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WSI EUROPEAN COLLECTIVE BARGAINING REPORT 2023/2024

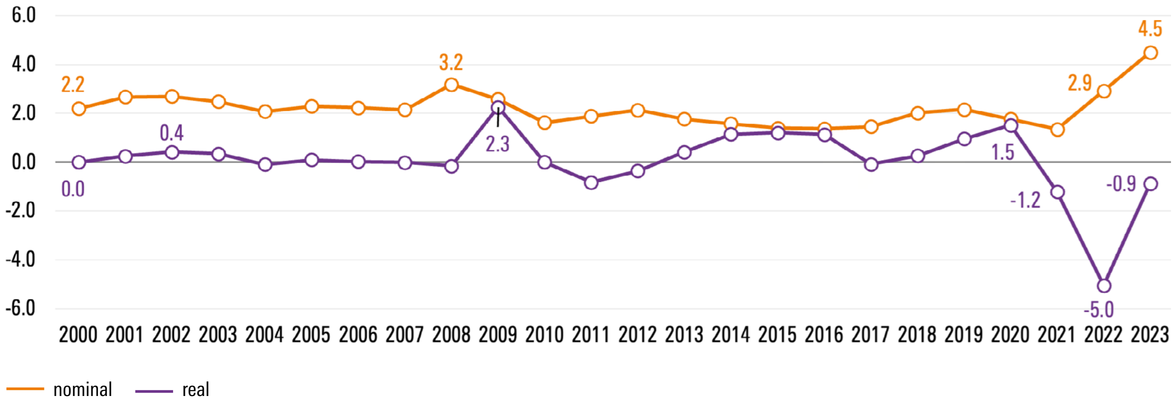
Real Wages still Need to Catch up after Crisis Losses

Thilo Janssen, Malte Lübker

SUMMARY

Real wages in the European Union continued their decline in 2023 — despite an acceleration in nominal wage growth and falling inflation rates. For the current year, there are tentative only signs of a slow recovery of the purchasing power of wages. A resumption of real wage growth would stabilize the functional distribution of income and strengthen domestic demand. However, even under this benign scenario, the crisis is not over from workers' point of view: They have borne the brunt of the real income losses associated with the energy price shock resulting from the Russian invasion of Ukraine. The lingering reduction in real wage levels means that wage policy still needs to catch up to contribute to a fairer distribution of the burden between labour and capital.

Trends in negotiated wage rates in the eurozone, 2000 – 2023
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 15 May 2024), authors' calculations.

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CONTENT

Summary 1

1 Introduction 3

2 The economic framework for collective bargaining 3
2.1 General economic development 3
2.2 The labour market 5
2.3 Productivity development, GDP deflator and the distributionally-neutral margin for wage growth 5

3 Developments in collectively-agreed pay 7
3.1 The ECB indicator of negotiated wages 7
3.2 Collective bargaining developments in selected EU Member States 9

4 Trends in actual wages 11
4.1 Trends in wages and consumer prices 11
4.2 Distributional outcomes and the functional income distribution 13

5 Crisis losses continue to burden labour 13

6 Outlook: Real wage growth can support economic stabilization 17

Literature 19

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1 INTRODUCTION

After the inflation shock of 2022, European wage policy is showing signs of normalization: Inflation is slowly falling and workers' purchasing power is stabilizing thanks to rising nominal wages. However, this does not reverse the slump in real wages since Russia's invasion of Ukraine (see Janssen/Lübker 2023). This year's European Collective Bargaining Report by the WSI documents how deep the cut was for workers and the far-reaching consequences it had for the functional distribution of income between labour and capital. Wage policy is therefore still faced with the task of correcting the undesirable developments of recent years, thus contributing to a fairer distribution of the burden.

The European Collective Bargaining Report first looks at the economic conditions, the state of the labour market as well as productivity and price trends (section 2). Building on this, the current development of collectively agreed wages (3) and actual wages (4) is analyzed. Section 5 shows how real wages have developed on balance since 2021 for the EU-27 and the five most important economies — also in comparison to the last forecast prepared by the European Commission before Russia's invasion of Ukraine. The outlook is dedicated to the systemic function of wages in the various phases of the inflation crisis. It then examines how the objective of a catch-up in terms of real wage development, as advocated by workers and trade unions, should be assessed (6).

2 THE ECONOMIC FRAMEWORK FOR COLLECTIVE BARGAINING

2.1 General economic development

For half a decade, collective bargaining policy has been characterized by crisis-ridden and rapidly changing economic conditions. The brief phase of economic recovery at the end of the coronavirus pandemic was brought to an abrupt end by the inflation crisis that accelerated after the Russian invasion of Ukraine: Skyrocketing energy and consumer prices put pressure on private consumption and increased production costs, particularly in energy-intensive industries. At the same time, many companies were able to increase their profit margins in the context of rising prices, which in turn contributed significantly to domestic inflation. The result was a redistribution of real incomes at the expense of wages, and in favour of capital (see Janssen/Lübker 2023). Stagnating private consumption, an increase in private savings rates driven by uncertainty, and restrained investment in light of the restrictive monetary policy of the European Central Bank (ECB) have characterized economic activity in recent years — with corresponding consequences for economic output (European Commission 2024).

While GDP in the EU countries still grew by an average of 3.5% in 2022 in the wake of the reopening following the coronavirus restrictions, growth slumped significantly to 0.4% in 2023 (Table 1). The increase in the key interest rate by the ECB also contributed to the economic slowdown, as the interest rate reached its highest level in over 20 years at 4.5% in September 2023 (before being lowered slightly to 4.25% in early June 2024). Against this backdrop, GDP growth in the EU countries was mixed in 2023. In Western Europe, Ireland's highly cyclical economy contracted by a full 3.2% due to the weak performance in some sectors dominated by multinational corporations (European Commission 2024, p. 88). In Germany and Austria, GDP fell by 0.3% and 0.8% respectively, partly due to declining activity in the construction sector (Dullien et al. 2024, p. 10). Belgium's economy, on the other hand, grew slightly by 1.4%, driven in part by private consumption, which is supported by the automatic indexation of wages and social benefits (European Commission 2024, p. 82; see section 3.2). France largely stagnated with a small increase of 0.7%, as restrained investment acted as a drag on growth (ibid., p. 94).

In Northern Europe, Finnish GDP fell by 1.0%, while the Danish economy grew by 1.9%. The picture in Eastern Europe is similarly mixed. In Estonia, GDP shrank by 3.0%, while it increased by 3.1% in Croatia. In Poland (0.2%), GDP stagnated due to continued restrained consumption demand (ibid., p. 132). Only in Southern Europe were most economies able to grow at rates of around 2% in 2023. Spain (2.5%), for example, benefited from a continued favourable labour market trend and the associated consumer spending, as well as rising net exports and public spending (ibid., p. 92). At the low end, an outlier in Southern Europe is the largest economy Italy (0.9%), where the subdued growth is supported, inter alia, by a major public investment drive in energy-efficient building refurbishment (ibid. p. 98). On the high end is small Malta (5.6%), where the continued boom is driven by an expansion in tourism, exports of electronics and entertainment products as well as financial services (ibid., p. 108).

In the current year 2024, the ECB's tight monetary policy, the knock-on effects of high energy costs and planned fiscal austerity measures will continue to have a dampening effect on economic growth in the EU (IMF 2024). However, with the exception of Estonia, for whose economy the European Commission is forecasting a 0.5% decline in GDP, the outlook for all other EU countries is slightly positive again. The northern and western European industrialized nations of Germany

GDP growth and unemployment in the European Union, 2021–2024*
Change on prior year, in per cent (GDP) and in per cent (unemployment rate)

