Wages and profits in a time of high inflation in the euro area

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Abstract

This paper analyzes the developments of wages and profits during the post-pandemic inflation in the euro area. We relate

I evaluate the extent to which the fall in inflation has had an effect on wages, and the answer seems to be that it has not. An extreme example is that profits have risen by much less elsewhere in the euro area

Introduction

Inflation is back in the eurozone, with levels never known since the creation of the euro. Countries have responded to higher inflation in very different ways, to an

There is also a question about whether there is conflict inflation, and how much inflation is due to conflict.

A "wage-price spiral"

There

1. A first look at wages and profits in the euro area

1.1. Nominal wages, real wages

Measuring wages is not easy. Moreover, price indices are not harmonized across different countries, so real wages are not comparable for two reasons, which a priori do not cancel out. With this caveat in mind, Table presents the evolution of real wages in the euro area between.

1.2. Nominal wages, real wages

Are nominal wages related to inflation? In the cross-section of European countries, there appears to be no correlation between the two. This is a priori surprising because it implies that real wages are not moving in a predictable way depending on different inflation experiences across countries.

Bargaining for real wages, or real disposable income? Perhaps workers do not care whether they get compensated through lower inflation or through higher transfers: in this case, nominal wage inflation would not be higher where inflation is higher because workers are being compensated through checks and transfers.

It also implies that competitiveness strategies do not work.

1.3. Profits

1.4. Problems of measurement: Euro area data is not harmonized

Harmonization of the inflation data. Unfortunately, this analysis is subject to numerous caveats. First, euro area data is not harmonized, even when provided by Eurostat. The scope of firms which are reported to Eurostat in computing data on profits and mixed income is not the same across all

Harmonization of profit shares.

Studying the inflationary episode post-Covid is not easy: the last data point since Covid (2019Q4) is probably too far away for a meaningful comparison, while.
There were many unusual movements in the wage / profit shares in 2020, 2021 even before the Russian invasion of Ukraine, which implies that comparisons are really hard in this respect.

Table 1 shows the evolution of operating surplus and mixed income in many countries of the euro area.

Table 1. Operating surplus and mixed income, gross, non-financial corporations, % of Gross Value Added. (Source: Eurostat, Quarterly Sector Accounts)

	2019,Q4	2021,Q4	2022, Q4	CHANGE, 2021,Q4 TO 2022,Q4	CHANGE, 2019Q4 TO 2022Q4	TIME SERIES
Spain	41,8%	42,3%	46,0%	3,7%	4,1%	46.0
Italy	43,0%	41,8%	44,8%	2,9%	1,7%	44.8
Ireland	74,5%	76,8%	79,3%	2,5%	4,8%	79.3
Austria	41,4%	39,7%	41,8%	2,1%	0,4%	41.8
Netherlands	39,0%	40,5%	42,3%	1,8%	3,3%	42.3
Euro area	40,2%	41,2%	42,0%	0,9%	1,8%	42.0
France	33,0%	32,4%	32,3%	−0,2%	−0,8%	32.3
Estonia	43,8%	46,4%	46,2%	−0,2%	2,3%	46.2
Finland	43,5%	45,0%	44,6%	−0,4%	1,1%	44.6
Belgium	42,8%	44,2%	43,1%	−1,1%	0,4%	43.1
Portugal	38,9%	36,9%	35,6%	−1,3%	−3,3%	35.6
Germany	37,5%	40,7%	38,7%	−2,0%	1,2%	38.7

Source: Eurostat, Quarterly sector accounts, authors' calculations.

2. Inflation shocks and inflation policies across the Euro area

2.1. Sources of heterogeneity: energy dependance, indexations,

Inflation shocks have been very heterogeneous in the Euro area, particularly due to different exposures to energy prices, but also different preexisting and discretionary policies taken during the inflation shock.

2.2. Policies to fight against inflation

2.3.

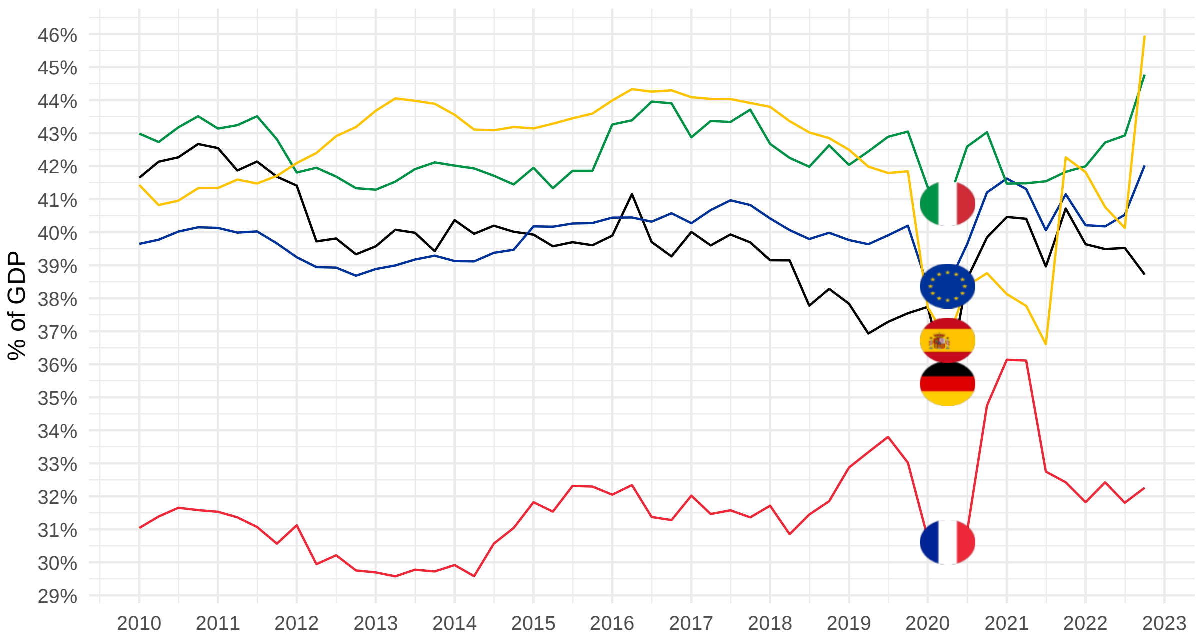
3. What determines wages

3.1. The absent wage-price spiral

3.2. Wage indexation? The case of Belgium and Luxembourg

Did we see a wage price spiral? It's more complicated. In fact, since the February 2022 invasion of Ukraine by Russia, it's not even true that inflation in Belgium or in Luxembourg have been substantially higher than inflation in other countries.

3.3. The Phillips curve?



The case of Belgium and Luxembourg

Counterfactual: should shareholders and workers (and the government) share the pain of imported inflation? Some argue that the share of wages in value added should ideally stay constant. What would that entail for wages?

Complication with Covid-19 recovery

A problem of measurement

There also is a problem of measurement, as the energy component is not calculated in the same way in all European countries.

Indexations

Bargaining for real wages, or real disposable income?

The slowdown in inflation has been justified by the government

Conclusion

This inflationary episode has taught us a few lessons about inflation in general, and what causes it. One thing is absolutely certain, is that inflation is not always caused by higher wages and that decreasing inflation does not necessarily imply that workers should be hurt, as they were in the 1980s. The United States seems closer to achieving a "soft landing", while the euro area may get the worse of two worlds: continuing inflation together with a self-inflicted recession. To avoid this, European policymakers and economists must be open to new ideas.

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Appendices

Figure 1