Position Paper 2022/138

Fair wages for a fair recovery

Trade unions' fight for wage increases is a social and an economic necessity

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Although the post-Covid economic recovery is well under way, a deep living standards downturn is just getting started in most European countries. The war in Ukraine is aggravating the energy price crisis and the inflation spike that many hoped to be temporary. The boom in energy and consumer prices, coupled with high inflation, is already putting pressure on many workers who experience a massive income squeeze. Workers' purchasing power is eroded, making it very difficult for the most vulnerable to make ends meet. The risk of growing inequalities is more severe than ever, since inequality was already reported at record heights after two years of pandemic.

Workers had high expectations in terms of pay recovery after two years of wage moderation during the pandemic. Workers continued their activity despite the health threat of the pandemic, expecting to get compensated and to receive a fair share of the wealth created as companies were returning to robust profitability.

Today, as a society, we are facing a situation which is unprecedented for decades. Inflation is skyrocketing in some countries, fuelled by both energy prices, as well as food and essential goods prices and the war in Ukraine. At the same time, in most countries, wages are not forecasted to grow, despite record profits registered by some companies. In the current uncertain economic situation, workers should not be the ones again paying the bill.

Policymakers have so far played a stabilising role in the COVID-19 recovery process with the unprecedented economic and social support measures put in place since the start of the pandemic. Supportive measures are still necessary in the current uncertain situation. Policymakers should continue resisting the temptation to take short-sighted decisions based on austerity. Indeed, all must be done to avoid the mistakes done after the 2008-09 financial crisis, when austerity measures led to the 2012 recession, followed by a low-wage recovery. To prevent this, purchaising power must be maintained by keeping demand in line with inflation, price increases, and productivity gains in a mid-term perspective. However, the current peak of energy prices cannot be tackled only by collectively agreed wage increases, political instruments are also needed. Wages are not driving inflation, rather they are essential in driving the recovery and stabilising the economy. The recovery will only be sustainable with an adequate wage share for workers and with progressive policies to ensure a fairer redistribution that reduces inequality.

In these uncertain times, it is crucial that all actors assume responsibility and work towards a fair recovery. The economic environment remains volatile, as it is still impacted by the pandemic and the war in Ukraine. Over the past months, the recovery has been hampered by renewed restrictions, shortages of raw materials and components, and massive labour shortages. The war will only aggravate the shortages and bottlenecks. With very insecure export markets on top of everything, internal demand remains one of the key drivers of economic recovery, underpinned by strong wage increases.

In this position paper, industriAll Europe explains why workers deserve compensation in the form of a wage increase in the current context of high inflation, high prices, record corporate profits, increasing inequality and growing influence of far-right populist movements across Europe. We also present arguments that deconstruct the myth of a wage driven inflation. We continue by taking a closer look at the reality on the ground with some national examples of costs of living standards crises. We finish with demands for policymakers and employers to ensure fairer redistribution for a recovery for all.

Workers need a pay raise

At the start of 2022, company results and profits were at a record high, but wages did not grow especially quickly. This led to a situation where inflation and prices hikes were already eroding purchasing power and squeezing incomes of many families across Europe.

