

*ADB Social Protection Week
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COPING WITH THE COST-OF-LIVING CRISIS: CHALLENGES AND EXPERIENCE IN OECD COUNTRIES

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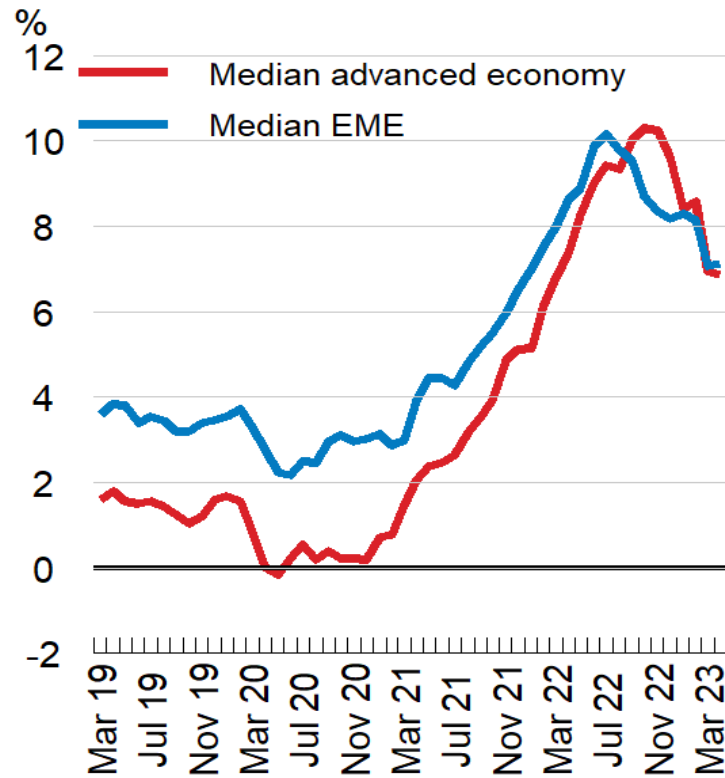




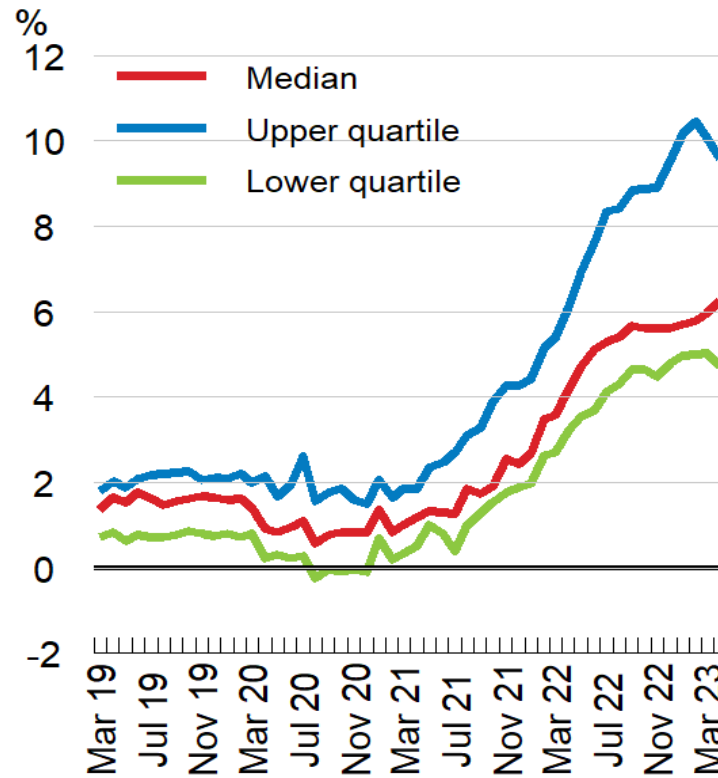
Energy prices have come down after soaring in 2022

But inflation is still high for services and other goods, incl. food

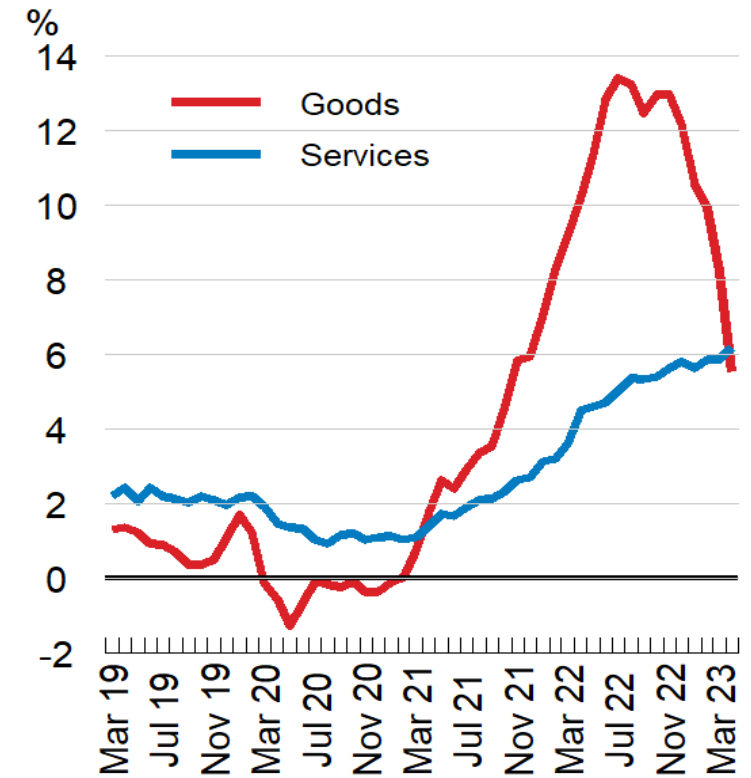
A. Headline consumer price inflation in median economy



B. Consumer price inflation excluding food and energy in the advanced economies



C. Sectoral consumer price inflation in median advanced economy



Note: EME denotes emerging-market economies. Based on figures for 33 advanced economies and 16 emerging-market economies.
Source: OECD Economic Outlook, June 2023

