

# 3. Wages and collective bargaining: fighting the cost-of-living crisis



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## Topics

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In view of the current cost-of-living crisis, timely implementation of the European Minimum Wage Directive would offer a powerful tool to help workers and their families maintain their purchasing power

# Introduction

In the area of wages, collective bargaining and strikes, the main challenge of 2022 has been handling the cost-of-living crisis caused by an unprecedented increase in inflation. Prices had already started to increase in the second half of 2021 as a result of the combined effect of the economic recovery, supply-chain bottlenecks and a supply shortage of raw materials and basic inputs. The Russian invasion of Ukraine early in 2022 and the ensuing war exacerbated supply-chain tensions and increased inflationary pressures. The particularly high increase in energy and food prices eroded the purchasing power of a growing number of workers and their families, affected by a cost-of-living crisis in which they found it difficult to make ends meet. What is more, as discussed in Chapters 1 and 4 in this issue of *Benchmarking*, green and geopolitical transition processes and the quest for greater strategic autonomy in critical sectors and supply chains are likely to maintain inflationary pressures for some time to come. Against this background, one key focus of this chapter will be on the development of wages, minimum wages, collective bargaining and strike action under the challenging economic conditions of such high inflation. More specifically, the chapter will review how minimum wages and collective bargaining have been used to fight the cost-of-living crisis by safeguarding workers' purchasing power.

The second key focus will be on the (potential) implications of the European Directive on adequate minimum wages in the European Union (European Parliament and Council of the European Union 2022). Adoption of the European Minimum Wage Directive in October was the most important political development of 2022 in the field of wages and collective bargaining. It represents a paradigm shift in the EU's underlying view of wages and collective bargaining, as it is the first piece of EU legislation that has ever explicitly aimed at ensuring adequate minimum wages and strengthening collective bargaining (Müller and Schulten 2022). Let's recall that, in the context of the Great Recession of 2008-2009, the European Commission's DGECFIN praised the reduction of minimum wages, the decentralization of collective bargaining, the reduction of collective bargaining coverage and the general weakening of trade unions' wage-setting power as 'employment-friendly reforms' (European Commission 2012). The European Minimum Wage Directive's dual objective of ensuring adequate minimum wages and strengthening collective bargaining points precisely in the opposite direction. This is also important in the context of the cost-of-living crisis, as the Directive is explicitly aiming to strengthen two tools that play an essential role in combatting the cost-of-living crisis. Against this background, this chapter will review, first, how the Directive has already influenced minimum wage setting and, secondly, its potential future implications for minimum wages and collective bargaining.

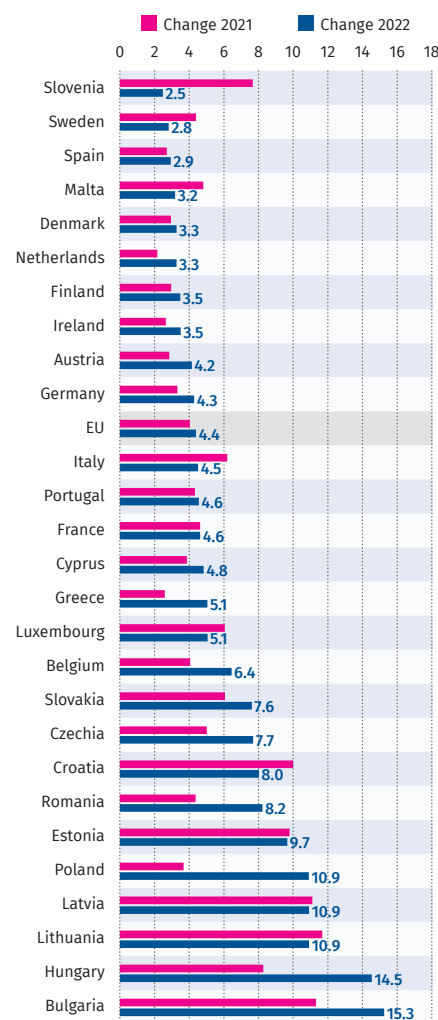
# Wage developments

Although all employees have been hit by the surge in inflation, it is important to recognise that not all countries, sectors and groups of employees have been affected to the same extent. Inflation has varied considerably across the EU depending on the respective Member State's energy mix and, therefore, its exposure to different energy sources, its degree of integration into the world market and its dependence on international supply chains (Schrooten 2023). Furthermore, the effect of inflation has been much stronger in the energy-intensive manufacturing and transport sectors than in certain service sectors, for instance (European Commission 2022). Finally, low-wage earners have been much harder hit by inflation than employees higher up the pay scale, because they tend to spend a higher share of their income on energy, food and other essential goods and services, where price rises are greater than for other, non-essential items (ILO 2022). These factors all influence the outcomes of wage bargaining.

Another important factor is the extent of state support for workers and households, intended to mitigate their loss of purchasing power. In all EU countries, governments have introduced different kinds of supporting measures, such as direct transfers or tax reductions that complemented wage policies. In addition, governments have taken regulatory measures to contain prices, such as placing price caps on energy costs or reducing energy-related taxes (European Commission 2022). Such increased state support eases the pressure on wage policies to compensate for the loss of purchasing power.

Figure 3.1 shows the development of nominal compensation per employee and demonstrates that, in the majority of countries, nominal compensation grew more strongly than in 2021. However, Figure 3.1 also highlights marked differences across the EU, ranging from increases of below 3% in Slovenia, Sweden and Spain to substantial increases of over 10% in Poland, Latvia, Lithuania, Hungary and Bulgaria. To a large extent, differences in the growth of nominal compensation reflect national differences in inflation: the five countries with the highest growth in nominal compensation all had an average annual inflation rate above 10% (Eurostat 2023a).

Figure 3.1 **Development of nominal compensation\* in 2021 and 2022 (change in % compared with previous year's)**

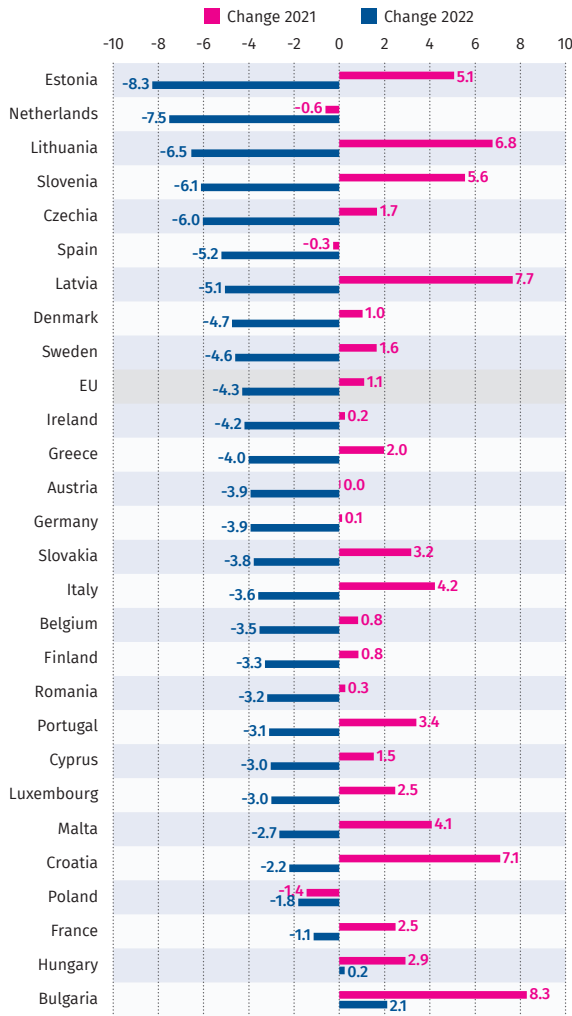


Note: \* Nominal compensation per employee: total economy (national currency).  
Source: AMECO database (HWCDW), 15 December 2022.