	Gross domestic product				Unemployment rate			
	2021	2022	2023	2024	2021	2022	2023	2024
Northern Europe								
Denmark	6.8	2.7	1.9	2.6	5.1	4.5	5.1	5.6
Finland	2.8	1.3	-1.0	0.0	7.7	6.8	7.2	7.4
Sweden	6.1	2.7	-0.2	0.2	8.9	7.5	7.7	8.4
Western Europe								
Austria	4.2	4.8	-0.8	0.3	6.2	4.8	5.1	5.3
Belgium	6.9	3.0	1.4	1.3	6.3	5.6	5.5	5.6
France	6.4	2.5	0.7	0.7	7.9	7.3	7.3	7.7
Germany	3.2	1.8	-0.3	0.1	3.7	3.1	3.1	3.1
Ireland	15.1	9.4	-3.2	1.2	6.2	4.5	4.3	4.4
Luxembourg	7.2	1.4	-1.1	1.4	5.3	4.6	5.2	5.8
Netherlands	6.2	4.3	0.1	0.8	4.2	3.5	3.6	3.9
Southern Europe								
Cyprus	9.9	5.1	2.5	2.8	7.5	6.8	6.1	5.6
Greece	8.4	5.6	2.0	2.2	14.7	12.5	11.1	10.3
Italy	8.3	4.0	0.9	0.9	9.5	8.1	7.7	7.5
Malta	12.5	8.1	5.6	4.6	3.8	3.5	3.1	3.0
Portugal	5.7	6.8	2.3	1.7	6.7	6.2	6.5	6.5
Spain	6.4	5.8	2.5	2.1	14.9	13.0	12.2	11.6
Eastern Europe								
Bulgaria	7.7	3.9	1.8	1.9	5.3	4.2	4.3	4.3
Croatia	13.0	7.0	3.1	3.3	7.6	7.0	6.1	5.8
Czech Republic	3.6	2.4	-0.3	1.2	2.8	2.2	2.6	2.8
Estonia	7.2	-0.5	-3.0	-0.5	6.2	5.6	6.4	7.4
Hungary	7.1	4.6	-0.9	2.4	4.1	3.6	4.1	4.5
Latvia	6.7	3.0	-0.3	1.7	7.6	6.9	6.5	6.5
Lithuania	6.3	2.4	-0.3	2.0	7.1	6.0	6.9	7.0
Poland	6.9	5.6	0.2	2.8	3.4	2.9	2.8	3.0
Romania	5.7	4.1	2.1	3.3	5.6	5.6	5.6	5.5
Slovakia	4.8	1.9	1.6	2.2	6.8	6.1	5.8	5.4
Slovenia	8.2	2.5	1.6	2.3	4.8	4.0	3.7	3.7
EU-27	**6.0**	**3.5**	**0.4**	**1.0**	**7.1**	**6.2**	**6.1**	**6.1**

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

* Data for 2024 refer to a forecast by the European Commission.

Source: European Commission, AMECO Database (current as of 15 May 2024).

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(0.1%), Finland (0.0%), Sweden (0.2%) and Austria (0.3%) are expected to stagnate for the most part. According to the Institute for Macroeconomic Policy Institute (IMK), in addition to the ECB's continued restrictive monetary policy, the German government's restrictive budget policy is having a particularly dampening effect on growth in Germany (Dullien et al. 2024). In France, GDP growth remains at 0.7%, as in the previous year. The situation is somewhat better in the south and east of the EU: Greece (2.2%) and Spain (2.1%) are forecast to grow, as are Poland (2.8%), Romania (3.3%) and Croatia (3.3%).

2.2 The labour market

The labour market in the EU-27 continues to be characterized by employment growth, particularly in the service sector, and by labour shortages in many industries. In the last quarter of 2023, the Statistical Office of the European Union (Eurostat) reported a new record with an employment rate of 75.3% among 20-64 year olds (European Commission 2024, p. 33). Many companies are retaining their workforce despite weak economic demand to secure the labour force they need when the economy picks up (ibid., p. 34). In 2023, Germany (unemployment rate: 3.1%), together with Poland (2.8%) and the Czech Republic (2.6%), was one of the EU countries with almost full employment (Table 1). The good situation on the German labour market is also reflected in the Labour Shortage Index compiled by the Institute for Employment Research (IAB) since 2018. The index showed an all-time high from February to June 2023, but has slightly declined since then (IAB 2024).

Overall, the European Commission expects the unemployment rate in the EU-27 countries to remain low at 6.1% in both 2023 and 2024. However, a slight increase in unemployment is expected in 2024, particularly in some northern and western European industry nations — with the exception of Germany. This contrasts with a declining rate in the countries with the highest unemployment in the EU: Greece (from 11.1% in 2023 to 10.3% in 2024) and Spain (from 12.2% in 2023 to 11.6% in 2024). Both countries continue to suffer from the long-term effects of the euro crisis, which are characterized by only a gradual reduction in unemployment rates. The step-by-step normalization of the labour markets in both countries is helping to slowly reduce the dispersion of unemployment rates within the EU (European Commission 2024, p. 33).

2.3 Productivity development, GDP deflator and the distributionally-neutral margin for wage growth

Trade union wage bargaining policy is largely based on the scope for distribution derived from the development of productivity and prices (Destatis 2024a; Lübker/Schulten 2017, p. 422). These two indicators provide the framework for wage increases, which, if exhausted, will not shift the functional distribution of income between capital and labour in either direction. However, the scope for distribution is not the only decisive factor for collective bargaining strategies and options for action. For example, the shortage of labour and skilled workers in many sectors tends to strengthen the bargaining power of trade unions, especially if the scope of application for collective agreements is institutionally supported (see Bispinck et al. 2023; Schulten 2023, p. 3; Fuest/Jäger 2023).

In the EU-27, labour productivity fell by 0.7% in 2023 (Table 2), reflecting the stagnating GDP with a further increase in employment (Arce/Sondermann 2024). As part of the upward trend in GDP expected by the European Commission, a slight increase in productivity of 0.5% is expected in the current year. For 2025, the Commission forecasts a value of 1.2% (not shown in the table). This should bring the development of labour productivity closer again to the long-term trend growth of around 1%, which is assumed by the ECB for developed economies (European Commission 2024, p. 37; Lopez-Garcia/Szörfi 2021, p. 93f.).

There are also signs of a normalization in price trends following the surge in inflation in 2022. This applies to both the Harmonized Index of Consumer Prices (HICP) (Table 3) and the GDP deflator (Table 2). The European Collective Bargaining Report draws on both price indices as they reflect different perspectives. The development of consumer prices is decisive for the purchasing power of wages (see section 4.1). The GDP deflator is more suitable for analysing how the value added produced is distributed between labour and capital. It is independent of the development of import prices and can be derived from the ratio between nominal and real GDP in an economy. The GDP deflator thus reflects the price development of domestic value added and is therefore better suited to determining the distributionally-neutral margin for wage growth: If nominal wages increase exactly within the framework calculated from productivity development and the GDP deflator, the labour share remains constant, i. e. the functional distribution of income between

Labour productivity, GDP deflator and the distributionally-neutral margin for wage growth in the European Union, 2021 – 2024*
Change on prior year, in per cent (labour productivity and GDP deflator) and in per cent (distributionally-neutral margin for wage growth)

	Labour productivity				GDP deflator				Distributionally-neutral margin for wage growth			
	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
Northern Europe												
Denmark	4.4	-1.0	0.4	2.8	2.9	8.1	-3.5	2.2	7.4	7.0	-3.1	5.1
Finland	0.6	-2.1	-1.6	0.1	2.4	5.4	4.8	1.8	3.1	3.2	3.1	1.9
Sweden	4.9	-0.1	-1.6	0.5	2.6	6.0	5.6	2.6	7.7	6.0	3.9	3.2
Western Europe												
Austria	2.2	2.1	-1.7	-0.1	2.1	5.3	7.6	4.1	4.3	7.5	5.7	4.0
Belgium	4.9	0.9	0.6	0.8	3.2	5.9	4.1	2.5	8.2	6.9	4.7	3.4
France	3.5	-0.2	-0.4	0.5	1.4	2.9	5.5	2.8	5.0	2.8	5.1	3.3
Germany	3.0	0.4	-1.0	-0.2	3.0	5.3	6.6	3.6	6.1	5.7	5.5	3.3
Ireland	8.6	2.6	-8.2	-0.3	0.5	6.6	3.0	2.6	9.1	9.4	-5.4	2.2
Luxembourg	4.2	-1.9	-3.3	0.0	4.6	5.7	3.4	4.0	9.0	3.7	0.1	4.0
Netherlands	4.1	0.4	-1.4	0.1	2.9	5.5	7.8	3.7	7.2	5.9	6.2	3.9
Southern Europe												
Cyprus	6.5	2.0	1.0	1.4	2.7	6.1	4.7	3.7	9.4	8.2	5.7	5.2
Greece	7.1	3.0	1.0	1.2	1.5	7.8	4.5	3.0	8.6	11.0	5.6	4.3
Italy	7.4	2.2	-0.9	0.2	1.3	3.6	5.3	2.2	8.7	5.8	4.3	2.4
Malta	9.4	1.9	-0.9	0.4	2.0	5.3	5.3	3.6	11.6	7.3	4.4	4.1
Portugal	3.7	5.2	1.4	0.7	1.9	5.0	7.1	2.6	5.7	10.5	8.6	3.3
Spain	4.0	3.0	-0.7	0.0	2.7	4.1	5.9	3.3	6.8	7.3	5.2	3.3
Eastern Europe												
Bulgaria	7.5	4.3	0.9	2.4	7.1	16.2	7.5	3.3	15.1	21.2	8.4	5.8
Croatia	11.7	4.6	0.4	1.3	2.1	8.6	8.5	5.5	14.1	13.5	8.9	6.9
Czech Republic	3.2	0.8	-1.1	1.0	3.3	8.5	8.6	2.6	6.6	9.5	7.4	3.6
Estonia	7.1	-4.8	-6.0	0.0	6.0	16.1	7.9	3.8	13.5	10.5	1.4	3.8
Hungary	5.8	3.0	-1.1	2.3	6.4	14.2	14.7	5.3	12.6	17.6	13.5	7.7
Latvia	9.5	0.2	-0.3	1.4	3.8	11.8	5.4	4.2	13.7	12.0	5.0	5.7
Lithuania	5.0	-2.5	-1.8	1.8	6.5	16.6	7.1	2.2	11.9	13.7	5.2	4.1
Poland	4.3	1.7	0.0	2.8	5.3	10.6	10.7	4.5	9.8	12.5	10.8	7.5
Romania	4.9	4.0	3.0	2.7	5.4	13.2	12.2	7.3	10.6	17.7	15.6	10.2
Slovakia	5.4	0.1	1.3	2.0	2.4	7.5	10.1	4.6	7.9	7.6	11.6	6.7
Slovenia	6.8	-0.4	0.4	1.7	2.7	6.5	8.9	3.3	9.7	6.0	9.3	5.1
EU-27	**4.5**	**1.2**	**-0.7**	**0.5**	**2.5**	**5.4**	**6.2**	**3.2**	**7.1**	**6.7**	**5.4**	**3.7**