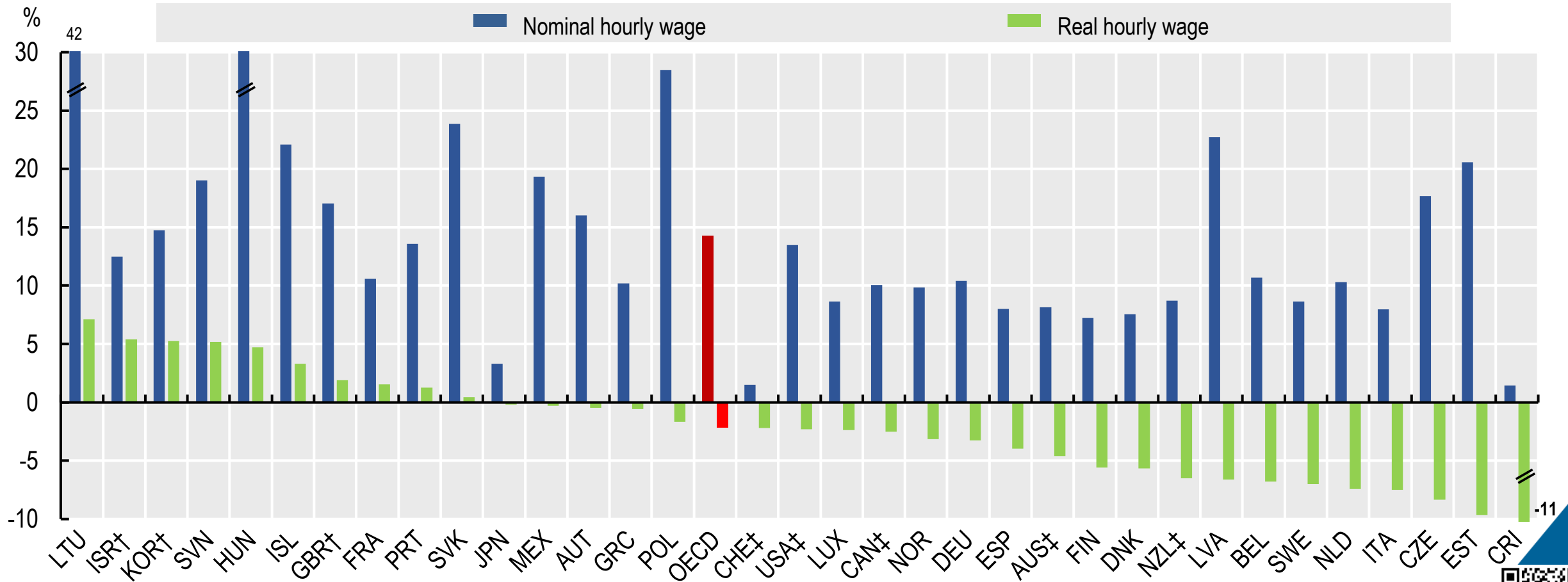




Real wages have remained *lower* than pre-pandemic

Despite tight labour markets and recent nominal wage increases

B. Cumulative % change (Q4 2019 - Q4 2022)

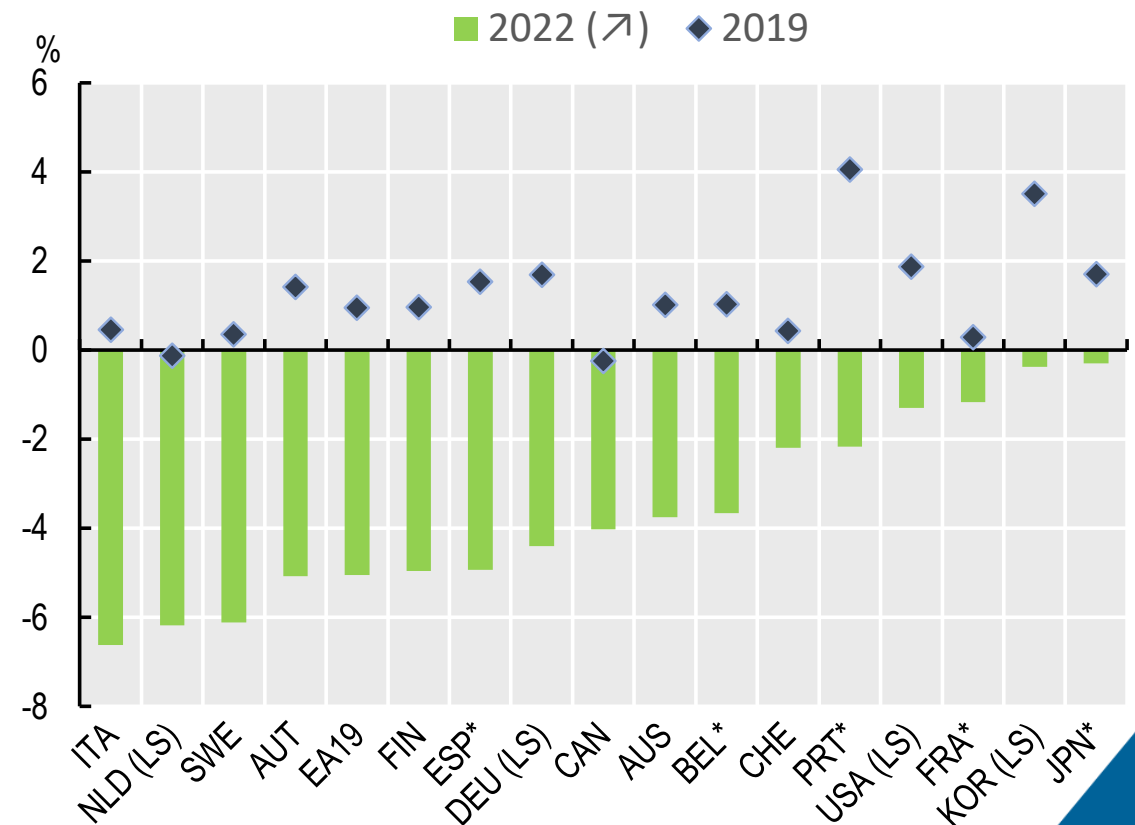




Wages (1): Negotiated pay fell in real terms, even in countries where a majority of workers are covered by collective agreements

