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WSI EUROPEAN COLLECTIVE BARGAINING REPORT 2021 / 2022

Collective Bargaining in Times of Crisis, War, and Inflation

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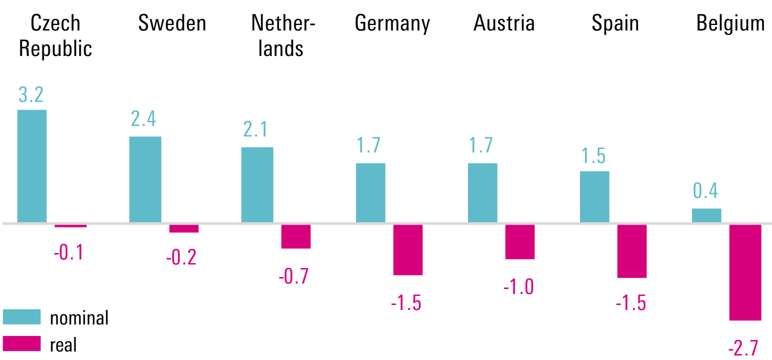
SUMMARY

Slackening growth, an upsurge in inflation, and the unpredictable course and consequences of the war in Ukraine have combined to create an uncertain and challenging outlook for collective bargaining in Europe. For employees, the subdued pace of pay growth in all European Union Member States has now culminated in falls in real wages, in some cases on a substantial scale, putting pressure on trade unions to offset these through higher pay settlements. At the same time, employers have warned against substantial pay rises, pointing to the risks of a wage-price spiral – despite the fact that, as yet, there is no evidence that pay has been a factor in current inflationary pressures. Achieving a compromise between these divergent standpoints is also made more difficult by the fact that the institutions of collective bargaining now have only limited scope in many countries. At the same time, the outcomes of collective bargaining can have far-reaching distributional effects.

Trends in negotiated wage rates in selected EU member states, 2021*

Change from preceding year, in per cent



* Real-terms changes in negotiated wage rates are based on inflation as measured by the Harmonised Index of Consumer Prices (HICP); some data are still priliminary.

Source: Eurofound (2022), EurWORK's database on wages, working time and collective disputes; European Commission, AMECO Database (current as of May 16, 2022); authors' calculations.

CONTENT

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1 INTRODUCTION – FROM ONE CRISIS TO THE NEXT

By late-2021, Europe's economies were beginning to show signs of sustained economic recovery following the abrupt plunge in activity caused by the Covid-19 crisis. Economic forecasts expected an initial phase of strong growth to give way to a more moderate upswing in subsequent years (European Commission, 2021a). The Russian attack on Ukraine on 24 February 2022 necessitated a radical downgrading of these expectations (IMF, 2022). The abrupt upsurge in inflation, driven mainly by rising energy prices, has caused an immediate drop in the purchasing power of wages, exacerbating poverty for low-earners and suppressing investment. In this sense, the war in Ukraine has now set the framework for collective bargaining in Europe. The unpredictable course of the war, the effects of EU sanctions, and the threat by Russia to cut off gas supplies, have placed the collective bargaining parties in a situation of deep uncertainty. To add to this, the Covid pandemic is far from over. A fresh wave of lockdowns in China has disrupted global supply chains, worsening shortages of many products and raw materials.

This edition of the European Collective Bargaining Report – which in future is scheduled to be published every two years – picks up the narrative from previous reports and focuses on the uncertainties now confronting collective bargaining in 2022. As well as looking at economic growth and the labour market outlook, particular attention will be devoted to price and productivity trends (Section 2), with two complementary approaches adopted to calculate the distributionally-neutral margin for wage growth: that is, the figure for pay growth that has no effect on the distribution of income between wages and income from capital. The continuing moderate growth of both collectively-agreed and actual pay (see Section 3), both of which are lagging behind inflation and productivity growth, means that employees will bear the brunt of the effect of rising prices in 2022 (4), shifting the overall distribution of income from labour to capital. This also highlights the significance of the extent to which the collective bargaining system can be deployed to help resolve the current crisis – and with this the importance of a European framework for strengthening the institutions of collective bargaining (5). The Report concludes by re-emphasising that the challenges confronting collective bargaining are inseparable from broader distributional concerns (6).

2 ECONOMIC CONTEXT

2.1 Overall developments

The period 2020-2021 saw two rapid shifts in the economic context for collective bargaining. Firstly, as a result of the Covid-19 pandemic, GDP in the European Union in 2020 fell by 5.9%, the biggest decline since the Second World War. This was followed in 2021 by a strong recovery, with GDP growing by 5.4% (Table 1). The 2021 recovery was supported by the progressive relaxation of Covid restrictions and strong consumer demand. State support for companies, short-time working arrangements and social pacts between the collective bargaining parties at all levels to manage the pandemic ensured that many firms were able to weather the short-term collapse in business, enabling employment and purchasing power to be sustained and creating the basis for the subsequent recovery. Consumer demand was also supported by the generally favourable labour market situation (European Commission, 2022: 4).

Beginning in summer 2021, however, the emerging recovery was held back by rising energy prices and persistent bottlenecks in global supply chains that choked off output in some areas of manufacturing. Given its heavy industrial base in metalworking and electricals, Germany was especially hard hit by these developments and experienced the slowest recovery in the EU with overall growth of 2.9%. Similarly comparatively weak growth was seen in 2021 only in Slovakia (3.0%), Finland (3.5%) and Czechia (3.3%). Growth was considerably more robust in France (7.0%), Italy (6.6%) and Greece (8.3%), with especially rapid expansion in Eastern European countries such as Estonia (8.3%), Slovenia (8.1%), Croatia (10.2%) and Hungary (7.1%). Mid-table positions were occupied by Spain (5.1%) and Portugal (4.9%) together with industrial countries in north west Europe such as the Netherlands (5.0%), Sweden (4.8%) and Denmark (4.7%) (Table 1).

The generally positive trends seen in 2021 led the European Commission to expect 2022 to continue in similar vein. In the autumn of 2021, the Commission forecast that the European economy would advance from 'recovery to expansion' with growth of 4.3% in 2022 and 2.5% in 2023, reflecting hopes for a rapid return to pre-crisis levels (European Commission, 2021a. These hopes were dashed by the Russian attack on Ukraine in February 2022. Prices of energy imports and raw materials surged to new heights, many companies saw their trade with Russia collapse, new supply problems emerged, and the general uncertainties as to the human, social and economic consequences of the war meant that optimism gave way to a much more pessimistic outlook.

