Editorial
How to tackle the inflation crisis? Lessons from European case studies

Die Inflation hat Österreich und Europa fest im Griff. In der Folge des russischen Angriffskrieges auf die Ukraine, aber auch der globalen Lieferkettenprobleme und die an De-Globalisierung grenzende neue Blockbildung sind nicht nur die Energiepreise explodiert, sondern auch das generelle Preisniveau schlagartig angestiegen. Die Redaktion der Wirtschaft und Gesellschaft hat zusammen mit dem deutschen Institut für Makroökonomie und Konjunktur der Hans-Böckler-Stiftung (IMK), dem Wiener Institut für Internationale Wirtschaftsvergleiche (wiiw) und der Abteilung für Wirtschaftswissenschaften und Statistik an der Arbeiterkammer Wien zehn Studien zur Inflationspolitik in Ländern der EU in Auftrag gegeben. In dieser Ausgabe der Wirtschaft und Gesellschaft drucken wir drei dieser Studien ab, die sich mit den Maßnahmen Österreich, Spanien und Polen befassen. Ein besonderer Schwerpunkt liegt auf der Rolle der Sozialpartner:innenschaft sowie der Abstimmung von Lohn- und Wirtschaftspolitik.

Die Beiträge und das zusammenfassende Editorial sind deshalb in englischer Sprache verfasst und abgedruckt, der Rest des Heftes ist aber wie gewohnt zweisprachig.

After the Russian invasion in Ukraine and the subsequent crises in energy, food and raw material supply, high inflation returned to the headlines. It had hardly being discussed since 2008 (just before the financial crisis) or even since 1978 when the second oil price shock caused a similar hike in import prices. In October 2022, the inflation rate in Austria reached a new record high of 11%, surpassing the values of 1974, albeit only slightly, while the same pattern applies in almost all other EU member States.

The editorial board of *Wirtschaft und Gesellschaft,* together with the Macroeconomic Policy Institute of the German Hans Boeckler Stiftung (IMK) and the Vienna Institute for International Economic Studies (WIIW) and the Department of Economics of the Chamber of Labour Vienna therefore invited experts from various countries to give country overviews on the social and economic consequences of the inflation crisis and the political answers given by governments and social partners. In total, we commissioned studies of local economists in 10 European countries[1] describing the developments during the first three quarters of 2022.

[1] The country studies comprise Germany, Spain, France, Greece, Croatia, Hungary, The Netherlands, Austria, and Poland.

We present three of the country reports, on Spain, Poland and Austria, in this issue of *Wirtschaft und Gesellschaft.* The countries represent a good mix of EU countries, not only geographically but also in terms of their initial economic conditions and current challenges. Spain and Austria are members of the Euro zone while Poland is not. Therefore, Poland is additionally confronted with changes in the exchange rate of the Zloty to the Euro. For a long time, Austria was part of the so-called "hard currency block" within the EU and weathered the financial crisis comparatively easy, while Spain has been hit hard by the harsh neoliberal reform enacted partially by the Partido Socialista Popular (PSP), but mainly by the conservative government of the Partido Popular under the pressure of the Troika (cf.Fernández Rodríguez et al. 2016) in the aftermath of the financial crisis of 2008. Poland is one of the new member states (EU-10) and is not only burdened by the geographic proximity to the invasion but also by the need for further convergence to the living- and wage standards of the old EU member states (EU-15).

Political answers to the inflation crisis are similar in some respects, for example, all three countries increased transfers to cushion the effect of rising energy prices emphasizing low-income households. But there are also important differences concerning the willingness of the governments to directly intervene in market pricing.

We will first give a brief overview of inflation in the common currency area, then present some thoughts on how a seemingly homogeneous (and symmetrical) shock on international prices of imported energy and raw materials is becoming an asymmetric shock to the members of the Euro zone. We then turn to the political answers of governments to the given challenges and finally, we draw some conclusions on possible consequences for the EU and the Euro zone.

1. Challenges of a Common Currency

The Euro turns 23 this year and is therefore old enough to require a brief historical view on the emergence of the current crisis in price developments within the Euro zone and the broader EU. The first years of the Euro up to the financial crisis of 2008/09 are widely remembered as a period of two groups of countries: The middle/north-European *hard currency* block, supposedly marked by inflation below average, and a block of inflation prone *Mediterraneans* marked by inflation above average. Even then, the general perception in Austrian and partly German media tended to put France in the more "*Mediterranean*" category, which was even geographically only half true, but totally misplaced given the below average inflation in France over the considered period.

Table 1 illustrates the development. We calculated the number of years in which countries' HCPI inflation stayed below the Maastricht threshold required for joining[2] the common currency. Like the criteria themselves, this is somewhat arbitrary, however countries' relative position in comparison with Eurozone averages gives a similar picture.[3]

As Table 1 shows, the situation changed quite dramatically during the Euro crisis following the great recession with Austria, Belgium, and the Netherlands ceasing to be on the low inflation side of the euro area, while Spain, Ireland and Greece became low inflation or even deflation countries. Overall inflation in the Euro area came down to only 1,3% on average in 2009 until 2015, compared to 2,3% in the first 8 years.

The last period from 2016 to 2021 begins with the recovery from the great recession and ends with the Covid crisis. This period changes the landscape where former strongholds of low price increases Germany and France now feature above-average inflation, even as they remain within the Maastricht bounds, while Spain and even Italy suffer from low or even negative price dynamics.