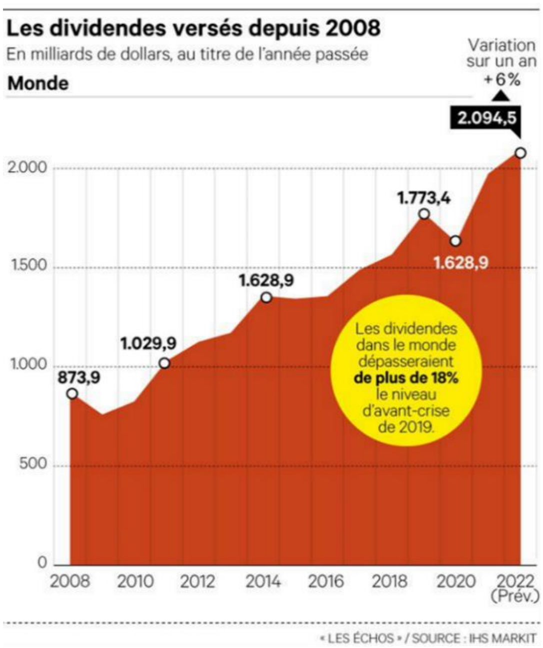

Figure 3. Global dividends paid since 2008

Figure 3 shows that dividends paid in 2022 have been expected to exceed the pre-crisis level by 18% , amounting to $2,094 billion, after already rebounding strongly in 2021. However, instead of compensating workers for the profits they produced during the years of pandemic, some companies have been buying in their own shares. This is particularly outrageous in cases where companies benefited from public support schemes and job retention schemes. These schemes enabled them to save money and keep qualified workers on board during the crisis, while the state was paying their workers out of taxpayers' contributions. The current record high profits are in part a result of this public support, which at that time was very much needed to keep the economy going and avoid mass redundancies. Like in Sweden, public support of companies should come with social conditionality.

It is high time to tackle workers' compensation, now, when profits are high, and inflation and prices are booming. Instead of arguing for wage moderation, employers should ensure that workers get compensated for the erosion of their purchasing power by giving them their fair share of the wealth they have created through wage increases. By increasing wages, employers would reinforce stable internal demand and thereby contribute to a fast recovery.

Wages are not driving the current inflation spike

2022 is marked by very high inflation across Europe, with levels exceeding the values recorded over the past 25, 30 and in some cases even 40 years. High inflation is badly affecting workers, eroding their purchasing power, while prices are going up. The war in Ukraine will probably aggravate the situation over the coming months, unless protective measures for workers and society are put in place. Food and energy prices have been spiking everywhere, to the extent that in some countries, we can observe a 'cost of living catastrophe' and a 'historic shock' to incomes.

Wage increases must ensure that workers get a fair share of the wealth they help create. At the same time, measures must be taken to protect citizens from soaring energy prices which are likely to be aggravated by the war in Ukraine. The energy price increases must be answered, while wage increases following productivity trends must take place. But employers warn against a damaging "wage-price spiral", as they are developing a very aggressive wage-moderation narrative. Unfortunately, even some economists and politicians fall into this trap and warn against wage increases.

IndustriAll Europe is very alarmed by these developments. Below, we aim to deconstruct the myth of a wage-driven inflation and to answer the burning questions of the current debate: How long will this inflation surge last? What is driving it? How can inflation be brought under control? All available evidence shows that the current inflation is not wage-driven. We also propose different solutions than austerity, which would only compromise the recovery and hamper the twin green and digital transition.

1. The boom in energy prices

The most recent Eurostat figures show that the current inflation spike is driven by the explosion in energy prices (oil, gas and electricity) and not wages. Energy prices rose by 26% in December 2021 compared to 2020. Natural gas prices doubled to a record high in the run-up to December 2021 and jumped again in January 2022 after supplies from Russia slowed down.

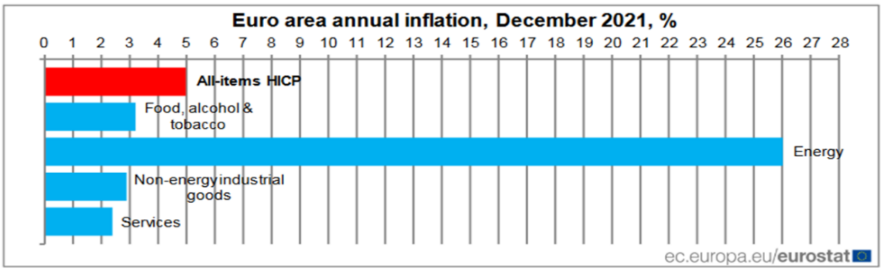

Figure 1. Euro area annual inflation, December 2021. (Source: Eurostat)

There are still some optimistic economists, even within the European Central Bank, who see the current high inflation levels as a temporary phenomenon and assume that the energy prices will go down. However, this will likely prove to be a wrong assumption. The situation is even more complicated when we take into account the energy transition costs to decarbonise the economy and industry, as well as the impact on the war in Ukraine and sanctions on Russia. IndustriAll Europe explains this issue in detail in its paper on the energy crisis.