- » Collective bargaining can play important role, acting as “lighthouse” for wage developments
- » But collective bargaining weakened in past decades in OECD. When inflation soared, negotiated real-term wages initially plummeted
 - » Inherent delays
 - » Sometimes forward-looking adjustments (postponed bargaining in face of uncertainty),
 - » Incentives (e.g. tax-free benefits) for keeping wage demands down & promote a stabilising role of coordinated wage bargaining
 - » Bargaining not only over wages
- » Faster growth in negotiated wages is likely in the coming quarters, but aggregate wage growth is projected to remain below inflation

Wages in collective agreements, real-term, year-on-year
All sectors or as noted

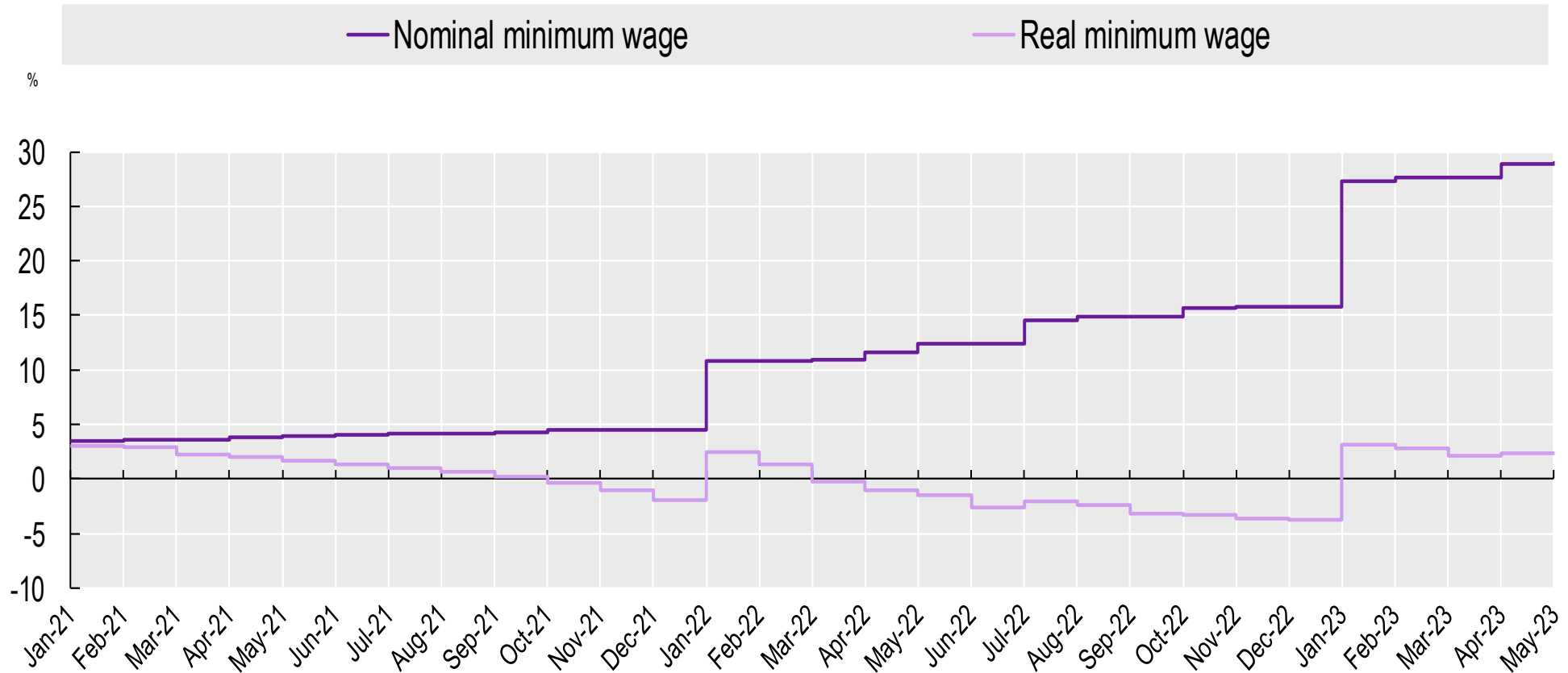


Note: * private sector only. (LS): wages including lump-sum and/or special payments.
Source: OECD Employment Outlook (2023)



Wages (2): Minimum wages have adjusted... but they too struggle to keep up when inflation is high

Evolution of nominal and real minimum wages, compared to Dec 2020
OECD average (unweighted)



Source: OECD Employment Outlook (2023)

