Truths & lies about the index

The index: what it is and what it is not

The automatic indexation of salaries (since 1975) aims to safeguard purchasing power by compensating for the monetary depreciation caused by inflation. Thus, the index is a technical mechanism **intended to compensate for the loss of purchasing power**.

- With the same productivity and economic performance of the company, the index prevents inflation from devaluing real wages.
- Employees and pensioners can again afford the same volume of products or services as before the devaluation.
- The maintenance of purchasing power, on the other hand, benefits the economy, especially trade and crafts.

The legal mechanism includes:

1. monthly monitoring of the evolution of prices of products and services in the household basket (which reflects the consumption habits of the population) and
2. the automatic adjustment of +2.5% of all wages and pensions if the evolution of the prices of the basket of goods and services has reached the threshold of +2.5% the previous month.

Index = social peace

The index allows for a **minimum of organized wage policy**, thanks to the adjustment of all wages to inflation, which relieves and facilitates collective bargaining in companies → with the index, wage negotiations can focus on the economic performance of companies and on the evolution of productivity, since the inflation compensation component does not need to be negotiated. This model has proven to be very effective for decades and has contributed greatly to social and economic progress. It is one of the most important pillars of social peace in Luxembourg. The Luxembourg workforce has no interest in seeing the Luxembourg model deteriorated or even gradually dismantled.

The index is therefore neither a social policy measure nor a measure for the redistribution of the wealth created by the economy, nor indeed an instrument of wage policy, but simply a compensation mechanism.

The arguments of the opponents of the index

Anyone who says today that there is an urgent need for action in the face of so-called problematic inflation trends is not being honest and is clearly planning an attack on the indexation system:

- to seriously disrupt the wage bargaining model or even abolish it, and
- to impose wage cuts and exert constant pressure on wages at the expense of employees.

Inflation in Luxembourg is too high = wrong!

According to the „Observatoire de la formation des prix", Luxembourg has an inflation of 2.5% in 2021. Inflation in Luxembourg is slightly higher than the European average and that of France, but still lower than in other neighboring countries and the Netherlands. Inflation has accelerated in recent weeks in the context of the Russian invasion of Ukraine. However, the situation is volatile and it is not clear whether this increased inflation will persist for a long time. Again, price developments in Luxembourg are following international trends and are not significantly higher.

In any case, we are currently a long way from the situation in the 1970s and the early 1980s, when inflation was at times 10%. A dynamic economic development does not only produce inflation, it also needs it. Economists consider an **inflation rate of 2% or 3% per year and even more as optimal** and as a stimulus for economic activity. This corresponds to the average inflation rate in Luxembourg over the past 30 to 35 years.

„The index feeds inflation and causes prices to soar" = false!

It is the companies that are the first to increase prices → if they did not do so, we would not need the index to better protect our salaries and our purchasing power. If the index fueled inflation, every deadline would automatically lead to a surge in inflation. Contrary to recurrent claims, the Statec has not been able to confirm in a study on this phenomenon such a so-called „second-round" inflationary effect of the index (this analysis was commissioned during the last national discussion on a manipulation of the index; cf. Economie & Statistiques No 43/2010) → **only 0.2% can be attributed to this phenomenon**. If the index was really driving inflation, the evolution of inflation should be significantly higher in Luxembourg than in other European countries, which is not the case at all.

Wages are too high = wrong!

There is no objective reason in Luxembourg to demand wage cuts. In fact, for years the wage share of the created surplus value has been decreasing: wages have been growing less rapidly than the profits and dividends of entrepreneurs and shareholders.

This deviation of the distribution between capital and labor is not a specifically Luxembourg phenomenon, it applies to employees in all European countries → but Luxembourg is clearly in the lead, because the unfair redistribution of economic results is particularly pronounced in Luxembourg (and this despite our indexation system). Labor productivity in Luxembourg has been for years far higher than in our geographical neighbors. At the same time, the profit margins of companies (the share of added value created, minus labor costs) are also higher than in our neighbors. If there are problems in some companies or economic sectors, in the majority of cases they are not due to labor costs.

The index is not socially fair = wrong!

Direct wage negotiations and collective bargaining serve to establish more wage equity: they determine how the surplus value created by the work done is distributed between wages and capital income and whether a fairer distribution of the economic performance of a company between wages and profits, capital income and dividends, can be achieved or not.

The index has nothing to do with the wage hierarchy in a company either! It is not the fault of the index, if in a company the relation between wages and the different functions respectively the different professional qualifications is not balanced or even unfair.

→ More social justice should be aimed at by a progressive state tax policy, which increases the tax burden on the operating profits of companies and on high incomes.

For the record: **The OGBL demands a tax reform including**

- **an adaptation of the tax rates to the evolution of prices. This has not been applied since 2009. Without an adjustment of the tax rates, the index only compensates for the entire purchasing power on the gross income, but not on the net income (cold progression phenomenon)**
- **tax relief for the middle class through a higher tax progressivity, including an increase of the top tax rate**

- **higher taxation of capital income and wealth, as well as of real estate speculation.**

In the past years, the tax burden has been increasingly shifted from companies to private households; this trend must be reversed.