## Historic drop in real compensation

Figure 3.2 shows the development of real compensation per employee, demonstrating that the more dynamic increases in nominal compensation were not enough to offset employees' loss of purchasing power. The only exceptions were Hungary and Bulgaria, with increases in real compensation of 0.2% and 2.1% respectively. In all other EU countries, employees faced a historic drop in real compensation ranging from under 2% in Poland and France to 6% or more in Czechia, Slovenia, Lithuania, the Netherlands and Estonia. The

Figure 3.2 Development of real compensation\* in 2021 and 2022 (change in % compared with previous year's)



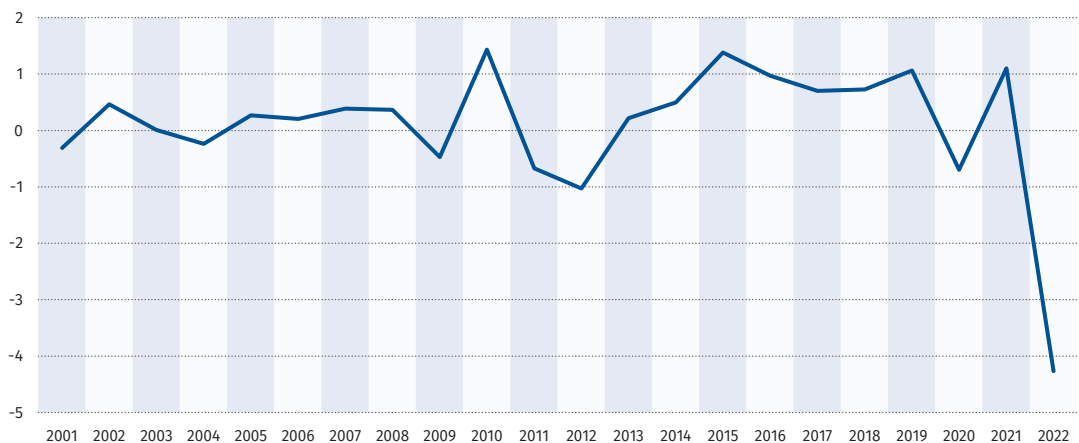
Note: \* Nominal compensation deflated by annual average change in HICP. As real compensation represents the purchasing power of compensation i.e. the ratio of nominal compensation to prices, real compensation has been calculated using the following formula: nominal compensation index multiplied by 100 divided by consumer price index (for more details, see WSI Tarifarchiv 2023). Source: AMECO database (HWCDW), 15 December 2022 for nominal compensation; Eurostat (2023a) for HICP, 15 December 2022.

unusual scale of the drop in real compensation of 4.3% in the EU is illustrated in Figure 3.3 which shows the development of real compensation per employee in the EU for the last 20 years.

This historic drop in real wages must be viewed against the backdrop of the unprecedented challenges for collective bargaining posed by inflation in 2022. First of all, the drop in real wages reflects the fact that, in the light of the surge in inflation, all countries pursued a mix of policies that combined nominal wage increases with public support measures intended to mitigate the negative effects of inflation on consumers. In many instances, this included the payment of a one-off inflation premium by the state – an acknowledgement of the fact wage policy alone cannot fully compensate for loss of purchasing power. The technical details of previous and current collective agreements represented another factor contributing to the drop in real wages. An analysis of collective agreements in a selected number of countries – based on the ETUI's Collective Bargaining Newsletter (ETUI 2023) – reveals that, in many sectors and/or countries, no negotiations took place in 2022, as long-term collective agreements had been concluded in previous years. These earlier agreements tended to provide smaller wage increases. Furthermore, payment of the significantly higher wage increases that have been negotiated in 2022 is often delayed until 2023 following a one-off inflation bonus.

Further key trends in wage bargaining during 2022 have included, first, taking into account the specific needs of low-wage earners, many agreements combined structural percentage increases and fixed minimum lump-sum increases to ensure a disproportional percentage increase for lower wage groups.

Figure 3.3 Development of real compensation\* (EU, 2001-2022)



Note: \* Nominal compensation deflated by annual average change HICP. As real compensation represents the purchasing power of compensation; i.e. the ratio of nominal compensation to prices, real compensation has been calculated using the following formula: nominal compensation index x 100 divided by consumer price index (for more details, see WSI Tarifarchiv 2023). Source: AMECO database (HWCDW), 15 December 2022 for nominal compensation; Eurostat (2023a) for HICP, 15 December 2022.

Second, the duration of agreements is often longer than usual, in order to give employers some security in forward planning: in some instances, however, these include a clause allowing negotiations to be recommenced if conditions change dramatically. Third, in many instances, additional allowances such as shift- and nightwork bonuses, food subsidies and Christmas and holiday allowances have risen, on top of structural increases in basic pay. Fourth, public sector agreements in Austria and Portugal have made better provision for career advancement, with pay grade reclassification following training, which has given workers help additional to the agreed pay increases (ETUI 2023).

## Profit-price spiral, not wage-price spiral

Against the background of the accelerated increase in nominal wages in 2022, employers frequently warned of the dangers of a ‘damaging wage-price spiral’ (BusinessEurope 2022: 13) and called on the bargaining parties to act responsibly in wage negotiations. A look at the key drivers of inflation in the EU illustrates that current price increases have not been driven primarily by demand-side factors – and by wage developments in particular – but by various supply-side shocks. The importance of supply-side factors is confirmed by the European Central Bank’s shock decomposition analyses, which see the risks of a wage-price spiral as being contained (Schnabel 2022a).

In assessing the impact of wage developments on inflation, use of negotiated wages as a measure of the outcome of collective bargaining processes provides an important indicator. They give a more accurate picture of underlying wage developments because they are less affected by developments in hours worked and government

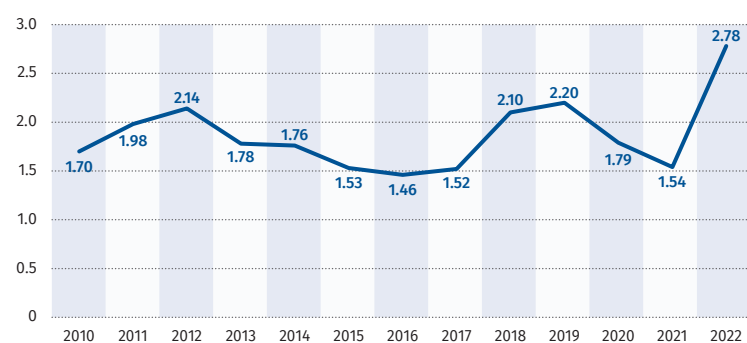
subsidies (Bodnár et al. 2022). Figure 3.4 shows the development of negotiated wages in the euro area for the past 10 years, demonstrating that negotiated wages increased only modestly in 2022 and stayed well below the average annual rate of inflation (Eurostat 2023a) – despite an increase compared with 2021.

Research from the Economic Policy Institute has shown that corporate profits in the US have contributed disproportionately to inflation (Bivens 2022). More than half of the increase in inflation between 2020 and 2021 can be attributed to increased profits, while labour costs accounted for under 10% – historically, the relationship was more or less the other way round (Bivens 2022). ECB analyses for the EU show a similar trend since the fourth quarter of 2020, concluding that ‘profits have recently been a key contributor to total domestic inflation above their historical contribution’ (Schnabel 2020b). Against this background, it is more appropriate to speak of a profit-price spiral than of a wage-price spiral. The key driving force of this ‘greedflation’ (Wixforth and Haddouti 2022) is the increased pricing power of companies in a situation where bottlenecks in global supply chains severely disrupted the process of reopening economies after the Covid-19 pandemic. This has enabled companies in some sectors (especially in internationally exposed sectors such as industry and agriculture) to exploit their oligopolistic market position and raise prices far beyond what is needed to offset higher input and production costs (Wixforth and Haddouti 2022). As a consequence, corporate profits in the EU increased in 2022, while at the same time workers suffered a historic drop in real wages (ETUC 2022). Furthermore, the increase in corporate profits was accompanied by a sharp rise in dividend payments (Allenbach-Ammann 2022).

These developments illustrate that many firms actually gained from the surge in inflation and that the fortunes of business and households have diverged (Schnabel 2022b). In a nutshell, workers have borne the brunt of current inflation shocks. The rise in corporate profits and dividend payments, however, also confirms one of the European Commission’s main conclusions in its most recent report on labour market and wage developments in Europe: ‘there is room for wage increases, especially for low wages’ (European Commission 2022: iii).

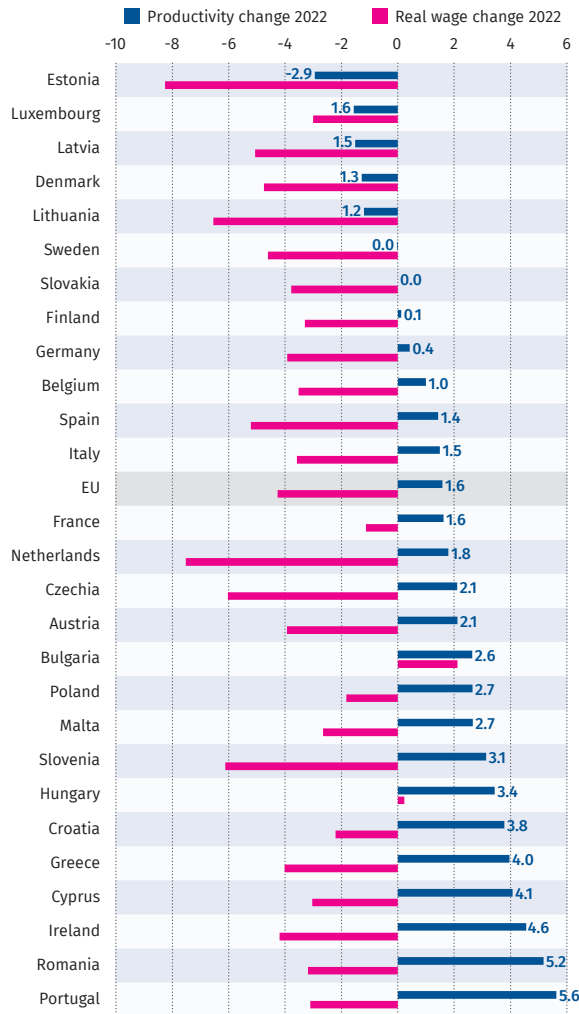
The divergent implications of current inflation for businesses and for workers have far-reaching consequences for inequality and income distribution in the EU. One way to assess the distributional impact of wage developments is

Figure 3.4 Development of collectively agreed wages in the euro area (annual rate of change; 2010-2022\*)



Note: \* Data for 2022 = average of first three quarters.  
Source: ECB Indicator of negotiated wage rates.

