



Policy Paper

Negotiating Wages in Inflationary Times: A Guide for Social Partners



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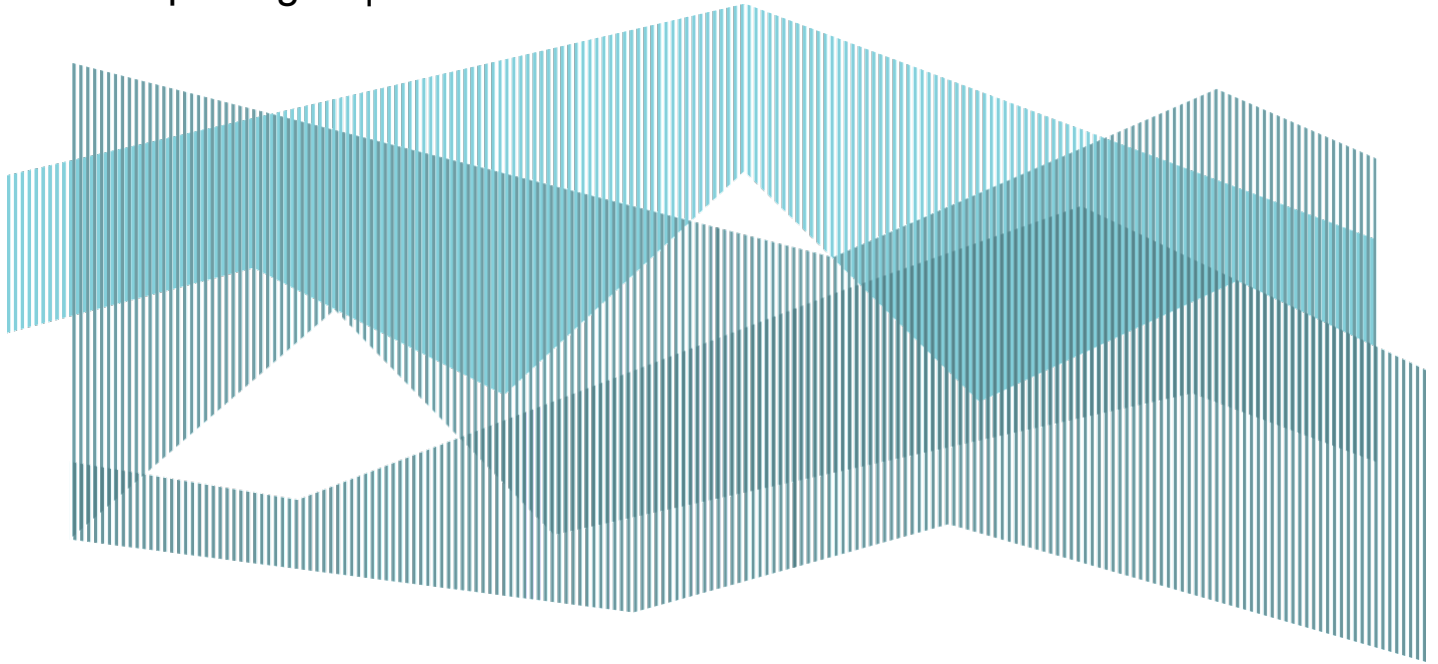
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Abstract

This guide presents an overview of different wage adjustment mechanisms identified in the MAINSOC project. The aim is to provide social partners with real-world cases of how different mechanisms operate and the trade-offs associated with each of them. The guide focuses on three key dimensions of these : the capacity of mechanisms to protect or recover purchasing power, their distributive effects between labour and capital and between low-paid and high-paid workers, and their possible impact on inflation dynamics.



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Introduction

The return of inflation after decades of low and stable price growth forced trade unions and employer organisations across Europe to confront a difficult challenge. Between 2021 and 2023, workers in most European countries experienced a sharp decline in purchasing power due to the energy shock and the subsequent rise in prices. At the same time, collective bargaining actors had to negotiate under conditions of great uncertainty: inflation was volatile, economic growth weakened, and fears of stagflation and recession increased.