Notes:
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 (2024).

Labour productivity = Real GDP per person employed, change on prior year in % (person concept, not adjusted for changes in working time).
GDP deflator = implicit price index, as derived from the difference in changes in nominal and real GDP.
Distributionally-neutral margin for wage growth = product of changes in the GDP deflator and labour productivity.

* Data for 2024 refer to a forecast by the European Commission.

Source: European Commission, AMECO Database (current as of 15 May 2024).

capital and labour does not change.[1] If the HICP were included as a factor in the calculation, deviating values could result, as the HICP and GDP deflator do not automatically move in parallel. This was the case in 2022, for example (see Table 2 and Table 3), when higher import prices had a significant impact on consumer prices (Lübker/Janssen 2022, p. 323).

In 2023, the year-on-year change in the GDP deflator for the EU-27 peaked at 6.2%, which, taking into account the decline in labour productivity, leads to an arithmetical distributionally-neutral margin for wage growth of 5.4%. For the current year, the year-on-year change in the GDP deflator is forecast to fall to 3.2% and the distributionally-neutral margin to 3.7% (Table 2).[2] In Germany, the distributionally-neutral margin is close to the European average at 5.5% for 2023 and an expected 3.3% in 2024. Although the development of labour productivity is also subject to fluctuations, the distributionally-neutral margin for wage growth continues to be dominated by price movements. The calculation shows that high nominal wage increases were necessary to stabilise the functional distribution of income, particularly in 2023. Assuming a further decline in the GDP deflator and only slight productivity gains, the distributionally-neutral margin for wage growth will be significantly smaller in 2024 — although there is currently still a need to catch up due to the underutilization of the distributionally-neutral margin in previous years (see section 4.2).

3 DEVELOPMENTS IN COLLECTIVELY-AGREED PAY

3.1 The ECB indicator of negotiated wages

The ECB's indicator of negotiated wages reflects the results of collective bargaining in the euro currency union. It draws on non-harmonized data from nine countries, which together represent 94% of employee compensation in the eurozone (Górnicka/Koester 2024, p. 9ff.). After the ECB indicator showed a historic loss of 5.0% on an inflation-adjusted basis for 2022, the trade unions were able to push through significant nominal collective wage increases of 4.5% on average in 2023. Due to the continued high rates of price increases, however, the loss of purchasing power could not be fully compensated for, meaning that real collectively agreed wages fell for the third year in a row in 2023 (-0.9%) (Figure 1).

An analysis of the quarterly data shows that significantly higher wage increases have come into force throughout 2023 than in the previous year, amounting to more than 4% (Figure 2). While the 4th quarter of 2022 was still characterized by a clearly positive wage drift (actual wages are rising faster than collectively agreed wages — see below), this effect is reversed with the conclusion of many new collective agreements against the backdrop of high inflation in 2023. The collapse in real collectively agreed wages at the height of the inflation crisis put pressure on trade unions to compensate for the loss of purchasing power of their members. At the same time, the shortage of labour and skilled workers means that trade unions in many sectors can negotiate from a position of strength (Schulten/WSI-Tarifarchiv 2024; Lesch 2024; Fuest/Jäger 2023). As a result, catch-up effects due to inflation-related losses in the previous year and collectively agreed special payments are now having an impact (Holton/Koester 2024; Deutsche Bundesbank 2023, p. 29). This effect could soon weaken again due to the temporary nature of special payments, as in Italy, the Netherlands, and Germany (Lesch 2024; Müller et al. 2024, p. 91).

Actual wages, i.e. the actual hourly wages paid including bonuses not included in collective agreements, are currently also showing a significant increase — even though growth above the 5% mark were already being recorded in the 4th quarter of 2022. This must be interpreted against the background of the special payments (such as the inflation compensation premium in Germany) that were not yet agreed across the board in collective agreements at the time, but paid out already by many companies at the height of the inflation crisis (Holton/Koester 2024; Deutsche Bundesbank 2023, p. 29). In the 4th quarter of 2023, the increases of actual wages are correspondingly lower due to the higher comparison base in the same quarter of the previous year, creating the appearance of negative wage drift.

The ECB forecasts that collectively agreed wages will continue to rise in the future, albeit with a downward trend. For the current year 2024, it is assuming wage growth of 4.5%, which will then weaken further in 2025 (3.6%) and 2026 (3.0%) (ECB 2024, p. 23). As collective wages approach the 3% mark in the medium term, they would return to the scenario that the ECB considers to be

1 Nominal wages per worker therefore increase to the same extent as the nominal value added per person employed. Due to the adjustment procedure, there may be residual deviations in the adjusted labour share if the share of dependently employed workers in total employment (i.e. including the self-employed) changes.

2 Every economic forecast is subject to major uncertainties, determined by external factors (including elections in the USA, wars in Ukraine and the Middle East and the associated trade risks, oil price trends) and internal factors (including the development of private consumer demand, fiscal policy decisions by EU member states, climate change-related risks) (European Commission 2024, p. 53f.).

Figure 1

Trends in negotiated wage rates in the eurozone, 2000 – 2023
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 15 May 2024), authors' calculations.

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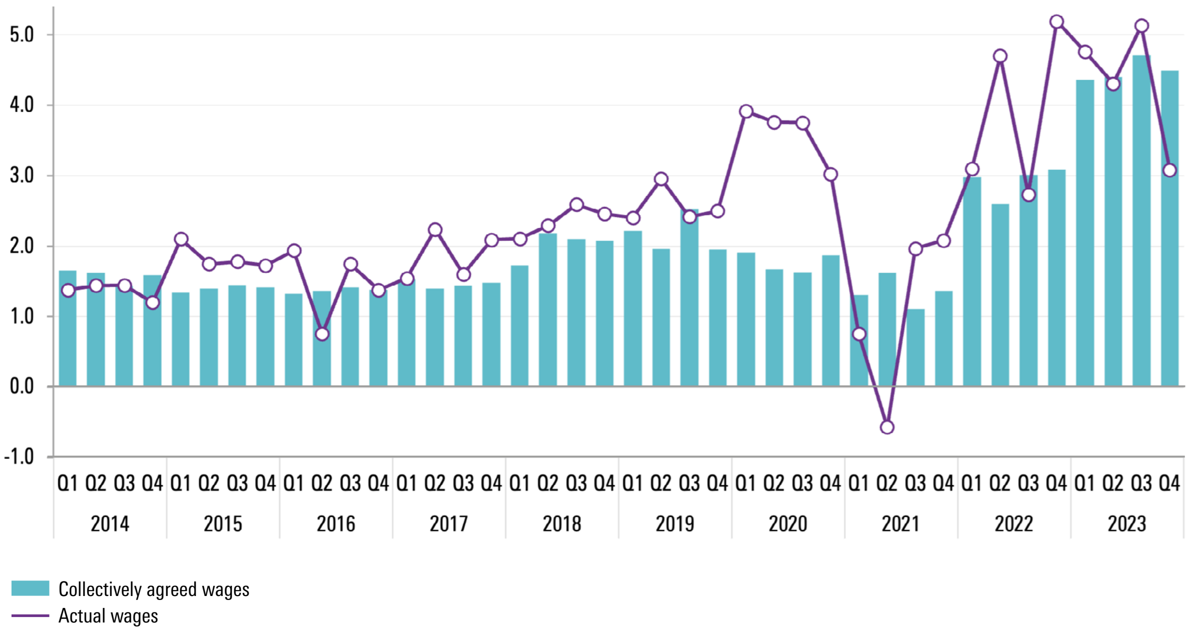
Figure 2