Growth and unemployment in the European Union, 2019 – 2022 *

	Gross Domestic Product				Unemployment Rate			
	2019	2020	2021	2022	2019	2020	2021	2022
Northern Europe								
Denmark	2.1	-2.1	4.7	2.6	5.0	5.6	5.1	4.8
Finland	1.2	-2.3	3.5	1.6	6.8	7.7	7.7	7.2
Sweden	2.0	-2.9	4.8	2.3	7.0	8.5	8.8	7.8
Western Europe								
Austria	1.5	-6.7	4.5	3.9	4.8	6.0	6.2	5.0
Belgium	2.1	-5.7	6.2	2.0	5.5	5.8	6.3	5.8
France	1.8	-7.9	7.0	3.1	8.4	8.0	7.9	7.6
Germany	1.1	-4.6	2.9	1.6	3.0	3.7	3.6	3.3
Ireland	4.9	5.9	13.5	5.4	5.0	5.9	6.2	4.6
Luxembourg	3.3	-1.8	6.9	2.2	5.6	6.8	5.3	5.2
Netherlands	2.0	-3.8	5.0	3.3	4.4	4.9	4.2	4.0
Southern Europe								
Cyprus	5.3	-5.0	5.5	2.3	7.1	7.6	7.5	7.8
Greece	1.8	-9.0	8.3	3.5	17.9	17.6	14.7	13.7
Italy	0.5	-9.0	6.6	2.4	9.9	9.3	9.5	9.5
Malta	5.9	-8.3	9.4	4.2	3.6	4.4	3.5	3.6
Portugal	2.7	-8.4	4.9	5.8	6.7	7.0	6.6	5.7
Spain	2.1	-10.8	5.1	4.0	14.1	15.5	14.8	13.4
Eastern Europe								
Bulgaria	4.0	-4.4	4.2	2.1	5.2	6.1	5.3	5.4
Croatia	3.5	-8.1	10.2	3.4	6.6	7.5	7.6	6.3
Czech Republic	3.0	-5.8	3.3	1.9	2.0	2.6	2.8	2.6
Estonia	4.1	-3.0	8.3	1.0	4.5	6.9	6.2	6.8
Hungary	4.6	-4.5	7.1	3.6	3.3	4.1	4.1	3.8
Latvia	2.5	-3.8	4.5	2.0	6.3	8.1	7.6	7.3
Lithuania	4.6	-0.1	5.0	1.7	6.3	8.5	7.1	7.2
Poland	4.7	-2.2	5.9	3.7	3.3	3.2	3.4	4.1
Romania	4.2	-3.7	5.9	2.6	4.9	6.1	5.6	5.5
Slovakia	2.6	-4.4	3.0	2.3	5.7	6.7	6.8	6.7
Slovenia	3.3	-4.2	8.1	3.7	4.4	5.0	4.8	4.8
EU-27	**1.8**	**-5.9**	**5.4**	**2.7**	**6.8**	**7.2**	**7.0**	**6.7**

Gross domestic product = GDP, change from prior year in %
Unemployment rate = unemployed persons (Eurostat definition), in % of the civilian labour force

* Data for 2022 refer to a forecast by the European Commission.

Source: European Commission, AMECO Database (current as of May 16, 2022).

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By April 2022 it was evident that the war would have profound global implications and in particular that its direct impact on fuel and food prices would mean that the poorest would be hardest hit (IMF, 2022). In spring 2022, the European Commission revised down its previous forecast, with the post-Covid recovery now expected to weaken to 2.7% in 2022 and with a normalisation to 2.3% growth in 2023 based on the relatively optimist assessment that there would be no further deterioration in energy supplies, inflation, the pandemic, or access to raw materials and intermediate goods. In the worst-case scenario in which Russia would sharply reduce or cut off gas supplies, the Commission expected that growth would come to a virtual standstill in 2022 (European Commission, 2022: 53).

European Union Member States have differing degrees of vulnerability to the shock of rising energy prices and the war in Ukraine, reflecting their varying dependency on direct energy imports from and scale of bilateral trade with Russia (ibid. 34). National susceptibilities are also attributable to sectoral effects, as evident in 2020 in the negative impact of Covid-19 on countries especially dependent on tourism and services. In this respect, these countries are expected to benefit from the opening up of travel and demand for personal services in 2022. This has certainly been the case for Portugal (5.8%), Spain (4.0%) and Greece (3.5%), but also France (4.0%). By contrast, the Commission expects Germany (1.6%), Finland (1.6%) and some Eastern European countries (Estonia, Lithuania, Czechia) to be amongst the laggards with GDP growth below 2% (Table 1).

2.2 The labour market

The 2019/2020 European Collective Bargaining Report argued that economic recovery would depend to a great extent on whether employment levels could be sustained during the crisis (Lübker, 2020: 267), something that proved possible in almost all EU Member States. On average, unemployment in 2021 ran at 7.0%, only 0.2 percentage points above the year prior to the crisis. Spain (14.8%) and Greece (14.7%) experienced much higher unemployment rates than the average, not as a result of the current crisis but because of hysteresis effects originating from the eurozone crisis of a decade earlier. Both countries were able to lower unemployment between 2020 and 2021, and in the case of Greece to below the 2019 rate (Table 1). Should this progress at EU-level continue, with unemployment turning out at its forecast rate for 2022 of 6.7% – a figure below the pre-crisis level – this would highlight the paradigm shift that has taken place in crisis management in Europe. Short-time work programmes to stabilise incomes and consumption and preserve jobs are now found in most EU countries and have become a ubiquitous element in the EU's strategic arsenal (ETUC, 2020; Eurofound, 2022). The EU has directly supported many national schemes via its SURE Programme[1] and by September 2021 had provided some €94 billion in loans (European Commission, 2021b). According to the Commission forecast, the lowest unemployment rates in 2022 in the EU will be in Czechia (2.6%), Germany (3.3% – and only marginally above the 2019 figure), Malta (3.6%) and Hungary (3.8%) (Table 1).

In contrast to the 2008/2009 crisis, when only a small number of EU countries made use of short-time work programmes, most of which were confined to manufacturing industry, the greatest losses in working hours during the Covid-19 pandemic were in the service sector (tourism, commerce, transport, hospitality). The labour market recovery in 2021 was mainly based on the recovery in these areas, either because working time reverted to its normal level for those on short-time schemes or through the creation of new jobs. Manufacturing saw very little new job creation, with output held back by old and new supply-chain bottlenecks and high energy prices that deterred firms from expanding and creating new employment (European Commission, 2022: 33).

2.3 Prices and productivity

While recent years have been notable for the threat of deflation (ECB, 2020: 20), the monetary outlook has now become dominated by the rapid increase in consumer prices. In 2020, the year of the Covid-19 crisis, inflation as measured by the harmonised consumer price index (HICP) stood at a modest 0.7% (Table 2; the rate was 0.3% in the Euro area, not shown in the table). Prices began to rise strongly in autumn 2021, yielding an inflation rate of 2.9% for 2021 as a whole in the EU, and 2.6% in the eurozone, somewhat above the ECB's 2% inflation target (European Commission, 2022: 141). Until recently, however, the ECB and the Commission expected this rise in inflation to be temporary: in its 2021 autumn forecast, the European Commission expected the HICP to drop back from this level to 2.5% (EU) and 2.2% (eurozone) in 2022 (European Commission, 2021a: 162).

The ECB explained that its forecasting errors were due to the unprecedented shifts in energy prices combined with supply bottlenecks (Chahad et al., 2022: 60). This dramatic shift in energy prices intensified with the start of the war in Ukraine in early-2022. In April 2022, the Commission record-

1 The SURE Programme (Support mitigating Unemployment Risks in Emergency) is an EU scheme to support short-time working and prevent unemployment in connection with the Covid-19 pandemic.

Prices, labour productivity and the distributionally-neutral margin for wage growth (HICP) in the European Union, 2019–2022*

