Brussels / June 16 2022

EN

IMPACTS OF SURGING INFLATION OF 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.

Since mid-2021, **inflation has been surging in the Euro area**, reaching an average of 7.8% across the zone in March 2022, according to the European Central Bank (ECB).[i] Some countries, such as Lithuania, currently experience even an inflation rate of 15%. Many further countries across the Euro area, from the Netherlands to the Czech Republic, face inflation rates of beyond 10%.[ii] It its spring economic outlook, the European Commission expects and "all-time high" inflation in the Euro zone for 2022.[iii]

The rise in inflation that Europe witnesses is **unprecedented since decades**. Traditionally, the euro zone has been a harbour of stable prices, with inflation moving around the European Central Bank's mandated target of 2%, a level of inflation considered healthy by most economists. Even during short-lived hikes in the early 1990s and late 2000s, inflation barely reached 5%.

The recent surge in inflation is above all a **consequence of energy prices** that have been rising starkly. However, also other **basic commodities** have been becoming significantly more expensive**, including food** and a **variety of raw materials** which are vital for a range of industries such as construction.[1]

These commodities have been rising in prices most notably for two reasons.

First, with its multiple lockdowns in countries around the world, the **Covid pandemic** repeatedly halted industrial production and disrupted complex global production and supply chains over a period of more than two years and in a way that makes consequences still felt today, even if the worst of the acute pandemic seems to be over for the time being. Importantly, while countries around the world, and countries in the EU in particular, strive to rebounce economically from the pandemic, the recovery of complex supply and production chains takes much longer. In sum, as high demand for primary and consumption products has coincided with unmet supplies, prices have been rising.

[1] Rising rents for housing are a further expenditure post of many citizens, workers and families that which become increasingly important over the years, especially where they are indexed against the general inflation levels. Rising rents, albeit a major problem that needs to be addressed by policy makers, is however not dealt with specifically in this position paper, because the underlying reasons of their rising prices date back further to the past and are mostly different than those underpinning the recent surge in inflation dominated by dearer energy, food and industrial/raw materials.

Secondly, the **war in Ukraine** has added in a dramatic and acute way to the logistical, financial and economic turmoil created by the Covid pandemic. The supply of important goods and services has been disrupted by ever tightened sanctions for Russia imposed by the EU and international actors on a wide range of economic and financial activities and the inaccessibility of important food production centres in Russia and Ukraine. Moreover, there has been a sustained uncertainty und insecurity about the availability of natural gas and oil from Russia on which countries across Europe are heavily dependent. This is coupled with efforts by European countries, which are still not self-sufficient in own green energy production, to hastily diversify energy imports – which necessitates more expensive LNG gas from the Gulf region and the USA.

Two important underlying causes for inflation are thus well known. They are a result of the economic rules of supply and demand. It is therefore likely that inflation will go back towards normal once the war in Ukraine and the impacts of the Covid pandemic have been overcome.

Central bankers and policy makers have not been acting decisively enough to counter inflation, fearing for instance that an adapting wage and pension increase would set off an unstoppable wage-inflation spiral. Still some weeks ago, in April 2022, ECB President Lagarde said: "The impact of these factors [Covid, Ukrainian war] should fade over time." She added: "In the short run inflationary risks are tilted to the upside [but] risks to the inflation outlook could arise if wages rise by more than anticipated." At the same time, she made a case against wage and pension increases, noting that "weaker demand [i.e. purchasing power of citizens] could reduce pressure on prices" and hailing that **wage growth "has remained muted."** She accommodated citizens and workers, saying that "inflation expectations in the euro area stand around our target."[iv]

The issue at stake for workers and citizens is: In reality nobody can currently predict how long the consequences of the Covid pandemic will be felt, nobody can predict if Russian aggressions in Eastern Europe will still last for weeks, months or years. More and more military observers expect the latter.[v]

What is more: The general, undifferentiated inflation levels that are mostly referred to in public discourse hide the problem that the recent **inflationary increases have affected the lower income households hardest**. This is because inflation has been disproportionally high for basic commodities which these households spent relatively large proportions of their income on, like rent, energy and nutrition. Hence, for instance, in the Netherlands the purchasing power of the poorest 20% of households is expected to shrink by 3.6% this year, compared to just 1.4% for the richest quintile.

Workers, especially in the lower income segments, perceive inflation as a real threat, which has the potential for major social unrest, if it is not dealt with. In Germany, a recent survey found that a quarter of the workers is "worried" or "greatly worried" about their own financial perspective in the context of inflation – with this answer being considerably more pronounced among the lower income earners.[vi] This finding is likely exemplary for the Euro zone as such.

For workers and their families in Europe, the inflation levels that they have been experiencing are unacceptable if no measures are taken to re-balance their disposable household incomes. Within one year, the purchasing power of their incomes have been reduced by inflation at staggering levels.