Trends in negotiated wage rates and actual wages in the eurozone, 2014 – 2023
Change from the same quarter in the prior year, 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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compatible with the inflation target of 2%, assuming a trend growth in labour productivity of 1% (Lane 2024). The ECB forecasts are based, among other things, on the ECB's Forward-Looking Wage Tracker, which provides an outlook on future wage developments based on already agreed future step-by-step increases in collective wage agreements from seven eurozone countries (Górnicka/Koester 2024).

3.2 Collective bargaining developments in selected EU Member States

In addition to the ECB, the European Foundation for the Improvement of Living and Working Conditions (Eurofound) also collects data on the development of collectively agreed wages in the EU countries. The Eurofound data[3] from seven Western European economies, which was available in advance for 2023 at the time of going to press, shows a differentiated picture of the development of collectively agreed wages (Figure 3): While Austria (7.6%), the Netherlands (6.9%) and Germany (5.5%)[4] recorded above-average increases in nominal collectively agreed wages (Finland is just below average at 5.0%), the increases in Sweden (3.7%), Spain (3.5%) and Italy (3.1%) are moderate. No Eurofound data were available for France, the EU's second-largest economy, at the time of going to press. The National Bank of France reports nominal wage growth of around 5% for 2023 and expects moderate growth of 3.5% for the current year 2024 based on wage agreements already concluded (Baudry et al. 2024).

Of the EU countries shown in Figure 3, only workers in the Netherlands (2.7%) recorded significant real wage increases. In Finland (0.6%) and Spain (0.1%), on the other hand, the increases are hardly noticeable for workers. In Sweden and Italy, real collective wage losses of more than 2% were also recorded in 2023, while in Germany they were 0.5% (Figure 3). The Belgian case (not shown) is interesting, as the country has a system of automatic wage indexation (ECB 2008; De Spiegelaere 2023, p.4). Indexation ensures that collectively agreed employee wages are automatically adjusted in line with price developments and thus remain stable in real terms.[5]

Looking at the development of collectively agreed wages over a longer period of time, the countries analysed here saw real gains on balance between 2015 and 2020 — although these ranged from slight growth of 1.0% in Finland to a significant increase of 7.1% in Germany (Figure 4). However, the crisis developments reversed this process in the following years: Due to the high rates of price increases, real collectively agreed wages decreased significantly in all countries under review and consistently fell below the 2015 level. In the case of Italy — where collectively agreed wages also grew very slowly until 2020 — the real decline since 2015 amounts to almost a tenth (9.5%), but even in Germany the real wage level is still 0.8% below the starting level of 2015. If the wage index from Destatis is used (instead of the figures from the WSI Tarifarchiv that are used here), the decline is more pronounced: On this data basis, collectively agreed monthly and hourly earnings, taking into account special payments, have each fallen by 3.4% in real terms compared to 2015.[6]

As collective agreements only cover a proportion of workers — around 60% on average in the EU (Eurofound 2022) — the existence and level of minimum wages is crucial for a large proportion of workers at the lower end of the income scale. Poorer sections of the population spend a higher proportion of their income on basic necessities such as food and energy — goods that became particularly expensive in 2022 and 2023 (Bellon/Gnewuch 2023). Against this backdrop, it is a good sign for those affected that minimum wages in the EU increased more than collectively agreed wages in 2023. According to the WSI Minimum Wage Report (Lübker/Schulten 2024), minimum wages in the EU as of 1 January 2024 rose by 9.7% in nominal terms when compared to the previous year, which corresponds to a real wage increase of 2.5%. However, minimum wage earners were not protected from real income losses in

3 While this data was previously available via the EurWork database, it will be published in future in the country reports "Developments in working life" (Eurofound, forthcoming). We would like to thank Mária Sedláková and Christine Aumayr-Pintar from Eurofound, who kindly provided us in advance with data on collective wage developments for the year 2023.

4 The data used by Eurofound for Germany are taken from the WSI Collective Agreement Archive's annual report on collective bargaining policy (Schulten/WSI-Tarifarchiv 2024). They differ from the data of the Federal Statistical Office (Destatis). Destatis reports 3.7% growth of collectively agreed wages for 2023 (Destatis 2024b). The difference can be explained by different calculation methods. Only the collective agreements actually concluded are included in the calculation basis of the WSI collective bargaining archive (Schulten/WSI-Tarifarchiv 2024, p.9f.). Destatis, on the other hand, creates an index with a population of selected remuneration groups. This means that remuneration groups whose agreements have expired and which have not yet concluded a new collective agreement in the year in question are included with a pay increase of 0%. This reduces the average increase (see Destatis 2021, p.8).

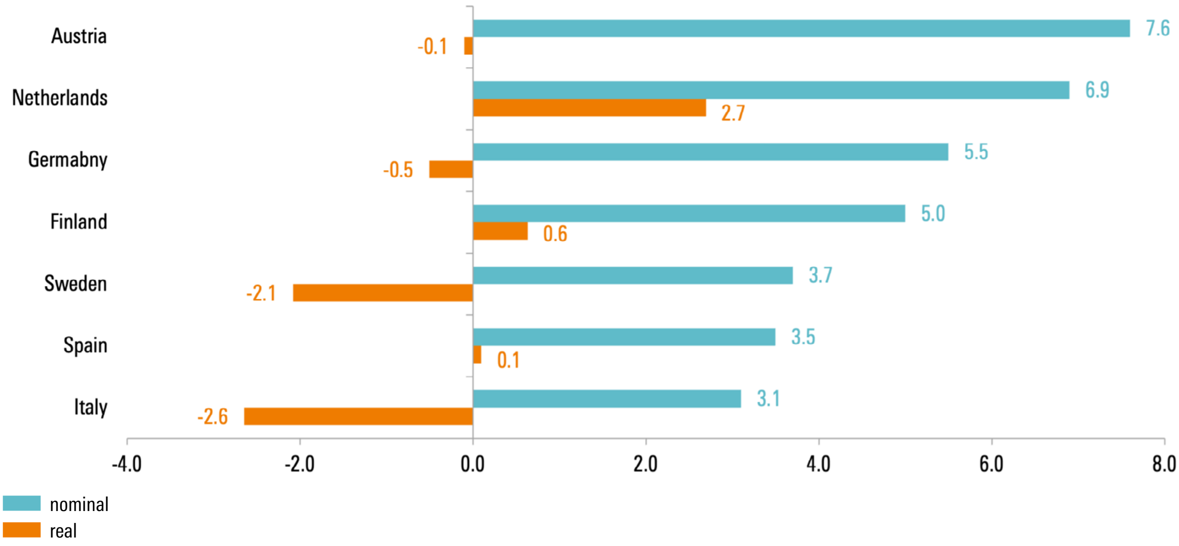
5 The benchmark for the inflation rate is the so-called "health index", which is essentially based on the national consumer price index, excluding alcohol and tobacco products as well as mineral oil products. In contrast, the European Collective Bargaining Report uses the Harmonized Index of Consumer Prices (HICP, Table 3) in the interests of comparability.

6 The calculation is based on the Genesis database (62221-0001) and the HICP from the AMECO database (as at 15 May 2024). For the differences between the two statistics, see footnote 4.

