage of sectoral bargaining is declining, the role of company-level collective agreements has increased with a coverage rate of 9% in western Germany and 11% in eastern Germany in 2021 according to the Federal Statistical Office (Federal Statistical Office, 2023). In the regional collective agreements (especially in eastern Germany), opening clauses allowing for decentralisation are increasingly included, although the use of these clauses varies considerably across industries. Opening clauses (*Öffnungsklauseln*) allow, under certain conditions, derogation from industry-level agreements, even if this may worsen employment and working conditions and to some extent supersedes the application of the favourability principle[7] (*Günstigkeitsprinzip*). In 2015, approximately one-fifth of all companies covered by a collective agreement made use of an opening clause (Müller and Schulten, 2019).

Wage-setting mechanisms

The year 2021 was characterised by a below-average increase in overall collective pay (1.3%) compared with the previous year. This was due in particular to the COVID-19 situation, as a result of which some collective bargaining negotiations were postponed until 2022. Furthermore, 2022 was characterised by significant increases in the statutory minimum wage. Nevertheless, the change in the collective pay index excluding special payments for 2022 is still comparatively low at 1.4%. This is mainly because some of the agreed pay increases will not take effect until 2023 (Destatis, 2023).

After 2021, 2022 was the second year in a row in which there was a significant loss of purchasing power in collectively agreed wages. Whereas in the 2010s collectively agreed wages rose steadily in real terms and by 2020 added up to 14%, in 2021 and 2022 almost half of this real wage growth was lost again. However, in 2022, real wages were secured for many employees in some areas. This was true particularly of a number of classic low-wage industries such as baking, hotels, restaurants and catering, industrial cleaning and security, where the significant increase in the statutory minimum wage to €12 per hour was reflected in a correspondingly strong increase in collectively agreed wages (WSI, 2022).

Collectively agreed wages in Germany increased by an average of 2.2% in 2022 compared with the annual average in 2021, as shown by the index of collectively agreed monthly earnings including special payments. As reported by the Federal Statistical Office, collectively agreed wages excluding special payments increased by 1.4% in 2022 compared with 2021. In the same period, consumer prices increased by 6.9% (Destatis, 2023), leading to a decline in collectively agreed real wages.

Confronted with the high inflation in 2022[8], trade unions resorted to various means to avert the threat of real wage losses. The vast majority of these are fixed-percentage increases, sometimes combined with special termination rights if predefined inflation rates are exceeded. In some cases, however, attempts are also made to counter inflation with so-called index clauses. Index clauses link the development of remuneration to an index, typically the consumer price index of the German Federal Statistical Office.

For example, ver.di provided inflation compensation for seaport workers. The strike by cockpit staff at Deutsche Lufthansa AG was also based on a demand for an index clause. However, the Munich Labour Court ruled that an index clause in a collective bargaining agreement was inadmissible because it violated Article 1 of the German Price Index Act (Ubber and von Grundherr, 2022).

Collective wage bargaining in France

To summarise the historical background of collective wage bargaining in France, the Auroux Law of 1982 introduced decentralisation of collective agreements towards company level, making wage-setting mandatory for employers with union representatives at this level, in addition to facilitating derogations on some topics. This trend did not prevent the system from remaining coordinated by law and by the implementation of the favourability principle (Tallard and Vincent, 2014).

The collective bargaining system was reformed in 2017 through Macron's Ordinance on the strengthening of collective bargaining (*Ordonnance relative au renforcement de la négociation collective*). The reform was aimed at giving more power to the negotiating parties, with a focus on collective bargaining at company level, although it follows the overall trend of decentralisation towards company level. In doing this, the reform tended to create a redistribution of power between the law, sectoral agreements and company agreements. Government policies over the past few years have aimed to reduce the number of 'branch' collective agreements in sectors through rationalising the content of the agreements and by merging existing agreements for some industries.

Prior to the reform, derogation from thirteen specific matters that depend on sectoral agreements, such as minimum wages for each group of the classification grid, gender equality and health protection scheme was forbidden. The reform has limited these matters to only four areas, which mainly concern the issues of occupational safety and workers with a disability (Vincent, 2019). For other matters, company-level agreements prevail in the determination of working conditions and governance issues such as social dialogue bodies in the company, wage negotiations (wages at company level cannot be lower than the sectoral minimum) and employees' saving schemes. The default rules only apply when no collective agreement is in place at sectoral or company level.

7 According to the favourability principle, if the terms and conditions in the individual contract are more favourable to the employee than the provisions of the relevant collective agreement, then the former prevail.

8 In April 2023, the inflation rate in Germany was +7.2%, remaining at a high level, but, having weakened for the second month in a row.

As a rule, when a collective agreement is signed at sectoral level by representative bodies, it is extended by law and therefore applies to every worker and company that depend on the branch, regardless of their involvement in the negotiating process. In contrast, when no agreement is concluded, a 'unilateral decision' is often taken by the employer organisation or organisations involved. This decision applies only to their members and cannot be extended or serve as a warranty against social dumping on wages among the companies in the sector.

Owing to the extension procedure and the wide scope of implementation of collective agreements – they apply to all employees of a company, regardless of whether or not they are trade union members – the bargaining coverage rate is high, at 96% in the private sector and 98% in the public sector, despite the low union density.

State intervention in collective bargaining is high not only because of the transformative reforms implemented by the government over the past few years but also because of the expansion of the perimeter of collective agreements through extension procedures and the impact of the statutory minimum wage.

Setting the minimum wage (SMIC) by law has a very strong influence on collective wage negotiation, particularly for those with the lowest qualification levels in the wage structure. However, wage negotiations at sector level still leave a wide margin of manoeuvre in the companies (Castel et al, 2014). In some sectors, the minimum wage still plays a relevant role in providing a level playing field in terms of real wages, as it serves as a benchmark for extending increases throughout the wage structure.