Figure 3.5 Development of labour productivity\* and real wages in 2022



Note: \* Gross domestic product per person employed.  
Source: AMECO database (RVGDE), 15 December 2022.

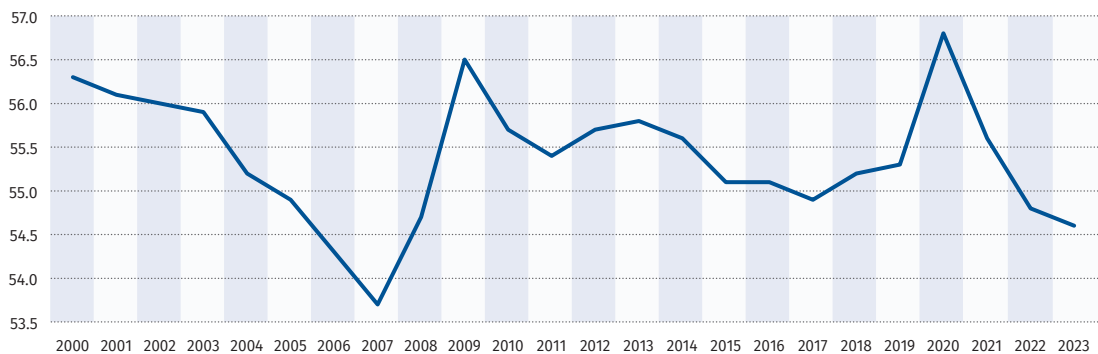
to compare the development of real wages and the development of labour productivity. If real wages develop in line with labour productivity, wage growth not only compensates for inflation but is also distribution-neutral, in the sense that the distribution of income between capital and labour stays the same. Figure 3.5 shows that, across all EU countries, only in Bulgaria has the development of wages come even close to distributional neutrality. In all the other Member States, current inflation has led to a substantial redistribution of income from labour to capital.

This is confirmed by Figure 3.6, which indicates the sharp decline in the wage share across the EU, showing the share of national income accounted for by labour compensation in the form of wages, salaries and other benefits. The fact that the wage share in 2022 was below its pre-pandemic level demonstrates that workers did not benefit from the economic recovery and the strong rise in business profits. As a redistributive measure, some EU Member States – such as Bulgaria, Czechia, Hungary, Italy, Romania and Spain – have introduced a windfall or excess-profit tax in order to increase their room for manoeuvre in supporting those workers and households hardest hit by inflation.

## Wage inequality

The fact that current inflation weighs more heavily on lower income groups (ILO 2022; OECD 2022a) poses the risk of ‘inflation inequality’ translating into growing income inequality. Wage inequality in Europe is generally below that in other advanced economies, but current developments are driving wages further apart. Cross-national studies have shown that wage inequality is increasing primarily between firms and workplaces, reflecting the fact that firms have greater wage-setting power than workers: as productivity or profitability diverges between workplaces, this translates into greater

Figure 3.6 Development of wage share in the EU\* (2000-2023)



Note: \* Adjusted wage share in percentage of GDP at current market prices; figures for 2023 are forecasts.  
Source: AMECO database (ALCDO), 15 December 2022.

inequalities between workers (Crisciuolo et al. 2020; Tomaskovic-Devey et al. 2020; Zwysen 2022). Such trends mean that where someone works becomes all the more important and that there is a risk of greater polarisation between those with better conditions at higher-paying firms and those working under worse conditions for lower-paying firms, who are often already more vulnerable.

Increased wage inequality arises partly under pressure from macroeconomic trends such as technological change and globalisation, which widen differences between more highly-skilled people working on complex, abstract tasks and those doing manual or routine work, who are more easily replaceable (Autor et al. 2003; Michaels et al. 2013; Zwysen 2022). On the other hand, there are strong institutional factors that strengthen workers' bargaining position and can be especially helpful to those nearer the bottom of the wage distribution: these include, in particular, strong trade unions, strong and widely applicable collective agreements and relatively high minimum wages that guarantee an adequate wage for all. However, as trade union density and collective bargaining coverage decline, so do the wage benefits they provide to workers and their positive impact in reducing inequality (Zwysen and Drahekoupil 2022).

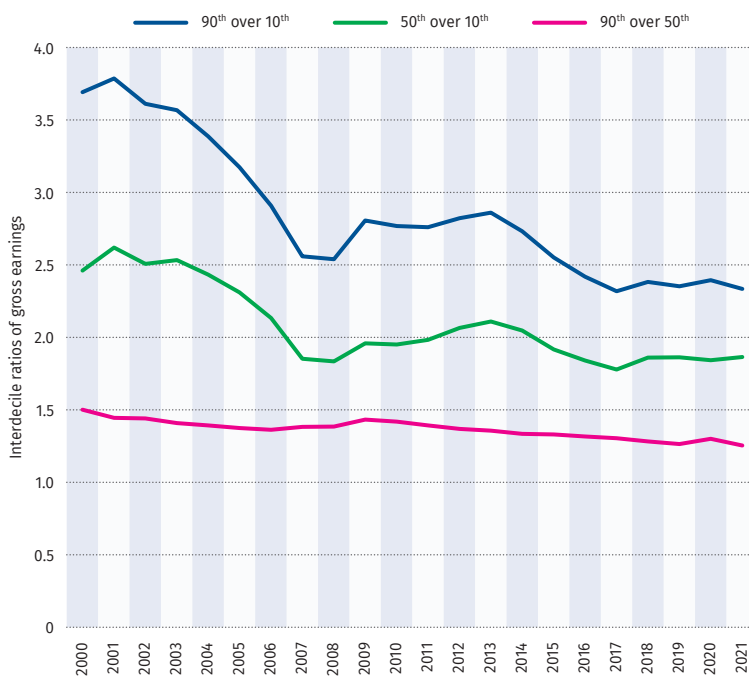
It seems that the strong actions taken by governments to support lower-income

households and to protect employment during the pandemic resulted in a reduction of income inequality, at least initially (OECD 2021). On top of that, the jobs that were lost tended to be the lower-wage ones which results in a more compressed wage distribution. The long-term effects of this still remain to be seen, especially with the current cost-of-living crisis.

Figure 3.7 shows the overall trend in the spread of average gross earnings across EU countries over time. Importantly, wage inequality declined strongly from 2000 to the Great Recession, particularly as the lower-paid Member States (the bottom half) caught up. While there was little change during the Great Recession – due to rising inequality in average earnings in the lower half – there was a further narrowing from 2013 onwards. While average earnings in one of the highest-paid Member States are still 2.5 times higher in terms of purchasing power than average earnings in one of the lowest-paid Member States, there has been substantial convergence.

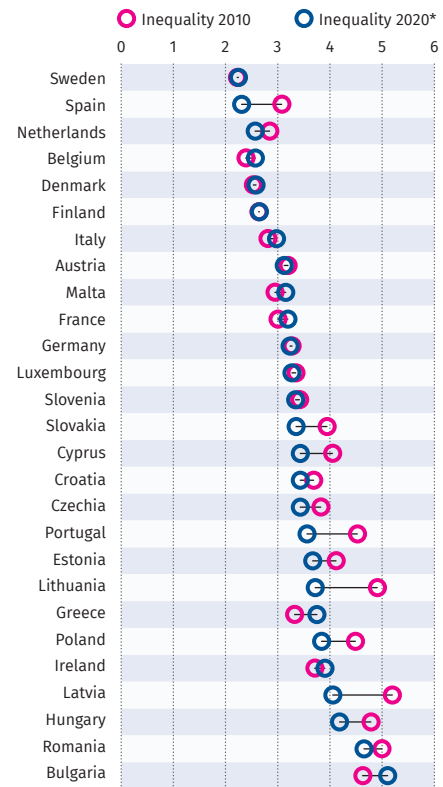
Figure 3.8 shows estimated inequality in gross earnings from 2010 to 2020 by Member State. First, there are sizeable differences between countries, with inequality being highest on

Figure 3.7 Wage inequality between EU Member States (2000-2021)



Note: Based on the 90<sup>th</sup> to the 10<sup>th</sup> percentiles of average gross earnings in 22 EU Member States (excluding BG, CY, HR, MT and RO) in US dollar purchasing power parities. Source: OECD.Stat.

Figure 3.8 Change in inequality in hourly real wage (P90/P10) from 2010 to 2020



Note: Inequality (ratio of the 90<sup>th</sup> to the 10<sup>th</sup> percentile on hourly wage) by country. \* Most recent year generally 2020; for BE, IE, IT and MT: 2019; for LU and SI: 2018. Source: OECD.Stat.