	Consumer Prices (HICP)				Labour Productivity				Distributionally-neutral margin for wage growth (HICP)			
	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022
Northern Europe												
Denmark	0.7	0.3	1.9	5.1	0.8	-1.4	2.0	0.7	1.5	-1.0	4.0	5.9
Finland	1.1	0.4	2.1	4.5	-0.6	-0.4	1.4	0.6	0.5	0.0	3.5	5.1
Sweden	1.7	0.7	2.7	5.3	1.4	-1.7	3.5	0.1	3.1	-1.0	6.2	5.5
Western Europe												
Austria	1.5	1.4	2.8	6.0	0.3	-5.2	2.4	1.0	1.8	-3.9	5.2	7.0
Belgium	1.2	0.4	3.2	7.8	0.5	-5.7	4.4	1.0	1.8	-5.3	7.8	8.8
France	1.3	0.5	2.1	4.9	0.6	-7.0	5.1	2.0	1.9	-6.5	7.2	7.0
Germany	1.4	0.4	3.2	6.5	0.1	-3.8	2.8	0.8	1.5	-3.4	6.1	7.4
Ireland	0.9	-0.5	2.4	6.1	2.0	7.5	9.2	2.6	2.9	7.0	11.9	8.8
Luxembourg	1.6	0.0	3.5	6.8	-0.2	-3.6	3.7	-0.3	1.5	-3.6	7.3	6.4
Netherlands	2.7	1.1	2.8	7.4	0.0	-3.3	3.2	1.2	2.7	-2.2	6.1	8.8
Southern Europe												
Cyprus	0.5	-1.1	2.3	5.2	1.4	-4.5	4.3	1.4	2.0	-5.5	6.6	6.6
Greece	0.5	-1.3	0.6	6.3	0.9	-7.9	7.8	2.2	1.4	-9.0	8.5	8.6
Italy	0.6	-0.1	1.9	5.9	0.0	-7.1	6.0	1.8	0.6	-7.2	8.1	7.7
Malta	1.5	0.8	0.7	4.5	0.2	-10.8	7.7	2.0	1.7	-10.1	8.5	6.6
Portugal	0.3	-0.1	0.9	4.4	1.9	-6.7	2.8	4.8	2.2	-6.8	3.7	9.4
Spain	0.8	-0.3	3.0	6.3	-0.7	-7.0	2.7	1.2	0.1	-7.3	5.8	7.6
Eastern Europe												
Bulgaria	2.5	1.2	2.8	11.9	3.7	-2.1	4.0	1.9	6.2	-0.9	6.9	14.0
Croatia	0.8	0.0	2.7	6.1	0.4	-7.0	8.9	1.8	1.2	-7.0	11.9	8.0
Czech Republic	2.6	3.3	3.3	11.7	2.8	-4.2	3.2	-0.3	5.4	-1.1	6.6	11.3
Estonia	2.3	-0.6	4.5	11.2	2.8	-0.3	8.2	0.3	5.1	-0.9	13.1	11.5
Hungary	3.4	3.4	5.2	9.0	3.4	-3.4	5.0	1.9	6.9	-0.2	10.5	11.1
Latvia	2.7	0.1	3.2	9.4	2.6	-1.5	7.2	1.3	5.4	-1.4	10.7	10.8
Lithuania	2.2	1.1	4.6	12.5	4.0	1.5	3.8	1.6	6.3	2.5	8.6	14.3
Poland	2.1	3.7	5.2	11.6	4.8	-2.1	4.4	3.3	7.0	1.4	9.9	15.3
Romania	3.9	2.3	4.1	8.9	4.1	-2.0	16.2	1.7	8.1	0.3	21.0	10.8
Slovakia	2.8	2.0	2.8	9.8	1.5	-2.5	3.6	0.4	4.4	-0.6	6.5	10.3
Slovenia	1.7	-0.3	2.0	6.1	0.8	-3.7	6.6	2.8	2.5	-3.9	8.8	9.1
EU-27	**1.4**	**0.7**	**2.9**	**6.8**	**0.7**	**-4.6**	**4.6**	**1.5**	**2.2**	**-3.9**	**7.6**	**8.4**

Consumer prices = Harmonised index of consumer prices (HICP), change on prior year in %.
Labour productivity = Real GDP per person employed, change on prior year in % (person concept, not adjusted for changes in working time).
Distributionally-neutral margin for wage growth (HICP) = product of changes in the GDP deflator and labour productivity.

* Data for 2022 refer to a forecast by the European Commission.

Note: All data are based on the person concept (rather than full time equivalents). For France, the Netherlands, Italy and Spain as well as for the EU-27, this leads to minor descrepancies as compared to the publication by the European Commission (2022).

Source: European Commission, AMECO Database (current as of May 16, 2022), authors' calculations.

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ed consumer price inflation of 7.5%, the highest figure since the start of monetary union. Energy (fuel, electricity, heating) rose by 44.4% and unprocessed foodstuffs by 6.4%. For 2022, the Commission expects the HICP to rise by 6.8% for the EU as a whole and by 6.1% in the eurozone (European Commission, 2022: 39 and 41).

These price movements have direct distributional consequences. According to the EU Household Budget Survey, poorer households spend a much larger proportion of their incomes on goods that have recently experienced extremely high rates of inflation (European Commission, 2022: 40). For example, the lower fifth of the population spends 7.5% of its income on energy and 16.2% on food and non-alcoholic drinks. The top fifth spends much less on these two product groups (4.5% and 11.9% respectively). In Germany, lower-income families are exposed to the highest rates of inflation (Dullien and Tober, 2022). These inequalities are also exacerbated by geography. Because a larger share of the consumption baskets of households in economically weaker countries in Central and Eastern Europe is accounted for by energy and food, the price shock has had a much greater impact on purchasing power in these countries (European Commission, 2022: 40).

Labour productivity per employee fell by 4.6% in 2020 during the high point of the pandemic but then recovered rapidly by 4.6% in 2021 (Table 2). The WSI European Collective Bargaining Report for 2019/2020 noted that this was a statistical effect attributable to the extensive use of short-time working schemes: workers on short-time continue to count as employees whether they are actually working or not (Lübker, 2020: 269). The drop in productivity in 2020 and its rapid recovery in 2021 can be explained largely by the fact that value-added had increased once the restrictions imposed on economic activity as a result of the pandemic had been lifted while employment remained relatively stable over the whole period due to the government schemes. In 2022, productivity per employee is expected to grow by 1.5% despite the ongoing economic disruption (Table 2).[2]

The volatility of prices and productivity also serves to explain the marked variations in the distributionally-neutral margin for wage growth over the reporting period. This is defined as the product of percentage changes in productivity and prices[3] and provides a guideline for wage increases sufficient to ensure that employees will both maintain their real incomes and obtain a real-terms increase in pay in line with the growth in productivity (see also Lübker and Schulten, 2017: 422). The collapse in output during the first year of the Covid-19 pandemic led to a negative distributionally-neutral margin of -3.9%; following the recovery in activity in 2021, the distributionally-neutral margin rose to 7.6% (Table 2). In both these years, the figure was dominated by cyclical elements and diverged markedly from the long-term movement of labour productivity that serves as an indicator of improvements in overall economic efficiency (OECD, 2001: 119; Lübker, 2020: 269).

The large numerical value of 8.4% for the distributionally-neutral margin in 2022 is mainly a result of the high rate of inflation forecast for the year. One argument repeatedly raised in public debate is that given that firms are confronted by rising prices for fossil fuels, raw materials and intermediate goods, they cannot sustain wage increases (Lesch, 2022). Previous editions of the WSI European Collective Bargaining Report have also noted that using the consumer price index to calculate the distributionally-neutral margin can give a misleading picture (Lübker and Schulten, 2017: 423f; Lübker, 2019: 282). This is especially the case where rising import prices play a major role in driving consumer price inflation. By contrast, companies' ability to pay is a function of domestic value-added and the relevant price changes can be measured using the GDP deflator.

The choice of price index when calculating the distributionally-neutral margin is particularly significant given the current situation (see also Aumayr-Pintar and Fric, 2018: 6). On the one hand, especially strong inflationary pressures are emanating from factors on global markets. On the other, and regardless of these, many firms have raised their prices, in particular in market segments in which supply constraints have led to a build-up of unmet demand (Linz et al., 2022). For example, German car manufacturers have all, sometimes discretely, noted the 'improved pricing environment' as a key factor in rising profits.[4] Rising profit margins have also contributed to the current inflationary situation in the United States (Bivens, 2022). Table 4 (see Section 4) therefore uses the GDP deflator as an alternative input for calcu-

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2 As with pay, we measure productivity in the WSI European Collective Bargaining Report on a person basis. In contrast, the European Commission (2022: 182) uses full-time equivalents (FTE) for four countries (Spain, France, Italy and the Netherlands), leading to possible divergences between the Commission's calculations for these countries and for the EU-27 and our data (for more detail, see Lübker, 2020: 269).