Collective wage bargaining in Italy

The methods and practices for regulating wage adjustment to the inflation rate have changed (Cucignatto et al, 2023) since the first automatic wage indexation mechanism (the *scala mobile*) was introduced by a peak-level interconfederal agreement in 1945.

The scala mobile ceased to exist in December 1991, when Confindustria, which is the main association representing manufacturing and service companies in Italy, unilaterally proclaimed its cancellation, and the government decided not to renew or modify it by law. In July 1993, a tripartite protocol was signed replacing the old *scala mobile* with a system (*concertazione*) in which common objectives on 'planned inflation rates' are defined among government and social partners during two annual sessions. The objective was to neutralise the wage dynamics originating in the price–wage spiral, even if inflation had already changed in the 1980s from wage inflation to imported inflation and inflation caused by interest rates, tariffs and taxes (Graziani, 2000).

New interconfederal (not tripartite) agreements were signed in January and April 2009 by Confindustria, the Italian Confederation of Workers' Unions and the Italian Labour Union, but not by the Italian General Confederation of Labour (Bellardi, 2010). They replaced some rules among those defined in the protocol of 1993; for example, the national collective labour agreements (*Contratti Collettivi Nazionali di Lavoro*) should have a unified validity of three years, for both the regulatory part and the economic part. The adoption of the harmonised index of consumer prices and the net of imported energy products (HICP-NIE) was the main difference in the agreements, and since then it has been assumed as a parameter for all national collective labour agreement renewals signed. The forecast index is provided by a third party of recognised authority and reliability: the Italian National Institute of Statistics (ISTAT).

Wage-setting mechanisms

The key rules concerning wage-setting and inflation are established by general cross-sector agreements, which are binding on the affiliated social partners' federations when they are negotiating and stipulating national collective labour agreements. These peak-level agreements – tripartite, such as the protocol of July 1993, or bipartite, such as the other agreements of 2009, 2014 and 2018 – set out the whole system of wage-setting and collective bargaining, not only in terms of players, levels (and their coordination) and working conditions but also for the key wage norms, that is, establishing (a) the objectives in terms of income policy, (b) the forecast index for cost-of-living adjustments to the Consumer Price Index, (c) the procedures that must be followed to make the cost-of-living adjustment, and (d) the overall duration of agreements and plans for interim increases in wages.

A 1986 law establishes the obligation to file the national collective labour agreements with the National Council of Economy and Labour (CNEL). They are identified and classified based on a unique alphanumeric code. There are 14 macrosectors and 96 subsectors, associated with NACE/Classification of Economic Activity divisions. As of November 2022, according to CNEL data, 946 national collective labour agreements were filed in the private sector, 18 in the public sector, 12 for para-subordinate collaborators and 31 for some categories of self-employed workers. Out of the 946 archived collective agreements, 208 (only 22%) were signed by the sectoral federations of the most representative trade union organisations (the Italian General Confederation of Labour, the Italian Confederation of Workers' Unions, the Italian Labour Union). However, these national collective labour agreements – which have far greater coverage than all others, and are commonly called

Box 4: The factory pact in Italy

Another relevant change took place with the signing of the factory pact (*Patto della Fabbrica*), on 9 March 2018. The main addition to sectoral agreements in the scope of Confindustria was a distinction between two different types of wages: gross wage (*Trattamento Economico Complessivo*, TEC) and minimum wage (*Trattamento Economico Minimo*, TEM). The minimum wage consists of minimum pay floors, whereas the gross wage combines the minimum wage and all wages common to all workers in the sector and consisting of the various forms of occupational and complementary welfare benefits. A safeguard provision establishes that 'the variation of the minimum wage values will take place according to the rules shared, by law or practice, in each individual sector agreement', and is aimed at leaving room for manoeuvre in some sectoral practices.

Wages are adjusted to the HICP-NIE using only the minimum wage as a reference, and not the gross wage, which is more inclusive and joined up. In order to make the index more flexible and adaptable to sectoral characteristics, the value of the minimum wage can be modified through the national sectoral agreement 'due to the processes of transformation and/or organisational innovation'.

Another relevant aspect of wages included in the agreement concerns the incentive (monitored) for the development, both quantitative and qualitative, of second-level bargaining, 'recognising economic treatments closely linked to real and agreed growth objectives in corporate productivity, quality, efficiency, profitability, innovation, enhancing digitisation processes and promoting forms and methods of worker participation'.

'leaders' – cover an average of 97% of workers in the private sector (Giangrande, 2022). In November 2022, it appeared that 558 national collective labour agreements, out of the 946 filed in the CNEL archive, had already expired, with another 57 expiring on 31 December. In 2022, almost 40 national agreements were signed by the most representative trade unions.

ISTAT releases three indicators of consumer prices monthly. The consumer price index for the whole nation (NIC) is used as a measure of headline inflation, while the harmonised index of consumer prices, calculated according to EU regulations, is used to compare inflation between Member States and as a key indicator for the monetary policy of the ECB. Moreover, ISTAT releases a third indicator that refers to the consumption of whole households headed by an employed worker (FOI).

Long waiting times for renewal in national collective bargaining

At the end of the fourth quarter of 2022, the national collective labour agreements awaiting renewal involved 49.6% of employees (about 6.1 million), which corresponded to 48.8% of the total payroll. In the same period, the average waiting time for renewal for expired national collective labour agreements was 24.8 months. In 2022, the growth in collectively agreed wages was 1.1% on average (ISTAT, 2023). This means that the national collective labour agreements renewed in 2021, and those signed at the beginning of 2022, do not consider the rise in inflation, which started to increase faster in the second half of 2022.[9]

Moreover, the current index used to guide collective labour agreement renewals is based on the HICP-NIE, which is lower than inflation measured by the harmonised index of consumer prices, so it could be inappropriate for restoring wages' purchasing power in a period of energy-related inflation growth. This index is the outcome of two agreements signed when inflation was low and, in any case, alternative solutions were found for some national collective labour agreement renewals, for example in the service sector (D'Amuri and Nizzi, 2017) and in the metalworking sector (Faioli, 2022).

