GLOBAL EMPLOYMENT LAWYERS

Employment measures against inflation in France and the UK

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France

During the presidential campaign, Macron's Government promised to increase purchasing power. On 3rd of August, the newly elected French Parliament adopted a draft law with several measures intended to mitigate the consequences of inflation.

Outlined below are the main parts of the employment law measures of the "emergency draft law for the protection of the purchasing power".

Renewal and increase of the purchasing power bonus as from 1st July 2022

Although the purchasing power bonus (also called the "Macron bonus") was first introduced as an exceptional bonus which could be paid during limited periods only, the draft law introduces the possibility of granting this bonus each year in one or several installments. This bonus is now referred to as the "value-sharing bonus".

To be exempt from certain social security contributions, the bonus must not exceed € 3,000 per employee and per year. This cap has been increased to € 6,000 for:

- companies which implemented a voluntary profit-sharing scheme (accord d'intéressement); and
- companies with less than 50 employees which implemented a mandatory profit-sharing scheme (accord de participation).

The draft law has also reduced the exemptions from tax contributions and some employee-borne social security contributions (CSG/CRDS) applicable to this bonus. Said exemptions will only apply until 31 December 2023 and to employees who earn less than three times the statutory minimum wage (SMIC).

Measures to facilitate the implementation of voluntary profit-sharing schemes in small companies

The implementation of voluntary profit-sharing schemes has been simplified for companies with less than 50 employees, as these schemes may now be implemented with less stringent conditions through a unilateral decision from the company instead of a collective agreement.

Furthermore, the duration of voluntary profit-sharing schemes has been increased to a maximum of five years, as opposed to three years currently.

From 1st January 2023, applying for such schemes will be more straight forward, with a shorter time frame for the labour administration feedback. Until this date, employees may ask for an exceptional and anticipated release from the profit-sharing scheme.

Increase in the minimum wages set by the professional bodies

The draft law reduces the timeframe for employers' professional bodies to initiate negotiations if the collective bargaining agreement provides for less than the statutory minimum wage: the current three-month period will be reduced to 45 days when the law comes into effect.

Insufficient negotiations may lead the Ministry of Labour to merge collective bargaining agreements.

Social security exemption for overtime hours as from 1st October 2022 in small and medium sized companies

The draft law introduces an exemption from company-borne social security contributions on the pay increase for overtime hours, for companies with 20 to 249 employees.

The exemption also applies to the compensatory rest days granted to employees under a forfait jours working time scheme, when employees renounce these rest days.

4% increase in retirement and other benefits as from 1st July 2022

The draft law provides for a 4% increase of various benefits, including base retirement benefits, as from 1st July 2022.

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The expected budget cost for the measures provided by the draft law is about 20 billion euros.

The Constitutional Council approved the draft law on 12th August. None of the above employment measures were challenged.

United Kingdom

The UK government has taken a position on wages in response to inflation which is almost diametrically opposite to that of France's. However, the market in certain sectors has seen a rise in wages despite the lack of government support in an attempt to retain talent in the face of the ever-increasing cost of living.

Government approach to inflation

The Prime Minister has warned that if employers raise pay levels in order to match inflation, this will engender a "wage-price spiral" and a catastrophic economic crash. He warned against what he called a "Covid mindset" of government with increased government spending on support programmes. Instead, the Prime Minister prefers to cut tax and government spending to relieve the cost of living crisis, and to deregulate in order to promote growth.

The Government's approach to inflation going forward has been a key point of contention in the Conservative Party's leadership debates. While Liz Truss advocates for "bold" government action, including tax cuts, in order to promote economic growth, her opponent Rishi Sunak argues that the priority must be to control inflation and that significant tax cuts will only worsen inflation and lead to a longer economic crisis. Pay levels have proved to be a controversial subject in the race for leadership – Liz Truss backtracked on a plan to reduce pay for public sector employees in poorer areas of the country earlier this month following public outrage at the proposal.

Government measures to support households through the cost of living crisis

The UK government has put in place a number of measures to aid households, including:

- £400 off energy bills
- Payments of £650 for lower income households, plus £300 for pensioners and £150 for individuals in receipt of disability support
- A rebate of £150 on council tax (a form of UK property tax) payable on lower-value residential properties
- £0.5 per litre cut to fuel duty in order to reduce the costs of fuel to households and businesses
- Increase to the minimum threshold earnings at which National Insurance contributions (a social security charge payable by employers and workers) begin to be chargeable.

Employers’ response to inflation

In general, salaries have been increasing, but not at a sufficient rate to match inflation, and, similarly to France, individual purchasing power is suffering from this disparity. One study by Britain’s Trade Unions Congress has warned that pay rises could be as far as 8% behind inflation by late 2022.

Employees are demanding higher salaries in order to bridge the gap. Notably, England has experienced a number of workers’ strikes calling for pay rises, including rail strikes and planned postal workers’ and nurses’ strikes. Strikes of this kind are an unusual occurrence in the UK; unlike in France, few employers have unions, collective bargaining agreements, or other formal mechanisms in place facilitating group industrial action.

At most companies in the UK, salary negotiations are carried out at an individual level between the employee and their employer, often at recruitment stage, or later on under threat of resignation by the employee. The UK hospitality and truck driver sectors in particular have been forced to raise wages in response to the exodus of their workforces after Brexit and during the pandemic. In such an uncompetitive market, job applicants have a stronger bargaining position and are not willing to work for a salary which can no longer provide them with reasonable living conditions.

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The UK government support for households to ease the cost of living crisis in 2022/23 will be worth around £14 billion, with most of this going to lower-income households.

No legislation directly related to salaries or other forms of employment compensation are anticipated from the UK government at this stage, although this is subject to change under the new Prime Minister.

