Austria: Policies dealing with the inflation crisis

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1. Price development

Since February 2022, consumer prices all around the world began to increase at the highest rates in the last 50 years. Among the causes for the high inflation rates are on the one hand after-effects of the Covid-19 crisis and on the other hand the Russian invasion of Ukraine. The consequences are increases in the cost of raw materials and supply chain disruptions that further drive up prices. According to the latest inflation forecast of the Austrian Institute of Economic Research (WIFO) from October 2022 the inflation dynamics will continue till mid 2023: The inflation rate predictions based on the Harmonised Index of Consumer Prices (HICP)[2] for Austria in 2022 and 2023 are 8.4 percent and 6.6 percent, respectively. For the euro area the respective numbers are 7.6 percent and 4.0 percent, according to the European Economic forecast of Summer 2022. However, the tenor among Austria inflation experts is rather cautious: a quick return to significantly lower inflation rates is not likely. Especially energy prices are expected to further contribute to high inflation rates. This situation is partly self-inflicted, since progress in the field of energy transition towards renewable energy sources has been slow and there was little diversification in the source of supply of natural gas.

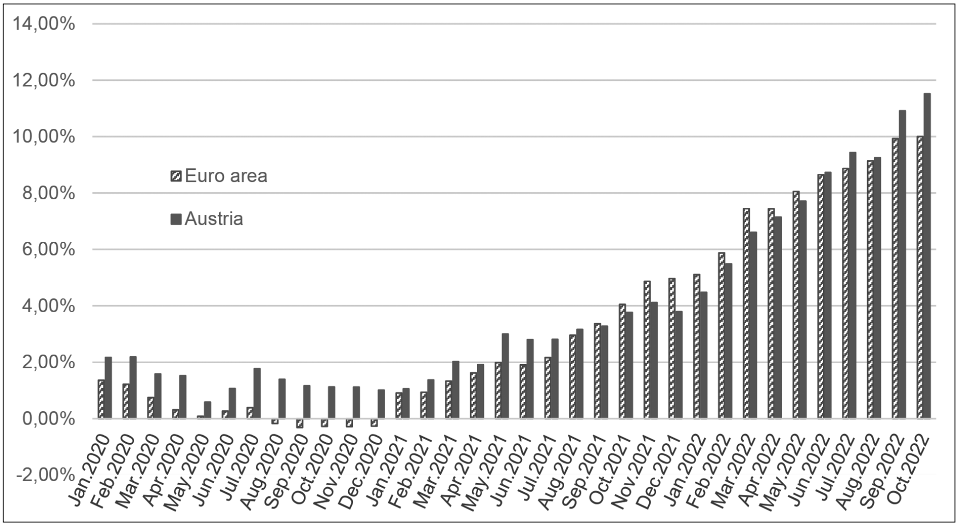
[1] Austrian Chamber of Labour Vienna (AK Wien), Department of Economics. We like to thank our colleages at the Department of Economics, the departments of Economic policy, of Tax policy and social policy, for helpful hints and discussions, and our partners at the IMK, the WIIW and the authors of the other country studies for insightful comments and suggestions. Special thanks also to Sophie Achleitner, Tamara Premrov and Sarah Ritt for proofreading. Of course all remaining errors are ours alone.

[2] For European comparison we use the HICP throughout this paper, but we want to point our that wage negotiations in Austria are based on the national Consumer Price index (Verbraucherpreisindex-VPI). Currently the differences are below 0,1% points which is in the area of rounding errors.

1.1 Detailed inflation dynamics

The increase in the Harmonised Index of Consumer Prices (HICP) in comparison to the preceding month was 0.9 percent in February 2022 in the euro area and 1.3 percent in Austria. In the following month (beginning of the Russian Invasion of Ukraine) the increases were around 2.3 percent for both the euro area and Austria. After March 2022 the development of the inflation rates slowed down slightly, however, the future development is very uncertain. Austria is among the EU states that are most vulnerable to the course of the ongoing war in Ukraine and in the short run possibilities to fully avoid the dependency on energy imports from Russia are limited.

Figure 1: Inflation HICP, euro-area, Austria (annual rate of change)