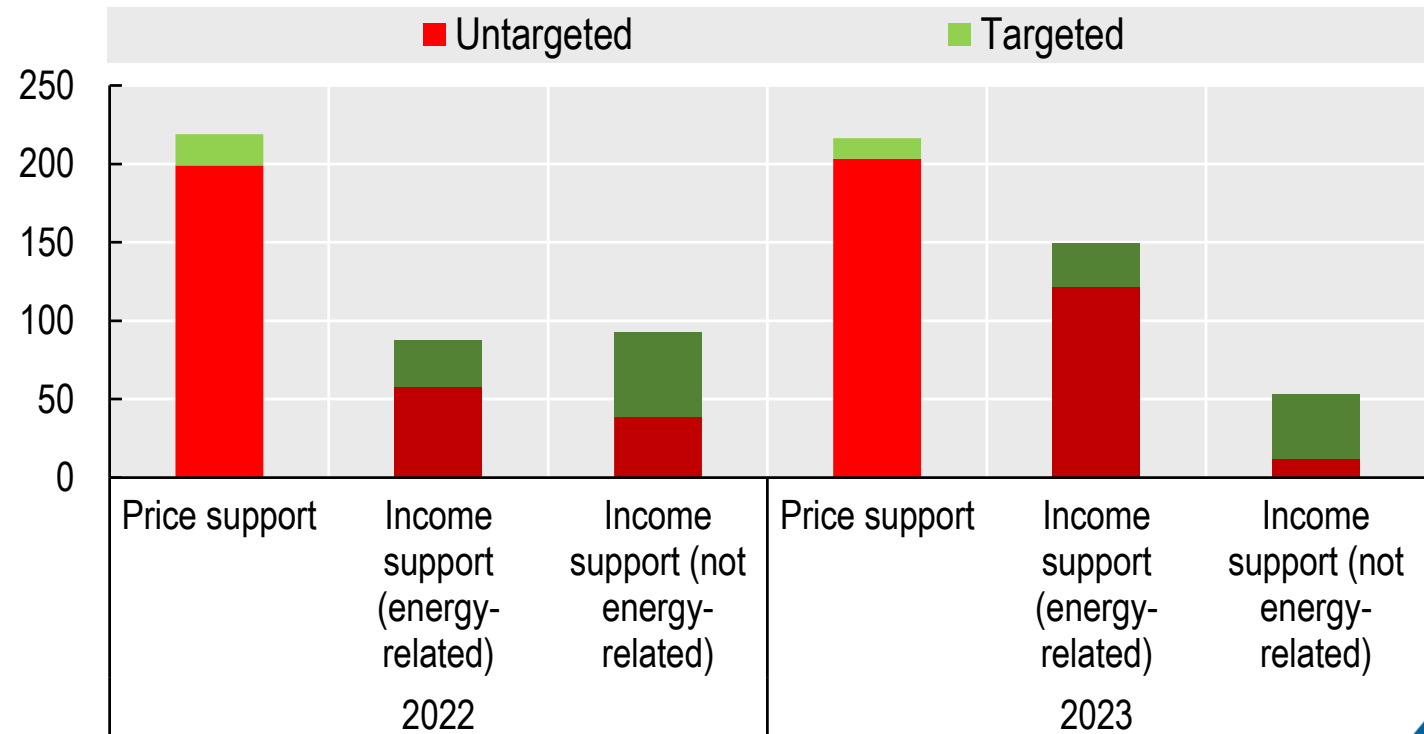


Direct cost-of-living support across countries...

Large but (because) not well targeted

- » Cost-of-living increase: A crisis for those who have little and spend much of it on essentials
 - » Low-income, elderly, low education
 - » Remains true even after energy prices have eased: eg [Caisl et al \(forthcoming\)](#)
- » This calls for targeted support, but measures mostly untargeted to date
- » Social transfers are more readily targeted than price support
- » What are options for leveraging existing social transfers for cost-of-living support that is timely and targeted?

Cost of energy-related fiscal support, USD billion



Note: 41 countries, including 35 OECD (except Hungary, Iceland, Switzerland) plus Brazil, Bulgaria, Croatia, India, Romania, South Africa). 2022 bilateral exchange rates.

Source: OECD Economic Outlook, June 2023, using OECD Energy Support Measures Tracker

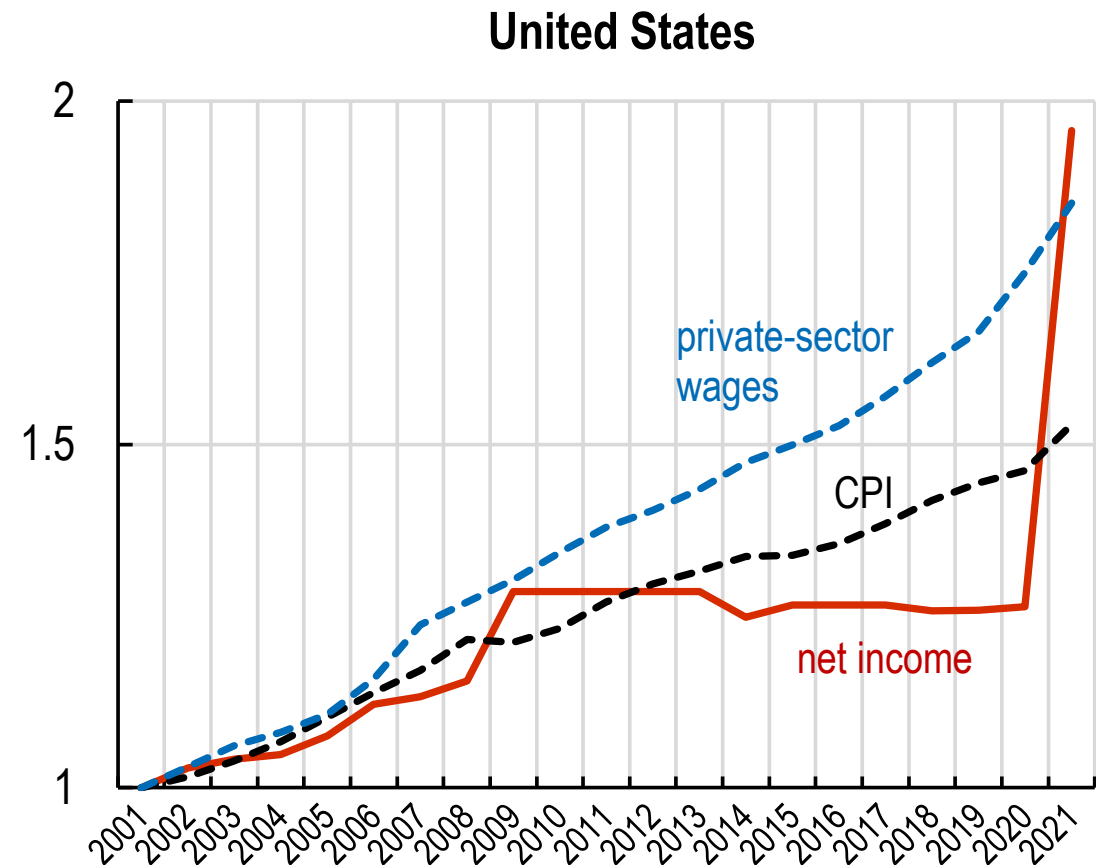




A priority is for *existing benefit provisions* to continue to operate as intended, by protecting their value for recipients