3 In previous years, the sum of price and productivity change was used as an approximation (Lübker, 2020: 269). Where there are high rates of percentage change, this simplified method can lead to distortions however.

4 See, for example, the Mercedes-Benz Group, Interim Management Report, 27 April 2022; Volkswagen AG, Annual Report 2021, published on 15 March 2022; and BMW Group, Quarterly Report, 30 September 2021. See also FAZ (2022).

lating the distributionally-neutral margin that looks at the scope for wage increases from the standpoint of firms – a mirror image of the usual method based on the harmonised index of consumer prices (HICP) that considers the position of employees.

Using the GDP deflator yields a somewhat smaller distributionally-neutral margin for wage growth for the EU of 5.9% for 2022. The corresponding figure for Germany is 6.2% (Table 4), slightly below the 7.4% figure calculated using the HICP. The European Commission's forecast based on these figures suggests that, looked at in aggregate, high nominal increases in pay are sustainable without these necessarily leading to reductions in corporate profits. It should be noted, however, that these forecasts are subject to enormous uncertainties given the difficulties in predicting the further course of the war in Ukraine (European Commission, 2022: 49).

3 DEVELOPMENTS IN COLLECTIVELY-AGREED PAY

3.1 The ECB indicator of negotiated wage rates

The ECB's 'indicator of negotiated wage rates' is used to enable the Bank to better estimate the development of pay and labour costs in the eurozone. The indicator is based on non-harmonised data from twelve eurozone countries that account for 98% of eurozone economic output (Kanutin, 2015). Following the period 2018/2019, in which agreed pay appeared to have normalised at annual rates of increase of around 2% (Lübker, 2020: 269ff.), the nominal increase in negotiated pay fell markedly to just 1.8% in 2020 and 1.5% in 2021 as a result of the Covid-19 pandemic. The fact that inflation remained low meant that there was a clear real growth in negotiated pay in 2020 (+1.5%) but this was followed by a 1% drop in real terms in 2021 (Figure 1).

The moderate trend in agreed pay is also evident in the quarterly data (Figure 3). While negotiated pay rose in nominal terms at around 2% annually prior to the Covid-19 pandemic, the rate of increase fell back steadily to 1.4% by the third quarter of 2021. Actual wages paid[5] initially exhibited an unexpected effect, rising by 3.9% and 5.3% respectively in the first two quarters of 2020. This was mainly attributable to compositional effects as employees in low-wage sectors such as hospitality either lost their jobs or were put onto reduced hours during lockdowns while employees in better paid positions were not affected to the same degree, boosting the figure for average hourly pay.[6] This recorded divergence between agreed pay rates and actual wages paid should therefore not be interpreted as 'wage drift' in the usual sense of the term. A reversal took place in 2021 when economies were reopened.

While the indicator of negotiated wages looks backwards, the ECB has recently been experimenting with a forward-looking wage tracker aimed at estimating future wage trends in the eurozone. This draws on the fact that collective agreements in many countries are concluded for a series of stages that come into force at various points in time after the agreement has been concluded (see also Schulten and WSI Collective Bargaining Archive, 2022: 141). The new indicator is based on data for four eurozone countries – Germany, Italy, the Netherlands and Spain – and weighted in line with the number of employees covered by the agreements recorded. Based on this tracker, the ECB envisages that nominal negotiated wages will rise moderately, by around 2%, in both 2022 and 2023. Even taking into account newly-negotiated collective agreements that came into force since the start of 2022, the anticipated rates of increase of some 3% (2022) and 2.5% (2023) suggest a very moderate rate of increase in negotiated pay. On the supposition that productivity increases by 1% and accepting the ECB inflation target of 2%, this would imply that negotiated pay will not be a source of inflation (Lane, 2022).

In general, statutory minimum wages play only a minor role in increases in the wage bill in the economy as a whole (Lübker, 2020: 271). Minimum wages increased only moderately in the larger EU economies in 2021 as a result of the Covid-19 pandemic (Lübker and Schulten, 2021). The pace of growth has picked up in 2022, possibly encouraged by the prospects for an EU Minimum Wage Directive (Lübker and Schulten, 2022; Vacas-Soriano and Kostolny, 2022). The ECB expects minimum wages in the eurozone to rise by some 4% in 2022 and 9% in 2023 (Koester and Wittekopf, 2022). This is sufficient for minimum wages to have a wider impact on pay developments more generally. While minimum wage increases have previously only contributed around 0.1% to the aggregate wage bill, the ECB now calculates that this could rise to 0.2% in 2022 and 0.4% in 2023 (ibid.: 58).

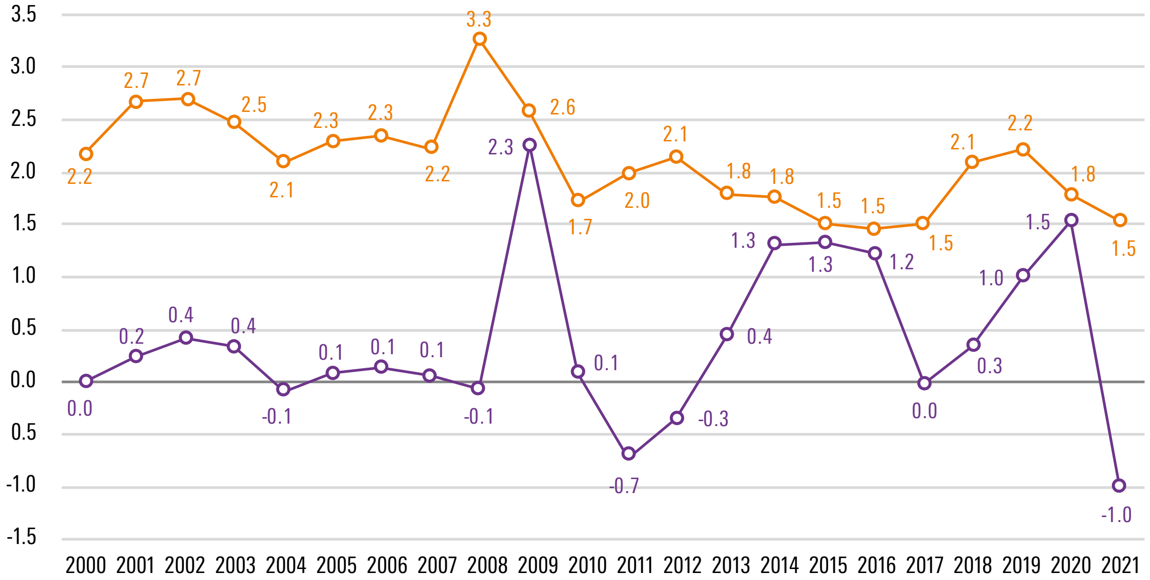
As the largest economy in the EU, Germany has had some impact on this trend given the planned

5 Negotiated wages comprise industry-level collectively-agreed minimum rates. 'Actual wages' are the wages actually paid to employees by individual employers, including any additional compensation not linked to collective bargaining.