Figure 3

Trends in negotiated wage rates in selected EU Member States, 2023*

Change from prior year, in per cent



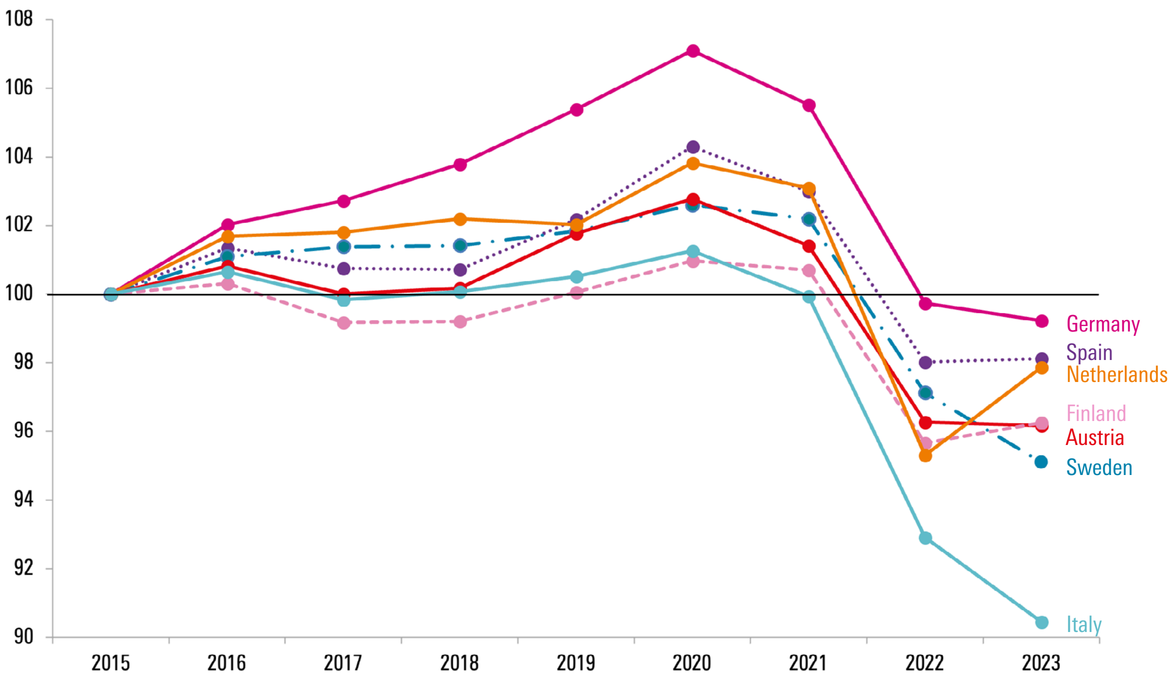
* Real-terms changes in negotiated wage rates are based on inflation as measured by the Harmonised Index of Consumer Prices (HICP); some data are still preliminary.

Source: Eurofound (2024); AMECO-Database (current as of 15 May 2024); authors' calculations.

Figure 4

Trends in inflation-adjusted negotiated wage rates in selected EU Member States, 2015–2023*

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 preliminary.

Source: Eurofound (2024); European Commission, AMECO Database (current as of 15 May 2024); authors' calculations.

all EU countries. In Germany, the nominal gain in 2023 was low at 3.4%, following a significant increase of 22.2% in the previous year (due to the increase in the statutory minimum wage to 12 euros on 1 October 2022).

4 TRENDS IN ACTUAL WAGES

4.1 Trends in wages and consumer prices

Collectively agreed wage floors only account for part of the wages actually paid. Data on actual wages also include wage components that are not covered by collective agreements and those that exceed them, as well as the growing proportion of workers working in companies not covered by collective agreements. The European Collective Bargaining Report approximates actual wages as employee compensation, i.e. it also includes employers' social security contributions. The values in Table 3, taken from the European Commission's AMECO database, show the development of nominal wages on a per-person basis and the Harmonized Index of Consumer Prices (HICP). The development of (price-adjusted) real wages is derived from this.

After stagnating in 2020, the year of the pandemic, nominal wages have increased by more than 4% on average in the EU every year; in 2023 alone, they rose by 5.7%. Eastern Europe contributed the highest growth rates: In nine out of eleven Eastern European countries, values were above the 10% mark in 2023, led by Romania (18.2%), Hungary (14.0%) and Poland (13.4%). The European Collective Bargaining Report 2022/2023 already pointed out that above-average nominal wage increases can harbour stability risks if they are not underpinned by corresponding productivity increases (Table 2) (Janssen/Lübker 2023, p. 288; Herzog-Stein/Stein 2023). However, unlike the three Baltic states, where nominal wages also rose by double digits in 2023, the countries mentioned above are not part of the eurozone. Therefore, they have an additional adjustment mechanism in the form of the exchange rate to restore their external competitiveness, if necessary. Growth in the other parts of the continent was much more moderate last year. The largest economies — Germany (5.8%), France (4.1%), Italy (2.4%) and Spain (5.4%) — were around or below the average.

After the "inflation shock" of 2022 with an HICP value of 9.2%, consumer prices rose again by 6.4% on average in the EU in 2023. However, the inflation rate fell significantly over the course of the year and was only 3.4% in December 2023; the provisional data for April 2024 suggest a further fall in inflation to 2.4% (European Commission 2024, p. 37). This supports the Commission's forecast that the inflation rate measured by the HICP will also be relatively moderate at 2.8% for 2024 as a whole (Table 3). While the development of energy prices in particular curbed inflationary pressure last year, prices for food and industrial goods are currently contributing to a declining inflation rate; the greatest remaining price pressure is coming from services (ibid.; Cipollone 2024, Fig. 2).

In 2023, workers in Eastern European EU countries again had to cope with particularly high rates of price increases. In an analysis of inflation drivers in the eastern member states of the eurozone, the ECB cites several reasons for the above-average price increases, including more energy-intensive production, a higher share of food and energy in the HICP basket of goods, greater dependence on energy imports from Russia and global supply chains. Another important factor is the above-average profit margins of Eastern European companies. While corporate profits were among the drivers of inflation throughout the EU (see also Hahn 2024 and Janssen/Lübker 2023, p. 290ff.), profits per unit of GDP in Eastern European eurozone countries rose at an above-average rate. The ECB cites lower competitive pressure for large companies, particularly in the smaller Eastern European EU states, as one of the reasons for this (Falagiarda 2024).

After falling by 4.2% in 2022, real wages in the EU fell by a further 0.6% on average last year, as the increase in nominal wage growth was once again unable to compensate for inflation. In this context, Theodoropoulou (2024, p. 34) speaks of a "cost-of- living crisis" (see also Müller et al., p. 90f.). The situation in the EU countries is heterogeneous: In twelve of the 27 EU countries, workers continued to lose purchasing power in 2023, including in Germany (-0.3%), France (-1.4%), Sweden (-1.7%), Italy (-3.3%) and the Czech Republic (-4.4%). Despite the enormous increase in nominal wages, Hungarian workers (-2.6%) were also among the losers. In contrast, many EU countries saw real wage increases again, such as Belgium (5.3%), the Western European country with the largest real gains. Belgium has an automatic wage indexation system that automatically adjusts employee wages to inflation. However, the benchmark for the inflation rate here is not the HICP, as in the European Collective Bargaining Report, but the "health index", which is essentially formed from the national Belgian consumer price index (CPI) minus alcohol and tobacco products as well as petroleum products (ECB 2008, p. 51f.; De Spiegelaere 2023, p. 4; see also footnote 5 above). Workers in the Netherlands (2.1%), Portugal (2.7%), Spain (2.0%), Poland (2.3%) and Romania (7.7%) also recorded real wage increases.

