EXECUTIVE SUMMARY

Eurofound

Tackling rising inflation in sectoral collective wage bargaining

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.

Further information

The report *Tackling rising inflation in sectoral collective wage bargaining* is available at https://eurofound.link/ef23005

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