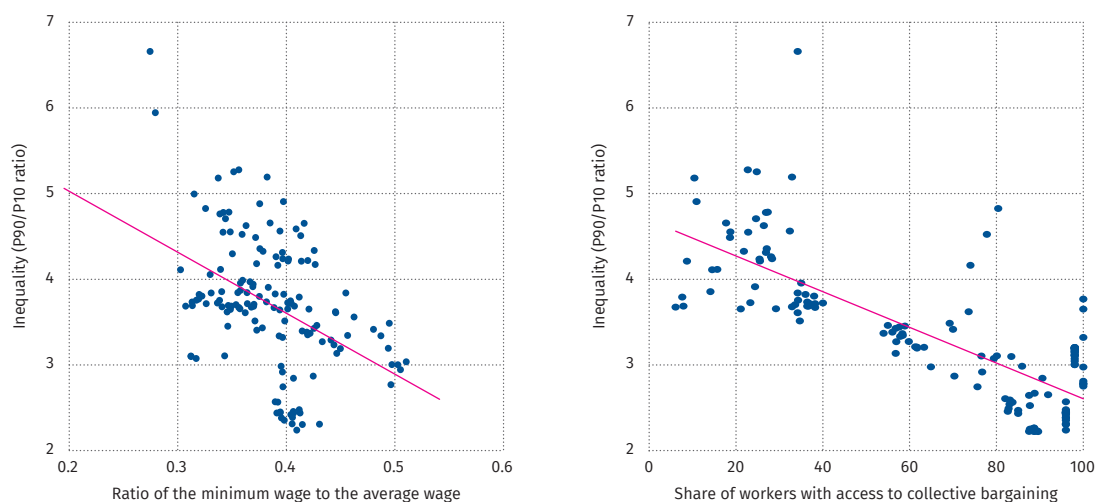
average in Bulgaria, Romania, Hungary, Latvia and Ireland, and lowest in Sweden, Spain, the Netherlands, Belgium, Denmark and Finland. Secondly, inequality declined in 16 of the 27 EU Member States and remained more or less stable in two more countries, while increasing in nine of the EU Member States. Inequality rose markedly in Greece and Bulgaria, while it declined substantially in Latvia, Lithuania, Portugal and Spain. Overall, in most countries, inequality actually declined or remained stable.

Figure 3.9 contrasts levels of earnings inequality in European countries with two important factors that contribute to a more equal spread of

wages: the bite of the minimum wage, expressed as the ratio of the statutory minimum wage to the average wage (left) and access to collective bargaining (right). Both have a strong negative association with overall earnings inequality, with a correlation coefficient of -0.44 and -0.77 respectively.

When looking more specifically at changes over time, it is also clear that more impactful minimum wages and greater collective bargaining coverage – particularly through multi-employer bargaining – are associated with lower levels of wage inequality (Zwysen 2022).

Figure 3.9 **Link between gross earnings inequality and minimum wage (left) or collective bargaining (right)**



Note: The figure shows (i) the relationship between the ratio of the 90<sup>th</sup> to the 10<sup>th</sup> percentile of gross earnings and the ratio of the minimum wage to the average wage (left); (ii) the share of workers with access to collective bargaining (right), EU Member States, 2010-2020. Source: OECD.Stat.

# Developments in minimum wages and collective bargaining

## The Minimum Wage Directive as a paradigm shift

Increasing minimum wages and strengthening collective bargaining are key tools in dealing with the current cost-of-living crisis, since they both support workers' purchasing power – in particular, that of low-wage earners. In both respects, the recently adopted European Directive on Adequate Minimum Wages in the European Union (European Parliament and Council of the European Union 2022) is a game changer. As regards its underlying view of the role of wages and collective bargaining, the European Minimum Wage Directive represents a paradigm shift: appropriate minimum wages and comprehensive collective bargaining systems are no longer seen as obstacles to economic growth. On the contrary, they are regarded as key institutional prerequisites for a sustainable and inclusive economy (Müller and Schulten 2022).

The Minimum Wage Directive is not about setting a uniform minimum wage level across Europe, but about specifying certain criteria to ensure adequate minimum wages at national level. Article 5(2) lists four criteria that Member States must take into account when setting statutory minimum wages: (a) the purchasing power of statutory minimum wages, taking into account the cost of living; (b) the general level of wages and their distribution; (c) the growth rate of wages; and (d) long-term national productivity levels and developments. Member States are to formulate transparent rules for setting minimum wages, but they are free to decide on the relative weight of these criteria.

However, the most important provision for setting national minimum wages is Article 5(4), which states that Member States may be guided by indicative reference values when assessing the adequacy of statutory minimum wages, using internationally recognised indicators such as 60% of the gross median wage and 50% of the gross average wage. Thus the Directive establishes de facto a double 'decency

threshold'. Although this threshold is not legally binding, it represents a strong normative benchmark for setting minimum wages at national level.

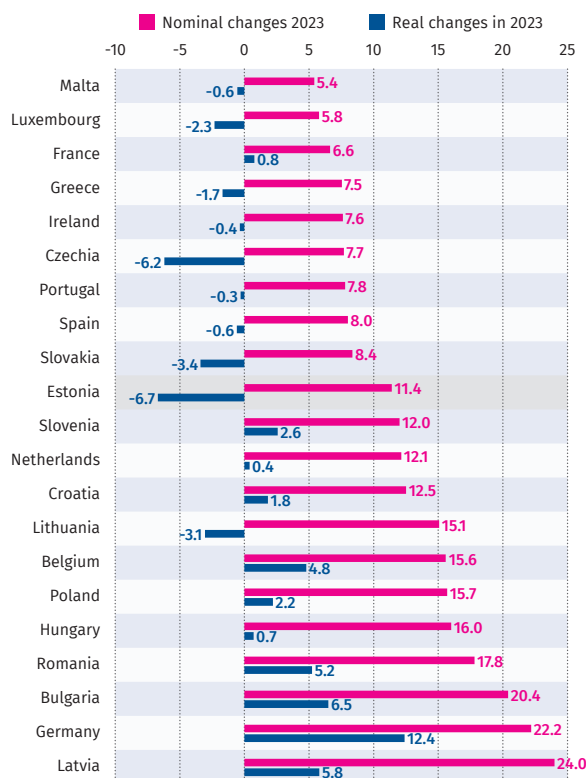
To strengthen collective bargaining, the Directive also contains various provisions aimed at strengthening the role of trade unions. For example, Article 3(3) explicitly confirms that collective bargaining is the prerogative of trade unions. In addition, Article 4(1) guarantees the right to collective bargaining and protects workers and their representatives who participate (or wish to participate) in collective bargaining from discrimination.

Article 4(2) obliges Member States with collective bargaining coverage below 80% to establish national action plans that contain a clear timetable and concrete measures to gradually increase collective bargaining coverage. These plans must be drawn up in cooperation with the social partners, reviewed regularly and updated at least every five years. In addition, Article 9 of the Directive calls on Member States, when awarding public contracts and concessions, to also take into account criteria that guarantee basic trade union rights and compliance with collective bargaining standards.

## Statutory minimum wages in the EU

Against this background, it is evident that, particularly in view of the current cost-of-living crisis, timely implementation of the Directive would offer a powerful tool to help workers and their families maintain their purchasing power. The important role of minimum wages in this respect is illustrated by Figure 3.10, which shows that, in 2022, many countries substantially increased statutory minimum wages to support low-wage earners. In many EU countries, nominal minimum wages increased far beyond the nominal increase in overall wages – taking into account the specific needs of low-wage earners in times of high inflation.

Figure 3.10 **Development of hourly nominal and real minimum wages in 2023\* (in %, 1 January 2022-1 January 2023)**



\* Note: Calculation based on national currencies. The development of real minimum wages refers to changes in nominal minimum wages deflated by HICP annual average changes. Since real minimum wages represent the purchasing power of minimum wages – i.e. the ratio of nominal minimum wages to prices – real minimum wages have been calculated using the following formula: nominal minimum wage index multiplied by 100 divided by consumer price index (for more details, see WSI Tarifarchiv 2023).  
Source: WSI Minimum Wage Database (WSI 2023) and own data.

As regards the development of nominal statutory hourly minimum wages, three broad groups of EU Member States can be distinguished. The first group consists of eight countries with an increase of between 5% and 10%, ranging from Malta (5.4%) and Luxembourg (5.8%) to Spain (8%) and Slovakia (8.4%). The second group consists of four countries with an increase of between 10% and 13%, ranging from Estonia (11.4%) to Croatia (12.5%). The group with the largest increase, of between 15% and 24%, consists of eight countries. Lithuania (15.1%) and Belgium (15.6%) are at the bottom of this group, while the largest increases took place in Germany (22.2%) and Latvia (24%). Six of the eight countries in this group are in central and eastern Europe (CEE), demonstrating that the trend of minimum wage convergence between CEE countries and western European countries has continued throughout 2022. The presence of Belgium and Germany in this group can be attributed to specific factors. The substantial increase in Germany is the result of a June 2020 government decision to raise the minimum wage in steps, to reach 12 euros an hour by October 2022. In line with this, the minimum wage in Germany

was increased to 10.45 euros on 1 July 2022 and to 12 euros on 1 October 2022. But this was an exceptional structural increase, and no changes were introduced to the process for setting the minimum wage. Therefore, future increases will follow the usual procedure, applying the recommendations of the minimum wage commission, which are strongly determined by the development of collectively agreed wages.