- » Most transfers are not immediately responsive to price shocks as experienced by individual households
- » Income transfers may link entitlements to prices. But regular adjustments are far from universal and often subject of long delays
- » Inflation adjustments are less common than for income taxes, and they vary *between* benefit programmes in a given country
- » A key priority is to maintain the value of minimum-income support and other assistance payments
- » CPI does not account for consumption needs & constraints of low-income household

Transfer entitlements prior to the cost-of-living crisis.
Nominal values, relative to 2001



Note: Lone parent, two children, no entitlement to contribution-based unemployment benefits. Source: OECD Tax-benefit models, <http://oe.cd/TaxBEN>

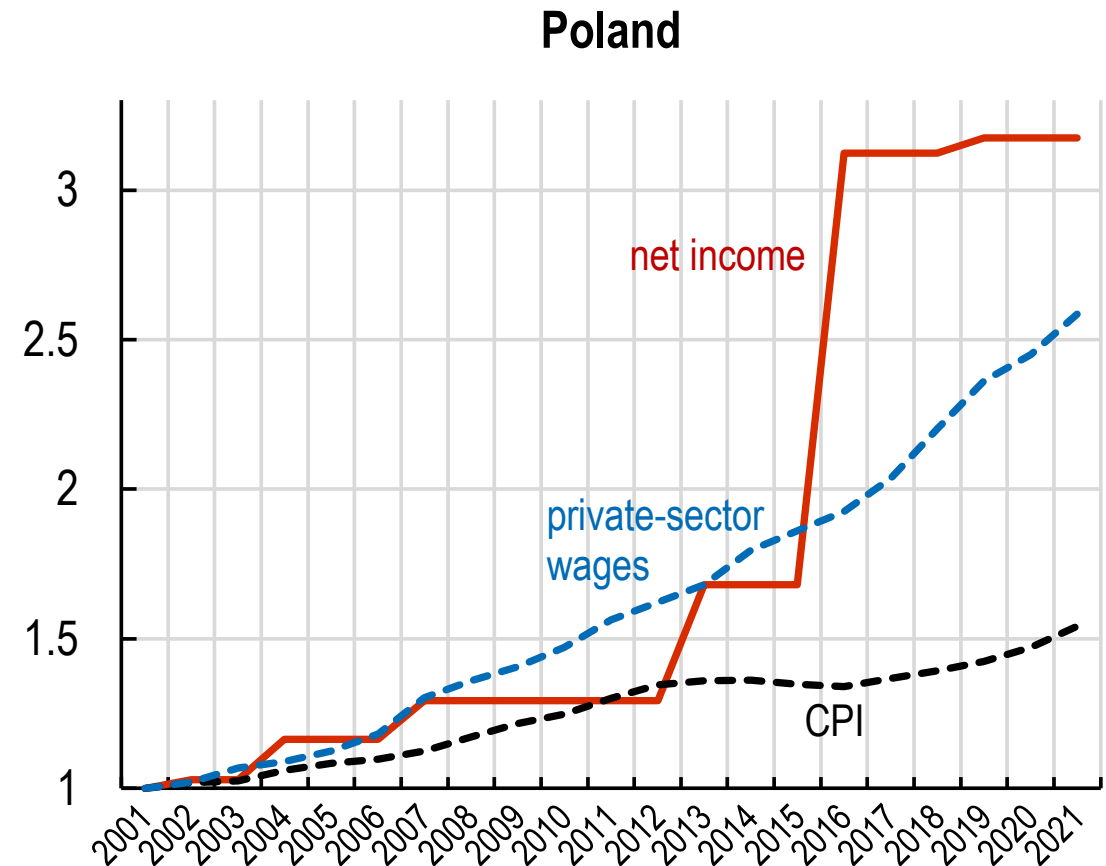




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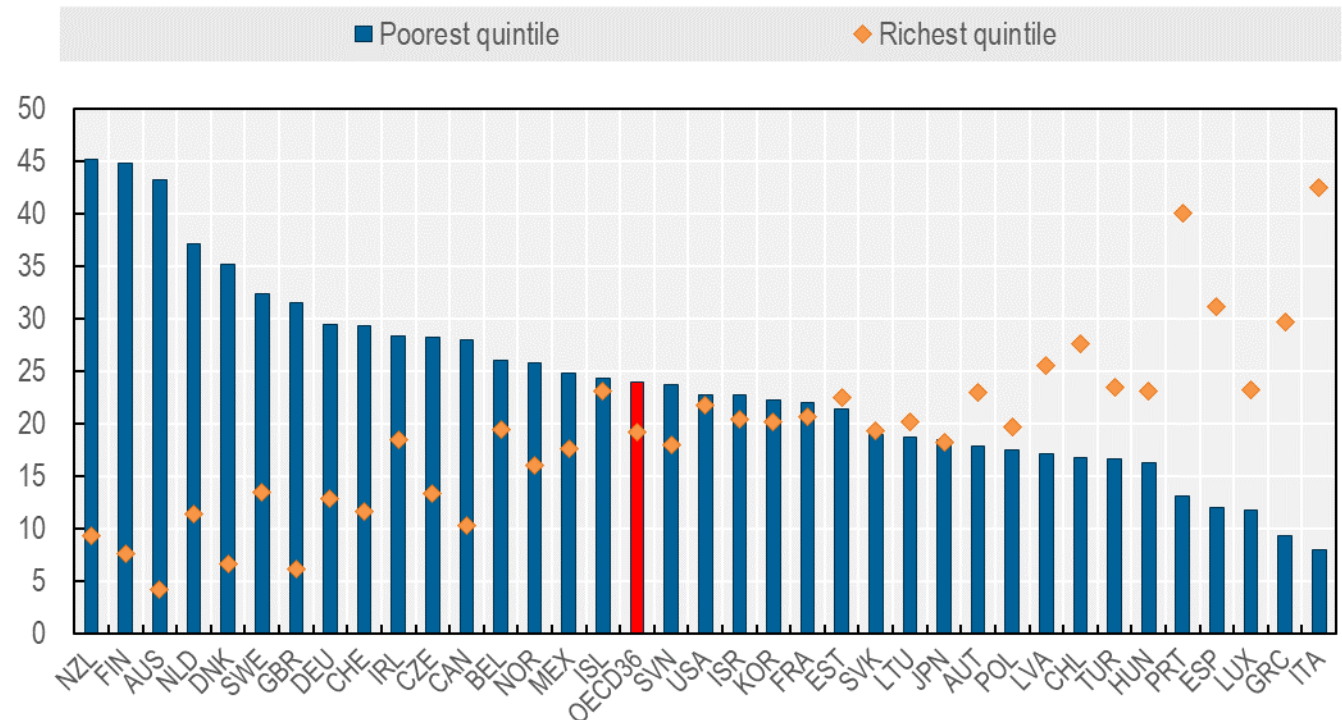


