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REPORT

How governments protected citizens during the inflation shock (2022-24) in Denmark, Germany, Italy, Poland and

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Deliverable 3.2. – How governments protected citizens during the inflation shock (2022-24) in Denmark, Germany, Italy, Poland and Spain

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1. Introduction

In 2022, high inflation made its return in Europe. Following decades of price stability, the Russian invasion of Ukraine and subsequent energy shock triggered an upsurge in prices, from energy markets to services and goods along global value chains. In the Euro area, prices increased by a cumulative 17.4% from 2022 to 2024. In countries that are more vulnerable to gas dependency and bottlenecks, such as Poland, prices recorded up to 30% increases in the same period. High inflation confronted European governments with unfamiliar challenges, such as sheltering household from real income decline while preserving export competitiveness and avoiding wage-price spirals. This called for a renewed role of the state, in coordination with social partners, to balance such different goals.

This report investigates government responses to the inflation crisis in the 2022-2024 period in five European countries: Denmark, Germany, Italy, Poland and Spain. Countries have used a variety of instruments to influence prices or alter wage levels, in view of protecting consumers and workers from the inflationary shock. To analyze these policy mixes, this report is structured along two main axes that summarize different policy dimensions. The next section is dedicated to *compensation policies*. These policies include both instruments that protect consumer prices upstream (what we call ‘price’ policies), as well as those that intervene downstream (‘fiscal’ and ‘social’ policies). Schemes such as energy price shields or fuel excise cuts condition (energy/food/rental) markets *ex ante*. Instead, policies such as one-off bonuses, tax bracket changes or additional social security contributions intervene *ex post* by redistributing resources across or within groups.

The second part of the report shifts the focus to labor market and public sector wage setting (PSWS) policies. Governments use a host of instruments to influence wage levels in the economy. This has important implications, for instance, in avoiding wage-price spirals, compensating people at the bottom of the wage distribution, or compressing wage levels. We look at two sub-areas: *statutory minimum wages* have had a crucial function for protecting most vulnerable workers, especially in low-end, public and private service sectors. *Public sector wage setting*, instead, has been deployed to guarantee real wage catch-up to inflation for employees in public administration, health, education and similar sectors. For both compensation and wage policies, we describe policy mixes, goals/rationales, actors involved and outcomes of these chosen mixes.

The report reveals remarkable variation as well as interesting parallels between the five countries. Governments relied on different combinations of compensation and wage-setting instruments, reflecting their institutional legacies and political priorities. Spain and Poland relied more extensively on price and social policies, intervening directly in energy and consumer markets and expanding social transfers to shield vulnerable households. By contrast, Italy and Germany placed greater emphasis on fiscal instruments and indirect wage policies, such as tax reliefs, lump-sum payments and temporary bonuses. Benefitting from comparatively robust welfare institutions and a strong macroeconomic position, Denmark adopted a more targeted and restrained response, using primarily temporary and selective

support measures. Differences also emerged in the governance of crisis management. Governments in Germany and Spain deployed forms of social dialogue and tripartite consultation, while in Italy, Poland and Denmark they mostly acted unilaterally.

Countries also diverged in the use of wage-setting instruments. Statutory minimum wages played an important role in Germany, Poland and Spain - where they were raised significantly during the crisis - while Denmark and Italy continued to rely on collective bargaining systems without a statutory wage floor. Public sector wage setting varied widely, ranging from collective bargaining arrangements in Denmark and Germany to more centralized or government-driven adjustments in Spain and Poland, with Italy occupying an intermediate position characterized by delayed contract renewals and temporary administrative measures. In all governments combined compensation and wage policies in distinct ways to manage the trade-offs between protecting purchasing power and maintaining macroeconomic stability during the inflation shock.

2. Compensation policies (fiscal, price and social policy)

The following section presents compensation policies adopted in Denmark, Germany, Italy, Poland and Spain following the inflation shock (2021–2023). These instruments have been a vital tool during the shock, enabling governments to provide a timely and effective response and shelter citizens' incomes from the sharp increase in energy and food prices. Across countries, compensation took multiple forms, ranging from one-off fiscal transfers and tax reliefs (e.g. Italy's one-off bonuses and Germany's energy lump-sum payments) to direct price interventions (Spain's Iberian gas electricity decoupling, Poland's energy price caps) and adjustments within existing welfare systems (pension indexation in Spain, social and housing benefit expansion in Germany).

We distinguish three sub-types of income compensation policies. *Fiscal policies* refer to all instruments that draw from public budgets to support incomes in a redistributive fashion. These policies - including subsidies, tax discounts, and lump-sum payments - protect purchasing power by acting downstream (i.e. after price formation). *Price policies*, instead, intervene upstream by lowering end-prices for consumers. We include in this category all policies that interfere with the price mechanism by setting a political price or subsidizing consumption – for instance VAT cuts on electricity and gas (Germany, Spain, Italy), fuel tax reductions and public-transport subsidies (Germany's 9-euro ticket and reduction in fuel tax), or regulated energy tariffs and coal subsidies (Poland). Finally, *social policies* mostly draw from pre-existing welfare schemes. Instruments such as pension revaluation (Spain, Italy), unemployment and social assistance increases (Germany's Bürgergeld), and child-benefit expansions (Poland's Family 800+, child allowances in Denmark and Germany) have helped protect specific categories in the labour market.

Our five countries relied on different mixes of fiscal, price and social tools and leveraged distinct coalitions of actors to manage their response. Italy adopted a strongly government-led strategy centered on fiscal instruments such as tax-wedge cuts and flat bonuses, complemented by indirect price measures like energy-bill shields and fuel excise reductions. Spain and Poland combined social and price policies more prominently, yet with diverging governance modes: Spain relied on regular social-partner involvement and negotiated mechanisms (e.g. pension revaluation and elements of the 'social shield'), whereas Poland acted largely unilaterally through executive-driven price caps, VAT suspensions, and energy subsidies. Spain implemented the most far-reaching price intervention across the five cases, notably the Iberian exception that decoupled gas and electricity prices in the wholesale energy market. Denmark, benefitting from a comparatively resilient economy and an already generous welfare state, deployed more limited and targeted compensations (e.g. winter and inflation assistance transfers, energy price caps), mostly in a top-down manner. Germany, finally, emphasized a coordinated mix of fiscal and price policies - including the inflation-compensation premium, energy-price brakes and tax-allowance increases - developed through structured consultation with social partners in formats such as the Concerted Action and the energy-price expert commission.

The remainder of this section explores cross-country developments in these three domains (fiscal, price and social policy) following a common structure: first, a description of the instruments implemented; second, the politics and mode of governance underpinning their adoption (including the role of

governments and social partners); and third, the stated goals and observed outcomes of each national policy mix. We highlight not only variation in policy design, but also differences in underlying crisis narratives, such as social-justice framing (Spain), competitiveness-preserving buffering (Italy) and targeted demand management (Denmark), so as more mixed strategies with multiple goals (Germany).

Table 1: focus of compensation policies across three domains (fiscal, social, price policy), by country.

	Fiscal policy	Social policy	Price policy
Italy	x		
Germany	x	x	x
Spain		x	x
Poland		x	x
Denmark	x		

Table 2: role of government and social partners in crafting compensation policies.

	Government	Employers	Unions
Italy	Main actor	Consenters	Antagonists
Germany	Main actor; orchestrator of different interests for price policy	Protagonists in energy price brakes Consenters otherwise	Protagonists in energy price brakes (despite divisions within the union field) Consenters otherwise
Spain	Main actor (despite divisions within the ruling coalition)	Consenters	Protagonists
Poland	Main actor	Consenters	Antagonists
Denmark	Main actor	Consenters	Consenters

2.1. Fiscal policy

2.1.1. Fiscal policy: main instruments adopted

All five countries have, to different degrees, used fiscal policy to buffer households from the income shock. Italy, Germany (and to a lesser extent Denmark) have used both targeted and untargeted fiscal instruments to protect citizens' purchasing power. The Italian inflation crisis was managed by two different governments (the technocratic Draghi government, sustained by a broad multi-party coalition in 2021-2022; and the right-wing Meloni government, 2022-). Despite the government turnover, there was overall continuity in the chosen policy mixes – which prioritized 'indirect wage policies' such as one-off transfers, tax wedge remodulations, and other fiscal bonuses. Main measures include the '200 EUR bonus' and the '150 EUR bonus' (DL 50/2022 and DL 144/2022) – flat lump-sum payments paid to employees, pensioners, self-employed and benefit recipients under certain income thresholds. Both Draghi and Meloni cabinets made use of tax-based reliefs, such as cuts to the fiscal wedge on wages (initially 2-3 p.p., then 6-6 p.p. and

made structural in January 2025). This entailed a reduction in employee social security contributions to increase net pay for low- and middle-income employees. The Meloni government complemented these policies with a social card for food purchases ('Carta dedicated to you'), a strictly means-tested, prepaid debit card offering circa 382-500 EUR per family plus increments for fuel/transport. In 2022-2024, the two governments increased the ceiling for tax-free fringe benefits and productivity premia.