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[2] "A price performance that is sustainable and average inflation not more than 1.5 percentage points above the rate of the three best performing Member States" European Commission, Economy and Finance, https://economy-finance.ec.europa.eu/euro/enlargement-euro-area/convergence-criteria-joining_en.

[3] Alternative criteria are shown in the online appendix on our website.

Table 1: Years with Inflation below the initial Maastricht Benchmark/Years of Euro Membership

		2000-2008	2009-2015	2016-2021
FR	**20/22**	**9/9**	**6/7**	**5/6**
IT	**19/22**	**8/9**	**5/7**	**6/6**
IE	**18/22**	**6/9**	**7/7**	**5/6**
DE	**18/22**	**9/9**	**4/7**	**5/6**
FI	**18/22**	**9/9**	3/7	**6/6**
PT	**17/22**	**6/9**	**5/7**	**6/6**
NL	**15/22**	**7/9**	**5/7**	3/6
BE	**14/22**	**8/9**	**4/7**	2/6
ES	**13/22**	3/9	**5/7**	**5/6**
AT	**13/22**	**9/9**	2/7	2/6
LU	**13/22**	**5/9**	**4/7**	**4/6**
EL	**14/21**	3/8	**5/7**	**6/6**
SI	**10/15**	0/2	**4/7**	**6/6**
CY	**10/14**	0/1	**5/7**	**5/6**
MT	**7/14**	0/1	3/7	**4/6**
SK	6/13		**4/7**	2/6
EE	4/11		2/5	2/6
LV	**4/8**		**2/2**	2/6
LT	**2/7**		**1/1**	1/6
Euro Area Average inflation rate		**2,3%**	**1,3%**	**1,3%**

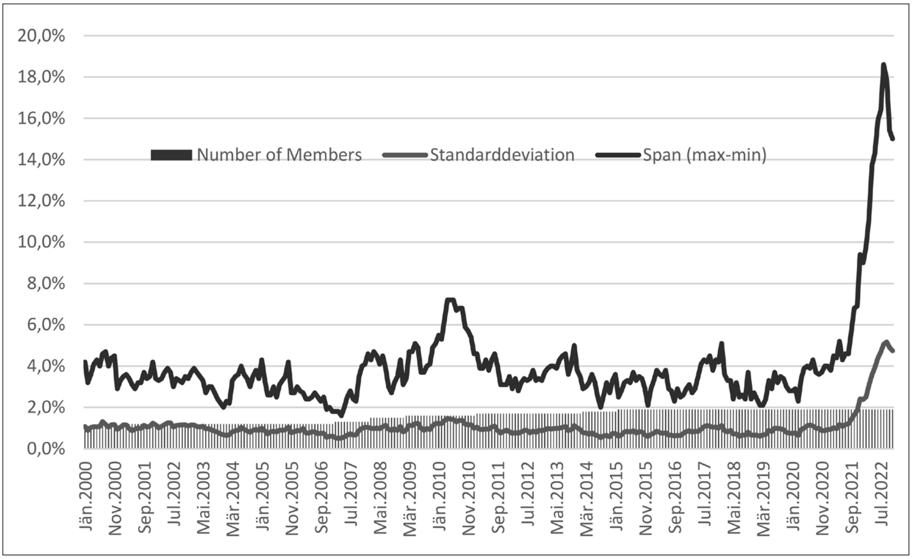
Source: Eurostat, own Calculations

The overview indicates that old narratives of the Euro crisis lost their negligible link to reality already during the great recession and the partial recovery from it. The recovery from the great recession paired with the following pandemic years tended to turn the picture of inflation hawks and doves around, already before the current boost in energy prices.

Figure 1 shows a challenging situation for the whole Euro area as the divergence in national inflation rates reaches a new record level.

How such an asymmetric shock can be handled within a common currency will be dealt with in the last part of this editorial.

Figure 1: Deviation of inflation rates within the euro area

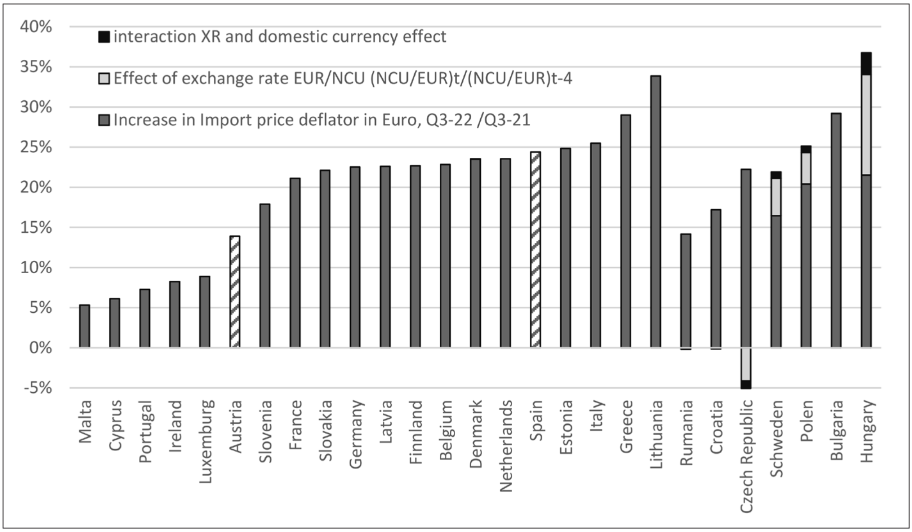


2. How a global energy price shock becomes an asymmetric macro shock

On the first glance, the similarities to the Oil Price shocks of 1973 and 1979 are striking. Just as now, a war and economic reactions to it built the fundamental origin of the problems that followed. The consequence was a rapid increase in prices of imported fossil fuels. While in the seventies, this was crude oil, now it is natural gas.

