

## Article on wage indexation

### **High inflation - Some workers get automatic compensation**

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Across Europe, workers and their trade unions are struggling to get compensation for soaring energy bills and rising living costs. Unions are demanding pay rise and other measures to uphold their purchasing power.

Two countries in Europe have systems in place for automatic wage indexations. In Belgium, unions are fighting against employers and right-wing parties to avoid a suspension of the mechanism. In Luxembourg, unions have just managed to reverse a decision by Parliament to cancel indexation in 2022 and 2023.

#### **Belgium – The health index**

In Belgium, there is automatic wage indexation for the vast majority of the country's workers. Its main basis is the national health index, which is an adapted version of the consumer price index. Price increase of commodities such as tobacco, alcohol and fuel are not compensated through the system. The smoothed health index corresponds to the average value of the health indices of the last 4 months. It is therefore less volatile than the health and consumer price indices. The health index has been calculated since 1994.

The aim of automatic wage indexation is to bring wages and social benefits in line with the cost of living. In the private sector, there are several indexation mechanisms that differ from one sector to another depending on the collective agreements concluded within them. There are also certain variations with respect to indexation of bonuses and other wage benefits.

The forms of indexation can vary from sector to sector or from company to company. There are many forms of indexation. It can be based on an automatic adjustment of wages when a previously defined pivot index has been exceeded, but also according to a determined periodicity (monthly, annually). There are also a multitude of rounding methodologies which may vary according to the type of salary to be indexed.

The advantages of automatic wage indexation are that it:

- Guarantees maintenance of purchasing power
- Ensures solidarity between workers and sectors
- Facilitates wage negotiations in companies and sectors and guarantees more social peace
- Stabilises the economy and upholds private consumption
- Ensures a stable increase in public revenue
- Is based on the evolution of consumer prices in a scientifically correct manner.

The calculation and application of the index are monitored by the social partners. Employers are obliged to apply it. The year 2015 was an exception as the Belgian government adopted a temporary suspension of indexation that led to an “internal devaluation” and a loss of purchasing power for the workers.

Certain sectors that have a fixed indexation date. In this case, the moment of indexation is known in advance, but not its extent. On the other hand, there are sectors that are indexed every time the increase in the smoothed health index reaches a certain percentage. This is known as exceeding the pivot index. The timing of the indexation will therefore depend on inflation. The higher the inflation, the more frequent the indexation.

Whether indexation takes place once a year on a fixed date, the indexation percentage is the same in the long term. However, in sectors with more frequent indexation, workers benefit earlier, and their pay moves more in line with inflation.

There is also a minority of sectors that have collective agreements without wage indexation. This is the case, for example, of the airport management sector, which employs about a thousand people in Belgium.

There is no intersectoral obligation to index wages, not all real wages are necessarily covered.

The employers may not deviate from this obligation. Where the sector provides for the indexation of only certain wages, the employer must index those wages, but retains a certain degree of freedom with respect to other wages. However, the employer must respect any company collective bargaining agreements that may have been concluded and may modify them under certain conditions. Employers who consider indexation to be a threat to their business can always consider touching other elements of remuneration that are not provided for at sectoral level. This is a matter for internal negotiation within the company.

### **Luxembourg – The indexation that disappeared, and came back again**

Luxembourg too has a system of automatic indexation of wages. First, the indexations scheduled for August 2022 and April 2023 were postponed. Later, based on a tripartite agreement of 20 September 2022 that supports purchasing power, the normal functioning of the index was restored. The agreement also aims to curb inflation and support households in a context of energy and purchasing power crisis.

Earlier, at a tripartite meeting in March, these proposals were rejected outright by the government, with the entire tripartite meeting focusing on energy prices. tripartite focused on manipulating the index - a manipulation that the OGBL rejected. Developments since the March tripartite have reinforced the OGBL's position. The index manipulation adopted at the time, without the agreement of the OGBL, would have meant a minimum delay of 12 months between the triggering of two index brackets. In an extremely volatile economic environment

In an extremely volatile economic environment, the OGBL had already warned in March about the risk of a strong inflationary inflation that could last for a prolonged period and possibly lead to 3.

This result is the fruit of the continuous mobilization of the OGBL, of all its structures and of its activists during the last months, who have never stopped opposing the manipulation of the index retained

The price of electricity will not increase in January, contrary to the announcement of an increase of nearly 70%.

- The announced increase in the price of gas will be capped at 15% compared to the current price (instead of 110%, or even 160%).
- The discount on fuel oil will be extended by one year and doubled to 15 cents/liter.
- VAT will be reduced by 1% on all products.

All these measures combined support the purchasing power of households while considerably slowing down inflation. Thus, it will be possible to avoid that the massive increases announced for the price of gas prices will not be fully reflected in the gas advances due from October onwards.

The gas price cap can be implemented as of October 1, 2022.

For the most vulnerable households, the increase in the cost-of-living allowance and the energy bonus will also be extended for another year.

This will undoubtedly be a major relief for families concerned.

The agreement also contains several measures and aids for companies which the OGBL has finally accepted as part of the overall package of measures. A large part of these aids are intended to lessen the impact of the energy crisis on energy-intensive companies and to encourage investment in the ecological transition to a low-carbon economy.

But the best help for the Luxembourg economy is undoubtedly the reinforcement of the purchasing power of households through the full restoration of the index and measures to slow down inflation.

**Edited by industriAll Europe**