With the exception of the metalworking collective agreement signed in February 2021, no collective agreements provide an explicit safeguarding clause. The clause in the metalworking collective agreement allows some adjustments to be made annually in June, when ISTAT provides new data on the HICP-NIE. All the other national collective labour agreements can only be amended after their expiration date, most often occurring three years after signing, although sometimes lasting longer (for example, four years).

Sectoral differences matter, particularly between national collective bargaining in the industrial manufacturing sector and the service sector. While the national collective labour agreements were renewed in time in the industrial manufacturing sector, they have mostly expired, even by several years, in the service sector. In addition, there are differences across companies.

9 In December 2022, the Italian harmonised index of consumer prices was increasing by 12.3% annually, and in 2022 the average annual rate of change was +8.7% (compared with +1.9% in 2021).

3 Adapting wages in sectoral collective bargaining

An analysis of the adaptation of sectoral collective bargaining to inflation was carried out for the three sectors: chemical and pharmaceutical, metalworking, and services (hospitality and domestic work) (Table 2). Comparing similar sectoral collective agreements across the three countries included in this report helps to provide a better understanding of the role played by wage clauses in collective agreements, and practices and provisions for coping with inflation, when we control for different sectoral configurations in terms of skills, pay levels, productivity or labour shortages, among others. The benefits of comparing the same sectors across countries are multifarious, helping to run the analysis on two levels. It helps to isolate sectoral specificities and identify the role of national institutions (Bechter et al, 2012). In Chapter 4, the report will focus on the national level, discussing common trends and differences across the three countries.

Chemical and pharmaceutical sector

Negotiating wage increases

The comparatively high wages in the chemical and pharmaceutical activities sector have contributed to reducing the importance of distributional conflicts in the sector and have helped to sustain cooperative relations, while a high level of union density and high productivity have allowed workers to achieve generous wage settlements over the years. Despite this, in the context of the cost-of-living crisis, tensions have arisen in some countries, such as France, where high inflation, leading to increases in the minimum wage, has led trade unions to reopen negotiations for new increases in collective agreements. These tensions have highlighted the different positions between unions and employers.

Table 2: Sectoral collective agreements covered in the research

Collective agreement	Signed	Workers covered	NACE code
Manufacture of chemicals and pharmaceutical products	**Italy**: 13 June 2022	187,000	C20, C21
	Germany: 18 October 2022	580,000	
	France: December 2021	216,000	C20
Metalworking/metallurgy/electronics	**Italy**: 5 February 2021	1,500,000	C25, C26, C28, C29, C30
	Germany: 18 November 2022 (pilot agreement)		
	France: 7 February 2022 National agreements apply to white-collar workers. Different regional collective agreements were signed for blue-collar workers.		C25, C26, C27, C28, C29, C30, C33
Hotel, restaurant and catering	**Germany**: ***Bavaria***: 9 March 2022 ***Saxony-Anhalt***: September 2022	1,000,000	I55, I56
	France: 16 December 2021		
Domestic work	**Italy**: September 2020		T96

Source: *Authors' own elaboration*

The three collective agreements analysed in Italy, Germany and France provide limited evidence of how social partners involved in negotiations in the chemical sector have defined their strategies in relation to the bargaining process around wages and inflation. The three cases show limited conflict around wage-setting, despite the inflationary context. This is probably linked to the generally cooperative relationships in the sector, which have contributed over the years to establishing agreed formulas and mechanisms to prevent conflicts arising from wage negotiations. The institutionalisation of wage guidelines and strategies thus responds to a clear aim to maintain cooperation and minimise conflict in the sector. This does not mean that inflation has not played a role as a benchmark in wage-setting processes. In Germany, the use of a neutral distribution margin (sum of the increase in productivity and inflation) assigns inflation a role along with productivity, while in Italy a distinct remuneration element is used to recover any discrepancy between forecast and actual inflation.

Despite the tensions arising in relation to recovering the purchasing power of wages, there has been no generalised increase in conflict in the sector. In France, some tensions emerged during the revision of the wage clauses in the sectoral collective agreement due to the increase in the minimum wage, leading the employer organisation France Chimie to unilaterally increase the point value by 1.8% on 1 January 2023.

Mechanisms for linking wages and inflation and associated indicators

The indicators used to link wages and inflation in the three countries considered have not changed significantly during 2022–2023. However, there has been more variation in the types of wage clauses included in sectoral collective agreements.

For the indicators used to link wages and inflation, the three countries combine different elements. In France, there is no direct reference to inflation. A formula linking the occupational classification of the workers in one of three groups (blue-collar workers, intermediate workers, white-collar workers), the point value agreed and the wage complement (only for blue-collar workers) serves to calculate the wage increases. The formula that sets the minimum wages in the sector includes two main variables: the point value and the coefficients. Coefficients correspond to the classification ranking (the minimum coefficient applies to the lowest-ranking job and the highest coefficient corresponds to the highest-ranking job). The point value applies to all coefficients. The coefficient is multiplied by the point value to provide the minimum that applies to each classification group. The system is applied in a way that reduces differences across occupational categories. Moreover, the negotiated minimums for the lower-ranking occupational categories in the sectoral collective agreement are more likely to be affected than the higher-ranking occupational categories by increases in the statutory minimum wage.

