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IMPACTS OF SURGING INFLATION ON WORKERS IN THE EURO AREA

RESOLUTION OF THE PRESIDIUM OF CESI

The European Confederation of Independent Trade Unions (CESI) is a confederation comprising more than 40 national and European trade union organisations from over 20 European countries, with a total of more than 5 million individual members. Founded in 1990, CESI advocates improved employment conditions for workers in Europe and a strong social dimension in the EU. Most of CESI's members represent workers in the different fields and levels of public administrations and services, but CESI also represents private sector workers.

Coping with the current surge of inflation requires refined, targeted and carefully balanced responses. Monetary decision makers, fiscal policy makers as well as social partners need to cooperate and move hand in hand.

The Presidium of CESI calls on policy makers to pursue targeted steps to maintain workers' purchasing power. This should include further measures to reduce energy bills, a prolongation of the EU's temporary Support to mitigate Unemployment Risks in an Emergency (SURE) in case economies deteriorate, and a swift implementation of a recently adopted Council Recommendation on adequate minimum incomes.[1]

The Presidium demands social partners to agree on considerable wage increases in new collective agreements.

It requests that social partners and policy makers should establish, where this has not yet been the case, wage indexations and transpose the new EU directive on minimum wages[2] without delay – to rule out threats of falling into poverty.

The Presidium of CESI already adopted a resolution on impacts of surging inflation on workers in the Euro area in June 2022. Given recent further escalations of inflation as well as new measures taken fiscal and monetary decision-makers, this resolution constitutes an update and further development of the first resolution.

[1] https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32023H0203%2801%29
[2] https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32022L2041

During the last year, the Russian invasion of Ukraine has worsened the EU's already precarious economic and monetary situation. Mainly driven by the war for a multitude of reasons, inflation risks to become structural and poses a serious threat to the economic stability, purchasing power and accumulated wealth of citizens, workers and their families – especially the vulnerable one sand low- and middle-income earners among them. With the ECB having started to raise interest rates, there is an additional risk to choke of the EU's fragile economy, which had just begun recovering from the Covid outfall when Russia attacked Ukraine. There is a risk of sustained inflation coupled with an economic recession which could lead to higher unemployment and lower wages. Moreover, public budgets are tight and policy makers may be hesitant to engage in fiscal support in exchange for higher (initial) debts.

A recent economic forecast of the European Commission confirms a rather negative economic outlook for the EU. The economic growth in the EU is expected to be only 1.5% in 2023, with some countries even expected to halt their growth.[3] According to OECD, in 2023, Member States such as France and Italy are likely to grow below 1% and Germany will likely shrink by 0.7%.[4]

At the same time, inflation will stay a challenge also in 2023. According to the EU Commission and OEDC, inflation will remain high, moving from 8.3% this year to 6.23% in 2023 – still more than 3 times above a 'healthy' inflation level of 2%. Inflation in the EU increased to 8.3 % in 2022, and it will ease to 6.23% in 2023 in the Euro area.

The inflation that Europe experiences is a complex phenomenon. To face inflationary pressure, the European Central Bank (ECB) has started to raise interest and policy makers have started to financially support gas and electricity bills. Indeed, rising interest rates is a standard recipe against inflation and energy prices are a key driver of the current inflation. However, also other commodities keep rising in prices, albeit at different levels, at different speeds, for different reasons, and in different Member States. This has even appeared to give rise to 'greedflation': Stimulated by uncertainties of price levels among consumers, increasing companies and enterprises bandwagon to raise prices à la carte just to increase their profitability – and thus artificially driving inflation to new heights.

Coping with the current surge of inflation requires also requires refined, targeted and carefully balanced responses. Monetary decision makers, fiscal policy makers as well as social partners need to cooperate and move hand in hand.

[3] https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/summer-2022-economic-forecast-russias-war-worsens-outlook_en
[4] https://www.oecd.org/economic-outlook/september-2022/

To this end, the Presidium of CESI:

1. Calls on policy makers to pursue targeted steps to effectively help the unemployed as well as low- and middle-income earners to maintain their purchasing power, including:
    a. **measures to reduce energy bills**.
        i. To bring down energy prices, effective energy price caps should be pursued to bring down energy bills, where feasible at technical and regulatory level. Moreover, CESI supports the EU's decision to reduce electricity consumption in peak hours, when prices tend to be highest.
        ii. To counter-finance financial support to reduce bills for consumers, windfall taxes for electricity produced by currently relatively cheap non-gas sources but sold at gas-source level should be collected and redistributed. Given the enormous strain that financial support to reduce bills may still mean for public budgets, policy makers must focus resources deriving from windfall taxes on those citizens, workers and families that need them most.
    b. a prolongation of the **temporary Support to mitigate Unemployment Risks in an Emergency (SURE)** by the EU in case economies deteriorate. Already during the Covid lockdowns, this tool proved highly successful to keep workers in their jobs and prevent business from laying off and later having to re-hire and train new workers at considerable cost. In this way, SURE is more an investment than an expenditure.
    c. the swift implementation by the EU institutions and the Member States of a recent adopted Council Recommendation on **adequate minimum incomes**,[5] to ensure that nobody must live in poverty.
2. Demands social partners to agree on **considerable wage increases**. There is considerable scope among employers for this. The state – employer of civil servants and public sector employees – benefits from large inflation-driven increases in tax revenues, which need to feedback also as wage increases for its staff. In the private sector, many large companies, (excluding in energy-intensive industries) have increased their profitability during the inflation period. In Germany, in the second half of 2021, the DAX companies increased their profits by 152% compared to 2020. Throughout 2022, profitability has remained high. Employees should benefit from this, too.
3. Requests that social partners and policy makers should undertake, where this has not yet been the case, to establish **wage indexations**. This could happen either through collective bargaining or through laws or statutes. They should also without delay transpose the new EU directive on **minimum wages** and set minimum wages and adequate levels that rule out threats of falling into poverty.

[5] https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32023H0203%2801%29