But in contrast to first intuition, the impact of this shock on import prices for the Euro area is quite different across member countries. Differences stem from the differential composition of import goods and composition of trading partners between countries. These variations lead to diverging impacts in terms of trade and a substantial variation in the macroeconomic import price shock, as illustrated by Figure 2.

Figure 2: Increase of import price deflator Q3-22/Q3-21



Eurostat: Exports and imports by Member States of the EU/third countries (NAMQ_10_EXI) Own graph.

The import price deflator for Q3 2023 went up by 33% in Lithuania while it increased by a mere 7,2% in Portugal. The divergence within the *big three* of the Euro zone also varied substantially with an increase in import prices of 21% for France, 22% in Germany and 25% for Italy.

The three countries analysed in detail here also covered the whole spectrum of import price increases, from Austria (13,9%), to Spain (24.3%), and Poland not being part of the Euro zone lay in-betwee the two Euro countries (20.4%) on a Euro bases an at slightly abov Spain (25.1%) if the effect of the devaluation of the Zloty is factored in.

2.1 Exchange and interest rates

Typical for import price shocks in the recent past, exchange rates played a significant role in inflation dynamics. This effect is obvious for non-Euro countries like Poland, where about four percentage points of the increase in import prices have been caused by the depreciation of the Zloty (compared to the Euro), or for the Czech Republic, where the increase in the exchange rate of the Czech krona compared to the Euro dampened import price inflation by about the same magnitude.

Considering Hungary, the basic dynamic is the same: Depreciation of the Forint added a substantial 12 percentage points to import price inflation. The background of this marked depreciation is interesting for its political implications. By account of most media and experts, the devaluation was triggered by the EU decision to halt subsidies for Hungary due to the insufficient safeguards for democratic institutions, especially the rule of law, by the Hungarian government. It is unlikely that this consequence for Hungarian inflation was intended by the EU institutions. This unintended consequence of EU sanctions demonstrates quite dramatically that entering the Euro area has substantial political consequences for the intra EU relations, albeit there is no formal difference in the political rights of Euro and non-Euro countries in the European Union. Being part of the common currency changes the immediate effect of the EU's only viable mechanism to sanction countries for not complying with the Amsterdam criteria for membership. Being in the Euro zone is not just an economic issue, acceptance among other members additionally requires a strong degree of democratic stability. Having a common currency carries substantial repercussions on the political and institutional arrangements.

Even within the Euro area, the inflationary effect of exchange rate shifts can be substantially different between member countries. The effect of nominal effective exchange rates on the deflator of final demand, as estimated in the AMECO database for 2022, varies considerably - from a dampening effect of 0.8 percentage points for Slovenia to an inflation push of 1.3 percentage points in Ireland. Even though the magnitudes are not extreme and based on preliminary estimates, an accounting exercise not necessary reflecting direct economic mechanisms, they do illustrate the differential impact of exchange rates within the common currency area.

Besides inflation, interest rates on the 10-year benchmark euro government bond started to increase in 2022. Spreads where historically low during the pandemic years and are still below the levels seen during the financial crisis. Even more surprising, they started to decline again in December 2022. One possible explanation for the lower divergence in interest rates might be a positive impact of the lessons learned by the ECB after the financial crisis. At least the perception of market participants seems to be that the famous *Draghi Put* is still alive, even without Mario Draghi.

2.2 Inflation Dynamics and the Structure of Consumption

In addition to increased energy and raw material prices, diverging impacts due to the different composition of private consumption do play a role. These divergences are of particular importance for their impact on wage-setting, but even more so on the setting of government transfers (like pensions, unemployment benefits and other social support payments). As the comparison of political reactions to the crisis shows, extraordinary increases in transfers played a prominent role in crisis packages of most EU governments to deal with high inflation.

The heterogeneity of weights to different consumption purposes in the HICP inflation measure is illustrated in Table 2. It shows a substantially higher weight of energy in the Polish compared to the Austrian consumption basket, the same holds for food. Both effects could be expected from considering the *Engel curve*[4] *argument*, given the different income levels between the countries. However, a closer look reveals divergencies which, to say the least, are much less obvious, or even point to the limits of the HICP concept. Including expenditure of households not residing in the country into the basis of HICP calculations might be the reason for some of the unexpected results. The high weight of accommodation services in Austria and Spain, two countries with strong tourism sectors, is likely a consequence of foreigners' consumption on holiday. This is partly verified for Austria by the lower share of accommodation services in the (non-harmonized) Austrian Consumer Price index (CPI) which is based on expenditure of domestic households. Unfortunately, this reasoning does not extend to catering services, another important part of the tourism business. The weight of expenditure on catering is even higher in the national CPI for Austria compared to the HICP. Other areas with substantial differences in their weight are housing costs (excluding energy), health costs and expenditure on alcoholic beverages.

For our purpose, the comparison illustrates a heterogeneity which turns common price shocks into asymmetric inflation within the Euro area, and even more so within the European Union. These divergences highlight the need for a cautious and flexible approach to monetary policy interventions. Only raising interest rates in the hope to reduce money-supply is much too blunt an instrument in such a differentiated environment.