In Germany, the neutral distribution margin is the mechanism traditionally used to determine wage increases in the chemical sector. However, due to high inflation, it could not be used to set wage increases in 2022. Because of the already high wages enjoyed by workers in the sector, and employers warning about the risk of second-round effects, social partners decided to set wages at a level slightly below the benchmark.

Finally, the chemical sector collective agreement in Italy, signed in June 2022, has two distinctive traits. First, the ‘distinct remuneration element’ functions as a sort of shock absorber to compensate for possible gaps or deviations between forecast and real inflation. Second, the point value (valore punto), like the one used in France, is agreed. In the latest national collective agreement, the parties negotiated a point value of 100 equal to €17.74 for the lowest level of the pay scale (F), which for the median level (D) corresponds to €26.07 and for the highest level (A) €220. This means that, for each variation of one percentage point in the adjusted harmonised index of consumer prices, wages will be revalued according to this scale.

As for the types of clauses included, a variety are used. In France and Germany, percentage nominal increases are set. In France, the increase results from the percentage increase in the point value, which is then applied to all coefficients. In Germany, the nominal wage increase in the chemical sector was 6.5%, split between two stages. However, this was complemented with a collectively agreed inflation allowance (Inflationsgeld) to be paid out in two instalments of €1,500 in 2023 and 2024. Finally, in Italy, the wages have been increased through five flat-rate payments, with a €204 monthly increase from 2022 to 2025.

Even though there are no explicit indexation mechanisms in any of the three chemical sector collective agreements, there are clauses aimed at guaranteeing that wages keep up with inflation developments. The case of the Italian chemical sector collective agreement is probably the most elaborate of the three, as it includes a mechanism to adjust for deviations between forecast and actual inflation using the distinct remuneration element (Elemento Distinto della Retribuzione) as a shock absorber. When the forecast inflation is higher than the real inflation (companies are in credit), savings feed a fund, used for when the real inflation is higher than the forecast inflation (employees are in credit). Moreover, the Italian collective agreement also establishes a requirement for yearly meetings during and at the end of the collective agreement’s period of validity to assess changes in inflation.

In France, the law forbids the indexing of wages to inflation or even to the minimum wage. However, wage minimums negotiated in the sectoral collective agreement have to adjust to increases in the minimum wage. Thus, the negotiated minimums, especially for the lowest paid occupational categories, are de facto revised according to developments in the minimum wage. In the case of the chemical sector collective agreement in France, there have been four such revisions: one in January 2022, a second in May 2022, a third in August 2022 and a fourth in January 2023.[10] In the first revisions, social partners managed to find an agreement, but they failed to do so in January 2023. This led employers to unilaterally implement a 1.8% increase from 1 January 2023.

Finally, in Germany, no provisions were included to update or revise negotiated wages. In order to prevent any form of indexation, negotiating parties in the collective agreement agreed to compensate for inflation through two instalments. The lack of indexation or revision rules, together with the use of one-off payments, is a sign of a moderate approach to wage increases and a way to avoid any form of indexation. German employers in this sector showed a preference for this form of clause to prevent any expectation of wages adjusting to inflation automatically or the implementation of mechanisms to facilitate a semi-automatic adjustment.

Tackling labour shortages

Evidence from the three countries analysed suggests limited importance of labour shortages in the chemical sector and no impact whatsoever on wage increases. Only some concern for skills shortages is apparent in the collective agreements analysed. In Germany, labour shortages in the sector remain a serious issue for companies, but other issues such as long delivery times or high shipping costs seem to be of greater concern to employers. The interim agreement in the German chemical sector included a funding programme supporting apprentices. Moreover, the employer organisation highlighted the role of collectively agreed wages as a mechanism to attract workers. In Italy, the collective agreement includes some training programmes, both general and specifically on digital literacy, aiming to remedy the skills shortages in the sector.

Metalworking sector

Negotiating wage increases

The impact of rising inflation on manufacturing wages led in the second half of 2022 to a wave of mobilisations in EU countries linked to the renewal and negotiation of collective agreements. IndustriALL launched a Europe-wide campaign supporting calls for higher wage increases to recover purchasing power (IndustriALL, 2022a). Even though several agreements were signed over 2022 establishing significant wage increases, in some countries conflict persists over wage increases (IndustriALL, 2022b).

Of the three countries analysed in this report, two renewed their metalworking sector collective agreements in 2022 (France in February 2022 and Germany in September 2022), whereas in Italy the agreement was renewed in February 2021. Even though inflation accelerated particularly during 2022, in 2021 inflationary pressures were already noticeable.

Strategies to increase wages in the inflationary context

There were some differences in the strategies followed by social partners in the three countries to adapt the collective agreements to the new inflationary contexts.

In France, negotiations in relation to inflation were embedded in the broader scope of the renewal of the framework agreement. Therefore, social partners involved in the negotiation of the collective agreement shared the need to use negotiations as a mechanism not only to respond to the cost-of-living crisis, but also to modernise the collective agreement and, by doing so, make the sector more attractive to young workers. Setting higher wages was part of this strategy, and facilitated the upward adjustment of wages in the new inflationary context. However, trade unions in the metalworking sector had to reconcile two goals: maintaining the purchasing power of wages, especially for those groups at the bottom of the wage scale, and providing incentives for workers to stay in the sector by allowing sufficient wage differentials between groups. Differences emerged between social partners in relation to these goals, with the employer representatives more favourable to compressing the wage scale through substantial wage increases for the lower paid groups, and trade unions asking to maintain wage differentials along the career path to make the sector more attractive to workers.

10 During the production of this report, there was another increase in the minimum wage in May 2023.

German metalworking trade unions also placed the recovery of purchasing power as their main goal in negotiations, but with no particular focus on the lowest paid groups. The use of the neutral distribution margin, applied across the board to all workers, reduced the scope for negotiations. At the same time, given the comparatively high wages paid in the sector, employers tried to avoid excessively focusing on wage issues in negotiating the collective agreement.