Similar to Italy, the German response deployed fiscal policy in an extensive fashion. One of these policies is probably the 'Inflation compensation premium': a tax- and social contribution-free premium of up to 3000 EUR paid by employers (validity: 2022-2024). The inflation Compensation Act (valid from 2023), instead, included a tax scheme adjusted to offset the bracket creep in income taxation, while raising the basic tax-free allowance and the tax-free allowance for children. As a part of the Tax Relief Act (June 2022), the government also increased basic tax-free allowances and reduced taxes for long-distance commuting. Like in Italy, the Scholz coalition government disbursed a variety of transfers, such as the 'Energy price lump sum' (one-time payment of taxable 300 EUR for all employees and self-employed people), and the 'Energy grant' (a similar scheme of 200-300 EUR for pensioners, students and the unemployed). In Denmark, given a generous welfare state that works as a shock absorber, policy-makers have used fiscal policy to target specific categories more exposed to the shock. These include the 'Winter-help' (2022) and the 'Inflation-help' (2023), as well as the 'Inflation Assistance Act' (2023) – a policy package encompassing measures such as extra senior checks of 5000 DKK, transfers for vulnerable families, support for small grocers and other energy-exposed food stores in small towns, tax discounts and support for cultural institutions, child-minders, and other vulnerable citizens. Furthermore, the Frederiksen government opted for increases of employment deductions, as well as one-time payments for recipients of early retirement benefits, disability supplement recipients and single parents.

The Polish and Spanish response put relatively lower emphasis on fiscal policy relative to – as we shall see later – social and price policy. Nevertheless, some measures are worth mentioning. Starting from 2022, the center-left Spanish cabinet led by Pedro Sanchez disbursed one-off, 200 EUR direct payments to low-income households (i.e. earning less than 27.000 EUR). In addition, the state imposed temporary windfall taxes on energy companies, reallocating part of those revenues to fund these programs. These taxes were projected to exceed 4 billion EUR annually. In Poland, several fiscal support measures were introduced already before the 2022-2024 inflation crisis, during the Covid-19 pandemic (wage subsidies, allowances for employees, self-employed and SME entrepreneurs, tax facilitations and exemptions). These include the Tourist voucher (2020-2022), a transfer worth 500 PLN per children, targeted at families with dependent children to be used for hotel services and tourist events in Poland. In 2022, the far-right Morawiecki government also promoted financial benefits for coal industry workers, following a strike in the Polska Grupa Górnicza company, and targeted payments for aviation industry employees.

2.1.2. Politics of fiscal policy: who was included and how

Countries have differed substantially in the governance of fiscal policy-making. In Spain and Germany, the response strategy has seen a more systematic involvement of social partners than in the other countries. Germany's response has been the most 'tripartite' of all five, also thanks to the establishment of ad-hoc bodies and committees for fiscal policy that included both trade unions and employer associations. In Germany, partners were involved through a mix of conventional informal consultation, exceptional formal consultation, and formal participation in selected measures. First, traditional regular informal discussions

and consultations continued throughout the crisis at various levels, including with the Chancellery, ministries, and members of the Parliament. These exchanges were facilitated by the close ties between the Social Democrats (SPD) and trade unions on the one hand, and the Liberals (FDP) and the main business association on the other. On top of that, two exceptional formats were used to govern the country through the inflation shock: the so-called ‘Concerted Action’ and the Expert Commission on natural gas and heating. The Concerted Action (June 2022) – a tripartite summit between social partners and the state that has been convened in times of crisis (1967; 1998; 2008/9 prior to 2022) – was summoned three times in 2022, involving the German Trade Union Confederation (DGB), and the Confederation of German Employer Associations (BDA) together with Chancellor Scholtz, the Federal Minister for Economic Affairs and Climate Action Habeck, and Finance Minister Lindner. In Autumn 2022, the government also convened an Expert Commission on natural gas and heating, chaired by economy expert Veronika Grimm, the head of energy sector trade unions Michel Vassiliadis, and industry business leader Sigfried Russwurm. The commission, which saw the participation scientists, trade unionists, and business associations, met twice in 2022 and published two different reports.

In terms of political process, German social partners were invited regularly to give public statements on the different policies and participate in public hearings in the federal parliament. Nevertheless, the majority of fiscal policies were crafted *ex ante* by the executive board of the coalition during three meetings in Spring and Autumn 2022. Therefore, unions and employers were influential but, in most cases, not directly involved in policy-making – at least in the fiscal domain. While trade unions advocated for targeted compensation policies addressing people in need, employers mostly argued for untargeted schemes. In the Concerted Action meeting (June 2022), employers and unions were merely consulted about the inflation compensation premium – a decision that met warm support by the employers, while findings unions more divided (Di Carlo et al, 2025; Lesch, 2024). Labor representatives, especially in the service sector, were indeed worried that the inflation compensation premium would discourage wage increases in the collective bargaining realm. Energy and chemical sector unions (IG BCE) instead welcomed the policy. Developments in the expert commission on natural gas and heating, that regard mostly price policy, will be examined in later sections.

The Spanish policy-making process was in some ways similar to the German one – although less formalized and with a weaker and less systematic involvement of business interests (in primis its central employer associations CEOE and CEPYME). One of the main traits of the center-left coalition government elected in 2019 has been the reliance on social dialogue and continuous involvement of social partners for key policy measures. While tripartite negotiations had been successful until 2021, from beginning of 2022 political exchange failed due to differences in the positions of most representative unions (UGT, CCOO) and the CEOE-CEPYME. Among other factors, the introduction of windfall profit taxes for large (energy) companies and banks, was heavily criticized by the employers and led to the collapse of tripartite negotiations. In general, employers were worried that government measures would impose higher costs or uncertainty on firms, including tax hikes and regulatory changes, which they believe would harm competitiveness and worsen inflation persistence. Nevertheless, the Spanish center-left cabinet and in particular its Labor Minister Yolanda Diaz emphasized the importance of dialogue with unions, in view of consolidating and broadening their support base and circumventing opposition by the employers (Molina, 2023; Bondy et al, 2024). The left coalition, whose base was concentrated among lower-income voters, was keen to pursue visible and redistributive inflation policies (Tassinari et al, 2024). The involvement of social partners was overall more limited in fiscal and price domains than, for instance, in the social domain. However, trade

unions played an important agenda-setting and pressure-making role, e.g. by publicly demanding urgent interventions. In several occasions, unions initiated public demonstrations and protests to influence government policies in 2022-2023.

Italian, Polish and Danish fiscal responses were mostly state-led. In Italy, a common pattern under the Draghi and Meloni was that both governments elaborated and adopted their policies unilaterally, without a substantive process of social concertation (a process with arguably deeper institutional roots cf. Tassinari, Sacchi 2021). The difference between the two was mostly ‘cosmetic’: while Draghi put formal and ceremonial emphasis on involving interests, the Meloni government had more tense relations with the social partners – though being more exposed to the informal influence of the business association Confindustria. While the unions were invited to formal meetings to present their propositions and demands, it is hard to trace any influence on the actual policies implemented. Unions report that, while appreciating some of the one-off bonuses and tax-wedge remodulations, most of their proposals were not considered. Confindustria, on the other hand, was heard individually by the Draghi government, and engaged with the Meloni cabinet and its actors in various public occasions. Overall, business interests expressed satisfaction with the governments’ choices in the fiscal domain. One of them, which operates in the low-end service sector (Confcommercio), has been influential on schemes such as the contribution reduction for wage increases agreed at the firm level.