[4] Engel Curves, named after the German statistician Ernst Engel, show the share of income spent on specific goods. Engel's law derived from this curve claims that the share spent on food decreases with the income level - indicating that countries with lower GDP per capita tend to spend a higher share of income on food.

Table 2: Weights of COICOP Groups in the HICP Basket (sorted by AT Weight)

COICOP modified Labels		Austria	Spain	Poland
Food and non-alcoholic beverages	CP01	13,3%	22,1%	18,4%
Housing excl. Energy	CP04-NRG*	10,4%	7,7%	9,2%
Transport excl. Energy	CP07-NRG*	10,3%	7,6%	6,6%
Recreation and culture	CP09	9,6%	5,1%	8,0%
Catering services	CP111	8,9%	12,1%	3,0%
Housing and Transport energy	CP04 NRG*, CP07 NRG*	**8,7%**	**11,7%**	**14,5%**
Furnishings, household equipment and routine household maintenance	CP05	8,4%	5,7%	6,5%
Miscellaneous goods and services	CP12	8,3%	7,4%	10,3%
Clothing and footwear	CP03	6,1%	5,9%	5,4%
Health	CP06	5,9%	4,3%	7,4%
Alcoholic beverages, tobacco and narcotics	CP02	4,1%	3,0%	6,2%
Communications	CP08	2,4%	3,5%	2,4%
Accommodation services	CP112	2,3%	2,3%	0,9%
Education	CP10	1,3%	1,6%	1,0%

Source: Eurostat, own calculations, *housing and transport have been partitioned in their non energy and their energy components. CP04-NRG =CP041 Actual rentals for housing+ CP043 Maintenance and repair of the dwelling+ CP044 Water supply and miscellaneous services relating to the dwelling; CP07-NRG= CP071 Purchase of vehicles+ CP0721 Spare parts and accessories for personal transport equipment+ CP07224 Lubricants+ CP0723 Maintenance and repair of personal transport equipment+ CP0724 Other services in respect of personal transport equipment+ CP073 Transport services; CP04 NRG = CP0451 Electricity+ CP0452 Gas+ CP0453 Liquid fuels+ CP0454 Solid fuels+ CP0455 Heat energy; CP07 NRG= CP07221 Diesel+ CP07222 Petrol+ CP07223 Other fuels for personal transport equipment. Sorted by weight in Austrian HCPI

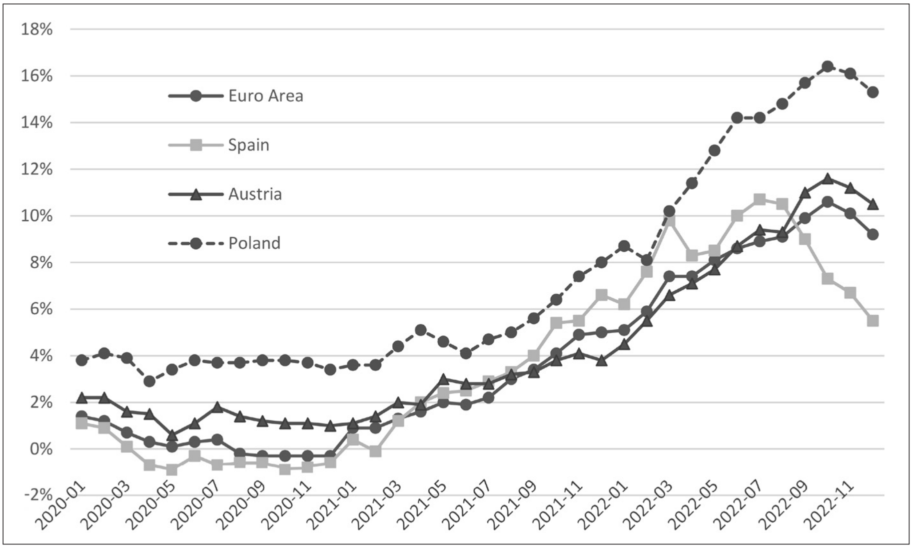
3. Common and different measures against inflation

The initial inflationary trend from January - July 2022 was similar for Austria, Poland and Spain. All three countries experienced an increase in inflation and followed the general trend in the Euro area. However, while the inflationary rate in Austria and Spain stayed between 7.1% in April and 10.7% in July, prices in Poland rose much faster. In July, Poland reached a July inflation rate of 14.2%, further accelerating to 16.4% in October. Since August, the inflationary path for Austria and Spain has diverged as well. Austria's inflationary path was in line with many Euro area countries and in October, it's inflation rate of 11.6%

was slightly above the Euro area average. In contrast, the Spanish inflation rate has been on a downward trend since July and reached 7.3% in October.

Concerning the measures taken by the Austrian, Polish and Spanish governments to mitigate the inflationary impact and reverse the inflationary trend, both similarities and differences can be highlighted. When classifying the anti-inflationary measures, five broad policy-categories stand out: Transfers, tax cuts, price controls, minimum wage policies and other measures.