In the Italian metalworking sector, trade unions concentrated on the recovery of purchasing power, asking for an 8% increase in the minimum wage (the aforementioned *Trattamento Economico Minimo*), while the employers' initial position was far below that figure. The collective agreement did not consider the impact of high wage increases on the wage distribution within the sector.

Mechanisms for linking wages and inflation and associated indicators

In all three countries analysed, wage clauses in the metalworking sector have established percentage increases over the duration of the collective agreements. In Germany, the percentage increase is complemented with an inflation allowance. No specific mechanisms have been implemented to close the gap between the high- and low-wage workers in the sector.

The indicators and mechanisms used to link wages and inflation in the metalworking sector vary significantly across the three countries. In Germany, no update or adjustment is expected for the duration of the collective agreement. Again, this should be interpreted in the context of German social partners' reluctance to include any form of indexation in collective agreements.

By contrast, the collective agreements in France and Italy contain different mechanisms to implement wage increases. In France, the new collective framework, signed at the end of 2021, mentioned the potential reopening of wage negotiations if inflation exceeded the benchmark used in the collective agreement. The scenario considered back then was an inflation rate of 1% per year at the time of negotiation. The wage minimums of the new classification grid were set according to this scenario, which already suggested that there would be significant increases for a lot of small and medium-sized enterprises that paid significantly lower wages than the median in the sector.

Indeed, the wage discrepancies between territorial agreements for blue-collar workers were so high that the wage minimums for this new classification grid suggest that there would be significant increases for many small and medium-sized enterprises all over France. Therefore, the new branch agreement encompasses a transition period until 2030 for enterprises that would see an increase in their pay of above 5% for at least 25% of their workforce, with the increases spread out over time. Nevertheless, because of the high inflation rate in 2022, this new grid is already outdated even before coming into effect in 2024. The branch agreement mentions that, if the grid is outdated due to inflation, negotiations will be reopened to reconsider the minimums.

A new agreement for managers and blue-collar workers was signed on 11 April 2022, and stated there would be a 4.7% increase for 2023 (blue-collar workers' wage agreements are being negotiated at territorial level until the new framework agreement comes into force for all workers on 1 January 2024).

The Italian metalworking collective agreement also includes a form of ex post indexation. More specifically, the agreement establishes that a meeting will be held every June to retrospectively revise the scheduled wage increases. If there is a discrepancy between the forecast and real harmonised index of consumer prices, the social partners will decide how to compensate for it in wages.

Tackling labour shortages

In the metalworking sector, there are some concerns about skills and labour shortages. In France, the new collective agreement was negotiated in the context of labour shortages caused by a combination of redundancies during the COVID-19 crisis, limited attractiveness to young workers and skills shortages in technical positions, for example information technology jobs. The collective agreement included, among other aspects, the possibility of increasing working time flexibility in the event of workforce shortages (up to 46 weekly hours over 12 weeks or up to 44 weekly hours over 24 weeks). In Italy, in the metalworking agreement negotiations of 2020–2021, the trade unions were able to use the labour shortages argument, although at the time it was mostly related to the pandemic and the restrictions to movement: norms for the opening of workplaces during the pandemic were subject to collective agreements; therefore, unions had negotiation power in terms of being able to limit labour supply.

Services sector: Hospitality (France and Germany) and domestic work (Italy)

Negotiating wage increases

Compared with the chemical and metalworking sectors, the hospitality and domestic work sectors are experiencing not only the challenges deriving from higher inflation but also increasing labour shortages. While trade unions have placed the focus of negotiations on recovering purchasing power for workers in these sectors, who are more affected than workers in other sectors by the increase in the cost of living due to their lower wages, employers have pointed to labour shortages as the main problem facing the sector (Hotrec, 2022). This explains the different approaches of unions and employers in the bargaining process. Even though increasing wages could in principle help to solve both these issues, the EU umbrella organisation for employers did not include this as one of the actions to make the sector more attractive to workers.

Strategies to increase wages in the inflationary context

The collective agreements for the hospitality and domestic work sectors were signed during 2022, except in Italy, where the collective agreement for domestic workers ran from October 2020 until December 2022. On 3 January 2023, negotiations were closed without any agreement being reached, with the result that, according to a rule set in the previous (2020) national agreement and which is extended in the absence of any new agreement, wages will increase by 80% of the ISTAT inflation rate (9.2%), and indemnities for accommodation and maintenance will increase by 100% of the inflation rate (11.5%). This is worth noting as it is one of the best wage settlements in the country, and the only one in the private sector with an automatic indexation mechanism. It should also be noted that domestic work is a relatively weak unionised sector, but is subject to intense political attention (it was also one of the two sectors for which an amnesty for undocumented workers was passed in 2020). However, the context of the sector must be considered given 52% of employees work informally (according to estimates from the Italian Senate in 2020).

In the other two countries, renewals took place in 2022. In France, the collective agreement was signed in January 2022 and had an unlimited duration, while in Germany the regional collective agreements analysed were signed in the first half of 2022 and the last one in early autumn 2022.

Mechanisms for linking wages and inflation and associated indicators

The collective agreements in France and Germany set out percentage increases in negotiated wages, while in Italy flat-rate increases were agreed. The French collective agreement has an interesting feature whereby wage increases are higher for the highest paid occupational groups, hence contributing to widening wage disparities across occupational categories in the sector. This is probably linked to labour shortages in the sector and an attempt to make the sector attractive to new workers by offering them an opportunity for career progression in the sector. The Italian collective agreement for domestic work includes an indexation mechanism, something that is unusual in the Italian collective bargaining system. Flat rates are included in the Italian collective agreement on domestic work, as the very particular indexation mechanism used in this collective agreement links increases to a percentage of the cost of living for a family (discussed later in this section).