In Poland, social partners were poorly involved, due to the weakness of both trade unions and employer organizations. While decisions were discussed by tripartite bodies such as the Social Dialogue Council, social partners’ participation was more in the form of ‘information’, than ‘consultation’ or ‘negotiation’. In Denmark, somewhat surprisingly, social partners were not involved in a decisive manner on compensatory fiscal policies, which were passed by large parliamentary majorities. Business associations were able to fend off extraordinary taxes on profits. Despite unions’ pushback and judgment of the inflation assistance plan as modest, instead, policy-makers did not alter the set policy course.

2.1.3. Fiscal policy goals and outcomes

Governments in Spain, Denmark, Germany, Italy and Poland used fiscal policy to pursue broadly different goals. In the Spanish case, the government had a twofold interest: on the one hand, restore purchasing power and protect especially more vulnerable households; on the other, ensure macroeconomic stability and avoid inflationary pressure. Overall, the Spanish economy relied on robust GDP growth rates and could therefore adopt a relatively generous response to the crisis. The guiding narrative was one of shielding vulnerable groups from a crisis not of their making, especially considering exogenously-induced energy prices. Fiscal policies were therefore instrumental to compensate incomes in the short term, while not substantially hampering macroeconomic competitiveness. Windfall taxes on profits also responded to the dual logic of social justice and fiscal sustainability. In Poland, the government similarly broke with the previously dominant neoliberal paradigm, and took measures aimed at protecting the population from the effects of the crisis. However, the government’s agenda emerged as not fully coherent, if not contradictory (i.e. balancing demands of public finances and businesses’ expectations for competitiveness, while catering to widespread social needs). The Danish government, that like Spain enjoyed a relatively healthy macroeconomic situation, framed the crisis as largely depending on supply-chain issues linked to Russia’s invasion of Ukraine. As testified by a modest and rather targeted policy approach, Danish policy-makers wanted to compensate households and business while not fueling excessive internal demand that

could entrench inflation. The government also interpreted the crisis as an occasion to move away from fossil-intensive energy sources, and spur a green industrial transition.

In Italy and Germany, policy-makers focused on avoiding wage-price spirals. In Germany, the government was also committed to compensate the loss of individual and societal welfare, especially targeted to the least well-off. Maintaining the ability of private households to consume and companies to continue their investment activities were seen as priorities (Koalitionsausschuss, 2022a, 2022b, 2022c). At the same time, since the crisis originated in an energy shock, the goal was to compensate households without diminishing the incentive to economize on gas against a backdrop of shortage. Social partners identified rising energy prices as significant challenge to the international competitiveness of the German industry. The inflation compensation premium was the culprit of this logic: it compensated workers in the short term, while discouraging wage hikes via collective bargaining agreements (Di Carlo et al, 2025). In Italy, the crisis was similarly interpreted as an 'imported' supply-side shock. No actor on the progressive camp was willing or able to frame it as a wage-earners' emergency in the public debate (including Labor Minister Andrea Orlando from the Democratic Party). The bank of Italy played an influential role in anchoring policy choices in a logic of wage moderation and low-end buffering via fiscal transfers, thereby avoiding interventions in wage-setting. Monetary orthodoxy, fiscal prudence, and the preservation of external credibility converged in a policy rationale that prioritized financial stability and temporary relief over structural measures. Fiscal bonuses and tax cuts were functional to taming social tensions, while protecting financial credibility. Despite differences in style, Draghi and Meloni governments show continuity in their strategic rationale. Bypassing collective wage negotiations, Fiscal measures adopted had a marginal and mostly symbolic role (reassuring both workers and firms) hence sustaining an export-led growth model based on wage moderation.

Effects of fiscal policies introduced in the five countries were heterogeneous and not easily quantifiable. Most calculations include reforms already agreed in previous years, based on projections and modelling. At any rate, the German government's untargeted response tended to have regressive effects towards low-income households. According to a study, out of a total sum of almost 80 billion EUR packages in 2022-2023, only 14.8% of these funds addressed households below the poverty line, and 55.2% were allocated to the top half (Priesmann, Praktiknjo, 2023). Income inequality increased in absolute terms, with compensation policies exacerbating prior divides in the working population. Since the inflation compensation premium (which was extensively utilized: 26 million employees received it by the end of the period) was used to substitute an increase in the pay scale, it is conceivable that the measure had regressive effects, as well.

The Spanish and Italian responses were similarly untargeted. In Italy, fiscal policy softened the immediate shock for households and firms, yet did not restore the purchasing power lost by wage earners. The labor tax wedge cut lifted net pay for low-middle earners, but with modest average gains and design issues. According to trade unions, the mechanism may even generate uneven outcomes, entailing low net losses by lowest earners. Likewise, since most of the Italian bonuses entailed flat amounts rather than income-proportional, their relative value declined rapidly as soon as inflation accelerated. However, measures such as the one-off cheque in Spain was aimed at low-income households, addressing 4.2 million households. In Poland, extreme poverty rose to 6.6% of the general population in 2023 from 4.7% in 2022.

Table 3: characteristics of fiscal policies in response to the inflation shock.

	Italy	Spain	Germany	Poland	Denmark
Policy features	Focus on indirect wage policies: one-off transfers, tax-wedge and social contribution cuts, income tax remodulation; windfall levy on energy companies	Untargeted measures such as tax rebates, VAT reduction for food, direct transfers for families in need	Abolition of the bracket creep for income tax; one-time payments to employees, unemployed, students, and pensioners; untaxed inflation compensation premium	Wage subsidies, allowances for employees, self-employed and SMEs, tax facilitations, VAT reductions, social contribution exemptions	Targeted subsidies, untargeted tax deductions, one-time payments
Main actors involved in the determination of the policy	Government, Bank of Italy; informal alignment with employers' preferences	Government, with external support of trade unions	Government, with informal participation of unions and employers	Limited involvement of social partners, due to union weakness and underdevelopment of employer organizations	Limited involvement of social partners. Business associations were able to fend off extraordinary taxes on profits; trade unions relatively less influential
Mode of decision and implementation	By and large unilateral. Continuity between Draghi and Meloni governments in excluding social partners (despite cosmetic consultation	Tripartite pacts with social partners in the first period; bilateral cooperation (government-unions) in the second, with	Informal consultation, exceptional formal consultation, and formal participation; 'Concerted Action' format with social partners	Unilateral, in line with decade-long trend of marginalization of social partners. Participation and mere information (less of consultation and never of negotiation).	Mostly government-led on fiscal policy

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	in the case of the former). Informal influence of Confindustria. Other business associations e.g. Confcommercio also aligned with the government's approach	consultation and symbolic inclusion		Only few exceptional bipartite resolutions	
Main goals	Financial stability; credibility in the eyes of markets and European institutions. Wage moderation and avoiding wage-price spirals. Priority to monetary orthodoxy and fiscal prudence; containing social tensions	Mitigate negative impact on workers and restore purchasing power. Overall goal was shielding most vulnerable and avoiding stagnation, while preserving macroeconomic stability	Avert loss of individual and social welfare, maintain economic structure, while preventing formation of wage-price spirals. Focus on lower incomes and families. Secure competitiveness as a general goal.	Ensure social peace, maintain public and electoral support. Attempts to balance demands of public finances (deficit and debt), expectations of businesses and social needs.	Shelter families with children and pensioners under severe financial strain while acting 'responsibly' (i.e. avoid fueling internal demand that leads to inflation). The government's response motto was 'timely, temporary and targeted'. Some emphasis on green transition efforts
General outcome	Measures softened the shock, but did not restore purchasing power lost by wage earners. Energy	Spanish response was effective in protecting vulnerable groups and avoiding economic contraction; however,	Some measures effective at buffering incomes. Loss of purchasing power remained moderate	Lack of comparable and comprehensive official data; however, pessimistic trends	Moderate but steady real disposable income increase. Most policies were targeted, modest and temporary –

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	poverty indicators worsened despite the use of discounts and bill relief. Moderate gains on low-middle earners thanks to tax wedge remodulations.	broad-based nature of tax cuts and subsidies reduced efficiency and fiscal sustainability	overall. Higher energy prices at the end of the crisis remain a disadvantage for German industry	including deteriorating poverty indicators	inflation quickly declined making some interventions unnecessary
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2.2. Price policy