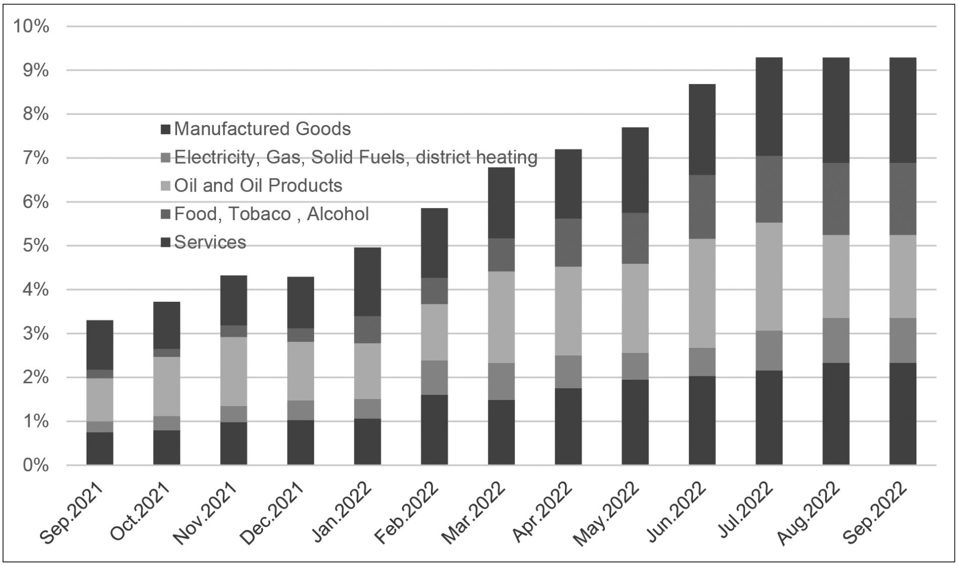
Source. Eurostat

The inflation rate for February 2022 (in comparison to the preceding year) was 5.5 percent and increased to 11.5 percent in October 2022. This value was slightly above the euro area average which was also true for eight other euro area countries.

Contribution to the inflation rate by consumption purpose

Some types of consumption (based on the Classification of individual consumption by purpose (COICOP)) are more affected by current inflationary pressure than others. Those are mostly energy and goods where price increases due to more expensive primary products have a large impact. There are also country-specific factors that have an impact on the inflation rate. Austria's hesitancy when it comes to the implementation of necessary measures to combat the climate crisis (i.e. investments in climate-neutral energy sources) has unnecessarily intensified the energy price crisis. Another "home-made" factor is the indexation of rents. If inflation rates rise, so do (specific kinds of) rents in Austria, which in turn leads to higher inflation again – a price-rent spiral. Due to higher price increases rents increased their weight in the chain indexed HICP by 1.26 percentage-points over the ten years from 2011 to 2021 only hotels and restaurants had a higher increase in their weight of 3.8 percentage-points. Relative to their initial weight, rents had an increase of 34%. This problematic combination of energy and rent prices results in a strong burden especially for low-income households which spend around one third of their income on rent and energy.

Figure 2: Contributions to Inflation by COICOP Groups, Austria



Source: Statistics Austria, own calculations

Energy prices

Eurostat data show that more than half of the inflation rate in the euro area is due to energy price increases (August 2022). In Austria the respective share is slightly higher than one third. One reason lies in the comparatively high share or renewables in the Austrian energy mix. Especially hydro power contributes a high share of electricity. The reason for the lower contribution in Austria is that countries with a higher weight in euro area aggregate inflation rates had higher energy prices (i.e. the Netherlands or Italy).

Food prices

The second biggest contribution group in the euro area were the food price increases, responsible for around 20% of the inflation rate (August 2022). In Austria the respective value was 15%. However, we expect wholesale prices to be reflected in consumer prices in the near future.

Hotels and Restaurants prices

The third biggest contribution to the price increases result from price increases in the service sector particularly hotels and restaurants. The share in the euro area was 8%, in Austria it amounted to 17.6% (August 2022).

2. Wage developments

The usual wage guideline for Austrian trade unions is average inflation over the preceding 12 months plus trend productivity growth measured at the level of the total economy. One has to be aware that this is a rough guideline not a strict rule. Actual wage demands also depend on actual firm performances of the specific sector, the situation in the labour market and "errors" in price or growth-estimates in past agreements.

Negotiations for the branches take place over the whole year. There is no strict formal rule but some regularity which can be described as follows: The start of a negotiation round is seen in the autumn negotiations of the metal sector starting in September. The agreement for the metal industry enters into force by the first of November. They are to some extent setting the pattern for following wage negotiations which tend to use the metal sector agreement as a rough orientation. However, they do adjust their demands according to new data and information.

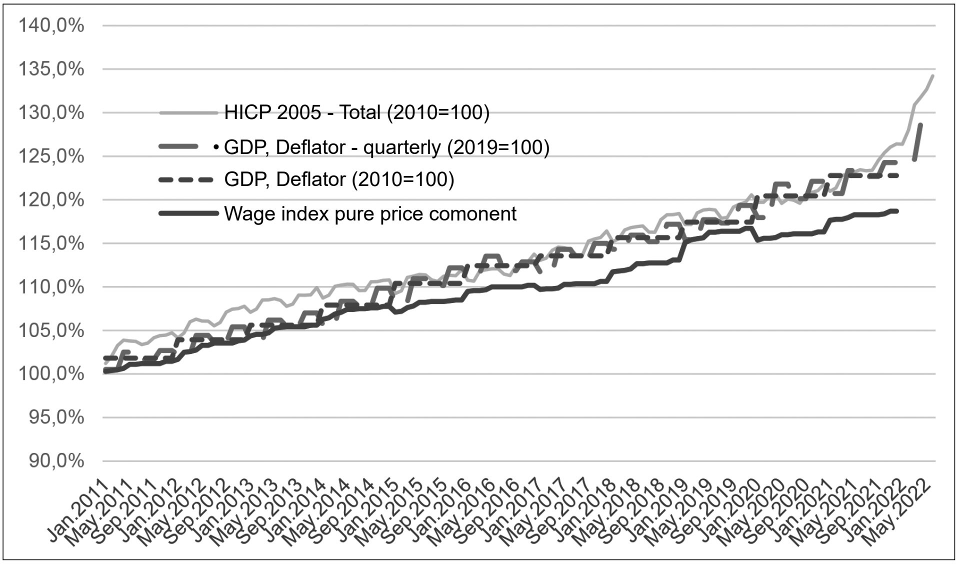
Retail trade, the public sector, and some other branches start negotiations in November and enter into force by first of January. Finance usually enters into force by April, construction, chemistry, electrical industries and tourism tend to start negotiations in March with new agreements entering into force by May. Food processing industries have their agreements negotiated by August. This list is by no means exhaustive as there are smaller sectors negotiating in between. Sometimes negotiations about more structural issues like reforms in wage schemes, working time or organisational regulations might also be held in between or over longer periods.