The substantial minimum wage increase in Belgium is a result of wage indexation, which links the development of minimum wages to the development of prices. Usually, there is an automatic adjustment of the minimum wage when the consumer price index has risen by over 2% since the last increase. As a consequence of the sharp rise in inflation, there have been six minimum wage increases in 2022 – from 1691.40 euros per month on 1 January 2022 to 1954.99 euros per month on 1 December 2022, when the last adjustment took place.

In the majority of EU countries, minimum wages are usually adjusted annually on 1 January. In the light of inflation, Belgium was not alone in introducing further adjustments during 2022. Additional updates to take account of the surge in inflation have also been introduced in France (May and August) and Luxembourg (April), both of which also have a minimum wage indexation system, and in the Netherlands, where minimum wages are normally adjusted on 1 January and 1 July of each year.

## Fall in real minimum wages in many countries

In the light of high inflation, in 10 countries – almost half of the Member States with a statutory minimum wage – the nominal minimum wage increases were not enough to safeguard minimum wage earners' purchasing power. The fall in real hourly minimum wages ranges from marginal in Portugal (-0.3%), Ireland (-0.4%), Malta (-0.6%) and Spain (-0.6%) to very substantial in Czechia (-6.2%) and Estonia (-6.7%). By the same token, the increases in real hourly minimum wages range from under 1% in the Netherlands (0.4%), Hungary (0.7%) and France (0.8%) to almost 6% or more in Latvia (5.8%), Bulgaria (6.5%) and Germany: the last being the outlier, with an increase in real minimum wages of 12.4%.

These substantial differences in the development of nominal minimum wages had an impact on the ranking of countries in terms of the absolute level of statutory minimum wages. Traditionally,

three broad groups of Member States can be distinguished as regards the absolute level of minimum wages: a group of six western European countries with the highest minimum wages, a small group of countries with minimum wages between 5 and 7 euros an hour, and a large group of exclusively southern European and CEE countries with minimum wages below 5 euros an hour. The top group still consists of the same six western European countries, led by Luxembourg with an hourly minimum wage of 13.80 euros. However, due to its extraordinary nominal increase of 22%, Germany leapt up from sixth to second position, with a minimum wage of 12 euros an hour. At the bottom of this top group are France (11.27 euros) and Ireland (11.30 euros). In the middle group of countries with a minimum wage between 5 euros and 7 euros, Slovenia and Spain, which in 2021 were the only ones in this group, have been joined by Cyprus (5.70 euros) and Lithuania (5.14 euros). Cyprus is a notable case because it has changed its mechanism for setting minimum wages from a system of negotiated minimum wages to a system of statutory minimum wages, whereas statutory minima had previously existed only for a limited number of occupational groups (Schulten and Müller 2020). However, with effect from 1 January 2023, Cyprus has introduced a

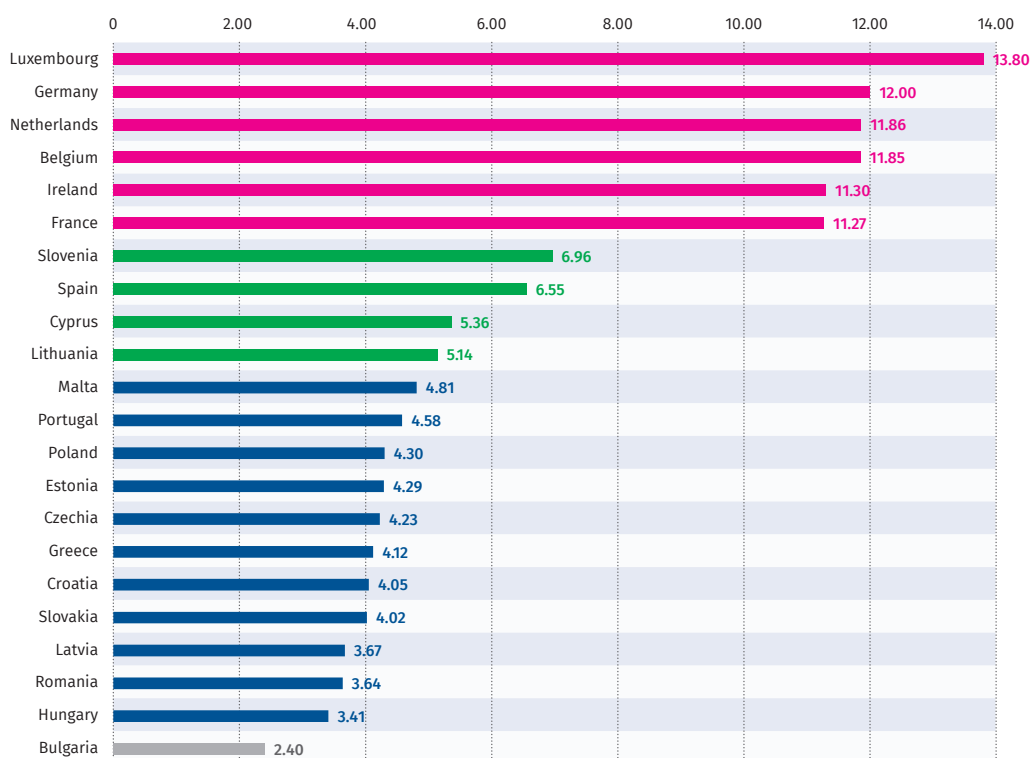
general statutory minimum wage of 940 euros per month, which – based on a 38-hour-week and 165 working hours per month – represents an hourly minimum wage of 5.70 euros.

The group with the lowest hourly statutory minimum wages (below 5 euros) is still the largest group, ranging from Bulgaria (2.40 euros), Hungary (3.41 euros) and Romania (3.64 euros) to Portugal (4.50 euros), Malta (4.81 euros) and Poland – the new frontrunner of this group with 4.87 euros. In Greece, Portugal and Spain, the minimum wage is paid 14 times a year. In Figure 3.11, the minimum wage for these three countries has been converted to 12 payments. If the full 14 payments were taken into account, the hourly minimum wage would be 7.64 euros in Spain, 5.34 euros in Portugal and 4.81 euros in Greece.

## Statutory minimum wages in purchasing power standards

Measuring statutory minimum wages in purchasing power standards is a way of taking into account the considerable variation in the actual cost of living across the EU. According to Eurostat calculations (2023c), the general price

Figure 3.11 Statutory national minimum wages in the EU (per hour, in euros, January 2023)



Notes: In those countries where minimum wages are set on a monthly (or, in Malta, weekly) basis, the amount has been converted into hourly rates based on the average collectively agreed number of working hours per month as provided by Eurofound (2022). For non-euro countries, the national currency has been converted using the average annual exchange rate for 2022 (Eurostat 2023b). For Greece, Portugal and Spain, where the minimum wage is usually paid 14 times a year, the figure refers to 12 payments a year.  
Source: Authors' own compilation based on national sources and WSI Minimum Wage Database (WSI 2023).



Minimum wages in the EU not only converged nominally but also in terms of their relationship to the actual cost of living

level in Luxembourg in 2021 was about 44% above the average for the EMU, while in Croatia it was 37% below the average (Lübker and Schulten 2023). In order to take into account differences in the cost of living between EU Member States, the WSI minimum wage database also shows the value of minimum wages in purchasing power standards (PPS) on a euro basis (WSI 2023). Since there is always a time lag in calculating PPS conversion factors, the data in Figure 3.12 is based on the PPS for private consumption in 2021.