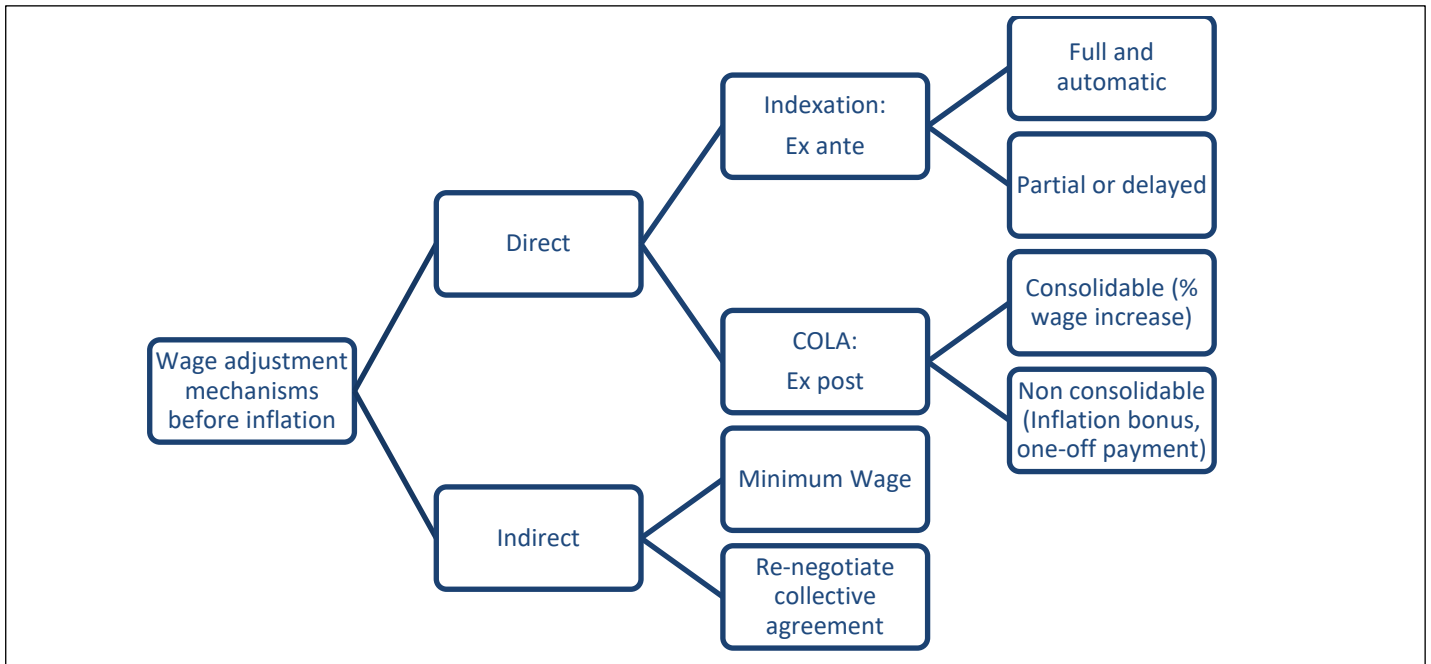
The MAINSOC project analysed how collective bargaining systems and social partners in Denmark, Germany, Italy, Poland and Spain responded to this challenge. One of the main findings of the project is that there was no single response to inflation. Instead, social partners used a wide range of wage-setting and inflation-adjustment mechanisms depending on the institutional context, bargaining traditions, and sectoral conditions. Importantly, the crisis did not lead to a general return to full automatic wage indexation. In most countries, wage adjustment mechanisms were partial, negotiated and often combined with other tools such as one-off bonuses, minimum wage increases or targeted compensation schemes.

This guide presents an overview of different wage adjustment mechanisms identified in the MAINSOC project. The aim is to provide social partners with real-world cases of how different mechanisms operate and the trade-offs associated with each of them. The guide focuses on three key dimensions of these : the capacity of mechanisms to protect or recover purchasing power, their distributive effects between labour and capital and between low-paid and high-paid workers, and their possible impact on inflation dynamics.

Different Types of Inflation Adjustment Mechanisms

The inflation crisis highlighted that wage adjustment can be achieved through many different mechanisms. These mechanisms differ in timing, intensity, distributive impact, and degree of automaticity. Three broad families of mechanisms can be identified: direct ex ante indexation mechanisms, ex post correction mechanisms, and indirect compensation mechanisms (See figure 1 and table 1).