In line with expectations, the collective agreements for the hospitality sector set out on average higher wage increases than the metalworking and chemical sectors. In France, an average 16% nominal wage increase was set out in the new agreement (with lower increases for blue-collar workers and higher increases for white-collar workers). In Germany, there have also been remarkable increases in negotiated wages in regional agreements, generally above inflation. However, there are substantial differences between the negotiated increases in the regional agreements, ranging from 8.5% in Hessen to 32.6% in Rhineland-Palatinate. In Italy, the domestic work collective agreement established one-off monthly increases.

Even though there is no automatic indexation in the three countries analysed, there are indirect forms of linking wages to indicators such as the minimum wage or the cost of living. An example is Germany, where six regional collective agreements have clauses linking wage increases to the minimum wage. In France, even though there is no indexation of wages to the minimum wage, wages for all categories, especially the lowest paid, are set above the statutory minimum wage and are adjusted to it.

The domestic workers' collective agreement in Italy contains a rather peculiar mechanism for adjusting wages to inflation. More specifically, the agreement states that negotiated wages are adjusted by the national commission for updating wages on 30 November of each year, according to changes in the cost of living for families of employees and workers recorded by ISTAT. More specifically, the increase in negotiated minimums is equal to 80% of the variation in the cost of living for the families of employees and workers surveyed by ISTAT, as regards the minimum contractual wages, and equal to 100% of the conventional values for boarding and lodging. Thanks to this mechanism, domestic workers benefit from a wage adjustment that almost completely protects them from inflation. It is an automatic adjustment, guaranteed by the Ministry of Labour and Social Policies.

The ex ante inclusion of direct or indirect mechanisms linking wage increases to cost-of-living developments makes it unnecessary to include rules for the ex post revision of collective agreements. This is the case in France and Germany, where the agreement does not specify any revision rules or rules for the adjustment of wage clauses. Italy is the only country where a mechanism for revising the collective agreement has been agreed. According to this agreement, signatory parties will meet every year in January as part of a tripartite commission established at the Ministry of

Labour to discuss the latest data in relation to cost-of-living developments, and, whenever necessary, make recommendations for updating the wage clauses.

Tackling labour shortages

Labour shortages in the hospitality and domestic work sectors are expected to be more significant than in the chemical and metalworking sectors. In all three countries, there is evidence of shortages in the hospitality and domestic work sectors, and an impact on wage-setting has already been noticed. In Germany, employers highlighted that companies already pay above the standard wage due to shortages in the labour market and the need to attract employees.

The Bavarian Hotel and Restaurant Association (Deutscher Hotel- und Gaststättenverband Bavaria) conducted a survey among its members about the collective pay agreement, revealing that many employers were already paying their employees well above the collectively agreed wage. In the Rhineland-Palatinate agreement for the hospitality sector, a guarantee of employment for trainees after they finish apprenticeships (through collective framework agreements) is established as a mechanism to attract workers and enhance skills in the sector. The French hotels and restaurant collective agreement set out ambitious wage increases for top-ranking jobs to make the sector more attractive to workers.

4 Comparing trends in the countries and sectors

Negotiated wages and inflation: Catching up or falling behind

The evidence collected shows how negotiated wages have struggled to keep up with inflation developments in all countries. In most cases analysed, negotiated wages have been increasing slower than inflation. However, there are some remarkable differences between and within the sectoral collective agreements analysed. The hospitality and domestic work sectors have set significantly higher wage increases than the chemical and metalworking sectors. In cases such as some regional agreements in the hospitality sector in Germany, nominal wage increases have gone well above the inflation rate. But even within the collective agreement, not all workers have experienced the same situation. In France, the minimum wage has allowed lower wages to increase more rapidly than wages for higher paid occupational groups. In the German chemical industry agreement, workers at the top of the wage scale experience greater real wage losses than those at the bottom.

Hence, wage-setting practices in the selected sectors suggest the existence of a varied picture, with some sectors where negotiated wages seem to be catching up with inflation developments, and others in which wages are lagging. Explaining the differences encountered highlights some kind of redistributive – and somewhat compressive – pattern whereby real wage increases have been higher for those workers with lower wages, either because they are at the bottom of the wage scale or simply because they are in sectors with comparatively lower wages than others and experiencing pressure from labour shortages (hospitality and domestic work).

Back to indexation: Direct and indirect indexation in collective agreements

The absence of forms of direct indexation of wages to inflation is a trait common to all countries and sectors analysed. This explains why, in general, negotiated wages have not been able to keep up with inflation developments, with the exception of specific service activities included in the analysis. There are, however, differences between countries and sectors.

First, the cases of France and, to a lesser extent, Germany – at least in the ad hoc update in 2022 – show how the statutory minimum wage plays some role in helping to keep negotiated wages up to date in collective agreements, especially for the lowest paid occupational groups. Because inflation is certainly one of the variables shaping increases in the statutory minimum wages, this could be interpreted as a way of indirectly linking wages to inflation. This mechanism, however, is not automatic, nor does it apply equally to all sectors included.

In the chemical and metalworking sectors, characterised by higher wage levels, the impact of statutory minimum wage developments is lower than in the hospitality sector. And it is clearer in the case of France, where there is in practice an obligation to renegotiate wages when the statutory minimum wage affects low-paid jobs.

In Italy, where there is no statutory minimum wage, collective agreements in the three sectors use mechanisms linking agreed minimum wages with indicators such as the cost of living or the harmonised index of consumer prices. The domestic work sector is the only one with an automatic indexation mechanism; wage increases are revised following changes in the harmonised index of consumer prices.