After two years of declining prosperity for workers in the EU, the European Commission's forecast

Trends in wages and consumer prices in the European Union, 2021 – 2024*
Change on prior year, in per cent

	Nominal wages				Consumer prices (HICP)				Real wages			
	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
Northern Europe												
Denmark	3.1	3.1	2.8	5.3	1.9	8.5	3.4	2.0	1.1	-5.0	-0.6	3.2
Finland	4.2	2.5	3.4	2.6	2.1	7.2	4.3	1.4	2.1	-4.4	-0.9	1.2
Sweden	4.6	2.8	4.1	4.1	2.7	8.1	5.9	2.0	1.9	-4.9	-1.7	2.1
Western Europe												
Austria	2.9	4.7	7.7	7.1	2.8	8.6	7.7	3.6	0.1	-3.6	0.0	3.3
Belgium	4.4	7.3	7.7	3.5	3.2	10.3	2.3	4.0	1.1	-2.7	5.3	-0.5
France	4.9	4.9	4.1	3.0	2.1	5.9	5.7	2.5	2.7	-1.0	-1.4	0.5
Germany	3.1	3.9	5.8	4.9	3.2	8.7	6.0	2.4	-0.1	-4.4	-0.3	2.4
Ireland	2.6	2.7	2.7	4.4	2.4	8.1	5.2	1.9	0.2	-5.0	-2.4	2.5
Luxembourg	5.1	5.8	7.3	3.6	3.5	8.2	2.9	2.3	1.6	-2.2	4.3	1.2
Netherlands	2.1	4.0	6.2	5.9	2.8	11.6	4.1	2.5	-0.7	-6.9	2.1	3.3
Southern Europe												
Cyprus	4.3	1.1	5.6	3.9	2.3	8.1	3.9	2.4	2.0	-6.5	1.7	1.5
Greece	3.8	2.8	5.5	4.3	0.6	9.3	4.2	2.8	3.2	-6.0	1.3	1.4
Italy	6.3	4.8	2.4	3.8	1.9	8.7	5.9	1.6	4.3	-3.7	-3.3	2.2
Malta	4.1	3.1	1.5	2.7	0.7	6.1	5.6	2.8	3.4	-2.9	-3.8	-0.1
Portugal	5.1	5.7	8.1	3.3	0.9	8.1	5.3	2.3	4.1	-2.2	2.7	1.0
Spain	4.5	4.1	5.4	4.0	3.0	8.3	3.4	3.1	1.4	-3.9	2.0	0.8
Eastern Europe												
Bulgaria	11.3	14.2	13.3	10.4	2.8	13.0	8.6	3.1	8.2	1.0	4.3	7.1
Croatia	6.4	11.4	11.3	9.4	2.7	10.7	8.4	3.5	3.6	0.7	2.7	5.7
Czech Republic	5.0	6.0	7.0	7.3	3.3	14.8	12.0	2.5	1.7	-7.7	-4.4	4.7
Estonia	9.3	8.1	7.6	5.5	4.5	19.4	9.1	3.4	4.6	-9.5	-1.4	2.1
Hungary	8.2	17.0	14.0	11.7	5.2	15.3	17.0	4.1	2.9	1.5	-2.6	7.3
Latvia	8.5	12.2	12.6	5.7	3.2	17.2	9.1	1.6	5.1	-4.3	3.3	4.0
Lithuania	11.9	11.4	10.2	8.2	4.6	18.9	8.7	1.9	6.9	-6.3	1.4	6.2
Poland	4.7	9.1	13.4	10.1	5.2	13.2	10.9	4.3	-0.5	-3.7	2.3	5.5
Romania	6.4	13.3	18.2	11.5	4.1	12.0	9.7	5.9	2.2	1.2	7.7	5.3
Slovakia	6.9	5.5	10.4	7.8	2.8	12.1	11.0	3.1	4.0	-5.9	-0.5	4.5
Slovenia	8.1	5.0	11.8	6.1	2.0	9.3	7.2	2.8	5.9	-4.0	4.3	3.2
EU-27	**4.4**	**4.5**	**5.7**	**4.9**	**2.9**	**9.2**	**6.4**	**2.8**	**1.4**	**-4.2**	**-0.6**	**2.0**

Notes:
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 (2024). In contrast to the WSI, the European Commission uses the price index for private consumption to calculate real wages; this also leads to minor differences between the two publications.

Nominal wages = nominal compensation of employees per employee, change from prior year in % (not adjusted for working time).
Consumer prices = Harmonised index of consumer prices (HICP), change on prior year in %.
Real wages = nominal compensation of employees per employee, inflation adjusted based on the Harmonised Index of Consumer Prices (HICP), change from prior year in % (not adjusted for working time).

* Data for 2024 refer to a forecast by the European Commission.

Source: European Commission, AMECO Database (current as of 15 May 2024).

points to real wage growth again in 2024. Real wages could increase by an average of around 2.0% in the EU. Only two countries, Malta (-0.1%) and Belgium (-0.5%), are expected to show slight losses in purchasing power, despite Belgium's system of automatic wage indexation. This discrepancy can be explained by the different indices (HICP vs. health index; see also STATBEL 2024).

The largest real wage increases in 2024 are expected for Eastern European countries, including Poland (5.5%), Romania (5.3%), Bulgaria (7.1%) and Hungary (7.3%). While the forecasts for Italy (2.2%), the Netherlands (3.3%) and Austria (3.3%) again assume moderate growth, this could be significantly weaker in other major economies such as France (0.5%) and Spain (0.8%). For Germany, the European Commission expects real wage growth of 2.4% for the year as a whole. Data from Destatis (2024c) are also already available, according to which real wages rose by 3.8% in the first quarter of 2024 compared to the same quarter of the previous year. One-off payments such as the inflation compensation premium in particular contributed to the growth rate in the first quarter, meaning that the figures are of limited significance for the year as a whole.

4.2 Distributional outcomes and the functional income distribution

The distributional outcome (Table 4) is obtained by comparing the calculated distributionally-neutral margin for wage growth (Table 2) with the actual, nominal wage development. In 2021 (-2.7%) and 2022 (-2.1%), the distributional outcome is clearly negative. This implies that nominal wages have risen less strongly than the development of productivity and the GDP deflator would have suggested. As a result, the functional distribution of income has shifted to the disadvantage of labour.[7] The high nominal wage growth (Table 3) ensured that the distributional outcome was almost balanced in 2023 with a slight increase of 0.3 percentage points. In 2024, the tide could turn in favour of workers again with a growth of 1.2 percentage points — without, however, making up for the losses of previous years. The distribution balance for Germany will also be positive again in 2023 (0.2 percentage points) and probably in 2024 (1.6 percentage points).

The clearly negative distributional outcome in 2021 and 2022 is therefore reflected in the adjusted labour share, the ratio of compensation of employees to value added: since the pandemic year 2020 (56.8%, not shown in the table), it has fallen in both 2021 (55.4%) and 2022 (54.7%) and only stabilized again in 2023 (54.8%) in the course of an almost balanced distributional outcome. ECB Executive Board member Piero Cipollone (2024) shows that the labour share in the eurozone is currently below the level that prevailed before the Covid-19 pandemic — even though employment has risen significantly. This implies a need to catch up in terms of wage development and thus a temporary overshooting of the arithmetical distributionally-neutral margin for wage growth. As outlined above, this is exactly what could happen in the current year. In the forecast, the adjusted labour share will rise again to 55.4% in 2024, which would correspond to the average for the years 2000 to 2019 (Janssen/Lübker 2023, p. 290).

The stronger growth in nominal wages in the past and current year is thus leading to stabilization and, in the long term, to a normalization of the labour share after employee compensation suffered losses during the recent crisis years. Parallel to the recovery in wage development, the growth in unit profits on the part of companies is slowing down, after reaching an all-time high at the height of the crisis in the first quarter of 2023 and being a key driver of domestic price development. As described as a possible (and desirable) scenario in last year's European Collective Bargaining Report, companies now appear to be compensating for the rise in wage costs by normalizing profits, meaning that wage growth is not exerting additional price pressure in the form of a wage-price spiral (European Commission 2024, p. 42; ECB 2024, p. 2; Janssen/Lübker 2023, p. 294). Instead, real wage growth increases the purchasing power of households, meaning that private consumption could provide an important impetus for growth on the way out of the crisis (ECB 2024, p. 5; see also Cipollone 2024).

5 CRISIS LOSSES CONTINUE TO BURDEN LABOUR

Declining inflation rates, a modest return to GDP growth, and moderately rising real wages — a superficial look at the key figures presented in the previous sections could give the impression that Europe has overcome the crisis and is back on the road to normality. However, the widespread focus on the rates of change in public perception blocks the view of what is actually crucial, the levels: consumer prices have risen permanently, and GDP is far below the level that would have been expected

7 Because the European Collective Bargaining Report has been using the GDP deflator instead of the HICP to calculate the distributionally-neutral margin for wage growth since the 2022/2023 edition, there is a direct link between the development of the labour share and the extent to which the distributionally-neutral margin for wage growth is exhausted (see also Lübker/Schulten 2017, p. 423; Lübker 2020, p. 274).