If this trend continues for one or more years, their **wealth will diminish dramatically**. Decades of hard work to ensure a decent living standards will be gone within one or two years, the value of lifelong savings vapourised. Even middle-class income earners will face risks to fall into poverty while lower income earners do not know how to make ends meet already at this stage. Workers must not pay the price of inflation.

It is true that governments have been taking steps to alleviate some of the most acute impacts of rising prices, especially for the most vulnerable societal members, for instance in the form of energy bill vouchers or VAT reductions[2]. Also, statutory minimum wages have been raised in many countries.[vii] This has however not been sufficient. **Inflation has generally outpaced wage and pension increases by far**. In the fourth quarter of 2021, for instance, wages and salaries in the Euro area increased only by 1.5%. The European Foundation for the Improvement of Living and Working Conditions (Eurofound) cautiously writes: "Inflation is firmly back on the scene ... The positive outlook for nominal (wage increase) rates will become more nuanced once inflation and progress in real rates are taken into account."[viii]

Against this background the European Confederation of Independent Trade Unions (CESI) requests:

1. **Policy makers and central bankers must change their narrative about inflation. They must acknowledge that it is largely unknown when it will go back to normal by itself and that measures must be taken to bring it back to normal.** The ECB, policy makers and social partners should run an open and honest discourse on how the ECB may effectively and swiftly respond to inflationary pressures without choking off the post-Covid economic recovery which has been made possible as a result of its asset purchase programmes in Southern Europe in particular.

2. **Calls by unions and social partners for statutory minimum wage increases and collective agreements with wage and pension increases that reflect inflation must be taken seriously** and heard by policy makers and employer-counterparts. The expected further economic recovery and profitability of business make wage increases possible. While the causes of inflation are well-known, adjusting wages to them while they last will not cause a wage-price spiral. It is clear that once inflation decreases, wage increases will decrease also. Wages must always reflect the profitability of business (pay checks must increase if firms perform well), the productivity of workers (salaries must increase if staff becomes more productive), and not least inflation (wage developments must reflect price in- and decreases).

[2] VAT reductions, even if temporary, must however be handled with care. There can be a tendency that a large part of them will be taken in by producers/sellers along the production and supply chain and that reductions are not fully handed down to consumers. This is problematic because it means that taxes foregone by the state land in the pockets of business, not citizens and workers and their families. In return, when VAT reductions are abolished producers/sellers may top up prices by the entire reduction, meaning that after a temporary VAT reduction, prices are in fact significantly higher than before. VAT reductions must therefore be closely monitored by the public authorities.

3. **Governments must take appropriate relief measures to shield low- and middle-income households incomes from inflation.** This could include raised general tax credits and further increases in allowances for rent, energy consumption, foodstuffs, health care and societal participation. Punctually, additional flexibility in the EU's fiscal governance framework may be necessary to enable governments to take action, for instance in the form of a suspended Stability and Growth Pact also in 2023.[ix] However, to re-balance public budgets, capital taxes could also be increased and VAT raised for high consumption and luxury products. More generally, tax avoidance and tax evasion by investors and multinational companies still represents a large financial resource which remains as a result of legal and illegal loopholes and which should be tapped.

[i] https://www.ecb.europa.eu/press/key/date/2022/html/ecb.sp220421~589f9733bc.en.html
[ii] https://www.statista.com/statistics/225698/monthly-inflation-rate-in-eu-countries/
[iii] https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/spring-2022-economic-forecast_en
[iv] https://www.ecb.europa.eu/press/key/date/2022/html/ecb.sp220421~589f9733bc.en.html
[v] https://www.deutschlandfunkkultur.de/ukraine-krieg-exitstrategie-100.html
[vi] https://www.spiegel.de/wirtschaft/inflation-bereitet-den-buergern-mehr-sorgen-als-coronakrise-a-adb9931d-23fb-4fff-92cd-11623b9a5f0b
[vii] https://www.eurofound.europa.eu/publications/article/2022/minimum-wages-in-2022-bigger-hikes-this-time-around
[viii] https://www.eurofound.europa.eu/publications/article/2022/minimum-wages-in-2022-bigger-hikes-this-time-around
[ix] https://www.politico.eu/article/commission-to-extend-eu-debt-rule-suspension-to-mid-2023/?utm_source=POLITICO.EU&utm_campaign=91edbd86aa-EMAIL_CAMPAIGN_2022_05_23_04_56&utm_medium=email&utm_term=0_10959edeb5-91edbd86aa-190538927

European Confederation of Independent Trade Unions • Confédération Européenne des Syndicats Indépendants • Europäische Union unabhängiger Gewerkschaften • Confederazione Europea dei Sindacati Indipendenti • Confederación Europea de Sindicatos Independientes

Avenue des Arts 19AD • B-1000 Brussels • T.: +32 2 282 18 70 • F.: +32 2 282 18 71 • info@cesi.org • www.cesi.org