Despite the difficulties in aligning agreed wages with inflation developments in all of the collective agreements reviewed, there is no evidence of a generalised increase in conflict either before or during negotiations. In some cases, interviewees reported growing tensions between unions and employers, but there was no resulting increase in strike activity in any of the countries or sectors included in the analysis.

Overall, the above evidence points towards a rather responsible wage-setting scenario in the sectors and countries analysed. Trade unions and employers have managed to sign agreements that, in principle, will not fuel wage–price spirals, while guaranteeing higher wage increases for the lowest paid groups to recover purchasing power.

However, the positive distributional impact of higher wage increases for the lowest paid sectors (hospitality and domestic work) is mitigated by the lower coverage of collective bargaining, especially when compared with the chemical and metalworking sectors. This is particularly the case in Germany, where, despite a long history of collective agreements in the hotel and restaurant industry, there is a low level of collective bargaining coverage (23–40% of the workforce, with lower coverage in the eastern *Länder*) and union membership. This hinders the achievement of better working conditions, including the recovery of purchasing power in the context of the inflation crisis.

Social partners' approaches

There is no evidence of de facto reintroduction of indexation mechanisms in collective agreements. In Germany, social partners interviewed highlighted that indexation is not considered to be useful, and showed a preference for not introducing these clauses in collective agreements. Social partners have been coping with inflation through the adoption of ad hoc measures.[11] Moreover, there does not seem to be a strong demand among social partners for the inclusion of indexation clauses. Several factors contribute to this. First, in France, some indirect mechanisms, such as statutory minimum wages, are already in place to adjust negotiated wages in response to cost-of-living developments. Even though these are not enough to maintain purchasing power, they provide some form of quasi-automatic adjustment, especially for the lowest paid job categories. Second, the use of indexation mechanisms reduces the scope for autonomous negotiation between unions and employers, something that is perceived negatively by social partners in all countries. Third, employers have been particularly active in alerting stakeholders to wage–price spirals in all countries, thus aiming to limit the size of wage increases and concentrate them on the lowest paid groups. By contrast, trade unions have advocated extending increases to all groups of workers.

Finally, there is uncertainty around future developments in inflation and whether we are entering a period of sustained high inflation or rather the current crisis is just a temporary episode of high inflation. This uncertainty, especially in the early stages of the inflation crisis, is probably the reason behind social partners' reluctance to reintroduce indexation mechanisms.

Minimum wages, inflation and wage-setting

Particular attention should be paid to the role of minimum wages in the wage-setting process. Even though there is no direct role for them in the collective agreements of France and Germany, minimum wages affect collective bargaining indirectly.

The case of France illustrates this role. The minimum wage, which is partially indexed on inflation, increases every year in January based on inflation for the 20% of households with the lowest income and half of the purchasing power gain of the hourly wage of blue-collar workers and employees. Moreover, it also increases each time inflation is higher than 2%, obliging collective agreements to update their wage scales according to the minimum wage.

In Germany, the collective bargaining round in spring 2023 also illustrates the impact of minimum wage developments on collective bargaining. In the railway sector, the transport trade union Eisenbahn- und Verkehrsgewerkschaft (EVG) demanded an adjustment for lower-wage groups, at least to the minimum wage level that was introduced in October 2022.[12]

As minimum wages in Italy are negotiated, social partners are responsible for setting them. In doing so, they must consider the HICP-NIE.

Labour shortages

Despite the prominent role played by wages in the most recent collective agreement renewals, this has not led to other topics, such as working time or adaptation to technological change, being left out of agreements. In all collective agreements analysed, social partners have extended, updated or in some cases even innovated provisions on issues such as job classification, vocational training and working time. It is, however, true that wages have become more contentious in the bargaining process, and this may have indirectly contributed to a reduction in the attention paid to other topics in the agreements, although all of the topics are considered equally important.

The same applies to the digital and green twin transition and its role in collective agreements. Even though sectoral collective agreements tend to be less innovative than company-level agreements when it comes to these issues (Eurofound, 2022b), the social partners interviewed agreed that including these topics in collective agreements had no significant impact.

Labour shortages do not seem to be putting too much pressure on wages in the sectors and countries analysed. In only the hospitality and domestic work sectors are there some concerns among social partners about the difficulties of finding workers and the role of higher wages in attracting more workers. In the chemical sector in France, trade unions were favourable to maintaining wage differentials between occupational groups to offer workers the possibility of advancing their careers in the sector.

11 In this context, and in contrast to relatively high-wage sectors such as metalworking and chemicals, in the collective bargaining rounds in public services in 2023 (including in the postal sector, security staff in airports or in the railway sector) the trade unions demanded not only wage increases of two-digit percentages, but also a minimum absolute wage increase per month, either for all workers or only for the lower-wage groups, in order to cushion the effects of inflation, in particular for the low-income groups.

12 Collective bargaining negotiations were still ongoing at the time of writing of this report (end of May 2023).

5 Conclusions

Real wages are not keeping up with inflation rates, and the wages of many employees still reflect wage settlements agreed before inflation accelerated. The sectoral collective agreements show a balance between recovering real wage losses and ensuring both cooperation and the competitive positions of the sectors.

Ability of sectoral collective bargaining to adapt to abrupt changes in inflation

During the Great Recession (2007–2009), the threat of unemployment led trade unions to make (wage) concessions to secure jobs. This is incomparable to wage-setting in 2022, where labour and skills shortages have made these kinds of concessions largely unnecessary in some sectors. Distributional aspects of labour shortages played a more prominent role during negotiations in 2022 and will continue to do so throughout 2023 due to the persistence of high inflation and the stronger impact on low-wage groups than on high-wage groups.