Figure 3: Inflation rates in selected countries



Source: Eurostat

First, additional transfers were introduced in Austria, Poland and Spain for households and companies. A common element were subsidies to vulnerable households to increase the households' disposable income and counteract the reduction in real wages. While Poland introduced special transfers to households depending on coal for heating purposes, Austria used a combination of a flat transfer to all households (differing only between single and larger households) and an additional special one-off transfer to people already receiving transfers such as pensions, unemployment insurance and social assistance payments. Additionally, within the constitutional jurisdiction of the federal governments (Landesregierungen), various subsidies were introduced in the federal states, similar to state subsidies. Spain established a one-off payment of 200 € for low-income households, increased scholarships, grants and subsidies received by students over the age of 16 by 100 € and raised non-contributory pensions and the minimum subsistence income is about to be increased (European Commission 2021). In addition to these measures, Austria, Poland and Spain also granted transfers to firms that were particularly affected by the ramifications of higher energy prices. Especially companies in the primary and energy-intensive sectors received transfers. Moreover, to reduce the impact of rising energy, fertilizer and forage prices, agricultural businesses received aid payments in total of 110 million Euros in Austria and 170 million Euros in Poland. Similar transfers in the Spanish agricultural, livestock and fishing sectors were granted.

Second, tax cuts were introduced in all three countries, particularly on energy, gasoline and VAT. In March 2022, the Austrian government presented a second relief program that included energy tax cuts on electricity and natural gas. Households and businesses benefited almost equally from this tax reduction of 900 million Euros. In Spain, the government started by decreasing the VAT on all components of electricity bills from 21% to 5%. Furthermore, the VAT on supplies of natural gas, pellets, briquettes, and firewood was decreased between October and December 2022 from 21% to 5%. Contrary to Poland, Spain and Austria did not introduce a gasoline or general VAT tax cut, however in Spain a rebate on the retail price of gasoline and diesel of at least 20ct per litre was approved. In January, the Polish government presented an "anti-inflationary shield" including measures ranging from a reduction of VAT on fuel to 8%, an extension of the 5% VAT rate on electricity to the introduction of a 0% VAT rate on natural gas and basic food products. The shield was extended until the end of 2022, costing approximately 10.2 billion Euros in budgetary revenue. Besides the tax cuts, the motion of taxes on windfall profits were passed on the European level. Therefore, the implementation of the windfall profit tax in all member states is just a matter of time.

Third, to cap soaring energy prices, price controls were introduced by the governments. The Austrian and Polish government focused their efforts on the electricity market, while Spain introduced a broader set of price controls. Retail price controls were established in Austria, Poland and Spain. The Austrian government presented a retail price-cap on electricity ("Stromkostenbremse") that will take effect between September 2022 and June 2024. This price cap is designed as a subsidy to households and limits the price per kWh at 10ct of up to 2,900 kWh per year. If energy companies charge more than 10ct per kWh, households receive a direct subsidy of up to 30ct per kWh. Similar plans were announced by the Polish government, that intends to introduce an electricity price cap of up to 2,000 kWh per year. In Spain, price controls were introduced on a broader basis than in Austria or Poland. Price controls in the housing market limited the price increase of housing rentals at 2%. Regarding the energy market, various price controls were introduced. On the one hand, retail price controls that capped the increase of gas prices for the regulated tariffs were introduced. On the other hand, a highly debated wholesale price control ("Iberian Exception") capped the gas price in the electricity market. With the "Iberian Exception" in effect since June 2022, Spain managed to decouple the wholesale electricity market price from price surge on international gas markets. This was accomplished by setting a maximum price of 40 €/MWh for natural gas used by power plants. Power plants using natural gas were granted the difference between the actual price and the reference price of the natural gas. Thereby, the most expensive electricity producer continues to set the market price, but with lower marginal costs. The compensation for the energy producers using natural gas costs less than the reduction in the market price, making the Iberian Exception an interesting case for a market stabilization via a price cap.

Fourth, a minimum wage increase was another major policy measure to sustain real wage income in times of high inflation. In Poland, the government announced plans to valorise the minimum wage twice in 2023. The first valorisation of 15,9% was in January and the second one in July. With the second valorisation, the minimum wage will reach 3,600 Zloty (PLN) or roughly 765 Euros. Similarly, the Spanish government has proclaimed that minimum wages will increase in 2023. In Austria, no legal regulation for an explicit minimum wage exists. Instead, unions set minimum wage targets for the lowest wage slots within collective bargaining agreements. Here, trade unions promised to push for a new gross minimum wage of 2,000 Euros per month.

Finally, measures beyond the broad categories above were implemented. Various further policies to decrease inflation or diminish inflationary effects were proposed on the European, federal and, depending on the constitutional jurisdiction, on provincial or even communal levels. In this context, The Austrian governments compensation of the "bracked creep" stands out. The bracked creep describes the effect of inflation-induced tax contribution increases at stagnating or sinking real wages because of nominal wage increases. With an amount of € 16 Billion throughout the period 2023 to 2026, the compensation of the "bracked creep" is the biggest structural measure by the Austrian Government.