The myth of the „capped" index

„Is it fair that a 2.5% index slice represents an increase of just over 50€ for one employee at SSM while the other gets 500€ more?" - such populist statements prevent any serious discussion, because these figures are nothing more than the comparison of a monthly gross salary of 2 250€ (social minimum wage) with a gross salary of 20 000€!

→ That is to say 8,86x the minimum wage!

The tens of thousands of employees with gross salaries of 4 000€, 5 000€, 6 000€ or 7 000€ are ignored. And yet they are the ones targeted by the president of the „Union des Entreprises luxembourgeoises" (UEL) Michel Reckinger when he gives such examples.

If, indeed, it were about those who earn 15 000€ or 20 000€ per month, the UEL should without hesitation accept the OGBL's demand for **more tax justice through additional tax brackets** on very high incomes!

→ **The proposal for a capped index is not about achieving more wage or social justice, on the contrary, it is simply about reducing normal wages and hence their purchasing power!**

→ **It is an intermediate step on the way to the complete abolition of the indexation system!**

Capped index = social index?

The only ones to benefit from these savings are the companies and the shareholders. A maximum index bracket would mean that higher income earners would identify less with our social model and its social security.

Will the capped index benefit low-wage earners?

„Will low-wage earners benefit from the fact that the wages of about 45% of other earners are dismantled?" → No.

The capped index would not benefit low-income earners at all: they would not get a single cent of the money that management would take in at the expense of other earners. Worse → **the pressure of the employers and their organizations on low wages will increase!**

It would be as naive as it would be wrong to ignore the general thrust of the employers' demands: „Down with the social minimum wage, down with the index, for a general reduction of wages in Luxembourg."

→ In the building and craft sector, in trade, in cleaning, in the hotel and catering industry, there are only a few employees who earn more than twice the minimum wage. The employers will not let go until the „social index" has become even more „social" and „selective". This may be done in several stages: from 2 to 1.5, then to 1.25, then to 1x the minimum wage, and finally to abolish it completely.

The real objective

In Luxembourg, the automatic legal indexation to compensate for inflation would cease to exist. Inflation compensation would no longer be linked to wages. Employees with the lowest incomes, almost on the poverty line, would receive at most a „cost of living allowance" increased by 200€ and an „energy premium" which will only partially cover their loss of purchasing power. Middle-income households will not receive any compensation at all, especially if they do not fall under a collective bargaining agreement.

→ **The capped index is the preliminary step to the complete abolition of the index!**

The household shopping basket

Once a year, the Statec reviews the list of goods and services and their weighting in the consumer basket. The price index reveals, among other things, how much consumers spend and on which goods and services. It is used as a basis for calculating inflation.

Removing petroleum products from the consumer basket?

= a first step in the direction of reconsidering price indexing

For existential reasons, no household can do without the consumption of oil products (+ natural gas). A manipulation of the index for petroleum products would banish **one of the most important goods** from the consumer basket and would jeopardize **the protection of purchasing power**. In addition, it would primarily affect low-income households, since for them, in proportion to their overall income, the share of these products will weigh more heavily on their budget than for other income categories. At the same time, such a neutralization will not lead to less greenhouse gas emissions and less use of fossil fuels!

Instead of manipulating the index, the OGBL proposes to the government

- to focus on the **extension and densification** and on the quality of the **public transport** offer;
- to expand the measures of the energy efficiency subsidy scheme for housing and mobility and to make them more socially equitable (income-related degressivity) so that low-income groups can also benefit.

And why would it be inappropriate to remove tobacco and alcohol?

Excluding tobacco and alcohol would have no impact from a health policy perspective, unlike higher taxes on these products. Such a measure would mainly penalize low-income earners, who do not necessarily consume more tobacco or alcohol products, but who in comparison have to invest a proportionally larger share of their income than better-off households (CSL: the higher the income, the smaller the share of tobacco and alcohol costs in the overall expenditure of employees).

The OGBL also refuses:

- the time shift of the index brackets

With the „modulations" (more exactly: manipulations) of the index between 2006 and 2013, consisting in the shifting of several index brackets, the companies and the state have made savings of more than one billion euros and this on the backs of the employees. The equivalent loss in real purchasing power for employees has never been compensated. The OGBL has opposed these manipulations of the index and will continue to do so. The normal functioning of the index mechanism must be maintained, **as the government committed itself to do in the coalition agreement of 2018 and again recently at the Tripartite of December 2021**.

- the complete abolition of the indexation system

The adjustment of wages to inflation would then have to be dealt with in collective bargaining in the companies. Conflicts would thus be programmed, especially as the Luxembourg system of wage determination and negotiation would gradually unravel.

→ Anyone who wants to abolish the index automatically attacks our wage bargaining model and thus endangers social peace in Luxembourg!