In contrast to other countries the duration of agreements is not yet a regular issue in wage negotiations. Agreements run over full 12 months and are renegotiated thereafter.

2.1 Wage developments 2011-2021

As pointed out, the usual time window for inflation used to form wage demands is over the previous twelve months. Wage negotiations in Austria are mainly backward looking. This induces a strong delay in the transfer from rising prices to higher wages. The following chart shows the time series of consumer prices, the GDP deflator, and the Index of Agreed Minimum Wages for Austria since 2011, adjusted for actual productivity-growth[3].

Figure 3: Price indexes and "Price-Component" of collectively agreed wages



Source: WIFO database, Statistics Austria.

One can see how wage agreements stayed in line with inflation plus productivity up to 2014. During the recovery after the Financial and Euro crisis, wages lagged behind and started to recover in the boom up to 2019 almost closing the gap. During the first year of the pandemic, unions in most agreements agreed to pure inflation adjustment plus one of payments, without a productivity component, to allow some breathing space for companies facing high uncertainty.

[3] To adjust for productivity growth we adjusted the index of agreed wages by the index of actual GDP per hour-worked. Both based on 2010=100, the index of agreed minimum wages ("Tariflohnindex") is a fixed weight index of collectively agreed wages. The weights represent the shares of the wages going to the employees affected by the specific collectively agreed wage. It contains data for about 850 wages/salary groups, representing employees in Austria excluding apprentices. To isolate the pure price component of collective agreements we adjusted the nominal increase of the index, by the increase of productivity. The indicator therefore represents collectively agreed increases in unit labour cost.

2.2 Prognosis of wage developments 2022-2024

Austrian Social Partners[4] usually base their negotiations on the forecast by the Austrian Institute of Economic Research (WIFO) which is partly financed by them. The most recent forecast by the WIFO expects nominal gross wages to increase by 3.7% in 2022 and 7.9% by 2023 while real net wages are expected to decline by 2.9% in 2022 and increase again by 2.7% in 2023. As mentioned above, inflations is expected at 8.5% in 2022 slowing down to 6.5% in 2023.

The pattern setting agreement of the metal sector was signed after tough negotiations by 3rd of November entering into power retroactively from 1st of November. It has a proportional increase or 5.4% and another increase by 75 euros flat for all wage groups. This agreement bringing the lowest minimum wage in the metal sector to 2,236.16 euros amounting to hourly wages on a comparable base of 12 monthly payments of 16.82 euros. Care workers signed their agreement by 22nd of November with proportional wage increases of 8% and 175 minimum increases across all groups resulting in 10,2% in the lowest group and 8% on average. Retail workers agreed on proportional increases of 7.31% and 145 Euro minimum increase for all groups resulting in 8.67% in the lowest group and 7.37% on average. Both agreements entering into force by first of January. Some negotiations are still under way, with practically all of them on the brink to industrial action, which is somewhat uncommon in Austria. Railways already saw a warning strike for 24 hours and negotiations have just been resumed (12.12.2022). Breweries are currently also on a 24 hour warning strike. As industrial relations in Austria are traditionally more consensual, we do see tougher conflicts in the current negotiations. Unions in most negotiations are aiming to get stronger increases for lower wage groups.

As mentioned above unions base their demand roughly on average inflation of the preceding 12 months which implies only a partial compensation for current inflation if measured by comparison to the same month of the previous year. A full compensation of inflation can therefore only be expected with some delay. Consequently, the current forecast of the Austrian Institute of Economic Research expects real wages to decline by 4.4% in 2022 and to only weakly increase by 1.3% in 2023. The loss in purchasing power is mitigated by compensating government support. Tax reductions are expected to dampen losses in net wages for 2022 to -2.9% and allowing an increase of 2.7% in 2023.

[4] For Readers not familiar with the Austrian System of Representation the Austrian Social partners are: The Austrian Trade Union (ÖGB) and the Chamber of Labour on the Employees side and The Economic Chamber and the Chamber of Agriculture on the employers side. The meet regularly to discuss points of common concern.

On the one hand one can see the usual pattern of wages, slowing price/ cost dynamics due to staggered adjustment, on the other hand we see the quite substantial but delayed effect of public support measures in net wages primarily in 2023.