Table 3: Summary Tick Box List for Austria, Poland and Spain

Category	Austria	Poland	Spain	Remark
Energy Tax Cut	✓	✓	✓	AT: In 2022 and first half of 2023 PL: In 2022, extension in 2023 not decided yet ES: In 2021 and 2022
Gasoline Tax Cut	☐	✓	☐	PL: In 2022, extension in 2023 not decided yet
VAT tax cut	☐	✓	✓	PL: In 2022 on food, fuels, energy and heat gas, fertilizers, extension in 2023 not decided yet SP: 2021 and 2022 electricity, 2022 gas.
Retail Price Control	✓	✓	✓	AT: Electricity price cap, 2023-2024 PL: In 2023, price caps for energy and heat for households and social-purpose organizations ES: Housing rentals price increase capped at 2% in 2022. Limits to the gas price increase in the regulated tariff for domestic consumers in 2021 and 2022. Reduction in "charges" levied on consumers' electricity bills in 2022 and 2022. Discount of at least 20 cents per litre of gasoline and diesel bought at petrol stations.
Wholesale Price Control	☐	☐	✓	ES: Gas price cap in electricity market ("Iberian Exception"), one year since June 2022.
State-owned company mandate	☐	✓	☐	PL: Fuel price rebates from state-owned petrol company. Guaranteed coal prices in state-owned retailers
Windfall profits tax	✓	✓	✓	AT: Second half 2022-2024 (planned) ES: Electricity producing technologies not affected by the increase in CO2 fossil fuels. An extraordinary tax on energy companies will be introduced in 2022 and 2023.
Transfers to (vulnerable) households	✓	✓	✓	AT: Mostly one-off payments but also indexation of some social transfers PL: 2022 and 2023: transfers to coal heating (cover all eligible households, with no means-test), Means-tested support for mortgage payments ES: 200€ for low-income households, 400€ for people older than 16 studying with a grant, increases in Minimum Living Income, and non-contributory pensions. All of them in 2022. Discounts in electricity bills to vulnerable groups ("Bono Social Eléctrico") in 2021 and 2022.

Transfers to (vulnerable) firms	✓	✓	✓	AT: Based on energy intensity PL: Agriculture: subsidies to costs of fertilizers; direct subsidies for small farms Compensations to 92 energy-intensive companies (170 Mln EUR) ES: Direct aids to gas-intensive firms, transport firms, and primary-sector firms; discounts to electro-intensive firms. Line of guarantees to reinforce companies' liquidity. All of them in 2022.
Unilateral wage policy/guideline	☐	☐	✓	ES: Agreement signed between the Government and public employees for 3 years. Increase in the Minimum Wage.
Bi- or tripartite agreement social pact	☐	☐	☐	
Other measures	✓	✓	✓	AT: Compensation of "bracket-creep" Direct "helicopter money"-like transfers PL: Increase of Minimum Wage in 2023, Mortgage "vacations" ES: Restrictions on dismissals, reduction in public transport price

4. Wage-policy coordination

Over the past decades, a declining importance of the social partnership could be observed in Austria, Poland and Spain. This was accompanied with a decrease of wage-policy coordination a well as declining social dialogue between governmental-, employee- and employer organisations. However, the inflationary trends of the past year not only increased the pressure on wage negotiations, but initially opened a window for the revival of social dialogue.

In Austria, the social partners brought various short-term measures to attention and demanded anti-inflationary policies from the government. The government even embraced some proposals, but never directly included employee- nor employer organisations in formal negotiations. Regarding actual wage negotiations in Austria, the well-tried bargaining system was retained. Bargaining primarily took place at the sectoral or industrial level without coordinated centralised interventions by the head institutions of the social partners or the Government. Thus, unions oriented their wage demands on the average inflation of the past 12 months (plus medium to long productivity increase) - thereby introducing a substantial delay between price and wage adjustments. One-off payments proposed by the government and employer organisations have not been widely used. Arguably, one-off payments would not provide sustaining wage increases and therefore are an insufficient instrument to deal with permanent price increases. On the distributional side, the unions focused on raising the lower bounds on wages and proposed a de facto new gross minimum wage of 2,000 Euros per month in all collective bargaining contracts. Overall, wage increases for lower incomes turned out stronger than for higher incomes.

After the 2nd World War until today, the institutional framework of social partnership was an important factor in balancing the interests between employee- and employer organisations. The institutional prerequisites of this framework, especially represented by a strong and centralised Trade Union (ÖGB) and the Chamber of Labour (AK) on the one side, and the Austrian Economic Chamber (WKÖ), and the Chamber of Agriculture (LKÖ) on the other side is still intact. These long-standing institutions are continuously providing services and representation for their members. However, the inclusion of these institutions into a coordinated response to the current challenges to combat inflation is rather weak.

In the country report for Poland, Grodzicki, Możdżeń and Surmacz highlight the specific role of the social partners in Poland. Historically, union density and collective bargaining was declining rapidly in the 1990s and is at one of the lowest levels in the Euro area (Mesch 2009). In 2019, the adjusted bargaining coverage rate was around 13% in Poland. At the same time, around 98% of the Austrian employees and 80% of the Spanish employees were covered by collective agreements (OECD and AIAS 2021). Polish trade unions are mostly active in the public sector and in industrial state-owned companies. In addition to this difficult predisposition, the current government has been marginalizing the social partners' role. PiS had vowed to strengthen tripartite coordination after their election in 2015, replacing the defunct Tripartite Commission for Socio-Economic Affairs with the newly formed Social Dialogue Council (RDS). However, the government neglects the RDS in economic policymaking. In such circumstances, there was little room for a coordinated, tripartite policy approach that could contain inflation, reduce second round effects, or guide the distributional conflict between employees and employers. As before, wage bargaining predominantly happened at the enterprise level. Until the second quarter of 2022, nominal wage growth and the overall price index went hand in hand. Thus, real wage growth was positive during that time. However, growing business margins seem to exceed the wage development, increasing the profit share of GDP and adding further pressure on the inflationary developments. Besides their main demand of raising wages, trade unions advocated for policies such as a valorisation of transfers, an increase in the minimum wages and an end to budget austerity. Unfortunately, no tripartite agreements on socio-economic or macro-economic policies were reached. Some observers also note increasing discord on the interpretation of the inflation developments. On the one side, government and business representatives are warning against a rising wage-pressure, criticising the demands of the unions regarding the minimum wage and wage increases. On the other side, unions are publicly criticising the growing profit margins. Overall, the basis for wage-policy coordination is thin and the ruling PiS Party does not convey great interest in strengthening these policies.