6 A similar compositional effect has been observed in the United States (see Howard et al., 2022).

Figure 1

Trends in negotiated wage rates in the eurozone, 2000 – 2021
Change from prior year, in per cent



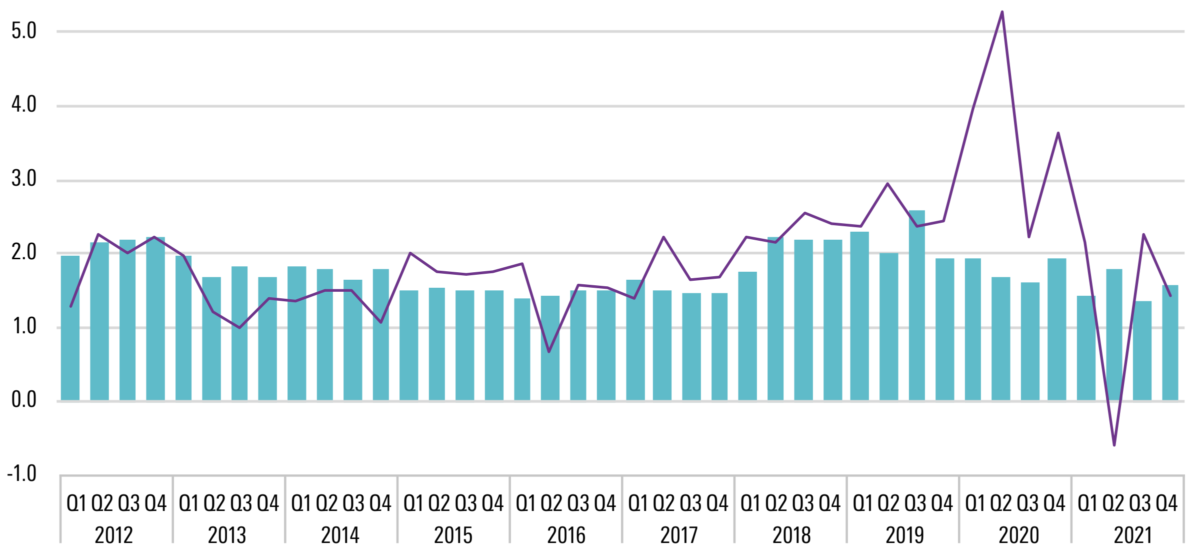
Note: Real changes are inflation adjusted, based on the Harmonised Index of Consumer Prices (HICP).

Source: European Central Bank (Indicator of negotiated wage rates) and European Commission, AMECO Database (current as of May 16, 2022); authors' calculations.

WSI

Figure 2

Trends in negotiated wage rates and actual wages in the eurozone, 2012 – 2021
Change from quarter one year ago, in per cent



Note: Actual wages refer to wages and salaries, NACE sections B to S (i. e. industry, construction and services, except activities of households as employers and extra-territorial organisations and bodies). Excludes non-wage labour costs. Data are calendar adjusted, but not seasonally adjusted.

Source: European Central Bank, authors' calculations.

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increase in the minimum wage to €12.00 from 1 October 2022. According to the Macroeconomic Policy Institute (IMK) and the Institute of Economic and Social Research (WSI) at the Hans Böckler Foundation, the October 2022 minimum wage increase in Germany will add some 0.6% to the overall wage bill (Dullien et al. 2022). Such increases in the minimum wage have recently been criticised for their 'dangerous boomerang effect' that will simply feed inflation (see, for example, Schlautmann, 2022). This is not supported by the relevant models, however. Based on the NiGEM model, the IMK/WSI expect a price effect of 0.25% (Dullien et al., 2022: 5ff). The Bundesbank's assessment is even more conservative, with an estimate that the increase in the statutory minimum wage will raise inflation by just 0.14% by 2024.

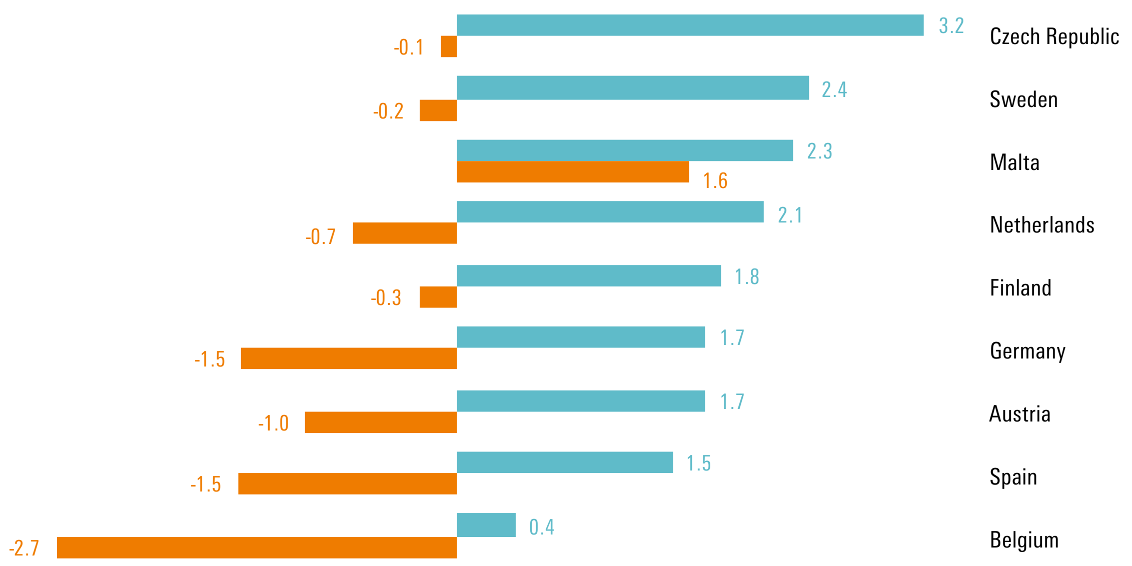
3.2 Collective bargaining developments in selected EU Member States

Eurofound, the Dublin-based European Foundation for the Improvement of Living and Working Conditions, maintains an extensive database of pay settlements in all EU countries (EurWORK) (**Figure 3**).[7] Overall, the past year has seen weak to moderate settlements, with the highest agreed increases in Czechia (3.2%), Sweden (2.4%), Malta (2.3%) and the Netherlands (2.1%). Employees in Finland, Germany, Austria and Spain had to make do with

7 For 2021, Eurofound was kind enough to provide pre-publication data for all EU Member States that were available at the time this report went to press.

Figure 3

Trends in negotiated wage rates in selected EU Member States, 2021*
Change from prior year, in per cent



* Real-terms changes in negotiated wage rates are based on inflation as measured by the Harmonised Index of Consumer Prices (HICP); some data are still priliminary.

Source: Eurofound (2022), EurWORK's database on wages, working time and collective disputes; European Commission, AMECO Database (current as of May 16, 2022); authors' calculations.

Trends in inflation-adjusted negotiated wage rates in selected EU Member States, 2015 – 2021*

Index, 2015 = 100

* Real-terms changes in negotiated wage rates are based on inflation as measured by the Harmonised Index of Consumer Prices (HICP); some data are still priliminary.

Source: Eurofound (2022), EurWORK's database on wages, working time and collective disputes; European Commission, AMECO Database (current as of May 16, 2022); authors' calculations.

WSI

nominal settlements below 2 %, with Belgium lagging still further behind with an increase in negotiated pay of just 0.4 %. After allowing for inflation, purchasing power fell in all the EU countries listed. The only EU Member State in which there was a real-terms increase was Malta (+1.6 %); in all other instances, pay settlements were either wholly swallowed by inflation or were insufficient to offset it. In Belgium, real negotiated pay fell by 2.7 %, with 1.5 % falls in Germany and Spain (**Figure 3**).

Belgium stands out over the recent past (**Figure 4**) as real wages have been falling steadily since 2015, with an overall drop of 6.6 %. This is largely attributable to the highly-centralised arrangements for wage setting. Legislation passed in 2017 also allows the government to intervene retrospectively in multi-sector collective agreements should these be judged to pose a threat to international competitiveness (Dorssemont, 2019: 18). In the other countries for which data are available, 2021 represented a marked change in trend, with a reversal of the three preceding years of real-terms pay increases leading to a decline in all the countries considered.