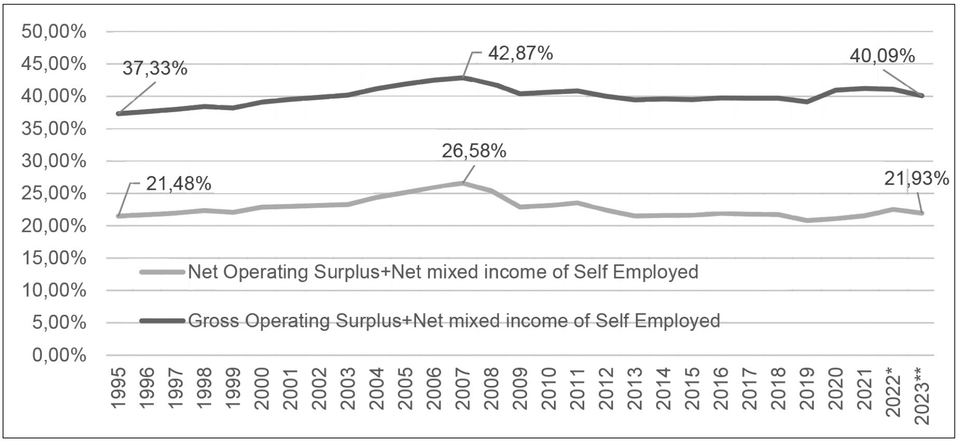
Some pass on of increased wage costs into especially export prices does however seem sensible over the longer term to compensate for the quite substantial loss in terms of trade due to high energy costs and the substantial devaluation of the Euro against the USD, of about 10% by August 2022 compared to 2019.

There is no sign of dynamic wage price spirals. Inflation dynamic is expected to slow, if excessive increases in mark ups especially but not exclusively in energy and agricultural products can be contained by public policy.

2.3 Corporate Markups

We can only analyse data on operating profits and mixed income of the self-employed, which is not exactly a measure of markup but of functional distributions which only partially captures the same effects.

Figure 4: Profit share in GDP



Source: Statistics Austria; Distribution of income account, Austrian Institute of Economic Research, * prelim. ** forecast.

One can see a permanent increase in net operating surplus as a share of GDP plus an increase in consumption of fixed capital until the outbreak of the great recession in 2009, the share stabilised at the 1995 level before it saw a slight uprise during the Corona years. Gross operating profits saw a stronger increase as production tended to grow more capital intensive.

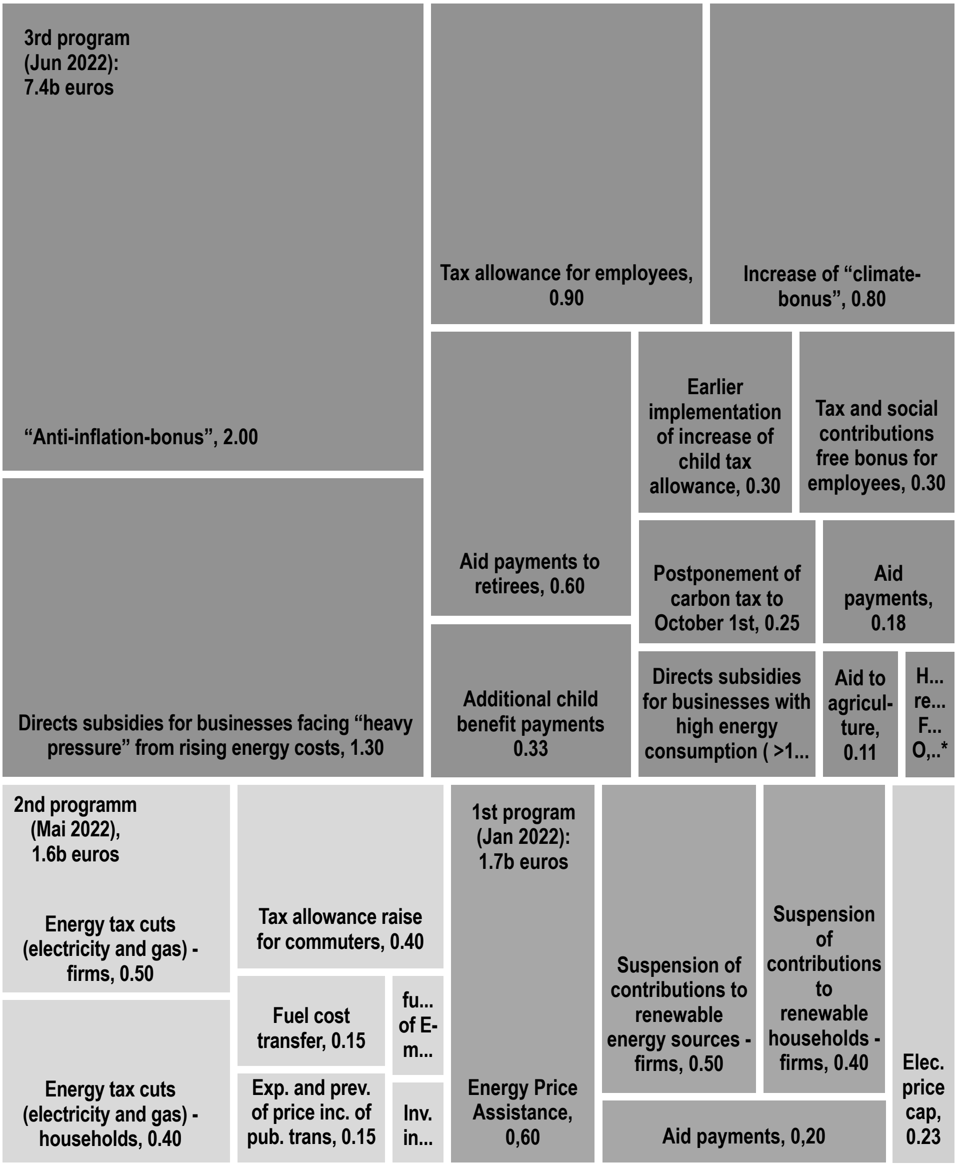
Focusing on the period from Q1-2019 to Q2-2022 during the pandemic, one can even see remarkably stable operating profits supposedly brought about by a strong increase in public transfers plus a very moderate increase in wages which was already mentioned above.