Figure 1: A typology of Wage Adjustment mechanisms



Ex ante indexation mechanisms

These mechanisms link future wage developments to inflation indicators before purchasing power losses materialise. Wage increases are automatically or semi-automatically adjusted according to expected or observed inflation. Indexation mechanisms can take very different forms. Some systems provide full compensation for inflation while others compensate only partially. Some are permanent and automatic, whereas others are temporary or conditional. Mechanisms may also rely on different indicators, such as headline inflation, core inflation or sector-specific references, and may include caps or correction clauses.

Although none of the MAINSOC countries relied on generalized automatic indexation during the inflation crisis, some bargaining practices moved partially in this direction by incorporating inflation references into multiannual agreements. Even where full indexation was absent, inflation indicators continued to play an important role in shaping bargaining expectations and revision mechanisms.

Ex post revision or safeguard

These mechanisms compensate workers after inflation has materialised. Wage increases are initially negotiated based on expected inflation or affordability considerations, but agreements include revision clauses if actual inflation exceeds expectations. These clauses can also differ substantially. Some are retroactive and compensate workers once inflation data become available, while others only provide partial or capped compensation. In some cases, the increase becomes permanently incorporated into wage scales (through percentage increases), while in others compensation takes the form of temporary lump-sum payments. This was one of the most important mechanisms identified in Spain and, to a lesser extent, in some German sectoral agreements. The attraction of these clauses for many social partners is that they provide some protection against unexpected inflation while still allowing room for negotiation and gradual adjustment.

Indirect compensation mechanisms

These mechanisms help to protect purchasing power without directly modifying negotiated wage scales. During the inflation crisis, many governments and social partners preferred this type of instrument because it allowed rapid relief without generating large permanent increases in labour costs. Examples include increases in statutory minimum wages, productivity or profitability bonuses, renegotiation of collective agreements to update wage clauses, and supplementary bargaining mechanisms. Denmark relied heavily on negotiated supplementary mechanisms such as increases in minimum rates and expansion of the “free-choice account”.

Table 1: Comparing Different Wage Adjustment Mechanisms

	Main logic	Capacity to protect purchasing power	Distributive impact	Potential inflationary impact
Full ex ante indexation	Automatic linkage between wages and inflation	Very high	Strong protection for workers; preserves wage share	Potentially high if inflation persistence increases
Partial or capped indexation	Automatic but limited linkage	Medium to high	Shares inflation costs between labour and capital	Lower than full indexation
Ex post revision clauses	Correct inflation gaps after they occur	Medium	Depends on caps, retroactivity and consolidation	Moderate
One-off inflation bonuses	Temporary compensation without increasing wage scales	Low to medium	Favours employers because labour costs do not permanently increase	Low
Minimum wage increases	Raises wage floor through legislation	High for low-paid workers	Compresses lower wage inequality	Usually limited macro effect

Wage Adjustment Practices Identified in the MAINSOC Project

Practice 1

Conditional and capped wage revision clauses

One of the most important practices identified in the project was the use of conditional wage revision clauses. These clauses became particularly important in Spain during the inflation crisis. Rather than introducing full automatic indexation, many Spanish collective agreements include conditional revisions linked to inflation developments, caps limiting total compensation and delayed adjustments.

The V AENC (Peak Cross-sectoral Agreement on Employment and Collective Bargaining) also provided coordinated wage guidance for lower bargaining levels. This type of mechanism attempts to balance several objectives simultaneously. First, it is aimed at protecting workers against unexpected inflation, but without fully translating inflation into wage increases, hence maintaining firms' capacity to absorb shocks. This type of mechanism has several advantages. It allows some recovery of purchasing power while introducing flexibility under conditions of uncertainty. It also facilitates coordination across sectors and reduces the risk of abrupt increases in labour costs. At the same time, workers often experience temporary real wage losses because compensation is delayed and frequently incomplete.

Practice 2

Tax-free inflation compensation bonuses

Germany introduced one of the most distinctive mechanisms identified in the MAINSOC project: the tax-free inflation compensation premium ("Inflationsausgleichsprämie"). The federal government allowed employers to provide up to €3,000 tax-free between 2022 and 2024. Employers paid approximately €52 billion through this mechanism. In several sectors, trade unions negotiated combinations of immediate lump-sum compensation with delayed but permanent wage increases as some unions attempted to transform part of these temporary bonuses into later permanent increases in wage scales.