Distributional outcomes and functional income distribution in the European Union, 2021–2024*
In percentage points (distributional outcome) and in per cent (labour share)

	Distributional outcome				Labour share (adjusted)			
	2021	2022	2023	2024	2021	2022	2023	2024
Northern Europe								
Denmark	-4.3	-3.8	5.9	0.2	53.5	51.6	54.7	54.8
Finland	1.2	-0.7	0.2	0.7	52.9	52.5	52.6	53.0
Sweden	-3.0	-3.2	0.2	0.9	48.5	47.1	47.2	47.6
Western Europe								
Austria	-1.4	-2.8	2.0	3.0	56.7	55.2	56.3	57.9
Belgium	-3.9	0.5	3.0	0.1	58.1	58.4	60.0	60.1
France	-0.1	2.1	-0.9	-0.3	57.8	59.0	58.5	58.3
Germany	-3.0	-1.9	0.2	1.6	58.0	57.0	57.1	58.0
Ireland	-6.5	-6.7	8.1	2.2	29.8	28.0	30.4	31.0
Luxembourg	-3.9	2.1	7.3	-0.4	51.2	52.3	56.1	55.9
Netherlands	-5.1	-2.0	0.0	2.0	58.0	57.0	56.9	58.0
Southern Europe								
Cyprus	-5.1	-7.2	-0.1	-1.2	49.2	45.9	45.9	45.4
Greece	-4.9	-8.3	0.0	0.0	51.9	48.1	48.0	48.0
Italy	-2.4	-1.1	-1.9	1.4	52.2	51.7	50.7	51.4
Malta	-7.4	-4.2	-2.8	-1.4	49.9	48.0	46.6	46.0
Portugal	-0.6	-4.7	-0.5	0.0	55.8	53.4	53.2	53.2
Spain	-2.3	-3.2	0.2	0.7	57.1	55.4	55.5	55.9
Eastern Europe								
Bulgaria	-3.8	-7.0	4.9	4.7	58.7	55.3	57.8	60.4
Croatia	-7.7	-2.1	2.4	2.5	52.0	51.1	52.2	53.4
Czech Republic	-1.6	-3.5	-0.4	3.7	52.5	50.9	50.7	52.5
Estonia	-4.1	-2.3	6.2	1.7	54.3	53.1	56.4	57.3
Hungary	-4.4	-0.6	0.5	4.0	43.2	43.0	43.1	44.7
Latvia	-5.1	0.2	7.6	0.0	54.8	54.9	58.9	58.9
Lithuania	0.0	-2.3	5.0	4.1	53.9	52.8	55.4	57.6
Poland	-5.1	-3.4	2.6	2.6	49.1	47.6	48.7	49.9
Romania	-4.2	-4.4	2.6	1.3	49.0	47.1	48.2	48.8
Slovakia	-1.0	-2.1	-1.2	1.1	50.2	49.3	48.8	49.3
Slovenia	-1.6	-1.1	2.5	1.0	65.2	64.5	66.0	66.6
EU-27	**-2.7**	**-2.1**	**0.3**	**1.2**	**55.4**	**54.7**	**54.8**	**55.4**

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

Distributional outcome = balance of nominal wage growth and the distributionally-neutral margin for wage growth (see Table 2), in percentage points.
Labour share (adjusted) = Compensation of employees per employee, in % of GDP per person employed (at current market prices, person concept, not adjusted for working time).

* Data for 2024 refer to a forecast by the European Commission.

Source: European Commission, AMECO Database (current as of 15 May 2024).

WSI

if the pre-crisis trend had continued without the effects of the double crisis — the Covid-19 pandemic and the energy price shock. Krebs and Weber (2024, p. 18) therefore speak of a hysteresis effect for Germany, i.e. a long-lasting and not just temporary loss of economic output.

This section is dedicated to the effects of the crises on real wage levels. The starting point for this is the level in 2021, which is already characterized by the negative effects of the Covid-19 pandemic and the first precursors of rising consumer prices (Lübker/Janssen 2022). However, the full force of the inflation shock only hit Europe with the Russian war of aggression against Ukraine in February 2022 (Janssen/Lübker 2023). The European Commission's forecast (2021) from autumn 2021 — which was written in ignorance of the coming events — is therefore a suitable basis for comparing a "normal" development without the influence of the crisis with the actual development. However, it should be noted that economic forecasts are always associated with uncertainty and have proven to be too optimistic in the past (Frankel/Schreger 2013).

Figure 5 first shows the projected development of real wages in autumn 2021 for the European Union as a whole and for the five most important economies up to 2023, with 2021 indexed at 100 as the base year (blue line). With expected growth rates of 1.2% (2022) and 1.4% (2022), this would have resulted in cumulative growth in real wages for the EU-27 to an index value of 102.6 in 2023. For the major economies, the range extends from 101.7 (Netherlands) to 102.6 (Germany) and 103.4 (Italy). The base scenario is therefore characterized by steady, albeit only moderate, real wage growth.

This contrasts with the actual development with the dramatic slump in real wages: For the EU-27, the index value fell to 95.8 in 2022 and to 95.2 in 2023 (purple line). In Germany, the largest economy, the trend is almost parallel with values of 95.6 (2022) and 95.3 (2023).[8] This reflects the stabilization of real wages in the past year (see also section 4.1). In France and Italy, on the other hand, real wages continued to fall in 2023, while Spain and the Netherlands recorded a slight increase in real wages. For the current year, the European Commission (2024) expects a further recovery in real wages both for the EU-27 as a whole and for the countries analysed here. However, the EU average is not expected to reach the real wage level of 2021 again until 2025 (European Commission 2024, p. 3).

In order to estimate the full extent of real wage losses, a comparison with the baseline scenario — i.e. the forecast from autumn 2021 — is useful. For the EU-27, real wages in 2022 were 5.3% below the forecast value, and in 2023 by as much as 7.2% (blue bars in Figure 5). In Germany, the slump is similarly high with a drop of 5.4% (2022) and 6.8% (2023), while in France it is significantly lower at 1.9% (2022) and 4.2% (2023). The gap is also widening in Italy (5.9% and 9.9%), while a classic hysteresis effect can be observed in Spain: the shock of 2022 (-5.0%) remains almost unchanged in the following year (-4.9%). At best, a catch-up movement can be seen in the Netherlands, where the gap compared to the base scenario narrows slightly in 2023.

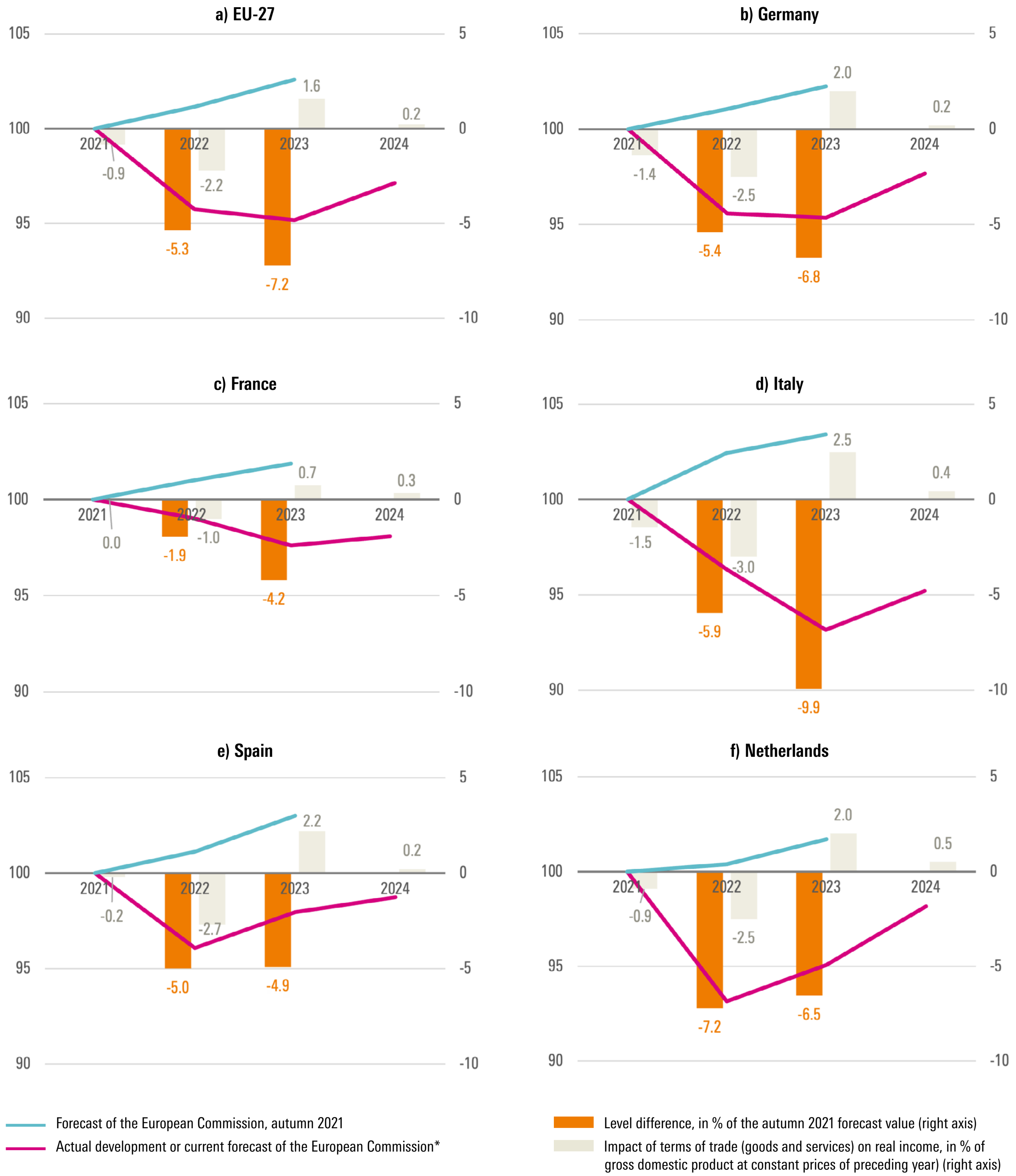
The deviations of the actual development from the original forecast[9] are primarily due to the fact that the extraordinarily high rates of price increases in in 2022 and 2023 could not yet be predicted in autumn 2021 (ECB 2022; see also Chahad et al. 2022). For the EU-27, inflation in 2022 was 6.7 percentage points above the forecast value, and again by 4.8 percentage points for 2023. By contrast, nominal wage growth in 2022 was only slightly above expectations (plus 0.8 percentage points); a catch-up movement only occurred in 2023 with additional nominal wage growth of 2.7 percentage points. This illustrates once again that the wage development was not a decisive driver of inflation, but rather reacted to the new price level with a delay and thus absorbed a large part of the loss of economic prosperity (see above; see also Cipolone 2024).