After the end of the Francoist dictatorship and the first free elections in 1977, Spain began to institutionalise tripartite negotiations that involve the government, employer representatives and unions. Around 80% of employees are covered by collective bargaining agreements (OECD and AIAS 2021). National level agreements primarily deal with non-pay issues and provide general guidelines for pay increases covering the whole economy. Additionally, lower-level agreements for specific areas or industries generally include pay and working time. Agreements on the firm-level usually do not fall below the agreements on the superior level. Contrary to Austria and Poland, the Spanish government publicly expressed support for wage-policy coordination that could moderate the inflationary trend and secure a fair distribution of the inflationary burden. Simultaneously, the government highlighted its restricted role in the wage bargaining process, underlining the autonomous character of the negotiations between employee and employer representatives. At the beginning of 2022, employer organisations and unions tried to reach a national level agreement for wage increases but failed to do so. Moreover, two tripartite meetings in June and September ended without any progress. Beyond these failed bipartite and tripartite agreements, the Spanish government proposed other measures to initiate a more balanced distribution of the inflationary burden. In October, the government and public sector trade unions achieved a new three-year agreement on wage-increases and the improvement of working conditions for public sector employees. The agreement includes a retroactive additional 1.5% increase for 2022, an increase of 2.5% for 2023 and an increase of 2% for 2024. Additionally, the increase for 2023 and 2024 include inflation and economic output dependent clauses that could lead to further wage-increases (UGT 2022). Besides these agreements, the Spanish government has declared its intention to raise the minimum wage.

Regarding the development of the social dialogue and wage-policy coordination, Austria and Spain underwent a similar path in the past decades. Both countries are still characterised by a relatively high collective bargaining rate, a strong institutional framework of social dialogue and the ability to reach bipartite agreements during times of high inflation. Besides these conspicuous positive characteristics, the economic policy toolkit of both countries would definitively benefit from the introduction of a wage-policy coordination. Especially in Austria, the institutional framework of the social partners has historically proven its ability to stabilise, guide, and balance the economic development. Hence, with enough initiative, a tripartite wage-policy coordination, based on the social partners institutions, could be re-implemented.

Poland on the other hand represents a country were the general institutional framework for a well-established wage-policy coordination is not present. Therefore, the long-term goal should be to establish this foundational framework. In the short-term, unions and social partners should campaign for a more significant role of the Social Dialogue Council (RDS) in orientation of the economic policies. In this regard, developments on the European level could provide positive incentives for the national level. The Directive on adequate minimum wages in the European Union was introduced in October 2022. It could be a first and tentative "paradigm shift" taking place at the European level (Müller/Schulten 2022). It promises to be a major step towards a social Europe. The directive establishes procedures for the adequacy of statutory minimum wages and promotes collective bargaining. Concerning the adequacy of statutory minimum wages, the directive sets reference values of 60% of the gross median wage and 50% of the gross average wage. For collective bargaining the directive aims to extend the bargaining coverage. Member countries should promote strengthening the capacity of social partners to engage in collective bargaining. In countries where the collective bargaining coverage rate is less than 80% member states are obliged to establish an action plan to promote it (Directive 2022/2041). The action plan should set out a clear timeline and concrete measures to progressively increase the rate of collective bargaining coverage.

The directive can be a valuable step to reestablish wage policy as an useful mechanism to strengthen social cohesion within the member states and provide an important economic policy instrument. Even so it does not yet revise the general idea of a market-based integration policy to provide European convergence in living standards primarily by competition between countries.

5. Lessons learned

The current inflation crisis once again showed the necessity of institutions that are able to react in a fast and flexible manner to new challenges. Governments are able to use a wide variety of policy interventions like tax reductions transfers and price controls and are therefore a core prerequisite for any form of economic shock. The core prescription of the neoliberal era to enhance market flexibility and therefore to dismantle institutions of coordinated wage setting proved counterproductive, especially given the marked decrease in labour supply in many countries just prior to the shock in energy prices. Flexibility in this context is understood broadly, especially encompassing transfer systems which automatically react to such shocks by indexing transfers, specifically for low-income households.

Along this line, also the *complexity* of making actual policy based on *seemingly simple economic prescriptions* became obvious once again.

One persistent challenge with social transfers is targeting. For example, the use of a rough indicator of poverty like coal firing in Poland sparked a lot of political and legal discussions. While small imperfections of measures highly correlated with low income or even poverty might be negligible by economic standards, the failure to treat individuals equally under equal conditions might render them inapplicable from a legal point of view. Trying to implement "non distortionary" transfers by using last year's energy consumption also proves to be more complicated in practice than on paper. People tend to change the circumstances of their life quite frequently, like changing their place of living or children being born or leaving the household, which basically would necessitate to distinguish between malign changes in behaviour like installing a new sauna in times of gas shortage and legitimate ones like using the washing machine more often because a baby was born.

Also, a lot of other trade-offs like the one between avoiding social hardship through high food and energy prices while maintaining incentives to save on energy for all others, but also the legal trade-off between accepting excessive collection of *private data* in exchange for better *targeted* transfers showed to be of more than theoretical importance. Making transfers eligible to income tax as done in Germany might well prove to be an intelligent policy to combine equity in general transfer payments with efficiency in administration.