The analysis of collective agreements shows marked differences across sectors that do not always align with existing explanations of wage developments. There are three main sets of factors explaining wage increases. One is related to the structural characteristics of the industry or activity, including productivity level, skills, technological change and firm size. The second has to do with the institutional configuration of industrial relations and power relations. The third group of variables is related to the socioeconomic context and the economic cycle.

According to the first set of structural variables, higher wages are more likely to exist in those sectors characterised by high productivity and skills. By contrast, the second group of variables refers to the role of agency within industrial relations institutions. In view of this, we should expect higher wages and wage increases in those sectors with higher union membership and coverage.

The picture arising from the analysis of negotiated wage increases in the sectors reviewed is the opposite of what we would expect. Wage increases have been significantly higher in the hospitality and domestic work sectors. Even though it is hard to estimate the real wage increase happening through each sectoral collective agreement, as wage increases in some cases are accompanied by one-off payments, the data suggest more significant increases in the service sector, characterised by lower productivity, skills, union membership and collective bargaining coverage than the chemical and metalworking sectors.

Explaining this discrepancy between developments and expectations requires considering the role of labour shortages, which have pushed up wages in service activities, notwithstanding the expected weakness of trade unions in these sectors. Only when we consider the existence of growing problems of employers in these two sectors in finding workers can we understand differences in wage increases across sectors. Moreover, institutions also play a role in this. The existence of formalised mechanisms for indexing minimum wages to consumer prices also partially explains the higher wage increases in the service sector.

Coping with inflation in the medium term: Targeted indexation

The analysis showed the absence of indexation, though in all the cases there are formal or informal mechanisms linking wage increases to inflation. Moreover, there is no evidence of the incorporation of indexation clauses in collective agreements. Indeed, the reliance on one-off payment mechanisms in many of the cases reviewed shows a strong preference for these mechanisms to avoid any form of indexation that could fuel wage–price spirals in the medium term.

The use of these mechanisms has some advantages over traditional wage increases. First, unlike wage increases, one-off payments have no lasting effects on wages; they do not reproduce inflationary pressures and they reduce the potential for second-round effects. Second, they have a positive distributional impact, as they are proportionally more favourable to low-wage groups than high-wage groups. Finally, they are more flexible and do not require the adaptation of existing wage-setting mechanisms and formulas. However, they also present some drawbacks. For example, they make it difficult for affected workers to know the exact effective increase in wages. Moreover, the use of these mechanisms is more onerous for small companies. Having said that, trade unions are generally more keen on wage increases than on flat-rate payments.

The question remains whether, in a context where forecasts suggest that inflation rates will remain at high levels in 2023 and over the coming years, there is a need to include additional wage guarantees to enable workers to sustain their purchasing power. Two aspects need to be balanced in considering the introduction of these mechanisms.

- First, there is a need to avoid wage–price spirals, which, under the current circumstances, seem unlikely due to the marginal role of indexation.
- Second, there is a need to guarantee some recovery of purchasing power, especially for the low-wage groups. Labour shortages have contributed to wage increases in some low-paid jobs, and it is not clear whether this will persist in the near future.

The two aspects could be balanced by introducing additional mechanisms that link wages to inflation and target the lowest paid occupational categories and low-paid jobs. In some countries, the minimum wage already plays this role. However, in others there is no statutory minimum wage, or the minimum wage is automatically adjusted to inflation.

Introducing targeted indexation could have two main benefits. First, it would support wage recovery for groups of workers with less bargaining power. Second, it would contribute to reducing wage differentials and inequalities. If it targeted the low-paid groups, the impact on wage–price spirals would be more limited.

Policy pointers

- Inflation is back and, even though it is expected to steadily slow down by 2025, projections forecast that price growth is set to be persistent in the medium term. An overall persistent decline in real wages would not be sustainable in the longterm, as social conflicts, industrial action and labour disputes in collective bargaining may escalate in the short term, potentially jeopardising the EU’s strategic goals for the twin green and digital transition.
- New drivers such as labour and skills shortages are considerably influencing sectoral collective bargaining. Although labour shortages are usually connected with jobs linked to the green and digital transition, activities in the service sector are also experiencing labour shortages in lower paid jobs. Investment in upskilling and reskilling, training and improving work incentives, and other targeted policies for specific sectors should be reinforced to reduce labour shortages, as proposed by the European Commission as part of the 2023 European Year of Skills.
- In line with the implementation of Directive (EU) 2022/2041 on adequate minimum wages and with the key objectives of the 2030 Sustainable Development Agenda, public policies and action that respect social partners’ autonomy should be taken to strengthen collective wage bargaining and ensure that minimum wage growth rates and updates remain in line with inflation and protect low-paid workers.

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EF/23/005

TJ-04-23-772-EN-N

After a long period of price stability, inflation has made a remarkable comeback in the EU. In the aftermath of the COVID-19 pandemic, the energy crisis spurred by Russia's war of aggression against Ukraine and the disruption of the international supply chain, among other factors, have driven up the prices of commodities and goods. While nominal wages picked up in 2021 and 2022, real wage growth has remained below inflation, affecting mainly low-income groups. Even though EU institutions expect inflation to slowly decline by 2025, many collective bargaining rounds have barely been able to keep up with the rapid increase in prices in 2022. Consequently, trade unions' demands for compensation and pay increases in collectively agreed wages put pressure on some sectors. Updating minimum wages (in line with the directive on adequate minimum wages) plays a key role in protecting the purchasing power of low wages. With wages not keeping up with inflation rates, tensions may resurface in social dialogue and collective bargaining over the coming years.

The European Foundation for the Improvement of Living and Working Conditions (Eurofound) is a tripartite European Union Agency established in 1975. Its role is to provide knowledge in the area of social, employment and work-related policies according to Regulation (EU) 2019/127.

Publications Office
of the European Union

ISBN 978-92-897-2343-5
doi:10.2806/004554