The average values conceal significant differences at national level, whereby the direct comparison between Germany and France is particularly revealing: In France, the additional surge in inflation in 2022 (plus 3.8 percentage points compared to the forecast) was relatively low, while nominal wages (plus 1.8 percentage points) rose significantly more than expected. In contrast, the additional price increases in Germany (plus 6.4 percentage points) were particularly pronounced in 2022, while nominal wages (plus 0.6 percentage points) largely developed as expected. One plausible explanation for this are differences in the national wage-setting systems. In France, the minimum wage SMIC was already adjusted several times over the course of 2022 in line with rising prices due to indexation clauses (Lübker/Schulten 2023, p. 119). Adjustments to the SMIC usually also have repercussions on collectively agreed wages (Delahaie/Vincent 2021). In Germany, however, both the minimum wage and collectively agreed wages are negotiated with a relatively long lead time, meaning that they can only react to short-term developments to a very limited extent.

8 See also Theodoropoulou (2024, p. 34) for a similar presentation for all EU Member States based on an older version of the AMECO database.

9 The information in this and the following paragraph is based on the European Commission's AMECO database (versions of 11 November 2021 and 15 May 2024) and WSI calculations and is not shown in Figure 5.

Forecast and actual real wage development in the European Union, 2021 – 2024
Index (2021 = 100)



Notes:
All figures are based on the persons (not full-time equivalents). This results in deviations for France, the Netherlands, Italy, Spain and the EU-27 compared to the to the publications of the European Commission (2024). Real wages are the nominal compensation per employee (not adjusted for working hours), deflated on the basis of the Harmonised Index of Consumer Prices (HICP). Unlike the WSI, the European Commission uses the price index for private consumption to calculate real wages; this also results in slight differences between the two publications.

* Data for 2024: European Commission forecast..

Source: European Commission, AMECO Database (versions of 11 November 2021 and 15 May 2024), authors' calculations..

WSI

Increased import prices, especially for fossil fuels, are repeatedly cited in the public debate as a decisive factor for the price increase and thus the real wage losses (e.g. BMWK 2022). In fact, from a European perspective, import prices have developed unfavourably in relation to export prices in 2022, meaning that the real exchange ratios — better known as the terms of trade — have deteriorated. The European Commission puts the associated welfare loss across the EU at 2.2% of GDP in 2022 (grey bar in Figure 5). Germany (welfare loss: 2.5% of GDP) was particularly affected by this due to its dependence on energy imports, while the welfare loss in France was significantly lower at 1.0% of GDP. Nevertheless, the magnitude of the deterioration in the terms of trade is not sufficient to explain the real wage losses. It is also worth noting that the terms of trade improved significantly again in 2023 in the wake of falling energy and commodity prices, without this leading to corresponding real wage gains.

Krebs and Weber (2024, p. 10) argue that, in addition to the terms of trade shock, the increase in profit margins in 2022 contributed significantly to inflation — and thus to real wage losses. A homegrown component was thus added to the imported inflation. As the European Collective Bargaining Report explained at this point last year, this can be seen in the extremely high contribution of profits to the GDP deflator (Janssen/Lübker 2023, p. 290ff.). This corresponds with the falling labour share and thus the shift in the functional distribution of income to the detriment of wages (see above).

6 Outlook: Real wage growth can support economic stabilization

The European Collective Bargaining Report regularly examines the economic framework conditions are wage policy in the European Union — and, conversely, what role the development of (collectively agreed) wages plays in the overall economic environment. For the height of the inflation crisis, Pietro Cipollone, member of the ECB's Executive Board, summarizes this connection as follows: When prices rose abruptly due to the terms of trade shock in 2022, it was the workers who largely absorbed the welfare loss through lower real wages (Cipollone 2024). At the same time, many companies were able to increase their profit margins, which made them both winners and drivers of inflation (Janssen/Lübker 2023, p. 290ff.; Hahn 2023; European Commission 2023, p. 29ff.; Weber/Wasner 2023). As a result, the labour share of national income fell in 2021 and 2022 (see Table 4). In the functional distribution of income, there was therefore a redistribution in favour of capital in the European Union.

Against this backdrop, last year's European Collective Bargaining Report asked whether Europe will find a fair way out of the crisis (Janssen/Lübker 2023, p. 293). According to the argument at the time, an exit from this scenario that was at least to some extent "fair" and orientated towards economic stability criteria would be if the previously increased profits now served as a buffer, while workers and trade unions could make up for previous losses in the form of rising real wages through higher collective agreements. At the same time, this would prevent a "combination of a profit-price and wage-price spiral" (Lesch/Eckle 2023, p. 22). In terms of stability criteria, the current phase of economic recovery also calls for further wage growth, which can be above the arithmetical distributionally-neutral margin for wage growth. This is the only way to at least partially offset the slump in real wages during the crisis in order to promote private consumption and thus support the economy (ECB 2024, p. 5; Cipollone 2024).

The forecasts for the current year suggest that this scenario could actually materialize. The European Commission expects real wage growth of 2.0% for the European Union (2024) (Table 3). This is reflected in a positive distributional outcome from the workers' perspective and leads to a normalization of the previously falling labour share. There are currently no signs of wage growth being permanently decoupled from productivity (European Commission 2024, p. 4). Productivity growth is expected to return to 1.2% as early as 2025, while nominal wage growth is expected slow to 3.5% (ibid.). The forecasts are therefore close to the values that are compatible with the ECB's target inflation rate of 2% (see also Cipollone 2024).

At first glance, it would appear that Europe has indeed taken a "fair" path out of the crisis. On closer inspection, however, the situation is more complex. This is because, as argued in section 5, focusing solely on the rates of change does not fully take into account the consequences of the crisis for real labour incomes. This European Collective Bargaining Report shows that real wages remain well below the 2021 level even in the optimistic scenario outlined above and are unlikely to return to this value until 2025 at the earliest. The slump in real wages is even more pronounced if the steady, albeit moderate, growth in real wages forecast by the European Commission in autumn 2021 is used as a benchmark (see Figure 5). Compared to this baseline scenario, real wages in both the EU-27 and Germany in 2023 were each around 7% below the level that would have been expected in a "normal" economic development.

The analysis also shows that the welfare losses in real wages cannot be explained solely by the deterioration of the terms of trade — especially as the welfare losses caused by this in 2022 were largely compensated for again last year. In fact, it was the increased profit margins that contributed significantly to domestic price increases and thus to the sustained welfare losses in real wages (Cipollone 2024; Arce et al. 2023). From this perspective, too, a catch-up movement in wages is necessary.

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