Tax reductions especially on energy or energy intensive products carry the potential advantage of directly reducing prices and thereby the impact on headline inflation. But they suffer from obvious shortcomings. First, they counteract incentives in Carbon pricing, by reducing or even reversing the incentives to save energy. From a distributional perspective, they also have another weakness: They favour heavy users in terms of absolute energy consumption, which are usually also richer households and individuals. A third interesting effect of lower energy taxes came out in the chapter on Poland, low (non-proportional) taxes, which are the standard in taxing fuel in the EU, increase the elasticity of fuel prices for consumers to changes in supply prices for importers.

For *monetary* and financial market policy, the crisis showed the value of active and cautious central bank intervention. Keeping interest rate hikes at bay, a slow hand by the central bank avoids additional uncertainty during already uncertain times. Instruments for a more nuanced kind of intervention would be desirable. For example, unorthodox interventions, which proved essential to save the Euro zone in the aftermath of the 2008 financial crisis, might gain efficiency by skipping the strict requirement on the ECB to buy *bond only in proportion* to ECB Capital shares.

Changing hard currency area. This admittedly more complex policy also requires a closer look on the specific challenges of the crisis at hand for different countries. By the way, it also shows how *inadequate* media, but also policy *discussions* are, which are based more on prejudice of inflation vs stability loving nations, which were quite influential during the time of the troika measures after 2008. The same holds of course for fiscal criteria, which also require a more pragmatic, flexible and discretionary approach in contrast to simple and rigid rules, which are bound to *miss the specifics* when applied uniformly across countries even so if they are faced with substantially different problems. Feigl and Zuckerstätter (2012) illustrate a similar problem in the aftermath of the 2008 crisis.

The current inflation crisis illustrates how diverse the impact of a common import price shock is if it hits rather heterogenous economies. Therefore, it illustrates the necessity to allow for differentiated reactions even by monetary policy.

Even if monetary policy is enabled to react specifically to differentiated impacts, the major burden lies with fiscal instruments. As the current crisis shows, even similar shocks turn out to have highly asymmetric effects which requires an adequate differentiation of policy instruments. The EU in general and particularly the Euro zone should develop institutions that are able to foster such flexible reactions.

For households, firms and to some extent even local governments, the Covid crisis already showed the need for instruments to overcome liquidity problems. While being complex to monitor in detail, the advantage of short-term facilities to support economic actors without long delays might outweigh the incentive problems of such support schemes. Especially if we want to avoid liquidity problems turning into a structural problem if local governments have to curtail long term investment just to cover short term needs for increased energy cost, or even worse, if they start to restrict their activities just to keep liquidity reserves for possible future crises.

6. Conclusions

Europe was hit by two very severe and immediate crisis-events since 2020. The Covid 19 pandemic caused major turbulences in the global supply chains, lockdowns confronted business with major challenges and public services from schools to hospitals came under enormous pressure. Just as the pandemic started to subside the Russian invasion in Ukraine brought new economic and political challenges. Both events adding to the long-term challenge, of turning the economy into an ecological and socially sustainable system.

1. The most important conclusion to draw from the last years is the utmost importance of policy instruments and institutions to react to such challenges. The neoliberal doctrine to take a hands-off approach to economic policy and to dismantle institutions which were able to intervene in the economy proved fatal. Taking active measures was not only necessary during the Covid Crisis, but also proved to be a central cornerstone of economic policy measures that dampened the negative consequences of both shocks.
2. Collective bargaining proved to be a vital institution that provides a social framework which allows a proper balancing of interests. The collective bargaining agreements or social pacts allow to overcome the problem of social hardship for low wage earners while avoiding a fast propagation of inflation into wages. They provide the possibility to stretch full inflation adjustment in time for higher income earners, while securing sufficient increases for low wage earners. The Spanish government showcased, that a broad inclusion of the social partner leads to an active commitment and greater latitude for political measures.
3. Another helpful feature are automatic stabilisers taking care of indexation and valorisation of social transfers. All countries surveyed used immediate transfers to avoid or at least reduce an immediate increase of manifest poverty due to the dramatic price increases. Due to a lack of necessary data, many transfer schemes suffer from insufficient targeting. If the indexation takes place within an established transfer system this can be largely avoided.
4. Higher taxes combined with a larger share of public provision of services also help to cushion the effect of imported price shocks.

In the case of goods taxes pure arithmetic dampens the increase in the prices of the goods taxed and additionally provides the possibility to reduce them to further dampen price increases.

5. Spain showed that well-conceived and carefully conducted market interventions can be a powerful policy tool. In some markets a direct intervention may provide additional benefits to indirect measures, such as transfers.
6. In some instances, market interventions that directly set or limit prices might lead to more efficient and targeted measures compared to indirect policies. However, the policy tool kit of direct interventions is not limited to setting a price. For example subsidizing marginal suppliers, or setting quotas for customers are also direct policy tools.

Overall, the last three years have shown the need for cooperative, active and pragmatic policies. These policies extended the economic toolkit and provided new measures to handle unexpected crises. The main future challenge is to strengthen and rebuild the institutions of social dialogue and partnership. Those institutions proved not only helpful during the crisis but should provide a cornerstone in transforming the economy into an ecological and socially sustainable system.

And hopefully leave us better prepared for the yet unknown problems of the future.

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