Out of the five countries in this analysis, Spain had undoubtedly adopted the most complete and thorough intervention in price markets (fuel, electricity, housing, food). Directly or indirectly, the Sanchez government massively intervened to modify end prices for consumers. The centerpiece of its policy mix is the so-called Iberian Exception, a mechanism negotiated with the European Commission that capped the reference price of gas used in electricity generation. The Iberian exception reduced electricity bills for families by 15-20%. By decoupling gas prices from electricity in the wholesale market, the mechanism significantly reduced electricity costs for consumers and businesses (Uxó, 2022; Tassinari et al, 2024). Spain's price regulation efforts started in 2021, with the reduction of electricity VAT from 21% to 10% (later to 5%) for small consumers. From 2022, it complemented previous tools with a Fuel Subsidy (20 cents per liter on fuel price, to reduce transport costs for consumers); the Thermal Social Bonus – an annual payment to help vulnerable households cope with heating costs, targeted at the energy poor; and discounts or full subsidies for public transport on all citizens. Furthermore, VAT rate on gas was reduced from 21% to 5% in December 2022. After that, as inflation slowed down, the government shifted towards a more targeted approach – thereby limiting the extension of some of the above policies to specific groups/households. The Sanchez cabinet also imposed a VAT reduction for basic foods and a rent update limit (2%), and an eviction freeze. Measures such as the Electricity Social Bonus and the Thermal Bonus provided discounts of up to 80% on electricity bills for vulnerable families (e.g. pensioners with low incomes and minimum income recipients). Moreover, a mechanism of price regulation was applied to housing: the Young Rental Bonus allocated 250 EUR per month to young tenants under 35 years old.

The Polish government also made use of price policy in view of containing end prices for consumers. Poland introduced a plethora of measures to support affordability and energy availability for citizens. In 2022, the government provided financial support in the form of a 'Coal subsidy': this was targeted at all households whose main source of heating was coal or carbon-based fuels (containing at least 85% of hard coal). In some cases, local authorities directly distributed cheap coal to households: they were allowed to purchase coal from state companies at a fixed price of maximum 1500 PLN gross, and resell it at a preferential price of maximum 2000 PLN gross to residents entitled to the aforementioned coal subsidy. In 2023, a maximum gas price for vulnerable customers was introduced, together with VAT refunds (23%) for low-income households on their natural gas supply in 2023. Electricity prices for households and small businesses were capped at 693-785 PLN/MWh, while compensating electricity trading companies. In 2023, the electricity price for households was set at 2022 levels within a certain consumption threshold. From 2024, heat producers were forced to set average prices for households and public utility institutions, while households also receive a one-off subsidy based on the main heat source. VAT on basic food products such as cereals, meat, milk, vegetables, fruit and baby food was equally suspended (0%).

The German cabinet also introduced a number of price regulations or subsidies. These include the 'Energy price brakes', that is, subsidies for prices of natural gas, heating and electricity (whether the government pays the difference between a specific price and the market price for up to 70-80% of previous annual consumption); the 'Energy price lump sum'; subsidies for energy-intensive companies with credits; and the advanced abolishment of a tax on electricity to subsidize renewable energies. In 2022, the Scholz government opted for a temporary reduction in fuel tax (reduction of tax for petrol, diesel, natural gas and liquid gas); a 9-EUR-Ticket per month for all public transport in Germany (except long-distance trains);

and a VAT reduction on gas from 19% to 7%. Somewhat similarly to Germany, the Italian response entailed a mix of energy-price containment with tax cuts. Draghi (2021-2022) introduced energy tax cuts and ‘bill shields’ – such as the reduction/elimination of system charges (‘oneri di sistema’), a reduction of VAT on gas to 5%, and temporary fuel excise cuts and energy tax credits for firms (20% and higher for energy-intensive users). Meloni shifted to a more targeted and contained approach (for instance suspending the universal excise cut and introducing a ‘transparency’ regime for petrol stations). Soft price regulation included the ‘Anti-inflation quarter’: the Ministry for Enterprises and Made in Italy invited more than thirty associations of retailers, producers and farmacies to sign memoranda of understanding on voluntary price caps and ‘convenience baskets’ for essential goods. The Danish response was less focused on price policy. The government opted for compensation for increases in energy prices, prevention of large rental price increases, temporary reduction of electricity taxes and temporary price caps on electricity, gas, and district heating bills (amount exceeding the cap could be deferred and paid later).

2.2.1. Politics of price policy: who was included and how

In comparative view, Germany is likely to have witnessed most systematic involvement of social partners in price policy-making. The reason is the creation of the Expert commission on natural gas and heating (industry business and unions, experts, scientists, and parliament representatives). The commission proposed several measures to reduce the use of natural gas, increase the supply of natural gas, support the acceleration of decarbonization and subsidize energy prices (e.g. energy price brakes for gas, heating and electricity; payment of December 2022 gas bill for all citizens; targeted direct payments). Created in response to the challenge of escalating energy prices and shortages, the Commission benefited from the expert knowledge of social partners and scientists to provide relief to households, companies and institutions without decreasing the incentive for saving energy. The majority of the Commission’s proposal were enacted by the parliament, thereby testifying its high policy influence¹. By its very design, the commission was principally steered by social partners in the industry, energy and chemical sectors (IGBCE; BDI). The chairman of service sector unions (ver.di), Frank Werneke, was also part of the commission. However, industrial and service unions had different opinions in the Commission, leading to significant conflicts on the strategic path forward.

In Spain, the government played a more prominent role than social partners or other actors in setting energy, transport and food prices. The Spanish response saw a less incisive inclusion of social partners in the price sector than in the fiscal and social domains. On the one hand, the two union confederations (CCOO and UGT) were publicly supportive of the government’s initiatives, thereby playing a crucial legitimizing function, and framing these policies as a part of a broader social shield for vulnerable households. On the other, employers’ position was of ‘critical acceptance’, especially as regards price interventions due to their market-distortive effects. CEOE leaned towards supply-side interventions and tax relief. While not explicitly opposing the Iberian exception, the business association resisted attempts to expand price controls to food or rent markets. However, their influence over macroeconomic policy-making was clearly circumscribed. According to experts, the rapid onset of the energy shock and inflationary spiral called for swift policy responses that were more suitable to government-led action. Furthermore, most of these policies were conditioned by EU frameworks. As a result, policies such as the

¹ However, there was one major deviation from the proposals of the commission: The precondition of a cap on bonuses and dividends for receiving support had been introduced by government against the proposal of government. Consequently, many energy intensive companies did not request funding from this mechanism.

Iberian gas price cap and temporary VAT reduction on electricity were mainly designed and implemented by the executive, with limited input from social partners. Similar dynamics materialized in the housing sector: as the government passed a Housing Law in 2023, unions supported the initiative informally and externally (including with social mobilizations), while employers opposed the measure fearing that it would discourage rental supply.

In Poland, Denmark and Italy, partners played barely any role in price policy. The Polish executive conducted a unilateral anti-crisis policy. Social partners were sidelined mostly due to their weakness. Instead, unions and employers bilaterally agreed to resolutions later submitted by the government, including Resolution 114/2022 on extending tariff protection for gas consumers. Danish interest groups played a very minor role in price policy, which remains a government prerogative. Despite trade unions' argument that energy companies should pay extraordinary taxes to fund inflation assistance for workers, the government did not implement any of these measures. Similarly, the Italian price response was clearly government-led and weakly coordinated with the social partners.

2.2.3. Price policy goals and outcomes

Priorities established by governments in the field of price policy largely mirror those of fiscal policy. In the Danish case, the ruling coalition pursued an optimization effort: as the economy was approaching 'full capacity', it was imperative to avoid excessive internal demand, nor to increase reliance on fossil energy sources by providing excessive support. Relevant interviews with business leaders, union representatives and government officials show that severe financial pressure on electricity and food bills justified targeted interventions, especially in the fiscal domain. Given robust economic growth and labor market performance, policymakers opted for targeted measures that would assist households and business in particular need. Arguments about price gouging emerged, especially in relation to the energy sector; however, no national legislation was leveraged to address price gouging, much to the dissatisfaction of trade unions. Importantly, the government insisted on green transition policies and the need to convert the energy sector away from fossil fuels towards renewable energy. Some green energy projects were accelerated or developed as a response to energy price inflation. Overall, limited price policy was meant to reduce overall energy consumption, speed up the green transition away from fossil sources, and reduce energy dependence from Russia. Most of these measures were however modest and temporary, with limited distributional consequences in the long term.