But existing income support is sometimes difficult to access

Timely benefit reinforcements are then crucial, but challenging

- » In some countries benefits are difficult to access for low-income groups
- » In some cases, possible to quickly reinforce specific transfers
 - » DEU: expanded housing ben; ESP: lump-sum support for low-inc families not claiming GMI; EST: eased entitlement rules
- » Tackling structural reasons for poor accessibility / takeup is difficult in the midst of a cost-of-living crisis. Temporary ad-hoc assistance may then be needed
- » Even urgent ad-hoc support can be targeted to some extent
 - » DEU: payments taxable; AUT, DNK: tied to specific characteristics (location, housing, family, income)
- » but multiple parallel programmes can be costly & add complexity

Well targeted? Transfers received by low and high-income groups
% of average cash transfers received by working-age people, pre-COVID



Note: Ages 18-65. All public cash transfers at the household level
Source: OECD Income Distribution Database, <http://oe.cd/IDD>

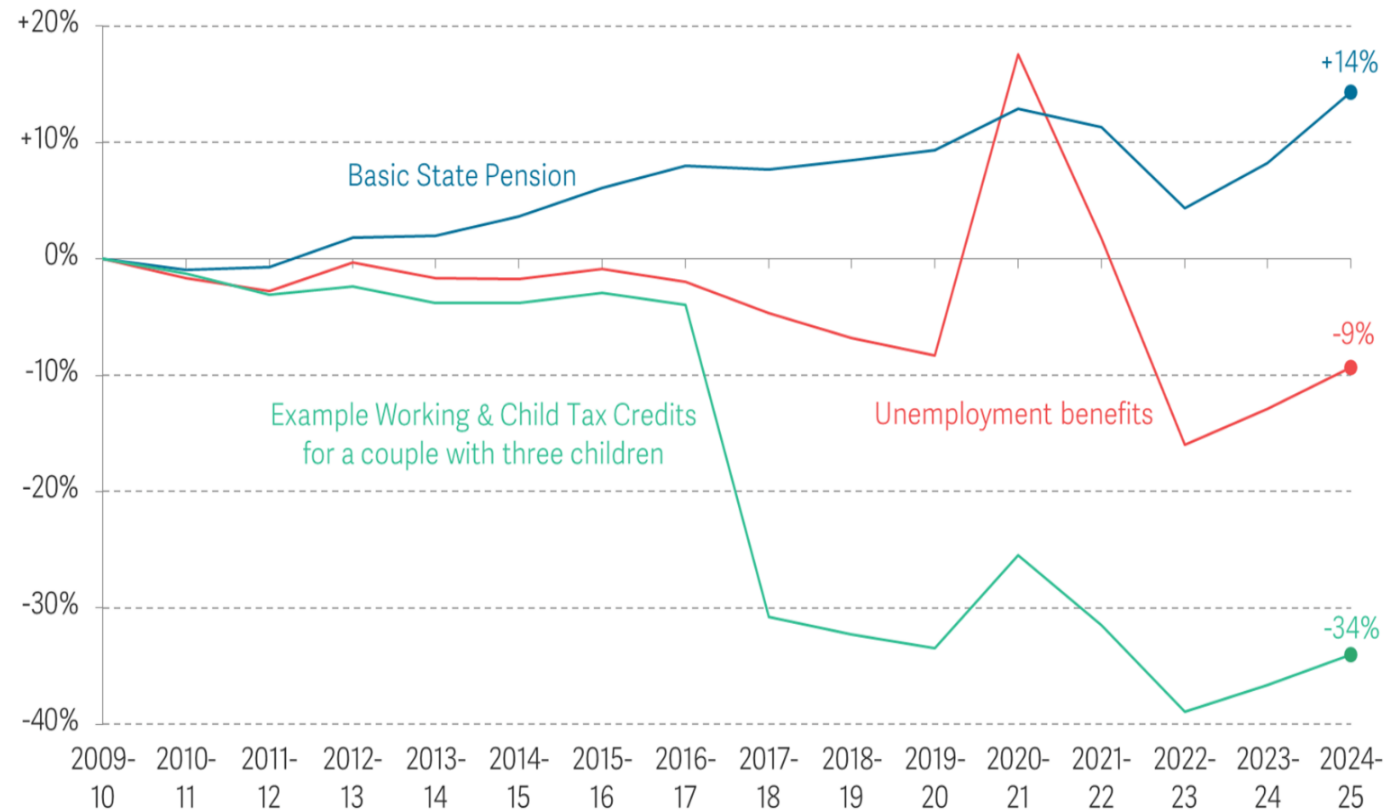




A better protection for pensioners than for working-age families?

- » Targeted pensions:
2/3 of OECD index 'at least' to prices
 - » 6 index to wages (eg DEU, DNK, NLD)
 - » 3 use a mix (CHE, EST, NOR)
- » Mandatory earning-related pensions:
1/2 index 'at least' to prices
 - » 3 index to wages (DEU, LTU, SWE)
 - » 7 use a mix (eg CHE, CZE, FIN, NOR, SVN)
- » Lessons for poverty protection and working-age support?
 - » Eg adequacy condition in LTU: indexation if pensions fall behind wages or old-age poverty exceeds 25%
 - » Sustainability / affordability conditions DEU, NLD, SWE