4 TRENDS IN ACTUAL WAGES

Trends in actual wages – that is, regular pay received by employees in contrast to collectively-agreed minimum rates – are set out in Table 3; this Table was compiled using the AMECO data on nominal employee compensation that also includes employer social security contributions (Lübker, 2020: 272). As expected at the start of the Covid-19 pandemic (ibid.), nominal wages fell slightly by 0.3% in 2020. One major factor in this was the marked drop in nominal wages in Italy (-5.1%) and France (-2.9%) as well as in some other southern and western European countries.

Because pay is calculated on a person basis, this fall in wages can also be traced back to the changes in working time prompted by the pandemic. Correspondingly, the return to relative normality also brought with it a very strong recovery in pay, with nominal wages rising by 4.2% in 2021 for the EU-27. The above-average pay rises in Eastern Europe made a major contribution to the overall outcome for 2021. Pay growth in four countries – Lithuania (11.4%), Latvia (11.0%), Bulgaria (9.5%) and Hungary (9.2%) – was around the 10% mark, with increases above 5% elsewhere in Eastern Europe.

The situation in terms of real pay was much less favourable given the onset of the subsequent inflationary wave. On average at EU level there was modest real increase (1.3%). There were falls in real pay for employees in the Netherlands (-0.7%), Spain (-0.1%) and Poland (-0.2%). There were substantial increases in real pay in Latvia (7.5%), Lithuania (6.5%) and Bulgaria (6.5%) (Table 3) – albeit at absolute levels of wages still lagging considerably behind countries in north and west Europe (Myant, 2018). This is also attributable to the push to decentralise collective bargaining over the past decade in these countries and the declining level of collective bargaining coverage (Astrov et al., 2019: 43).

The forecasts for 2022 indicate that employees will be caught by the effects of two – opposed – but unfavourable developments: a rise in inflation (see Section 2.3) and a slackening in nominal pay growth to just 3.7% on average across the EU, leading to a fall in real pay of 2.9%. And since changes in nominal pay are likely to be below inflation in all EU Member States, the Commission expects real wages to fall across the board – an unprecedented situation. For Germany, and consistent with this aggregate forecast, real pay will fall by 2.9% following two years in which pay has already stagnated in real terms (Table 3).

The overall distributional outcome illustrates the extent to which the increase in nominal pay has exhausted the distributionally-neutral margin for pay growth. Table 3 sets this out using the customary calculation of the distributionally-neutral margin based on productivity growth and the HICP (see Section 2.3). While the distributionally-neutral margin was exceeded in 2020 due to the effects of the pandemic (3.6 percentage points), this has been far from the case in the two subsequent years, with markedly negative outcomes in both 2021 (-3.4 percentage points) and 2022 (-4.7 percentage points).

The negative distributional outcome in 2022 is also reflected in the unusual combination of rising productivity and falling real wages (Table 2 and Table 3). A balanced distributional outcome – with increases in real wages in line with productivity – is consistent with constant real unit labour costs provided any divergent movement between the price indices used is disregarded (Lübker and Schulten, 2017: 427). Given the impact of the increased prices of imported fossil fuels on the rate of inflation, however, it cannot be assumed that the HICP (used for adjusting the purchasing power of wages) and the GDP deflator (the difference between nominal and real value-added) will have moved in parallel. Table 4 – which first sets out the distributionally-neutral margin for wage growth calculated as the product of the GDP deflator and productivity growth – shows the alternative distributional outcome this yields.

As already noted, this method of calculation looks at the situation from the standpoint of firms and their ability to pay. From this perspective, there was a virtually balanced distributional outcome in the EU in 2019 (-0.3 percentage points), but with opposed trends in 2020 (+2.4 percentage points) and 2021 (-2.8 percentage points) as a result of the pandemic. This largely corresponds with the pattern that follows from using the HICP (Table 3). For 2022, the calculation based on the European Commission forecast and using the GDP deflator predicts a negative distributional outcome (-2.2 percentage points). The current year could therefore be characterised by a redistribution of income that will be adverse for employees, a development expressed in a falling wage share as, despite the downgraded forecasts following the Russian attack on Ukraine, many companies are earning high profits and pay out dividends while employees are having to meet rising living costs without compensation from higher wages.[8]

8 The AMECO database (as of 16 May 2022) expects the adjusted wage share to fall from 55.5% (2021) to 54.6% (2022) (Indicator: EU27.1.0.0.0.ALCD0).

Wage trends and distributional outcomes in the European Union, 2019 – 2022*

	Nominal wages				Real wages				Distributional outcome (HICP)			
	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022
Northern Europe												
Denmark	1.9	2.3	3.2	3.6	1.2	2.0	1.2	-1.4	0.5	3.4	-0.8	-2.3
Finland	1.2	0.4	4.4	3.3	0.1	0.0	2.3	-1.1	0.7	0.5	0.9	-1.8
Sweden	3.0	2.5	4.3	2.7	1.2	1.9	1.6	-2.4	-0.2	3.6	-1.9	-2.7
Western Europe												
Austria	2.8	1.7	3.4	1.5	1.3	0.3	0.7	-4.2	1.0	5.6	-1.8	-5.5
Belgium	2.0	-1.5	4.2	6.0	0.8	-1.9	1.0	-1.7	0.3	3.8	-3.6	-2.9
France	0.0	-2.9	4.9	3.8	-1.3	-3.4	2.8	-1.0	-2.0	3.6	-2.3	-3.1
Germany	3.4	0.4	3.4	3.4	2.0	0.0	0.2	-2.9	1.9	3.8	-2.7	-3.9
Ireland	3.4	2.4	3.6	3.8	2.5	2.9	1.1	-2.1	0.5	-4.6	-8.3	-5.0
Luxembourg	1.9	0.4	5.1	4.8	0.3	0.4	1.6	-1.9	0.5	4.0	-2.2	-1.6
Netherlands	2.9	4.7	2.1	3.1	0.3	3.6	-0.7	-4.0	0.3	6.9	-4.0	-5.7
Southern Europe												
Cyprus	4.4	-3.2	4.7	4.1	3.9	-2.1	2.4	-1.0	2.4	2.4	-1.9	-2.6
Greece	0.6	-0.7	1.4	3.5	0.1	0.5	0.9	-2.6	-0.8	8.3	-7.0	-5.1
Italy	1.3	-5.1	6.0	3.6	0.6	-5.0	3.9	-2.1	0.6	2.1	-2.1	-4.1
Malta	3.8	-0.7	5.5	3.8	2.2	-1.4	4.7	-0.6	2.1	9.5	-3.0	-2.8
Portugal	4.8	2.0	3.8	4.2	4.5	2.1	2.8	-0.2	2.6	8.8	0.1	-5.2
Spain	2.3	-1.4	2.9	3.3	1.5	-1.0	-0.1	-2.8	2.2	5.9	-2.9	-4.3
Eastern Europe												
Bulgaria	6.9	7.2	9.5	9.7	4.4	5.9	6.5	-2.0	0.7	8.1	2.6	-4.4
Croatia	0.4	2.1	5.6	3.0	-0.4	2.1	2.9	-2.9	-0.8	9.1	-6.2	-5.0
Czech Republic	7.2	3.2	5.7	2.4	4.5	-0.1	2.3	-8.3	1.8	4.3	-0.9	-8.9
Estonia	8.4	5.3	7.6	7.0	6.0	5.9	3.0	-3.8	3.3	6.2	-5.5	-4.6
Hungary	6.9	3.0	9.2	8.7	3.4	-0.4	3.8	-0.3	0.0	3.1	-1.2	-2.4
Latvia	7.8	5.5	11.0	5.6	4.9	5.4	7.5	-3.5	2.4	6.9	0.3	-5.3
Lithuania	10.6	7.3	11.4	8.7	8.2	6.1	6.5	-3.4	4.3	4.7	2.8	-5.6
Poland	7.3	5.6	5.0	9.5	5.1	1.9	-0.2	-1.9	0.3	4.2	-4.8	-5.8
Romania	10.9	2.6	5.7	8.3	6.7	0.3	1.6	-0.6	2.8	2.4	-15.3	-2.6
Slovakia	6.8	3.6	5.9	7.8	3.9	1.5	3.0	-1.8	2.5	4.1	-0.6	-2.5
Slovenia	5.0	3.5	5.4	3.6	3.2	3.8	3.3	-2.4	2.5	7.4	-3.4	-5.5
EU-27	**2.4**	**-0.3**	**4.2**	**3.7**	**1.0**	**-1.0**	**1.3**	**-2.9**	**0.3**	**3.6**	**-3.4**	**-4.7**