The advantages of one-off inflation bonuses are clear. They provide rapid support during inflationary shocks, reduce the fiscal burden on workers when tax exemptions are introduced, and limit permanent labour-cost increases for employers. For governments and employers, these mechanisms are often seen as a pragmatic way to avoid a sudden escalation of wage costs. However, these mechanisms also have important limitations. Since bonuses are temporary and non-consolidable, they do not permanently increase wage scales and therefore do not provide lasting protection against inflation, when it is persistent. Over time, purchasing power may continue to erode if negotiated wage scales fail to catch up with prices. In addition, these mechanisms may increase inequalities between sectors and firms because their use depends heavily on profitability and bargaining power.

Practice 3**Negotiated increases in minimum rates and free-choice accounts**

Denmark relied heavily on coordinated bargaining and negotiated flexibility rather than formal indexation. The Danish system combines coordinated sectoral bargaining and strong workplace representation structures and bargaining. This facilitated on the one hand, the increase in negotiated minimum rates with supplementary local bargaining and the expansion of free-choice accounts, consisting of employer contributions to an individual account that workers can draw from for extra holiday, extra paid time off for child or adult care responsibilities, extra pension contributions or simply extra pay. The employers pay up to 11 % of gross wages into the account, which is typically emptied each year. In the 2023 and 2025 bargaining rounds, the free choice account increased from 7 % to 11 %, making it a substantial income-generating element in the sectoral agreements. As such the account provides a “re-centralization” of bargaining as it is centrally negotiated and does not rely on subsequent local bargaining

One of the strengths of this model is precisely its institutional flexibility. Coordinated bargaining allows social partners to respond progressively to inflation while maintaining competitiveness and limiting the risk of wage-price spirals. At the same time, the system depends heavily on strong bargaining institutions, high levels of trust and coordination capacity. Accordingly, in sectors with weaker workplace representation structures, workers may remain more exposed to real wage losses. Differences in local bargaining power may still generate differentiated outcomes across sectors and firms. From a macroeconomic point of view, inflationary effects tend to remain limited because wage growth is coordinated and gradual.

Practice 4**Minimum wage-led adjustment**

Poland illustrates a different strategy: inflation adjustment driven mainly by increases in the statutory minimum wage rather than collective bargaining, that remains very weak and limited in coverage. Under this model, inflation adjustment occurs mainly through state intervention rather than sectoral bargaining. In particular, minimum wage policy can become the main mechanism for protecting purchasing power when collective bargaining institutions are weak. This approach provides relatively strong protection for the lowest-paid workers and contributes to compressing wage inequality at the bottom of the wage distribution.

However, this strategy also has important limitations. Workers above the minimum wage may receive little protection against inflation, and wage-setting becomes more fragmented and dependent on government intervention rather than social dialogue. In this sense, minimum wage-led adjustment can only partially substitute for coordinated collective bargaining. Its distributive impact is strongly progressive for low-paid workers, while its inflationary effects are usually moderate, although they may become more significant in sectors highly dependent on minimum wage labour.

Concluding Remarks

Results from the MAINSOC project show that collective bargaining systems developed very different ways of responding to inflationary pressures. The crisis did not produce a generalized return to automatic wage indexation. Instead, social partners relied on combinations of wage revision clauses, inflation bonuses, minimum wage increase etc. Each mechanism involves different trade-offs between purchasing power protection, distributive outcomes and inflation control.

The experiences analysed suggest several broader lessons for social partners. First, strong coordination mechanisms remain important. Countries with coordinated bargaining systems generally achieved more coherent and predictable adjustment processes. Second, flexibility matters. Mechanisms combining gradual adjustment with bargaining flexibility were often better adapted to uncertainty and volatile inflation. Third, the distributive effects of mechanisms should not be underestimated. Different instruments distribute inflation costs differently between firms and workers, but also between low-paid and high-paid workers. Finally, inflationary crises reinforce the importance of collective bargaining institutions themselves. Where bargaining coverage is weak and coordination limited, wage adjustment tends to become more fragmented, unequal and dependent on state intervention.

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