In the price domain, Italian and Spanish governments prioritized untargeted measures to provide immediate relief to households, albeit the latter shifted towards more a targeted approach later on. The Draghi and Meloni governments over the inflationary period sought to tame social unrest, reassure business, and avoid sustained wage demands (UPB, 2024; D'Antoni, De Novellis, 2024). Indirect price controls revealed to be functional to these goals, assuming a strong symbolic function in the crisis. These interventions acted as 'price suppressants', though financed through the budget rather than imposed on suppliers. Excise duty cuts and then 'transparency' regimes (publication of petrol station prices vs official averages) amounted as a 'light touch' approach to soft price regulation, together with the Anti-Inflation Quarter initiative. Overall, price policy measures were used in Italy as containment tools to shape expectations and prevent price hikes from becoming entrenched (Tassinari et al, 2024). Despite using immediate and untargeted measures to reach to consumers, the Spanish government's rationale differed significantly from the Italian. Interventions such as VAT electricity cuts, housing regulation and transport

subsidies responded to a two-pronged logic of macroeconomic stability and political pressure: in view of the upcoming national elections (2023), the Sanchez government aimed to show willingness and strength in responding to citizens' demands. While most measures were criticized for being untargeted, costly and regressive, the Spanish price policy mix resulted effective in strongly alleviating inflation, which fell from 10.7% in mid-2022 to 1.6% in mid-2023. These measures protected purchasing power without distorting market supply or triggering excessive public spending (Rodriguez, 2022).

Both Poland and Germany deployed price policy to shelter consumers and reduce the likelihood of wage increases. The Polish government adopted a set of energy supports and bill cuts to tame energy poverty, while avoiding to burden the business sector in an increasingly volatile and unpredictable economic environment. As in the case of fiscal policy, the overall strategy of German policy-makers was to buffer incomes during the shock while discouraging structural increments (in the wage formation or social policy domains). In other words, price policy aimed to maintain competitiveness and avert wage-price spirals, yet making sure that 'nobody would be left behind'. In Germany, some price policy measures adopted (e.g. energy price lump sum) contributed to a marginal reduction of inequality levels as they mostly benefit low-wage earners. On the other hand, the gas and electricity price brake targeted every private household, public institution and company consuming it; given the regressive design, these measures may have increased inequality in absolute terms.

Table 4: characteristics of price policies in response to the inflation shock.

	Italy	Spain	Germany	Poland	Denmark
Policy features	Mostly untargeted, indirect price policies such as elimination or reduction of electricity system charges; VAT reduction on gas (5%); fuel subsidies (excise cut on fuel)	Encompassing policy mix with targeted and untargeted measures. Main schemes include the Iberian exception, VAT reduction on electricity and gas (down to 5%) and essential goods (0%); direct fuel subsidies; discounts on electricity and gas bills (up to 80%) for vulnerable households; public transport subsidies; housing market regulations and subsidies for young tenants	Mostly untargeted schemes such as energy price brakes (energy subsidies in gas, heating and electricity); subsidies for energy-intensive companies with credits; quicker abolishment of tax on electricity to subsidize renewable energies; reduction in fuel taxes; public transport discounts; reduction of gas VAT to 7%	Untargeted and targeted measures such as 0% VAT on food, coal subsidies for households, price control and subsidies for heating in households and vulnerable entities, gas price cap for vulnerable consumers and VAT refunds; electricity price cap and freezing in 2023	Targeted measures such as heating support, compensation for increase in energy prices, prevention of large rental price increases, reduction in general electricity tax, temporary price cap on electricity, gas, and district heating bills
Main actors involved in the determination of the policy	Government, Bank of Italy; informal alignment with employers' preferences	Government, with external support of trade unions	Government, trade union confederations and employers – especially in the industry, energy and chemical sector	Limited involvement of social partners, due to producer group weakness	Limited involvement of social partners; falling outside their scope
Mode of decision and implementation	By and large unilateral. Under	Unilateral in the price domain	Informal consultation, consultation; formal	Unilateral, in line with trend of marginalization	Mostly government-led on price policy

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	Draghi, formal consultation of social partners but with limited substantive influence; under Meloni, more adversarial and exclusionary stance		participation in the Expert commission (industry sector representatives, experts and government members)	of social partners. Participation and mere information	
Main goals	Show commitment in protecting citizens' income and avoiding higher costs for firms, but short of structural solutions	Protect incomes especially of the least well-off, without renouncing to macroeconomic stability; preserving legitimacy vis à vis EU peers	Prioritize competitiveness and avoid wage hikes while ensuring a modicum of social justice	Avoid shifting burdens on firms, protect households facing energy poverty	Avoid overheating the economy; use the crisis to reduce dependency on Russian energy and spur a green transition
General outcome	Symbolic, modest and rather untargeted interventions, with probably regressive effects	Initially untargeted interventions, increasingly targeted. Iberian exception had significant effect on inflation	Unclear but possibly regressive effect	Moderately successful. Measures were insufficient and probably regressive	Limited policy efforts

2.3. Social policy

2.3.1. Social policy: main instruments adopted

Given the exceptional nature of the crisis, social policy was not the main area of interest for policy-makers. Price and fiscal policies proved as more flexible and efficient tools in mitigating the crisis' impact. Nevertheless, governments in the five countries made occasional use of social policy to protect specific groups in the population, for instance by expanding or allocating extra payments within existing welfare policy schemes. While not adopting forms of indexation, Spain increased pension benefits by 8.5% in December 2022 and 3.8% in 2023. Similarly, the Polish government disbursed an extra pension payment (the so-called '14th pension') to all eligible individuals. The Italian government strengthened selective indexation with constraints at the top; pension indexation was overall based on previous legislation, while remodulating the scale for generating savings at the middle and high end of the distribution. This progressive adjustment meant that lower pensions were largely protected, while middle and high income retirees experienced real income erosion.

Another field that recorded adjustments was that of income and social assistance. In Spain, the Sanchez government expanded and re-evaluated the Minimum Vital Income – the main social assistance scheme aimed at the lowest income groups. Benefit levels were raised to 15%, and additional child-related supplements were included. This helped increase take-up rates and stabilize most vulnerable incomes, especially single-parent and large families. Germany renamed the previous social assistance scheme into 'Bürgergeld' and increased its rates by 53 EUR per month in 2023, and by 61 EUR per month in 2024.

Finally, some countries expanded their family policy system, or improved schemes in the housing sector. Noteworthy is the 'Family 500' scheme in Poland, a cash benefit for parents of underage children. Launched in the 2023 electoral campaign, the policy was later expanded into a 'Family 800 plus', thereby increasing its monthly check from 500 to 800 PLN for each child under 18 years old. The Danish government opted for a temporary increase in child and youth benefits (by 660 DKK per child in 2023), similarly to the German cabinet that increased the child benefit rate starting from the first and second child (from 219/225 to 250 EUR). In Germany, housing benefits were also expanded in terms of eligible population as well as replacement rate, from 190 EUR per month to 370 EUR per month in 2023.

2.3.2. Politics of social policy: actors, goals and outcomes

Only in Spain did social partners enjoy systematic involvement in social policy-making. Pensions were revaluated and partly recalibrated in a tripartite agreement (1 July 2021); and then raised again in a bilateral agreement between unions and government in March 2023. Likewise, unions and the Sanchez cabinet (in particular Labor Minister Yolanda Diaz) collaborated in the increase of social assistance levels, and the expansion of the unemployment benefit framework (May 2024). Overall, Spain's welfare response is in line with its overall crisis management strategy, coupling social justice goals with attention to macroeconomic stability. Moreover, replacement rates were structurally increased, thereby testifying to the government's intention of leaving a mark 'beyond' the inflation shock. Social partners did not enjoy substantive involvement in social policy-making in other countries – including in Poland, where most of the social

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benefit measures are not indexed to inflation. The Family 800 plus program has been controversial: despite its positive effect in terms of poverty reduction, the policy is universal and hence regressive, and has failed to improve fertility rates in the country (Bartnicki, Alimowski, 2022).

3. Labour Market and Public Sector Wage Setting Policies

During the inflation crisis of 2022 and 2023, governments in the five countries scrutinized in the MAINSOC project attempted to protect the purchasing power of employees with different approaches, and to a varying degree and extension. Governments have three ways to influence wages: statutory minimum wages setting the lowest bar for wages; setting the wages for public employees directly (via public sector wage setting); and by influencing collective bargaining.