Nominal wages = nominal compensation of employees per person employed, change from prior year in % (not adjusted for changes in working time).
Real wages = nominal compensation of employees per person employed, inflation adjusted based on the Harmonised Index of Consumer Prices (HICP), change from prior year in % (not adjusted for changes in working time).
Distributional outcome = balance of nominal wage growth and the distributionally-neutral margin for wage growth (see Table 2), in percentage points.

* Data for 2022 refer to a forecast by the European Commission.

Note: All data are based on the person concept (rather than full time equivalents). For France, the Netherlands, Italy and Spain as well as for the EU-27, this leads to minor descrepancies as compared to the publication by the European Commission (2022).

Source: European Commission, AMECO Database (current as of May 16, 2022), authors' calculations.

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Alternative calculation of the distributionally-neutral margin for wage growth and the distributional outcome based on the GDP deflator, 2019–2022*

	Distributionally-neutral margin for wage growth (GDP deflator)				Distributional outcome (GDP deflator)			
	2019	2020	2021	2022	2019	2020	2021	2022
Northern Europe								
Denmark	1.5	1.2	4.4	4.1	0.4	1.1	-1.3	-0.5
Finland	0.9	1.1	4.2	4.4	0.4	-0.7	0.3	-1.1
Sweden	4.0	0.1	6.5	4.5	-1.0	2.5	-2.2	-1.7
Western Europe								
Austria	2.0	-3.0	4.2	4.4	0.8	4.7	-0.8	-2.9
Belgium	2.3	-4.5	9.1	5.6	-0.3	3.0	-4.9	0.4
France	1.9	-4.6	5.9	4.3	-2.0	1.8	-1.0	-0.4
Germany	2.2	-2.2	6.0	6.2	1.2	2.6	-2.6	-2.7
Ireland	6.3	6.2	8.8	7.4	-2.9	-3.8	-5.3	-3.6
Luxembourg	0.4	0.5	10.8	3.7	1.5	-0.2	-5.6	1.1
Netherlands	3.0	-1.1	5.7	5.1	-0.1	5.8	-3.5	-1.9
Southern Europe								
Cyprus	2.6	-5.6	7.1	6.0	1.8	2.4	-2.5	-1.9
Greece	1.2	-8.7	10.1	7.1	-0.5	7.9	-8.7	-3.6
Italy	0.9	-5.8	6.5	4.9	0.4	0.7	-0.6	-1.3
Malta	2.5	-9.5	9.6	4.9	1.3	8.8	-4.1	-1.1
Portugal	3.7	-4.9	3.5	7.8	1.1	6.9	0.3	-3.6
Spain	0.6	-6.0	4.9	4.9	1.7	4.6	-2.0	-1.6
Eastern Europe								
Bulgaria	9.1	2.0	10.5	11.5	-2.2	5.2	-0.9	-1.9
Croatia	2.3	-7.1	12.5	5.7	-2.0	9.3	-6.9	-2.7
Czech Republic	6.8	0.0	7.5	7.0	0.4	3.2	-1.7	-4.6
Estonia	6.1	-0.6	14.1	8.4	2.3	5.8	-6.5	-1.4
Hungary	8.3	2.7	12.2	7.6	-1.4	0.3	-3.0	1.1
Latvia	5.2	-1.6	14.5	8.6	2.6	7.1	-3.5	-3.0
Lithuania	6.7	2.9	10.6	9.1	3.8	4.3	0.8	-0.3
Poland	8.1	2.0	10.5	13.7	-0.8	3.6	-5.5	-4.2
Romania	11.1	1.8	22.5	11.4	-0.2	0.8	-16.8	-3.1
Slovakia	4.1	-0.2	6.1	7.0	2.8	3.8	-0.2	0.8
Slovenia	3.0	-2.5	9.3	6.2	2.0	6.0	-3.9	-2.6
EU-27	**2.7**	**-2.8**	**7.0**	**5.9**	**-0.3**	**2.4**	**-2.8**	**-2.2**

GDP deflator = implicit price index, as derived from the difference in changes in nominal and real GDP.
Distributionally-neutral margin for wage growth (GDP deflator) = product of changes in the GDP deflator and labour productivity.
Distributional outcome (GDP deflator) = balance of nominal wage growth and the distributionally-neutral margin for wage growth (based on the GDP deflator), in percentage points.

* Data for 2022 refer to a forecast by the European Commission.

Note: All data are based on the person concept (rather than full time equivalents).

Source: European Commission, AMECO Database (current as of May 16, 2022), authors' calculations.

5 COLLECTIVE BARGAINING IN TIMES OF CRISIS, WAR AND INFLATION

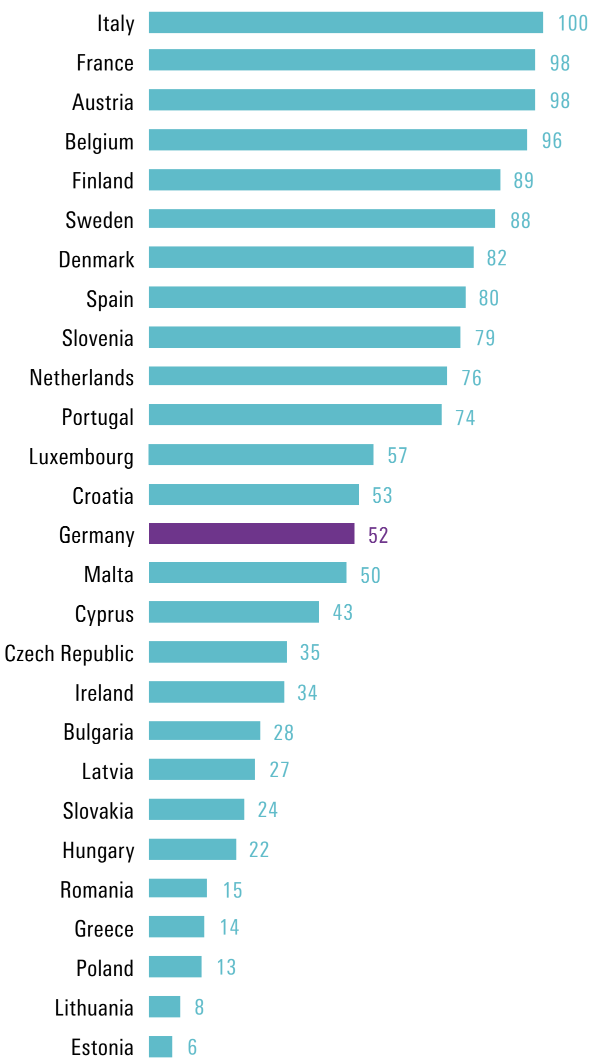
5.1 European collective bargaining: governability in the crisis

The overlapping crises of pandemic, war, inflation and disrupted supply chains are confronting the governability of the collective bargaining system with unusually severe challenges. Firstly, the economic crisis triggered by the pandemic challenged trade unions and employers to conclude agreements to preserve jobs, maintain incomes and consumer demand, and regulate the abrupt changes forced on the world of work, ranging from more stringent health and safety arrangements to home and hybrid working (Lübker, 2020: 274f.). Secondly, pay bargaining needs to respond to historically high levels of inflation and its associated social tensions (see Section 2.3). And thirdly, trade unions and employers are engaged in a search for distributional compromises but in a situation of great uncertainty, given the virtual impossibility of gauging the future economic consequences of the war and the pandemic.