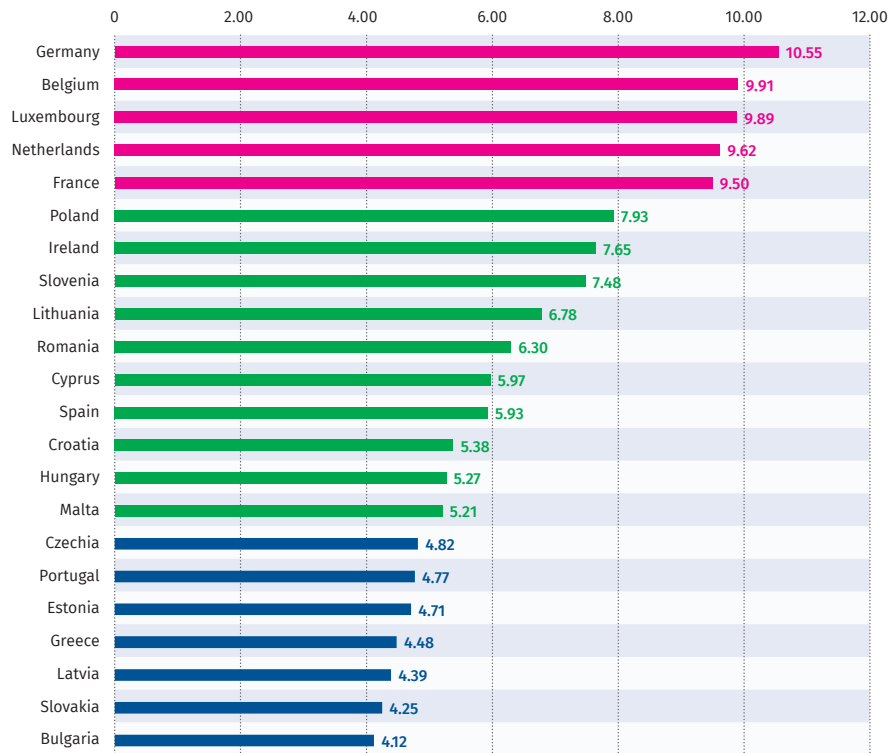
Figure 3.12 demonstrates that measuring statutory minimum wages in PPS considerably reduces the gap between EU Member States – and in particular between western European and CEE countries. Whereas the ratio between the highest and lowest nominal minimum wages is 1:5.73, this ratio is more than halved – to 1:2.56 – when minimum wages are measured in PPS. Expressing the value of statutory minimum wages in PPSs demonstrates that minimum wages in the EU not only converged nominally but also in terms of their relationship to the actual cost of living. In 2015, for instance, the ratio between the highest and the lowest statutory minimum wage in the EU, measured in PPS, was 1 to 3.93 (Schulten 2015).

What is more, Figure 3.12 shows that taking into account the actual cost of living considerably changes the order of countries as regards the value of their minimum wages. For example, Bulgaria (4.12 PPS), Hungary (5.27 PPS) and Croatia (5.38 PPS) have significantly higher minimum wages when measured on a PPS basis, whereas, in countries such as Luxembourg (9.89 PPS) and Ireland (7.65 PPS), the comparatively higher cost of living has a negative impact on the value of the minimum wage. Germany replaces Luxembourg at the top of the ranking as a consequence of its comparatively lower cost of living, even though the nominal minimum wage in Germany is considerably lower than in Luxembourg.

### The normative force of the Directive

The absolute level of minimum wages also says little about whether they are adequate in the sense of being sufficient to ensure a decent living. Measured against the double decency threshold of 60% of the median and 50% of the average wage set out in the European Minimum Wage Directive, Figure 3.13 demonstrates that

Figure 3.12 Purchasing power of statutory minimum wages (per hour, PPS on euro basis\*, 1 January 2023)



Note: Conversion to PPS on a euro basis, using purchasing power parities for private consumption reported by the World Bank for 2021. Source: WSI Minimum Wage Database; Lübker and Schulten 2023.

according to data from the OECD earnings database (OECD 2022b) in 2021 only Slovenia fulfilled the criteria for adequate minimum wages. In all the other Member States, minimum wage increases – in some cases, substantial ones – would be needed to establish adequate minimum wages. It should be emphasised that the OECD database provides data only up to 2021, so any substantial minimum wage increases of 2022 have not yet been taken into account in measuring the relative value of minimum wages.

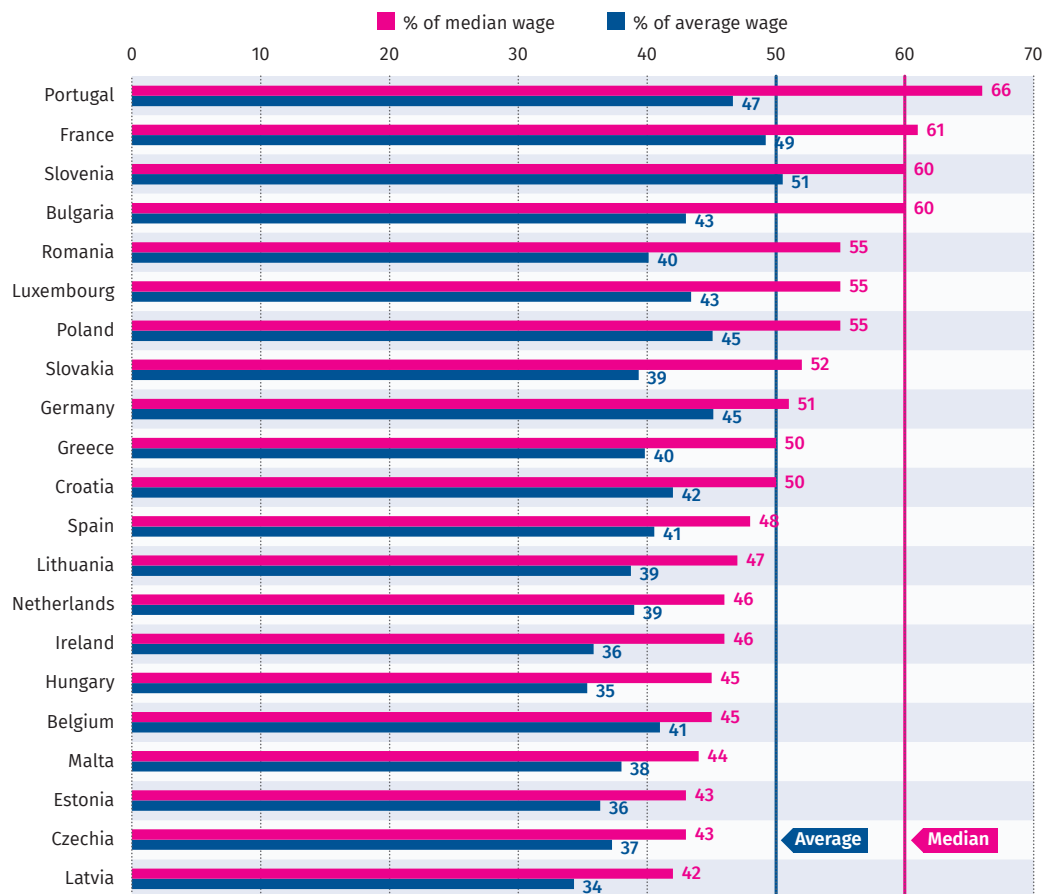
Even though EU Member States still have two years to transpose the Directive into national law, the orientation of national statutory minimum wages towards national median and/or average wages is already playing an important role. For example, Slovakia's current minimum wage law provides for the minimum wage to be set at 57% of the average wage if employers and trade unions do not agree on a different minimum wage level. In Spain, the government has committed to raising the minimum wage to 60% of the average wage by 2023. In Germany, one justification for the increase to 12 euros was that this would bring the minimum wage significantly closer to a level of 60% of the national median wage (Müller and Schulten

2022). Finally, in Cyprus, the level of the newly introduced statutory minimum corresponds to 60% of the national median wage (European Commission 2022).

The example of Austria, where minimum wages are set by collective agreements, illustrates that the impact of the Directive may also influence discussions in countries that do not have a statutory minimum wage, even though the Directive's provisions on the adequacy of minimum wages do not apply to them. In order to safeguard the purchasing power of employees across all sectors, in the autumn 2022 bargaining round, Austrian trade unions agreed a new minimum wage target of 2000 euros per month. This target roughly corresponds to the Directive's definition of adequate minimum wages (Müller and Schulten 2022).

Furthermore, even before the Directive was formally adopted, some European countries announced the need for immediate action on their own national minimum wage regulations. In Belgium, the Minister of Employment announced that the Belgian minimum wage did not meet European standards and would have to be raised to 12 euros an hour in order to reach the

Figure 3.13 Minimum wage as % of full-time median and average wages (2021)



Source: OECD earnings database (OECD 2022b). For Bulgaria, Croatia and Malta: data from 2018 (European Commission 2020).

target of 60% of the median wage (Carter 2022). In the Netherlands, the trade union federation FNV called on the government to raise the minimum wage to 14 euros an hour in order to meet the targets of the European Minimum Wage Directive (FNV 2022). Finally, in Ireland, the government has announced that it will gradually raise the minimum wage over the next four years to a living wage level equivalent to 60% of the Irish median wage (Government of Ireland 2022).