Other economists warn of a risk that the bank might be underestimating future inflation, because its projection assumes energy prices will not contribute to headline inflation in 2023 and 2024. Here, the energy transition is seen as increasing prices through carbon taxes and policies to dampen their social impact, ultimately resulting in inflation above the ECB's 2% target. The ultimate question here is how to control inflation without hampering the transition.

2. Supply chain bottlenecks, shortages of material and lack of workers

The supply chain bottlenecks, as well as the lack of labour forces in most sectors and material shortages continue to cause delays and push up costs for companies, resulting in higher prices of many goods. This comes at the same time as the economy is re-opening and demand is increasing faster as the available supply hampered by the bottlenecks. The two result in a temporary spike in inflation. The issue here is that both the shortages and the bottlenecks could last longer than expected. IndustriAll Europe has repeatedly called for an integrated industrial strategy to secure sustainable raw materials supply in Europe and for the European semiconductor sector in order to start tackling this issue.
The lack of labour force is so acute, that some employers are reported to have started to pay cash bonuses for interviews, as the UK is experiencing record high 1,219 million job vacancies. Meanwile, in Germany, the government announced that it needs to attract 400,000 skilled workers from abroad every year to takle the unprecedented labour shortage crisis. IndustriAll Europe stresses that in order to attract workers to industries, employers must offer attractive working conditions and good wages.

3. **Higher inflation as a temporary statistical base effect**

Another argument that the current high inflation is not wage-driven, is the fact that it represents in part a statistical base effect. This effect occurred because prices were exceptionally low during the pandemic. In 2020, the annual inflation rate of the EU was 0.7% (even 0.3% in the Eurozone). So, the two-year average inflation is below the ECB target of 2%. Officially, the ECB expects this temporary pressure to abate during 2022, and to return to normal inflation figures latest in 2023.

The reality on the ground: 'Cost of living catastrophe'

As reported at the industriAll Europe Collective Bargaining and Social Policy Committee, trade unions across Europe are utterly concerned by the massive income squeeze experienced by many workers. They are calling on governments to step in and on employers to shoulder their responsibilities in supporting workers during these difficult times:

- In **Austria**, trade unions call on the government to mitigate the effects of the rising inflation (almost 7% in March 2022) demanding: a price commission composed of the social partners to monitor the situation, the increase of pensions in line with inflation, a social balancing compensation that consists of a 6% pay rise, and direct payments to households.
- **Belgium** is one of the last countries in Europe with automatic wage indexation. This protects the purchasing power of workers, but only partially, as indexation does not cover the full inflation. The Belgian unions are mobilising their members to several major manifestations in 2022 to protest against the increases in living costs and to demand an automatic wage indexation.
- **Czechia** registered the highest inflation in the EU in March 2022 (12.7 %), as well as the highest energy prices. Trade unions have been proposing temporary measures to tackle the surging prices of certain commodities that are causing panic among the general population, the enforcement of market regulations and the activation of short-time working schemes.
- In **France**, households are struggling due to very high inflation. The situation is worst for vulnerable groups and pensioners, as unemployment benefits and pensions have been decreasing. Trade unions are calling for measures against companies which received public support during the pandemic and are now paying out huge dividends.
- In **Germany**, trade unions are adapting their strategies to the current fluctuating situation. In the chemical sector, IGBCE reached a short-term agreement that will expire in seven months, winning a one-off payment of 1400 euro for workers. IG Metall submits proposals directed to policymakers to reduce the effects of energy prices on households in the short term: (1) abolish the EEG levy, (2) minimise electricity tax, (3) cap gas prices, (4) introduce the increase in the basic tax allowance earlier. Furthermore, in the upcoming collective bargaining rounds in the steel and metal and electrical industries, IG Metall aims to safeguard purchasing power and stabilise real wages.