3.1 Labour Market Policies

3.1.1 Statutory Minimum Wage Setting

A classic instrument of governmental intervention in wage setting has been the statutory minimum wage. Since it affects mainly employees in the lower levels of the wage distribution, it was particularly suited to support the purchasing power of those who were the most affected by the peak inflation. However, only in three out of five countries that have been researched, statutory minimum wages have been in place before and during the inflation crisis: Germany, Poland, and Spain. In Denmark and Italy, the high level of collective bargaining coverage is supposed to make a statutory minimum wage superfluous.

Process of determining the SMW:

The mechanisms to determine the adjustments of the statutory minimum wages differ between Germany, Poland, and Spain. In Germany, the increases of the SMW are negotiated between the social partners and enacted by the government afterwards. In 2022, however, there was an additional unilateral decision by the government to raise the SMW to €12. In Poland, the government is supposed to decide the increase in the SMW in a consensual process jointly with social partners, and only if consent is not achieved, the government decides unilaterally. In Spain, the government decides on the increase of the SMW after non-binding consultation with social partners.

Indexation mechanism:

Indexation mechanisms differ between the countries. In Germany and Spain, there is no binding index mechanism in place. However, the law provides certain criteria that guide the decision-making process. In Germany, the criteria include the development of collectively bargained wages, the protection of workers' living standards, and the competitiveness of the national economy. In Spain, the consumer price index (CPI), national productivity, the distribution of income between labour and capital, and the general economic situation are part of the contemplation. In Poland, an indexation mechanism requests that the government increases the statutory minimum wage once a year if the CPI is lower, and twice a year if the CPI is higher than 5%. The increase itself doesn't follow a binding mechanism, but is based on the projected growth of GDP.

Rationales during the inflation crisis:

During the inflation crisis, the compensation of losses in purchasing power has been a major rationale for increasing the statutory minimum wage in Germany, Poland, and Spain. However, in Germany, the

extraordinary raise to €12 in 2022, had already been decided prior to the peak of inflation. The objective was to establish the statutory minimum wage as a living wage preventing poverty and to narrow the gap between statutory minimum wage and the medium wage in comparison to other countries. The regular decision by the German minimum wage commission in 2023 followed mainly the standard procedure. The argument was that the main criteria – the index of collectively bargained wages – would already imply a consideration of inflation. However, the representatives of the unions demanded the compensation of inflation as well as the application of the 60% of median wages threshold of the EU-Minimum-Wage directive. In Spain, the government and the unions aimed for the compensation of inflation as well as for meeting the 60% threshold of the EU-Minimum-Wage directive. For political reasons, the socialist government included the trade unions in decision making. The employers' associations opposed the high increases during the inflation crisis, warning of secondary effects. In Poland, the major rationale has been the compensation of inflation. Since no consensus could be reached at the tripartite negotiations, the government decided unilaterally.

Outcome:

2021 to 2024, the statutory minimum wage increased nominally by 32.7% in Germany, 60.2% in Poland, and 19.4% in Spain. In Germany and Poland, the increase in the statutory minimum wage contributed to a disproportionate raise of lower wages in the whole economy. In Germany, the mechanism to decide the minimum wage has not been changed in reaction to the inflation crisis. However, the Minimum Wage Commission added the threshold of 60% of the medium wage as a new criterion to their standard procedures for future decisions. In Spain, the peak of inflation unleashed a debate about indexing the statutory minimum wage to inflation. The socialist government has drafted a law that would index the statutory minimum wage to the CPI. However, while the unions support it, employers oppose it. In Poland, the minimum wage was raised twice per year during the inflation crisis. While this received broad support, the disproportional raise of the minimum wage in recent years resulted in a flattening of the wage distribution and unleashed a discussion about the dynamics of the minimum wage and wage distribution.

The following table gives an overview of the actors, procedures, goals, and outcomes of the setting of the statutory minimum wage in Germany, Poland, and Spain.

Table 5. Statutory minimum wages during the inflation crisis.

	Germany*		Poland	Spain
	2022	2023		
Main actors	Government	Social partners	Government, Social Partners	Government, trade unions
Mode of decision-making	Unilateral decision by the government	Bilateral negotiations of social partners	Tripartite negotiations, decision by government	Decision by government, consultation of trade unions
Indexation	None	Guiding, but not binding: Development of collective bargained wages, social protection, competitiveness	CPI, Growth of GDP	Guiding, but not binding: Development of wages, CPI, wage/capital share, economic situation
Rational	Increase of MW to a living wage	Increase of purchasing power, maintenance of competitiveness	Increase of purchasing power	Increase of purchasing power
Outcome	10/2022: from €10.45/h to €12/h	01/2024: from €12/h to €12.41/h 01/2025: to €12.82/h	2022: from PLN2800/m to PLN3010/m 01/2023: to PLN3490/m 07/2023: to PLN3600/m 01/2024: 4242 07/2024: 4300 01/2025: 4666	2022: from €965/m to €1000/m 2023: to €1080/m 2024: to €1134/m

*There were two decisions on the SMW in Germany during the inflation crisis, following different logics. The first increase of the minimum wage had already been planned before the onset of the inflation crisis; the second increase followed the regular scheme and took place in reaction to the inflation crisis.

The following table shows the development of the statutory minimum wages and the HICP in the three countries. In all three countries, the statutory minimum wage increases either significantly (Germany and Poland) or at least slightly (Spain) faster than inflation: In Germany 32.7% vs. 21.9%, in Poland 60.2% vs. 36.8%, and in Spain 19.4% vs. 18.7%.

Table 6. Development of Statutory Minimum Wages.

	Increase in statutory minimum wage in %			Increase of HICP in %		
	Germany	Poland	Spain	Germany	Poland	Spain
2015	Introduction of SMW	4.2	0.5	0.7	-0.7	-0.6
2016	0	5.7	1	0.4	-0.2	-0.3
2017	4.0	8.1	8	1.7	1.6	2.0
2018	0	5.0	4	1.9	1.2	1.7
2019	4.0	7.1	22.3	1.4	2.2	0.8
2020	1.7	15.6	5.6	0.4	3.6	-0.3
2021	2.7	7.7	1.6	3.2	5.2	3.0
2022	25.0	7.5	3.6	8.7	13.2	8.3
2023	0	15.9	8	6.0	10.8	3.4
2024	3.4	19.4	5	2.5	3.7	2.9

Source: CPI: Eurostat

3.1.2 Other Labour Market Policies

In some countries, the government attempted to intervene in collective bargaining in the private sector.

a) Germany

In 2022, the federal government introduced an inflation compensation premium (*'Inflationsausgleichsprämie'*) allowing employers to pay out a tax- and social contribution-free premium of up to €3,000 from 2022 to 2024. The target was to cushion the loss in purchasing power, and to lessen simultaneously the increase in wage scales to prevent a wage-price-spiral. A total of €52.5 billion has been paid out to about 25.8 million employees (Behringer & Dullien, 2024). According to the interviewed representatives of employers' organisations, the premium increased the total pay, and, therefore, hardly prevented an increase in the wage scale, while the trade unions argued that lasting wage increases were replaced by the one-time payment.

3.2 Public sector wage setting

Public sector wage setting provides governments with the opportunity to compensate inflation directly for its own employees who represent a relevant share of total employees in the national economy. The process and the policies of public sector wage setting during the inflation crisis differed significantly between the countries under analysis. In the following, an overview over the main actors, the mode, the main goals, the process, and the outcome of public sector wage setting in Denmark, Germany, Italy, Poland, and Spain will be given.

Main actors:

In all five countries, the state is the major actor in public sector wage setting. However, there are significant differences with regard to the question which state institution is involved. Different public authorities might be involved in public sector wage setting, like the ministry of finances in Germany, or different state levels like in Denmark, Spain and Poland. Furthermore, state institutions might be represented by a private agency like in Italy, or by an association of public employers like in Germany. Finally, in four out of the five countries in our analysis, trade unions are involved in public sector wage setting. Trade unions might unite in alliances to bargain general wage increases for all employees like in Denmark and Germany. In other countries, federations of trade unions might be involved in consultations like in Poland or in Spain.