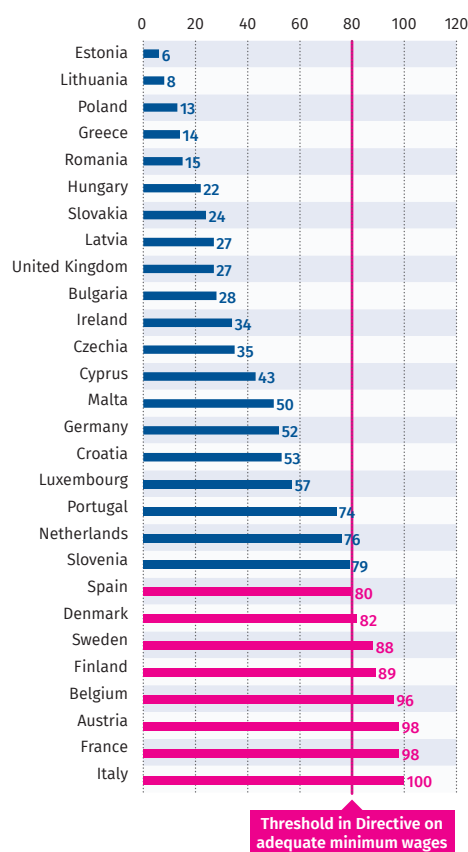
## Action plans to increase bargaining coverage

Strengthening collective bargaining is another important measure to deal with the cost-of-living crisis. There is ample evidence showing that high collective bargaining coverage goes hand in hand with lower levels of wage inequality and higher overall wage levels (OECD 2019). The latter not only directly support low-wage earners, but also help to ensure a sufficiently high median wage, which in turn can serve as a benchmark for adequate minimum wages. By requiring all Member States where collective bargaining coverage is below 80% to establish an action plan to promote collective bargaining, the European Minimum Wage Directive defines de facto a threshold for adequate collective bargaining coverage. This threshold can be seen as a trigger for the implementation of measures that will progressively move the collective bargaining coverage rate towards 80%.

Figure 3.14 illustrates the potentially far-reaching implications of this adequacy threshold. Only eight Member States currently have collective bargaining coverage above 80%, which means that 19 Member States need to establish action plans with concrete measures to increase their bargaining coverage. What is more, Figure 3.14 clearly demonstrates that the adequacy threshold can be reached only through sectoral collective bargaining. In all eight countries that meet the adequacy threshold, sector-level agreements are the primary tool for setting the terms and conditions of the employment relationship. In contrast, all the countries with bargaining coverage of 50% or less are characterised by the dominance of company-level agreements. Therefore, the adequacy threshold represents an implicit call to Member States to introduce or strengthen sectoral collective bargaining.

Although every Member State below the 80% adequacy threshold is legally required to establish an action plan, successful implementation of the plan is by no means a foregone conclusion – partly because there

Figure 3.14 **Collective bargaining coverage\* in EU countries (2019 or most recent year available)**



Note: Share of employees covered by a collective agreement in relation to the number of employees with the right to bargain.  
Source: OECD / AIAS (2022).

are no sanctions for failure to comply with the requirement to establish and implement such an action plan. Thus, the extent to which the Minimum Wage Directive can actually contribute to promoting collective bargaining at national level depends strongly on whether the relevant political actors take the initiative and are able to implement appropriate measures. The European monitoring process provided for in the Minimum Wage Directive – and the resulting permanent comparisons between EU Member States – will support any initiatives on the part of national actors who advocate stronger collective bargaining systems. The more countries that develop good practices to promote collective bargaining, the greater the political pressure will be on the remaining countries with low collective bargaining coverage to follow suit (Müller and Schulten 2022).

# Strike activity

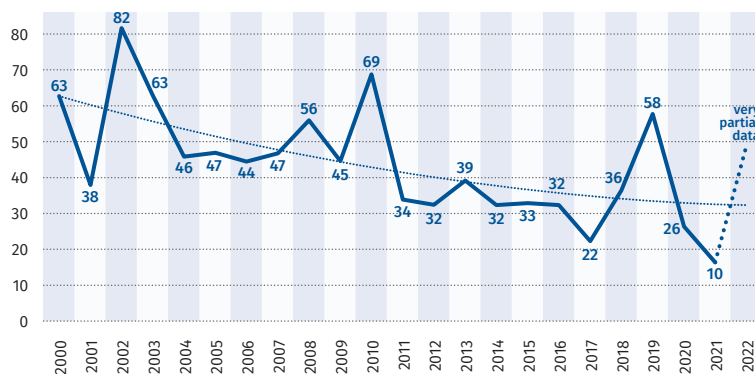
## Three spikes since 2000

Strike actions provide us with information about the degree of collective discontent among workers. These actions are either aimed at employers – whether at the level of the company or the industry as a whole – or targeted at political authorities, where regulations on strike action allow for this: in fact, of course, the economic and political arenas are interrelated. Figure 3.15 depicts the weighted average of days not worked due to industrial action per 1000 employees in most European countries, particularly in western Europe, since 2000. (It should be noted that the data for some countries may include lockouts.) It shows an uneven yet falling trend over time. Among other factors, the long-term decline in the volume of strikes mirrors the diminishing importance of industrial trade unionism and a shift of strike activity towards private-sector services, especially within transport and logistics, where strikes tend to be shorter and sometimes on a smaller scale because they have greater disruptive capacity (Bordogna and Cella 2002; Vandaele 2016). This fall in strike activity is nevertheless ‘interrupted’ from time to time. Three distinct spikes can be discerned (so far), although each spike is less high than the previous one. Over the past two decades, relative spikes in the volume of strikes have occurred in 2002, 2010 and 2019. Although its magnitude is still unknown, the data hints at a new spike in 2022, even though only very partial information is available for four countries (BE, IE, ES and UK) so far.

The first spike has been attributed to the ‘dot-com bubble’ and the 9/11 recession (European Commission 2011: 46), whereas the second spike mainly resulted from ‘national days of action’ against pension reforms in France (Ancelovici 2011). After this, the volume of strikes falls to levels below 40 days until 2019. Data on industrial action generally underestimates strike activity, and this is certainly the case for post-2008 developments, as there is a lack of data for some traditionally more strike-prone countries, and some data sources have (deliberately) ignored several general strikes linked to anti-austerity protests (Dribbusch and Vandaele 2016). While there was a relative reduction in strike levels in southern Europe before the financial crisis of 2007-2008, strike activity grew more intense again as the European debt crisis unfolded, although demonstrations remained the prevailing form of political protest (Hunger and Lorenzini 2020).

The third spike in 2019 can largely be attributed to an increase in strike activity in France and Poland. As in 2010, cross-sectoral days of action against pension reforms, targeting the Philippe Government under President Macron, provide a clear explanation of the relatively high volume of strikes in France (DARES 2021). A nationwide teachers’ strike demanding pay rises swept across Poland in 2019, contributing to the exceptional increase in strike figures, although these should perhaps be taken with a pinch of salt (Płucienniczak et al. 2022). Also, for various reasons, countries with smaller workforces saw a relative peak in strike activity in 2019 – that is, more than 100 days not worked due to industrial action. In Belgium, for instance, the failure of negotiations to set a ‘wage norm’ at the interprofessional level has provoked a national 24-hour strike in the private sector (Vandaele 2020). The high volume of strikes in Cyprus was mainly due to actions taken in the construction industry over the renewal of collective agreements and in the services sector. In Finland, the Prime Minister, Antti Rinne, resigned under pressure from a nationwide postal strike over plans to reassign employees under new contracts with lower ‘labour costs’, which lasted more than two weeks and then mushroomed into multiple solidarity strikes in other industries such as transport, including aviation (Firon 2020). The 700 parcel-sorting employees affected returned to the previous collective agreement. There were also a three-day strike of 92 000 blue- and

Figure 3.15 Days not worked due to industrial action in Europe per 1000 employees (weighted average, 2000-2022)



Source: Data on industrial action: ETUI based upon data from national statistical offices. For details about the availability and reliability of data, see Dribbusch and Vandaele (2016). Employees in employment: Eurostat.



white-collar workers in industrial sectors and a six-day lockout, mainly in sawmills and plywood plants, after deadlocks in negotiations over the renewal of a collective agreement. Finally, the Netherlands, a traditionally 'low-strike' country, recorded 53 days not worked due to industrial action in 2019, mainly resulting from strike actions in education and health care.

## Waiting for the fourth upsurge

The Covid-19 pandemic generally dampened strike activity in 2020, except in Norway. The pandemic has not made collective action and strike activity impossible, however: some (Covid-safe) demonstrations, rallies and strikes have taken place around pandemic issues – for example, in health and social care (Vandaele 2021). It is also possible that, in countries with effective institutions for social dialogue, the context of the pandemic may have created a 'discursive opening' in the neoliberal mantra on macroeconomic policies (Meardi and Tassinari 2022). Whether or not the pandemic will prove to be a historic turning point in economic thinking, it has also been seen as a possible catalyst for a 'new wave of labour activism' (Maffie 2022: 216). And, without doubt, the current cost-of-living crisis has brought a new, sudden macro-shock since late 2021, which is adding to such activism.