Cumulative change in real benefit levels since 2009-10
United Kingdom



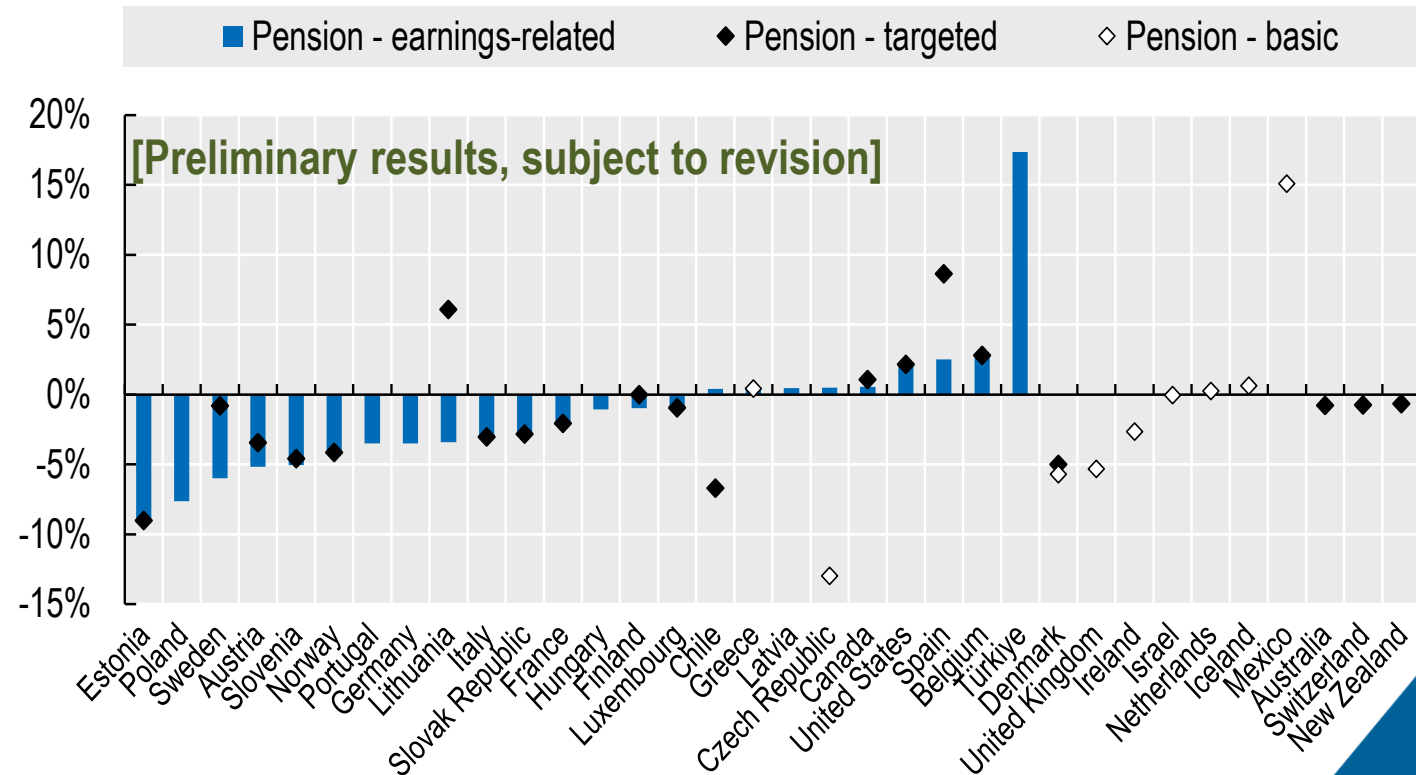
Note: CPI-adjusted, 2023-2025 are projections
Source: Resolution Foundation



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Real pension values recently fell in many OECD countries
Pensions in payment, % change in real value, Jan 2022 to Jan 2023



Note: Where indexing rules depend on pension amount, values refer to average pension levels.
Source: OECD (2023), Pensions at a Glance, forthcoming. Preliminary results, do not quote.



Targeted cost-of-living support

Priorities and challenges

- » **For ‘broad-based’ income transfers:** timely CPI adjustments (‘indexing’)
- » **For more targeted programmes:** adjustments should account for specific consumption needs
 - » Can combine CPI adjustments, with occasional recalibration through in-depth assessments of spending patterns
 - » Role for regular / independent social protection adequacy reviews? E.g. modelled on minimum-wage commissions
- » **When coverage is weak, inflation adjustments are not enough.** During a crisis, widening the reach of existing programmes can be more realistic than introducing entirely new ones
- » **Some ad-hoc measures may be needed** to reach specific groups. But adds complexity & cost
- » **Price support can and should avoid distorting price signals**, especially in the context of alleviating rising and volatile energy costs:
 - » Targeted social tariffs
 - » Bonuses based on past consumption: DEU
 - “Block” pricing (subsidized quantity up to limit + un-subsidized range beyond): AUT, EST, NLD, NOR, POL, UK
 - » Encourage substitutes for fossil energy (heat pumps, insulation), but subsidies for these tend to benefit better-off
- » **Keep weakly targeted energy price support strictly temporary.** Withdrawing costly price support less difficult with suitably adapted/indexed income support in place