Mode of public sector wage setting:

The process of public sector wage setting varies significantly between the respective countries. In Germany, PSWS has the largest similarity to collective bargaining in the private sector. In Denmark and Italy, wages in the public sector are negotiated between state institutions or agencies on one side, and unions on the other side. However, in both countries the state determines *ex ante* the financial budget available for wage increases. In contrast, in Poland and Spain, governments decide unilaterally about wage setting after consultation of trade unions. Furthermore, PSWS differs with regard to homogeneity or heterogeneity of wage increases. In Germany², there are two major collective agreements regulating pay and working conditions that both include various wage-scales for certain professions: The collective agreement for the federal and municipal employees (TVöD) and the collective agreement for the employees of the states (TV-L; TV-H). While the state formally determines civil servants' salaries unilaterally, the outcome of collective bargaining is usually applied to them as well. In Denmark, collective bargaining in the public sector is highly centralized, and occurs sequentially on the national, regional, and local level resulting in a general homogenous increase with minor local and regional deviations. In Italy, Poland, and Spain, PSWS is highly fragmented between different categories of employees and statal institutions and levels.

Main goals:

The key goal of public sector wage setting was the compensation of losses in purchasing power. However, in the case of collective bargaining in the public sector, the declared objectives of social partners might differ or even contradict each other. In Denmark, the system of collective bargaining reproduces a locked-in wage distribution, and only statal intervention allowed the disproportional increase in wages for health

² In Germany, there are public employees as well as civil servants, both constituting a relevant share of state employees that, however, have different legal status.

and social workers that was motivated, however, by previous conflicts about the re-evaluation of feminised work. In Germany, trade unions demanded disproportional wage increases for lower income groups, while employers opposed this argument indicating the need for significant increases in the upper part of the wage scale to attract expert labour power. Furthermore, both partners argued that higher wages were necessary to attract labour power in the face of a scarcity of labour. In Italy, public sector wage setting was meant to balance compensating losses in purchasing power, financial austerity, and wage moderation to prevent secondary effects.

Process of Public Sector Wage Setting in the inflation crisis:

In the inflation crisis, collective bargaining in the public sector mainly proceeded in the standard way. In Denmark, collective bargaining was concluded in a consensual manner without strikes. The only exception was additional pay raises for health and social workers that were, however, not related to the inflation crisis. In Germany, collective bargaining was accompanied by more strikes and a more intense conflict than usual. In Spain, the government decided to consult trade unions for garnering public support. In Italy, the government opted for extraordinary pay increases anticipating the renewal of collective agreements that were lagging.

Outcome:

The outcome of public sector differed significantly across the countries. In many countries the cycle of collective bargaining was responsible for a delayed reaction of public sector wage setting to the peak of inflation, since many collective agreements still were valid for one or more years. In Denmark, collective bargaining was scheduled only for 2024; in Germany for 2023. In Italy, employees have yet to achieve a new collective agreement. In Poland and Spain, the government acted to make swift adjustments of public wages to inflation. In Germany, wages in the public sector increased twice as much for the lowest wage category (18 %) than the highest (9%) for the contractual period from 2023 to 2024. In Denmark a rigid system of collective bargaining with more than 90 trade unions enacted only a general increase of 8.8% for 2024 and 2025. In Italy, public employees are still waiting for the renewal of collective agreements, but benefited from unilateral government decisions for increases in the face of inflation.

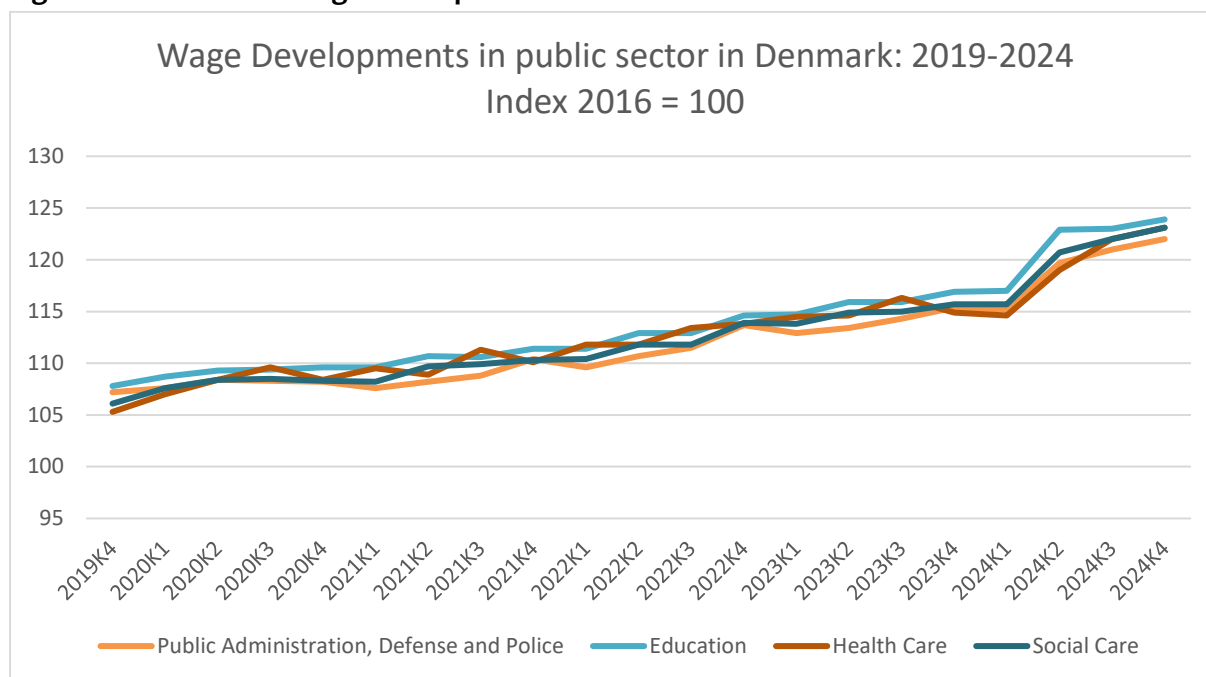
Table 7. Public sector wage setting during the inflation crisis.

	Denmark	Germany	Italy	Poland	Spain
Main actors	Trade unions, public employers' associations, government	5 trade unions, public employers' association, Ministry of Finance	Financial ministry, trade unions, public agency	Government, trade unions	Government, trade unions
Mode of decision making	Collective bargaining on three levels, budget pre-decided by the state	Collective bargaining	Collective bargaining, budget pre-decided by the state	Unilateral decision by the government	Decision by the government, consultation of trade unions during inflation crisis
Main goals	Compensating inflation	Increase of purchasing power with focus on low incomes, attracting new hires	Compensating of inflation; preventing secondary effects; protecting financial credibility	Compensating inflation	Protecting real wages
Outcome	2024-2025: 8.8 % on average	2023-2024: average increase of 11.5 %, inflation compensation premium of €3,000	2025: 5.8% for 2022-2024 ('Central Functions')	?	2022: 3.5% 2023: 2.5% 2024: 2 %

a) Denmark

The PSWS system of Denmark is based on collective bargaining between public employers and trade unions. Trade unions representing different occupations have formed bargaining coalitions that conclude collective agreements with public employers at state, regional or municipal levels. In total, 90 trade unions are involved on the state level and 49 trade unions on the regional and municipal level. Employers have also formed bargaining blocks at the three levels. PSWS is bound institutionally to private sector wage development through the so-called ‘regulation mechanism’ (RM), enforcing automatic adaptations of wage increases to prevent a significant deviance. The wage structure in the public sector is locked-in, since the major share of wage increases is decided on the statal level based on a budget set by the central government. Therefore, across bargaining units, wages increase uniformly. Public sector wage bargaining between trade unions and state/local employers responded with a significant delay to the inflation crisis in 2024, due to the three-year agreement signed in 2021. The 2024 agreement included an 8.8 % average increase in labour costs across the different bargaining units at state, regional and municipal levels. However, an extraordinary tripartite agreement allocated special wage increases for certain nurses, child-care workers, prison guards and midwives. These exceptional increases were not due to inflation but to recruitment and retention efforts, as well as long-lasting debates on wage gaps between these feminised jobs and comparable categories of workers in the private sector (Hansen and Mailand, 2024). They resulted in a 17% wage increase over the two-year agreement for the respective groups of social and health workers in the public sector in Denmark. The unusual state intervention, however, unleashed a massive debate about the autonomy of collective bargaining in Denmark. The main concern of trade unions was the risk of more political regulation of wages, and the potential loss of bargaining autonomy.