Figure 5

Collective bargaining coverage in the European Union, c2020*

In per cent of all persons employed



* 2020 or most current data.

Source: OECD/AIAS ICTWSS Database and IAB Establishment Panel 2021 (for Germany).

WSI

Given that the parties to collective bargaining have the most detailed understanding of their respective constituencies, they are better placed than political decision makers to reconcile their interests in the face of sector-specific challenges (Keune, 2015: 289). This form of autonomous 'self-steering' and self-regulation is limited by the scope of collective agreements, however, raising the wider issue of the level of collective bargaining coverage in the EU (Figure 5). On this, circumstances vary greatly between EU Member States, not least in part due to the consequences of policies pursued during the eurozone crisis (see Gyes and Schulten, 2015: 17). While collective bargaining coverage remains at nearly 100% in Italy, France, Austria and Belgium, followed by the Nordic countries and Spain with values of between 80% and 90%, central and eastern European countries (and Greece) lag far behind this with collective bargaining coverage below 10% in some instances. This is a particularly potentially explosive situation as it is these countries that are most affected by high energy and food costs and which continue to experience large pay gaps between themselves and western Europe despite almost two decades of EU membership (Section 2.3).[9]

5.2 A European framework for strengthening collective bargaining

The ongoing crisis and accelerating inflation has meant that the agreement by the European legislature on an EU Directive on adequate minimum wages originally proposed by the Commission (European Commission, 2020) has acquired a heightened relevance. The Directive not only provides for a framework for adequate minimum wages (Lübker and Schulten, 2022: 149f) but is also expressly aimed at strengthening collective bargain-

9 In Germany, where collective bargaining coverage has been declining for many years, the past year has seen a stabilisation, albeit at a comparatively low level. Across the whole economy, 43% of employees worked in establishments covered by a branch-level agreement; the overall level of bargaining coverage, including workplaces with a company-level agreement, was 52% (IAB, 2022; see also Ellguth and Kohaut, 2022).

ing. The directive foresees two instruments to this end. Firstly, EU Member States in which the level of collective bargaining coverage is below 80% of the workforce will be obliged to create a national framework for collective bargaining and put forward action plans to strengthen bargaining arrangements. Secondly, there should be a strengthening of collective bargaining in the area of public procurement. Higher minimum wages also help raise the level of collective bargaining coverage as they make it more difficult for firms outside of its scope to engage in wage dumping (ibid.: 157). While the European Parliament (2021) has wanted to toughen up the provisions of the Directive, the European Council has called for more flexibility for national governments (Council of the European Union, 2021).

The key role played by the institutional framework for collective bargaining can be highlighted in its most successful exemplars. In the Scandinavian countries and Belgium, trade unions manage unemployment insurance through the so-called 'Ghent system': this helps sustain union membership levels and hence strengthens their hand in collective bargaining (Bandau, 2018: 98). In Austria, employers are obliged to be members of the Economic Chambers (Wirtschaftskammern) and these conduct collective bargaining with trade unions on behalf of their members (Glassner and Hofman, 2019: 33). In France, the procedure of administrative extension of collective agreements has enabled a wide coverage by collective agreements (Vincent, 2019: 217). And in Italy, court rulings have confirmed that collectively-agreed wages are deemed to represent a general minimum pay level in conformity with employees' constitutional right to an 'adequate level of compensation' (Pedersini, 2019). Although the institutional means through which collective bargaining is secured vary considerably as a result of countries' diverse historical experiences, these serve to enhance collective bargaining governability and with this the preconditions for finding acceptable and appropriate solutions in the current crisis.

6 CONCLUSION: THE DISTRIBUTIONAL CHALLENGES FACING COLLECTIVE BARGAINING

Rising inflation has shone an unprecedented spotlight on pay setting and wage negotiations. In Germany, recent debate has been dominated by warnings that rising prices and rising wages could become ensnared in a self-reinforcing circuit. The German Finance Minister, Christian Lindner, for example, speaking to Reuters has cautioned that 'the danger of a wage-price spiral is real one' (Reuters, 2022; authors' translation). Clemens Fuest, president of the ifo forecasting institute fears that 'we are on the cusp of a wage-price spiral' (t-online, 2022; authors' translation). And Michael Hüther, direct of the Institute of the German Economy (IW, Cologne; authors' translation), has argued that 'rising pay stokes inflation' (Hüther, 2022; authors' translation).

What these views overlook, however, is that there is no automatic process linking prices and wages in any particular direction. For instance, despite high inflation, the European Central Bank expects negotiated wages in the current and coming year to rise only modestly by some 2% (Section 3.1). Even considering only settlements concluded since the start of 2022, the prevailing rate of 3% or less is consistent with the ECB's inflation target (Lane, 2022; authors' translation).[10] For Germany, the Bundesbank (2022b: 55; authors' translation) notes that 'the trade unions' wage demands are currently only slightly higher than last year, at 5% to 6% for a period of 12 months'.

And in contrast to what is often implied in public debate, rising wages do not have a direct and one-to-one impact on prices. In its 2019 review, the Bundesbank (2019: 15; authors' translation) concluded that 'a 1% change in wages results in a change of consumer prices by around 0.3%'. Moreover, this is a gradual process extending over several years. The price effects of increases in the minimum wage are even less than those of a general rise in wages as these are concentrated on low pay and have only a marginal impact on aggregate employee compensation (see Section 3.1).

This edition of the WSI European Collective Bargaining Report has focused on the distributional consequences of inflation and wage trends. While the current wave of inflation is having a particularly stark impact on the lower paid, given that they spend a greater proportion of their incomes on energy and food – precisely those items that have experienced the greatest price rises (Section 2.3) – the long-term shift in income shares between wages and profits is likely to

10 The data relate to the major economies of Germany, Italy, the Netherlands and Spain.

have more significant distributional consequences. According to the Commission's forecasts, the overall wage share is now expected to fall.[11]

By definition, a falling wage share implies an increase in the proportion of national income accruing to capital in the form of profits and property incomes (see also Lübker and Schulten, 2018: 408ff.). It is the other side of the coin of wage moderation, where the rate of wage growth lies below the distributionally-neutral margin (Section 4). While the WSI European Collective Bargaining Report has customarily calculated the distributionally-neutral margin by reference to productivity growth and consumer price inflation as measured by the HICP, this edition extends this with an alternative calculation based on the GDP deflator as the price index for domestic value-added (Table 4). This approach takes account of the fact that the costs of imported fossil fuels are a large element in driving up consumer price inflation. Nevertheless, using the GDP deflator will still imply a negative distributional outcome for employees. One inference from this is that far from rising prices being attributable to 'wage inflation' they are more the result of 'profits inflation'.

Collective bargaining is currently taking place in an unusually complex situation for negotiators, with the uncertain economic outlook compounded by the unpredictable course of the war in Ukraine. One-sided calls for trade unions to forego wage rises in the general interest is not the appropriate response to this and overlooks the main factors currently driving inflation. In the present circumstances, it would be more reasonable to call on companies to practice 'profits moderation'. The state is also under a particular obligation to cushion the social and distributional effects of inflation and, through this, indirectly ease some of the pressures currently bearing down on the parties to collective bargaining.

11 This is distinct from the contra-cyclical rise in the wage share observable during economic crises.

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