3. Policy Measures

The Austrian government has implemented a wide range of measures to cushion the effects of the energy crisis and war in Ukraine related high inflation rates in Austria. Following two small packages earlier in the year, the majority of the measures was presented in the form of a third, massive relief program in June 2022[5] with a volume of an estimated 7.4 billion euros effective already in the year 2022. In total, only for the year 2022 around 11 billion euros (2.44% of GDP) are spent on immediate measures. While most of the measures are one-time payments, some structural reforms were passed as well. Over the period 2022 to 2026 the budgetary cost of all relief programs could sum up to almost 33 billion euros (of which almost 29 billion euros stem from the third program). Recipients of the payments are predominantly households – a smaller amount is also directed to businesses. From a distributional viewpoint the measures seem to more than fully compensate households with lowest earnings (first decile of individuals) for the costs of the price increases in the current year 2022 – they receive on average around 10% of their equivalised income in transfers while the cost of inflation amounts to slightly more than 8%. in 2023 due to the expiration of many one-time measures the transfers for the lowest decile amount to only around 2% of equivalised income while the cumulated inflation for the first decile is predicted to be as high as 15% (Budgetdienst 2022).

[5] 1663 d.B. (XXVII. GP) - Teuerungs-Entlastungspaket III | Parlament Österreich

Figure 5: Volume of public support measures in Austria



Source: own depiction, Budgetdienst 2022, *Housing rescue Fund

Table 1: Overview of immediate measures

	Measure	Measure (German)	Amount	Target Group	Costs (in bill. Euros) 2022 (2023-2026)
1	Energy Price Assistance	Energiekostenausgleich	150 euros	All Households below income threshold	0.6
1	Aid payments for vulnerable groups	Einmalzahlung für vulnerable Gruppen	up to 300 euros	Individuals receiving certain social transfers	0.2
1	Suspension of contributions to renewable energy sources	Aussetzung der Erneuerbaren-Förderpauschale		Firms/ Households	0.9 (households: 0.4)
				Sum	**1.7**
2	Energy tax cuts (electricity and gas)	Senkung der Elektrizitäts- und Erdgasabgabe	minus 93 and 82 per cent	Firms/ Households	0.9 (households: 0.4)
2	Tax allowance raise for commuters	Erhöhung Penderpauschale und Pendlereuro		Individuals elegible for tax allowance	0.4
2	Fuel cost transfers	Treibstoffvergütung KMU und Agrarbereich		Agricultural and small businesses	0.15
2	Expansion and prevention of price increases of public transportation services	Preissenkung und Angebotserweiterung öffentlicher Verkehr		Individuals	0.15
2	Funding of e-mobility in firms	Förderung E-Mobilität in Betrieben		Firms	0.06 (2023: 0.06)
2	Investments in renewable energy projects	Investitionsoffensive erneuerbare Energie/ Speicher		Firms	0.05 (2023-2026: 0.2)
				Sum	**1.71 (2023-2026: 0.26)**

	Measure	**Measure (German)**	**Amount**	**Target Group**	**Costs (in bil. Euros) 2022 (2023-2026)**
3	Increase of "climate-bonus"	Erhöhung Klimabonus	250 euros (125 euros for children)	Individuals	0.8
3	"Anti-inflation-bonus"	Anti-Teuerungsbonus	250 euros (125 euros for children)	Individuals	2
3	Postponement of carbon tax to October 1st	Verschiebung der Einführung der CO2-Steuer	30 euros per ton of CO2 (unchanged)	Firms/Individuals	0.25
3	Aid payments to retirees	Einmalzahlung für Pensionist:innen	500 euros	Retirees with low pension income	0.6
3	Tax allowance for employees	Teuerungsabsetzbetrag	500 euros	Employees with low income	0.9
3	Aid payments for vulnerable groups	Einmalzahlung für vulnerable Gruppen	300 euros	Individuals receiving certain social transfers	0.18
3	Additional child benefit payments	Einmalzahlung bei Familienbeihilfe	180 euros	Families	0.33
3	Earlier implementation of increase of child tax allowance	Vorziehung der Erhöhung des Familienbonus und Kindermehrbetrags	500 euros (550 euros for low-income parents)	Families	0.3
3	Increase of "Housing rescue fund"	Aufstockung des Wohnschirms		Households	0.06
3	Tax and social contributions free bonus for employees	Steuerfreie Teuerungsprämie	3,000 euros	Individuals	0.3 (in 2023: 0.3)
3	Aid payments to agricultural businesses	Versorgungssicherungspaket für die Landwirtschaft		Agricultural businesses	0.11
3	Direct subsidies for businesses facing "heavy pressure" from rising energy costs	Zuschüsse für energieintensive Unternehmen		Vulnerable energy-intensive firms	1.3
3	Direct subsidies for businesses with high energy consumption (> 1 GWh)	Strompreiskompensation für Unternehmen		Energy-intensive firms with high energy consumption	0.24
				Sum	**7.37 (2023-2026: 0.3)**