THANK YOU

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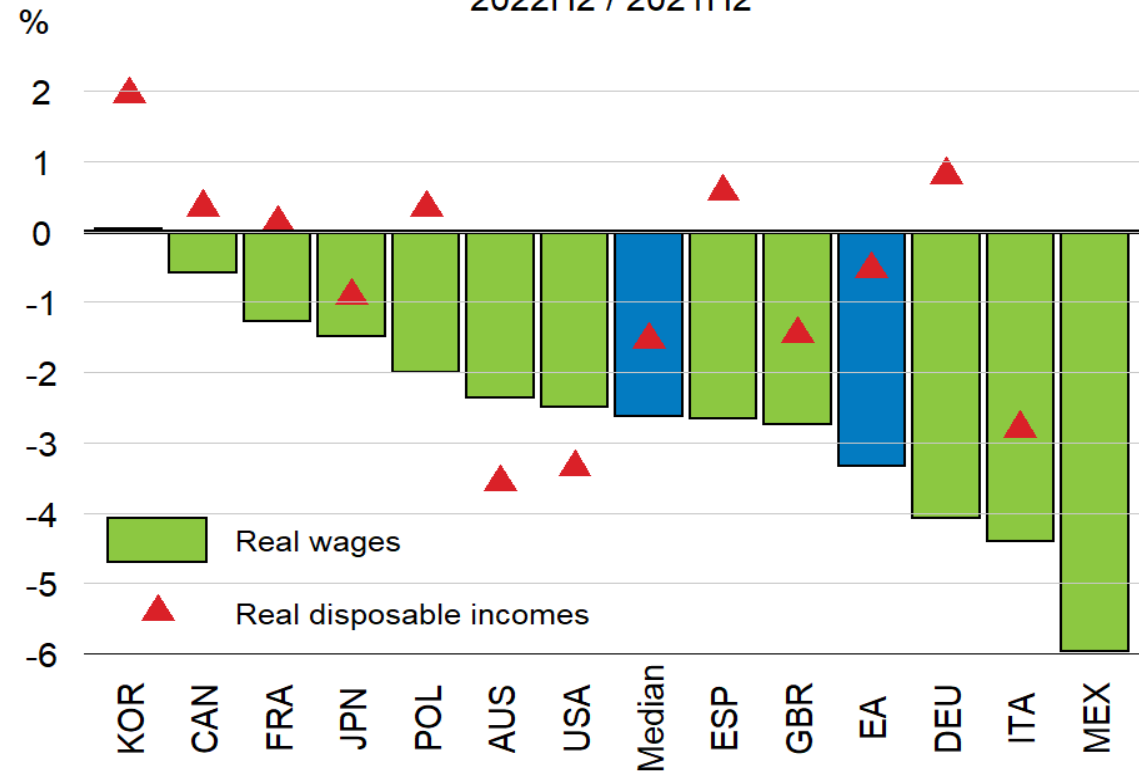
ADDITIONAL SLIDES



Household incomes have mostly fallen or stagnated... But losses milder than for wages, especially in Europe

- » Continued employment growth
- » Sizeable fiscal support

A. Growth of real wages and household disposable incomes
2022H2 / 2021H2



Note: Compensation per employee and disposable income, deflated by personal consumption deflator. HDI data not available for Mexico.

Source: OECD Economic Outlook, June 2023





Table 1.4. Frequency of renegotiation of collective agreements

Agreements usually renegotiated every year	Agreements usually renegotiated every two years	Agreements usually renegotiated every three years or more
Austria	Belgium	Australia
Czech Republic	Colombia	Canada (Ontario)
Estonia	Costa Rica	Chile
France	Finland	Denmark
Hungary	Germany	Greece
Ireland	Israel	Iceland
Japan	Korea	Italy
Latvia	New Zealand	Luxembourg
Lithuania	Norway (whole agreements)	Sweden
Mexico	Switzerland	
Netherlands		
Norway (wage agreements)		
Portugal		
Slovak Republic		
Slovenia		
Türkiye		

Source: OECD Questionnaire on recent measures to deal with inflation pressure on wages (February 2023).

Table 1.5. Automatic wage indexation in collective agreements, 2022

Country	Are pay scales indexed (on inflation or other indicator)?	Formula	Is there any automatic correction?
Belgium	Yes, in all sectors.	The exact formula varies across sectors depending on the collective agreement but in general it refers to past CPI.	No
Germany	Yes, but only in few sectors	The agreement is renegotiated if inflation exceeds a specific rate.	No
Italy	Yes, in all sectors	Forecast HICP index without imported energy goods.	Yes, both upwards and (but rarely or never applied) downwards <i>ex post</i> correction
Luxembourg	Yes, in all sectors	Same as for the minimum wage. See Table 1.3	No
Netherlands	Yes, but only about 5% of the agreements	Past CPI in period t-1	n.a.
Spain	Yes, but only in some sectors	No general rule, but usually CPI in past	Yes, wage increases can be corrected during the validity of the agreement but only upwards (if realised inflation is higher than the indicator of reference) with a maximum ceiling imposed.
Switzerland	Yes, but only in few sectors	It varies depending on the agreement	Yes, in some sectors wage increases can be revised upwards (if realised inflation is higher than the indicator of reference) during the validity of the agreement

Note: n.a.: not available.

Source: OECD Questionnaire on recent measures to deal with inflation pressure on wages (February 2023).



Table 1.3. Automatic minimum wage indexation in OECD countries, 2022

Country	Indexation mechanism
Belgium	The minimum wage is indexed to the so-called “health index”, i.e. past CPI excluding alcohol and tobacco and petrol but including heating fuel, gas, and electricity (every time the index increases by 2% or more since last increase)
Canada	The minimum wage at the federal level is indexed to the Consumer Price Index for the previous calendar year. Also, nine provinces and territories have a form of indexation.
Costa Rica	The minimum wage is indexed on the living cost, and the Gross Domestic Product (GDP) growth.
France	The minimum wage is indexed to past CPI for the bottom quintile and revised annually or as soon as the CPI increases by 2% or more since last minimum wage increase). Annual revisions also incorporate half real salary increase of blue-collar workers (only if positive).
Israel	The minimum wage is anchored to 47.5% of the average wage.
Luxembourg	All wages are indexed to past CPI (every time CPI increases by 2.5% or more since the last semester)
Netherlands	The minimum wage is indexed to the predicted wage developments for the next six months using a basket of collectively agreed wages.
Poland	The minimum wage is indexed to future inflation + 2/3 of future GDP growth if, in the first quarter of the year, the amount of the minimum wage is lower than half of the average wage. If the inflation forecasts differ from the realised evolution of the price index, a correction takes place in the following year.
Switzerland	In the canton of Neuchâtel, the cantonal minimum wage is automatically adjusted each year to the consumer price index. In the canton of Basel-Stadt, the minimum wage is adjusted (only upwards) according to a mixed index (average of nominal wage and consumer price index). In the canton of Geneva, the minimum wage is indexed to the consumer price index (only upwards). In the canton of Ticino, the government adjusts the lower and upper limits of the cantonal minimum wage annually according to the development of the national price index.
United States	The federal minimum wage is not indexed. Currently, 13 states and the District of Columbia index state minimum wages to a measure of inflation. In addition, another 6 states are scheduled in a future year to index state minimum wage rates to a measure of inflation.