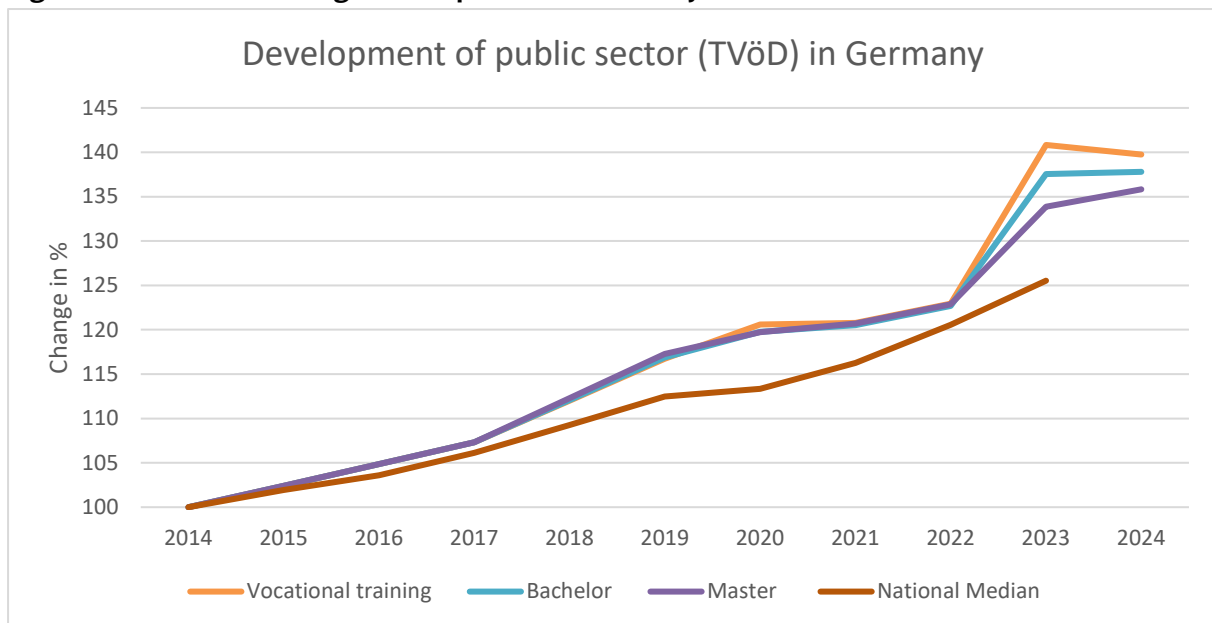
Figure 1. Public sector wage developments in Denmark.



b) Germany

The PSWS system in Germany is the most comparable to collective bargaining in the private sector. Five trade unions bargain with state institutions or associations of public employers in separate collective agreements for municipal and federal employees (TVöD) as well as for employees of the states (TV-L, TV-H). While collective bargaining officially only includes public employees, the result of collective bargaining traditionally is also valid for civil servants. In 2023, all three collective agreements (TVöD, TV-L, TV-H) enacted very similar increases in the wage scale. The trade unions enforced significant wage increases particularly for lower wage groups by combining a fixed-amount increase of €200 per month and a percentual increase of 5.5%. While the average increase in wages for the period of 2023 and 2024 was 11.5 %, it was 18% for the lowest and 9% for the highest wage groups. This reflected the attempt to compensate lower income groups for being affected the most by inflation, but also the fact that many employees and union members in the pace-setting municipalities (TVöD) receive medium or lower wages. Public employers conceded to avoid further strikes, but also to improve working conditions in the public sector to address the labor shortage. It is noteworthy that wage increases in the public sector were among the highest in the five countries, even though an inflation compensation premium of €3,000 was integrated in the agreement that federal the government had enabled to incentivize wage moderation. In contrast to previous rounds of collective bargaining, bargaining partners were only able to conclude an agreement after several strikes and the implication of an external conciliator.

Figure 2. Public sector wage developments in Germany.



c) Italy

PSWS in Italy is structured around sub-sectoral collective contracts, each compartment covering a specific compartment of public administration and public services. In terms of the number of employees covered, there are four main collective contracts which include over 80% of public employees (CNEL/ARAN): 'Education and Research', 'Health', 'Local Functions', and 'Central Functions'. Like in the private sector, there are two main levels of collective bargaining: national and local/decentralised. At the national level, parties agree on a common wage floor. The local level completes the dispositions of national contracts ('contrattazione integrativa') and set a supplementary wage, which, like in the private sector, should be

linked to ‘productivity targets’. The actors of collective bargaining in the public sector are officially ARAN, an agency representing the state-employers, and trade unions, representing public employees. Before the negotiation round, the parliament (on government’s indication) earmarks the amount of the budgetary resources for PSWS. For the period of 2022 through 2024 it was set at 6.29 %. The rationale of the Italian government was maintaining simultaneously fiscal austerity, compensating losses in purchasing power, and minimizing risks of a wage–price spiral. The duration of contracts is three years. PSWS as well as collective bargaining in the private sector Italy are characterized by significant delays of renewals of collective agreement. The concluded agreements in the public sector in 2022–23 often covered the 2019–21 period and did not fully offset the 2022 price spike. By the middle of 2025, only Central Functions had concluded a new collective agreement raising wages by 5.78%. Therefore, the government had enacted an allowance scheme ‘indennità di vacanza’ (IVC), demanding the adjustment of public wages to inflation if collective agreements have not been renewed yet. To face the acute inflationary pressures, in the budget law for 2024 the Italian government unilaterally introduced an increased IVC that was 6 or 7 times larger than the ordinary IVC. The problem, as stressed by trade unions such as CGIL, was that these resources were not additional, but just an anticipation of the total amount of money allocated for PSCB.

Table 8. PSWS change over time.

Triannual change in the nominal amount of funding	2019-2021	2022-2024	2025-2027	2028-2030
Risorse standard	4,07%	5,78%	5,4%	6,0%
Total resources for CB wage setting	4,49%	6,00%	5,4%	6,0%
Total resources for CB and non-CB wage setting	5,54%	6,29%	5,9%	6,0%
Inflation (Private consumption deflator)	2,7%	14,1%	5,5%	6,0%
Net state-funded exp. at the national level	-	-	4,9%	4,8%

d) Poland

In Poland, the government sets public sector wages unilaterally. Public sector wage setting is fragmented and heterogenous in the country, differing between state and local levels, categories of personal and state budgetary units like public financial sector and public administration. Furthermore, there are different systems of remuneration for different categories of employees. Nominal increase in salaries was uneven and depended on the type of office (unit): the highest increases were witnessed in ministries, the Chancellery of the Prime Minister and other non-associated administration structures, while the lowest were in offices of field administration such as district and city headquarters of the state fire service or in district building supervision inspectorates. For instance, in 2021, wage growth in ministries amounted to

14.5%, while it was only 5.2% in regional (voivodeship) offices, which are also part of the state administration. Increases in the base amount were only implemented in 2019 (by 2.3%), in 2020 (by 6%), and in 2023 (by 7.8%, while the inflation rate in 2022 amounted to 16.6%; Albinowski and Magda, 2023).

e) Spain

Prior to the inflation crisis, Spain's public sector wage-setting system was characterized by centralized decision-making, limited automaticity, and a strong influence of political and fiscal imperatives. There is a high degree of fragmentation between central, regional, and municipal governments (Luxan Melendez, 2016). While social dialogue institutions such as the General Negotiating Table (Mesa General de Negociación de la Función Pública) did allow for formal consultations with unions like UGT and CCOO, the final wage decisions rested with the central government. PSWS in Spain has been characterized by wage restraint for several years. However, in 2021 the Spanish government acted swiftly to protect real incomes and included trade unions in decision making. The 2022–2024 agreement between the government and the major trade unions, CCOO and UGT. This deal provided for a total potential salary increase of up to 9.8% across three years. The structure of the agreement combined fixed and conditional increases: a 3.5% raise in 2022 (with retroactive effect), 2.5% in 2023 plus a 0.5% adjustment if inflation surpassed expectations, and a 2% increase in 2024, also subject to a potential 0.5% bonus if GDP targets were met. Despite the improvement brought by the new agreement, inflation (12.5%) continued to outpace these increases. In July 2025, after mass mobilizations on April 8 and June 25, the Council of Ministers approved the additional 0.5% raise for 2024 linked to GDP growth, a provision already included in the 2022–2024 agreement.

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