	Measure	Measure (German)	Amount	Target Group	Costs (in bil. Euros) 2022 (2023-2026)
	Electricity price cap	Stromkostenbremse	10c, up to 2,900 kWh/year	Households	0.23 (2023-2024: 3.83)
				Total sum	**11.01 (2023-2026: 4.39)**

Source: own depiction, Budgetdienst 2022

A *first*, comparatively small *relief program* was presented in January 2022 with fiscal costs amounting to 1.7 billion euros (0.38% of GDP). Around one third of the costs was due to an energy price assistance (*"Energiekostenausgleich"*) of 150 euros per household (600 million), paid in the form of a voucher. *(Bundesministerium für Finanzen 2022a)*. Only households with an annual taxable income of at most 55,000 euros (single households) or 110,000 euros (multi-person households) were allowed to legally use the voucher. There is no way to technically prevent all households from using it though since the energy companies have no possibility to verify the income threshold. Also, one-time payments (*"Einmalzahlung vulnerable Gruppen"*) up to 300 euros (total costs: around 200 million) were transferred to individuals receiving certain social transfers (social assistance, unemployment benefits, study assistance). The disadvantage of this design is that it excluded low-income individuals without entitlement to those social transfers. The biggest measure of the first program (900 million) was the temporary suspension of contributions to the development of renewable energy sources by energy consumers (*"Aussetzung Erneuerbaren-Förderpauschale/-Förderbeitrag"*), a charge on consumer's energy bills consisting of a fixed as well as a variable part.

The cost of the *second relief program* presented in March 2022 amounts to almost 2 billion euros (thereof 1.7 billion or 0.38% of GDP in 2022). Almost half (900 million) is due to energy tax cuts on electricity and natural gas (*"Senkung Elektrizitäts-/Erdgasabgabe"*) to the level of the EU-minimum (by 93 and 82 per cent, respectively). Households benefit almost as much (400 million) as businesses (500 million). The tax allowance for commuters (*"Erhöhung Pendlerpauschale/Pendlereuro"*) will be raised temporarily (400 million), however, the tax allowance in combination with a progressive income tax system leads to a higher benefit for individuals with higher income. Furthermore, the government decided on fuel cost transfers to agricultural and small businesses (*"Treibstoffvergütung KMU/Agrarbereich"*) (150 million), measures to expand public transport services and prevent price increases (*"Preissenkung/Angebotserweiterung öffentlicher Verkehr"*) (150 million), programs to fund e-mobility in businesses (*"Förderung E-Mobilität in Betrieben"*) (120 million, 2022-2023) and rather medium-term measures like investments in renewable energy projects (*"Investitionsoffensive erneuerbare Energie/Speicher"*) (250 million, 2022-2026).

The *third* and most comprehensive *relief program* was presented in June 2022. It had a volume of around 7.4 billion euros in 2022 (1.63% of GDP) and in addition to immediate measures it contained several structural measures that will have (strong) budgetary effects even after 2022.

3.1 Immediate measures

The *"climate-bonus"* (0.8 billion) – a one-time transfer to all Austrian residents intended to cushion the effects of the (not yet implemented) carbon tax on individuals and induce environment-friendly behaviour – was increased to 250 euros per person (and half the amount to persons younger than 18). Before it varied between 100 and 200 euros per person depending on the region of residency. Additionally, an *"anti-inflation-bonus"* of 250 euros per person (2 billion) is going to be paid to the same individuals, however, this transfer will be subject to income tax for individuals whose income is taxed with the second to highest marginal tax rate of 50 per cent (corresponding to individuals with taxable income above 90.000 euros per year).

The initially planned implementation of the carbon tax on July 1st was postponed to October 1st (250 million).

In addition to the general transfers, there are means tested transfers for several groups:

- Retirees with low income receive an additional payment of 500 euros decreasing to zero for gross incomes higher than 31,500 euros annually (600 million).
- Employees with low income receive a tax deduction of 500 euros decreasing to zero for gross incomes higher than 35,000 annually (900 million).
- Individuals receiving particular transfer payments like, social assistance, unemployment benefits or study assistance are paid up to 300 euros (180 million).

For families, there are also targeted support measures,

- Family benefits are increased: As a one-time measure families receive an additional 180 euros child benefit in 2022 (330 million).
- The "family-bonus" (a tax credit of 2,000 instead of 1,500 euros per child for parents already presented in last year's tax reform plans) is implemented earlier than planned, starting in 2022. Additionally, a tax credit for parents with low income is increased to 550 euros per child (initially planned: increase from 350 to 450 euros starting in 2023), which can reduce the tax liability to below zero and lead to a refund of social security payments (300 million).

Additionally, there are special measures to protect peoples housing and to incentivize social partners to to agree on one of payments instead of permanent wage increases.

- A "housing rescue fund" implemented during the covid crisis to prevent evictions is increased by another 60 million euros.
- One-off payments (*"Teuerungsprämien"*) by employers of 2.000 euros per year and another 1,000 euro exemption for one-off payments based on some form of collective wage regulation are granted exemptions from all taxes and social contributions, in 2022 and 2023 for (600 million).

Third relief program also included measures for businesses and farmers.