- In **Finland**, the social partners negotiated a collective agreement in two stages in order to tackle the increasing inflation rate. This means that at the end of 2022, there will be new negotiations for the salary increases for 2023 (unlike the usual two-year- agreements).
- In **Norway**, all collective agreements are concluded for a two-year period, with midterm annual negotiations on wages. In 2021 wages for industrial workers increased by 2.75%. Inflation ended on 3.5%, mainly due to a sharp increase in energy prices. That will be the background for new negotiations starting in March.
- In **Italy**, productivity gains are mainly distributed in the company-level negotiations, but company agreements do not apply to all the workers (only 30% of the total). This leads to a lack of redistribution of the profit made by the companies. Social buffers that effect the price of commodities, employment and wages have been put in place limit the crisis.
- In **Poland**, inflation reached 8%. Coal miners, who are required to work overtime and at weekends to avoid interruptions during the energy crisis, now demand a pay rise that reflects the value of their efforts.
- In **Slovakia**, trade unions are taking to the streets to protest against the rapidly declining economic and social situation of Slovak citizens and the government's failure to address the rising food and energy prices, cost of living and inflation. If the government fails to act, the trade unions are ready to call a general strike.
- **Romania** is the best example of why strong collective bargaining is needed. FSLI Petrol Energie won a 10% wage increase in their company level negotiations. Unfortunately, this cannot be extended to other workers, due to the Social Dialogue Law that limits negotiations.
- **Turkey** faces a dramatic situation due to the depreciation of the lira and record inflation. Trade unions point to increases in the price of food by 80%, of electricity by 155%, and of gas by 43% in 2021. Trade unions have now reached a collective agreement which improves the situation for workers, but the volatility continues to raise concerns.
- The **UK** could be close to a "cost of living catastrophe", as workers face an 'historic shock' to their incomes this year, unless the government intervenes. Energy prices will soar by 50% in April, when taxes are also scheduled to increase and inflation is predicted to rise to 6.8%. Wages are set to increase by 6.6% only.
- In **Sweden**, the high inflation is explained mainly by rapid increases in electricity and fuel prices. However, the Swedish wage setting system disregards temporary changes in the inflation rate. The current collective agreement, ending in March 2023, includes a 5.4% wage increase over 29 months The basis when the demands for wage increases are formulated is the international competitiveness of the sectors that are subjected to such competition and the inflation target set by the Swedish Central Bank at 2%. Wage formation is the responsibility of the social partners and agreements are reached on the national level.

IndustriAll European Trade Union's demands

Demands towards policymakers

- Build, rebuild and strengthen social dialogue and collective bargaining systems at all levels across Europe (and in this way repair a part of the mistakes made after the previous 2008-09 crisis). Adopt policies that increase the coverage of collective agreements.
- Maintain European and national economic and social support measures that have been put in place since the start of the pandemic for as long as necessary.
- Implement policy measures to cushion the current rise of energy prices, such as tax relief on energy prices and/or energy price caps, as these increases cannot be tackled only by collectively agreed wage increases in most countries.
- Resist the temptation to put in place austerity measures that would hamper economic growth and lead to social pressure.
- Promote internal demand by supporting purchasing power.
- End the restrictive European fiscal rules, that prevent the expansion of social investments and legitimise the reduction of labour standards and wage moderation.
- Develop a fairer taxation system in the EU by eliminating tax havens and tax loopholes, as well as by implementing a minimum corporate tax to ensure that companies pay taxes on profits in the countries where workers help produce them.
- Reform the EU's economic governance systems in a progressive way that promotes social reform, addresses inequalities and enables a fair recovery and a just twin transition (more).

Demands towards employers:

- Immediately stop the wage-moderation discourse and the 'wage-price spiral' warnings. All evidence shows that the current inflation is not wage-driven.
- Increase wages in line with inflation and productivity share across Europe in a mid-term perspective.
- Constructively engage in collective bargaining at all levels in all countries.
- Together with the trade unions, design wage policies which aim at alleviating the effect of persistent high inflation
- Wage competitivity should not be used to hinder wage rise.