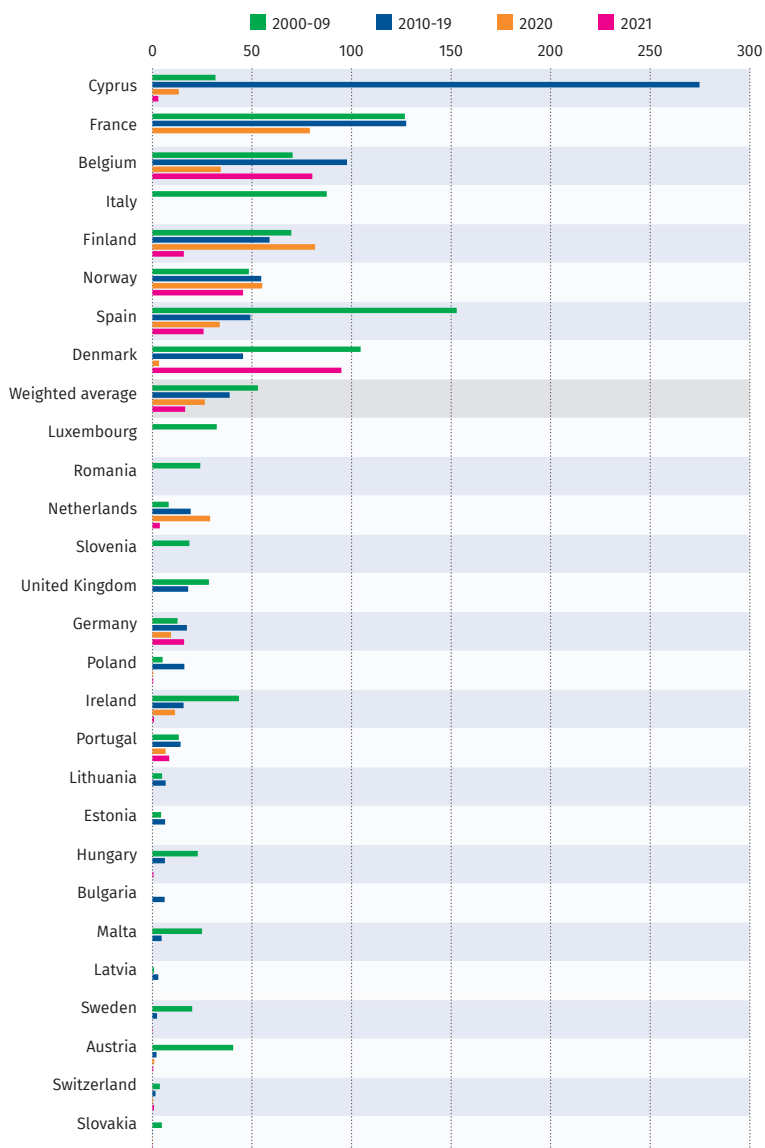
Although full data are still not available for 2022, partial data for a few countries illustrate how the surge in inflation can drive industrial action. In Belgium, days not worked in the first semester already equal the total for 2021. In the UK, the collection and publication of data on labour disputes was suspended in April 2020 in order to prioritise outputs in response to the pandemic (ONS 2020). However, collection resumed in June 2022, with the Office for National Statistics stating that 'there was a growing interest and need for these statistics from users' (ONS 2022). One cannot escape the impression that this is linked to the reality of strikes: industrial action on the railways in summer 2022 has spread to health services and other key sectors of the economy – mainly, though not solely, stoked by inflation. About 1 634 000 days not worked in the UK have been notified from June to November 2022. It is estimated that the 'winter of strikes' will exceed two million days (The Times 2022), which would imply a record high since 1989. In Spain, however, for which partial data is available for the whole year, there is no sign of such a major upsurge in strike activity, which remains at a relatively low level from a historical perspective.

While current labour market shortages in various industries increase workers' bargaining power (Silver 2003), they still have to take collective action to apply this leverage (Rhombert and Lopez 2021). Yet exorbitant energy costs and high food prices lead to mounting inflation – which is simply a recipe for labour unrest, as it adds significantly to uncertainty about appropriate wage demands (Brandl and Traxler 2010). 2022 strike levels will, in all likelihood, prove to have soared in many countries in Europe, leading to the fourth upsurge in the average European strike level since 2000. At the same time, it remains to be seen whether strikes will predominantly be limited to highly unionised parts of the economy, such as the public sector, or if they also break out in less unionised industries. Much will depend on the 'demonstration effect': successful strikes might prompt workers in less unionised industries to take industrial action as well. Strike activity could also have a positive impact on union membership and on revitalising the trade union movement more broadly (Clawson 2003; Dribbusch 2016; Hodder et al. 2017; Las Heras and Rodríguez 2021), which could, in turn, halt the almost continuous fall in membership and trade union density. For instance, the main Dutch confederation of unions, FNV, has recently noted an increase in membership, especially among young workers (*Algemeen Dagblad* 3 November 2020). Nevertheless, while trade unions across Europe have reported successes in terms of wage increases, it is an open question whether strike outcomes will be able to compensate fully for loss of purchasing power.

## Country differences remain

Figure 3.16 compares the average strike volume in the 2000s and the period 2010-2019 in each European country for which (sufficient) data are available. The figure also shows strike volume in 2020 and in 2021 if the data is (already) available. It largely confirms the secular trend in strike volumes, but also provides a more nuanced picture at country level. In several countries, the volume declined on average during the most recent period. This is most marked in Spain and Denmark – two countries previously prone to industrial action. In contrast, the open-ended conflict that erupted in the construction industry in Cyprus in 2013 explains the remarkable rise in industrial action there: the country headed the European 'strike league' for the period 2010-2019. Given the enduring capacity of trade unions in Belgium, France and

Figure 3.16 Days not worked due to industrial action per 1000 employees (country comparisons: 2000-2009, 2010-2019, 2020 and 2021)



Source: Data on industrial action: ETUI based upon data from national statistical offices. For details about the availability and reliability of data, see Dribbusch and Vandaele (2016). Employees in employment: Eurostat.

Norway to mobilise workers, there is not much difference in strike volumes for those countries in the two periods considered. In particular, political mass strikes, such as large-scale strikes in the public sector and general strikes, help to explain changes in the number of days not worked in a given country. Quintessential examples of this are an exceptional general strike against pension reforms in Austria in 2003 and a 24 hour national public-sector strike in protest at the government’s pay cuts in Ireland in 2009. Remarkably, low-strike countries such as Germany and the Netherlands also saw some increase during the most recent period by comparison with the 2000s. Finally, strike activity in most CEE countries stands at a very low level except for the strike in education in Poland, mentioned previously. Above all, Figure 3.16 demonstrates that differences in strike volume between countries persist over time, with those differences tending to increase during upswings in industrial action (Brandl and Traxler 2010). Thus, while soaring inflation will probably increase variation between countries, strike volumes for 2022 will depend on the severity of inflation, on government measures to tackle it, on the strictness of ‘peace clauses’ in collective bargaining agreements, on the power of unions to mobilise in certain industries and sectors and on traditions and cultures surrounding strike activity in general.



The Directive on adequate minimum wages is a major step in combatting the cost-of-living crisis

# Conclusion

In 2022, the surge in inflation and the resulting cost-of-living crisis has been the dominant theme in the area of wages, collective bargaining and strikes. As a consequence of the increase in inflation, nominal wage growth has been stronger in the majority of EU Member States than in 2021, but it has still lagged behind inflation. The result has been a historic drop in real wages and, consequently, a dramatic loss of purchasing power for workers and their families. While all workers have been negatively affected by the higher cost of living, low-wage earners have been especially hard hit because of the particularly strong rise in the costs of essential items such as energy and food, on which low wage-earners spend a larger share of their income than employees higher up the pay scale.

At the same time as workers and their families have faced a substantial cost-of-living crisis, many businesses have benefitted from the rise in inflation, with strong increases in corporate profits. The divergent implications of the surge in inflation for businesses and workers have had a negative impact on income distribution. The sharp drop in the wage share illustrates how the rise in inflation has caused a substantial redistribution of wealth from labour to capital. As a result, workers have borne the brunt of current inflation shocks. Against this background, it is no surprise that 2022 has also seen a new surge in industrial action. And, since the green and geopolitical transitions, which form the theme of this year's *Benchmarking* (see Chapters 1 and 4), have been fuelling this surge in inflation, pressures on real wages are likely to persist.

To some extent, Member States have tried to address the loss of purchasing power by complementing wage policies with various kinds of support measures. This is partly an acknowledgement that wage policies alone

cannot compensate for loss of purchasing power. The measures taken by Member States include taxation, energy price regulation and direct cash transfers or benefits in kind. Increases in minimum wages have played a particularly important role in mitigating the negative effects of inflation on low-wage earners. Nominal minimum wages have increased substantially in most EU Member States; but, in almost half of the Member States with a statutory minimum wage, the nominal increase was not enough to prevent a drop in real minimum wages.

The recent adoption of the Directive on adequate minimum wages in the European Union is a major step towards promoting adequate minimum wages and strong collective bargaining as two essential tools in combatting the cost-of-living crisis. The Directive establishes 'decency thresholds', not only for adequate minimum wages but also for adequate collective bargaining coverage. Both thresholds have already influenced policy-making and discussion in the Member States – even though Member States still have two years to transpose the Directive into national law. Timely implementation of the Directive would be an important step in further strengthening the role of adequate minimum wages and collective bargaining to address the cost-of-living crisis. However, it is important to recognise that the EU's Minimum Wage Directive in itself is not a silver bullet for the problems of cost of living, pay inequality and in-work poverty. Its real impact will ultimately be determined by its implementation at the level of the Member States. Rather than defining legally binding standards, the Directive provides an important political and normative frame of reference, strengthening the positions and actors at the national level who are advocating for adequate minimum wages and strong collective bargaining.

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