- Agricultural businesses receive a payment to mitigate the effects of higher energy, animal feed and fertilizer prices depending on the size of the land and the number of live stock (110 million).

To mitigate the effects of high energy prices on businesses the government implemented two measures.

- First, businesses that face "heavy pressure from rising energy costs" can receive direct subsidies in 2022 (1,300 million).
- Second, businesses with a plant-based yearly electricity consumption of more than one GWh can receive subsidies up to 75 percent of indirect effective carbon costs. The total amount of the subsidies is limited to 75 per cent of the auction proceeds of EU emission certificates (235 million).

3.2 Structural measures

The compensation of the "bracket creep" (the effect of higher inflation-induced tax contributions at stagnating or sinking real wages because of nominal wage increases) is the biggest structural measure of the program (16 billion throughout the period 2023 to 2026) (*Bundesministerium für Finanzen 2022b*). This high (estimated) amount of the budgetary costs of the bracket creep arises because the compensation is calculated using a microeconomic approach. The tax brackets are increased by last year's inflation rate which implies that everyone had a nominal wage increase which was at least as high as last year's inflation rate. This is certainly not true, for example if people retire, become unemployed, go on parental leave, reduce working hours or if the wage increases lag behind inflation rates which can be the case in the current high inflation environment. The effect of the bracket creep is thus likely overestimated which might lead to a decline in the income tax share in contrast to its desired stabilization (Brandner and Baumgartner 2022). The second biggest structural measure was the indexation of social transfers (family-orientated transfers, sickness/rehab/retraining benefits or study assistance) in the future (4 billion, 2023 to 2026). The third measure was the reduction of employer contribution rates to the family fonds by 0.2 percentage points and to the accident insurance by 0.1 percentage points (3 billion, 2023 to 2026).

Additionally, the government presented a price-cap on electricity (*"Stromkostenbremse"*) in September (0.23 billion in 2022, 2.73 billion in 2023, 1.09 billion in 2024). Between December 2022 and June 2024 households receive a rebate on their electricity bill up to a consumption of 2,900 kWh per year. The price per kWh is capped at 10ct. – if energy companies charge more households receive up 30ct per kWh as direct subsidy. The limit of 10ct+30ct subsidy is there to make it unattractive for energy companies to raise prices above that threshold, as market discipline would bite there again.

The immediate measures the government decided on in 2022 were quite effective in shielding households from inflation. Low-income households were compensated more than high-income households both in relative as well as in absolute terms (Budgetdienst 2022). However, budgetary costs could have been lower if the measures would have been better targeted, since high-income earners could cope with the effects of the higher inflation by simply reducing their savings rate. Also, most measures in 2022 were one-time measures. For 2023, no such support is planned and the structural changes help middle and high-income households more than low-income households. The electricity price cap is not enough for low-income households to cope with inflation which also raised rents, gas- and food prices. Especially rising natural gas prices which is widely used for heating in Austria cause problems for low-income households, but also increasing rents as well as food prices become more and more of a problem. Even if inflation goes down again the higher price level remains and makes it even more necessary to have permanent increases in household income especially for low income households.

We can already see domestic agriculture and energy producers increasing their prices in line with imported inflation. In addition, there is a lag in the adjustment of household energy bills due to many fixed price contracts which only allow annual adjustments of prices. The exact timing depends on the individual contract but some bunching around the end of the year is expected.

3.3 The Social Partner's Reaction

Wage negotiations which are the core field of social partner politics are still ongoing an many agreements have been reached by now, but as described above, negotiations are tougher than usual with industrial action is becoming a clear option due du insufficient offers by employers. Unions in most negotiations are aiming to get stronger increases for lower wage groups

Austrian trade unions follow a multi-tier strategy in their attempt to protect real wages. On the one hand especially the ÖGB (Austrian Trade Union) as the overarching institution is putting pressure on the government to curb excessive price increases and to fight the social and distributional consequences of high inflation especially in subsistence goods (food, energy, and housing) by increasing social transfers and by special transfer payments. On the other hand, the branches of the ÖGB follow their regular negotiation strategies and try to secure stable or rising real wages by negotiating sufficient wage increases. Austrian unions stick to their orientation of wage demands to compensate for average inflation over the last 12 months, which introduces a substantial delay in wage adjustments and forestalls any form of wage price spirals.

The government announced quite substantial tax exemptions for one-off payments (see: Teuerungsprämien chapter 3.1). Unions made clear already that one-off payments are not considered a sufficient instrument to compensate for permanent increases in prices. One-off payments can only compensate the income loss for a limited time span but will result in real wage losses as soon as they run out. They could only be a reasonable compensation if prices would decrease in the future. But broad-based deflation is neither desired nor expected over the near future. Up till now there seems to be little use of the instrument in current negotiations.

As industrial relations in Austria are traditionally more consensual, we do see tougher conflicts in the current negotiations, it remains to be seen whether this leads to a more controversial form of wage policies in the future especially as a substantial part of the real wage losses has to be recovered over the coming years.

Enterprises on the other hand have demanded support from the government to compensate for high energy prices and there will be another support package as described below. There is some scepticism concerning the design of additional support for enterprises, as subsidies during the Corona crisis had some considerable design flaws and substantial potential for over subsidising (Rechnungshof 2022).

Lower Bounds on Wages, the Austrian Strategy on Minimum Wages

Prior to the beginning of the wage negotiation rounds, the Austrian labour union already announced that it proposes a new gross minimum wage of 2,000 euros per month (14 times a year). In many industries, such as the metalworking industry agreement, the minimum wage guaranteed in the collective agreement amounts to a gross monthly salary of 2,236.16 euros[6]. In branches of the low wage sector however, minimum wages in collective agreements can be as low as a gross salary of 1,500 euros.

This measure is independent of the current hike in inflation but will of course help to cushion the social consequences of high prices for basic needs. While there is no legal regulation of a specific minimum wage in Austria, there is long standing policy by the unions to set minimum wage targets for the lowest wage slots within collective agreements. Currently unions tried to get the lowest wage groups to 1,700 euros 14 times per year (equivalent to 11.4 Euros per hour in case of a 40 hour work week) which is the upper bound for regular working times.

The President of the ÖGB announced the increase of the minimum wage target to 2,000 Euro for the coming years. Whether there is some support from the government by way of special extension mechanisms or special support or a general agreement with the employers is yet to be seen.

4. Tripartite/coordinated Action

In March 2022 social partners made a coordinated call to the government and demanded the following short-term measures. Quite a substantial part of this demands has already been met by the Government:

[6] www.proge.at - Metaller-KV: Einheitlicher Kollektivvertrag für 200.000 Beschäftigte durchgesetzt

- A transfer of 500 Euro to low-income earners. This was met by the Government implicitly by the one-time increase in the *"climate bonus"*.
- The Compensation for price increases in electricity has partially been enacted by a voucher for household electricity bills and the subsidy on an average base amount of electricity per household (see chapter 3.1).
- The demanded tax exemption for special one-off payments to employees, was granted by the government under the Heading of Teuerungsprämien (chapter 3.1).
- Support for Enterprises with high burden form energy costs. (on chapter 3.1)
- Extending the regulation for short time work which was planned to become more restrictive after the end of the corona pandemic (even so without a general increase of payments for effected employees from 80 to 90%)
- Increases in tax deductions for commuters in 2022 and 2023. And increases in tax credits plus tax-transfers for commuters.

There have been some additional demands which have not, or only partially been met by the government.

- A reduction in the quantity tax on mineral fuels (Mineralölsteuer) for gasoline by 15 Cent and by 8 Cent for gasoil. Which was vetoed by Green members of the government. There was only a compensation for farmers by a corresponding increase of the special gasoline tax refund for agricultural producers. (a somewhat ambivalent target group as agricultural income in Austria increased by 40% in 2021 which is higher than for any other sectors)
- A stop and reversion of the automatic indexation of housing-rent-payments which are usually tied to inflation in Austria and therefore cause automatic propagation of general price increases to housing costs.
- There has also been no increase in the tax-free amounts of repayments for personal transport ("Kilometergeld") or expenses during job related travel (Tagesdiäten).

Concerning actual wage negotiations there have been no coordinated centralised interventions by the heads of social partners or the Government in the wage negotiation yet (November 2022). This however would be an unusual step which is historically only taken in times of severe crisis which cannot be solved by negotiating branch level actors themselves.

In contrast to earlier periods of imported energy price inflation in the mid-seventies or early eighties there is very little direct negotiation between social partners and the government. In spite of taking up quite a lot of the proposals by the social partners the government avoids direct involvement of unions and employer organisations up till now.

Table 2: Summary Tick Box List for Austria

Category		Remark
Energy Tax Cut	✓	In 2022 and first half of 2023
Gasoline Tax Cut	☐	
VAT tax cut		
Retail Price Control	✓	Electricity price cap, 2023-2024
Wholesale Price Control	☐	
State-owned company mandate	☐	
Windfall profits tax	✓	Second half 2022-2024 (planned)
Transfers to (vulnerable) households	✓	Mostly one-off payments but also indexation of some social transfers
Transfers to (vulnerable) firms	✓	Based on energy intensity
Unilateral wage policy/guideline	☐	
Bi- or tripartite agreement social pact	☐	
Other measures	✓	Compensation of “bracket-creep” Direct “helicopter money”-like transfers
Measures to Prevent gas shortage during the winter	✓	Strategic (government controlled) gas reserve

Source: Own compilation

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Abstract

Inflation in Austria started to rise from mid-2021 during recovery from the Corona crisis. The Russian invasion in Ukraine and the heavy increases in energy prices made things worse and brought inflation to over 10%. The government did not enter into direct formal negotiations with social partners but subsequent anti-inflation packages met many demands made by the social partners. The attempt to influence wage negotiations via a tax exemption for one-off payments failed as they were not widely used in collective agreements. One-off payments are not suitable to compensate for permanent real wage losses. Current wage negotiations are tougher than usual, requiring long negotiation rounds including the thread of industrial action. The policy of unions to base their demand on past inflation allows for a substantial delay in nominal wage increases. The government has not yet included more direct measures to fight high inflation, like direct price controls, changes to the design of markets, or reforms of the automatic housing rent indexation. The wage setting system in Austria is still working but it will remain difficult to reach agreements, especially as a substantial part of the real wage losses has to be recovered over the coming years. A stronger use of regulatory measures and direct public involvement in the energy, housing and potentially the food price sector might be required if the current energy supply crisis and the transformation to a low carbon economy should be managed successfully in the future.