

# Economics Workshops

Group 3, Sub-group 3

With inflation and rising prices in recent years, do you feel that our purchasing power has changed a lot? Why?

# Inflation

Inflation has two parts – product inflation and wage (salary) inflation.

Each one can drive the other to create an inflationary spiral.

Inflation can be intranational – fiscal policy creates too much demand for short-term limited supply. Solution, Monetary or Fiscal Policy

Inflation can be external (imported inflation) that then evolves into internal inflation – 1973 Oil Crisis, 2022 Russian invasion of Ukraine

Inflation can be inflated by speculation (US reduction of sweet-corn exports)

# 1) Inflation in France since 2017

*(annual CPI, approximate INSEE values)*

| Year | Inflation                |
|------|--------------------------|
| 2017 | ~1.0%                    |
| 2018 | ~1.8%                    |
| 2019 | ~1.1%                    |
| 2020 | ~0.5% (Covid year)       |
| 2021 | ~1.6%                    |
| 2022 | ~5.2%                    |
| 2023 | ~4.9%                    |
| 2024 | ~2.1–2.5% (disinflation) |
| 2025 | ~≈2% (normalization)     |



## Average salary growth (private sector)

| Period    | Nominal wage growth |
|-----------|---------------------|
| 2017-2019 | +2.0% / year        |
| 2020      | almost flat         |
| 2021      | +2.3%               |
| 2022      | +3.8%               |
| 2023      | +4.3%               |
| 2024      | +3-4%               |

Key mechanisms specific to France:

- automatic minimum wage indexation (**SMIC increases when inflation rises**)
- frequent SMIC revaluations in 2022-2023 (7 increases in ~2 years)

# Purchasing Power = Wage Growth minus Inflation

## Evolution of French household purchasing power

| Period    | What actually happened     |
|-----------|----------------------------|
| 2017-2019 | clear improvement          |
| 2020      | protected (Covid policies) |
| 2021      | stable                     |
| 2022      | sharp drop                 |
| 2023      | slight drop / stagnation   |
| 2024      | recovery                   |
| 2025      | modest growth again        |

# Purchasing Power

**Why the feeling of decline persists (very important)**

Here is the subtle but crucial mechanism:

Inflation works like a **step change**.

Example:

- before: €100 groceries
- after inflation: €120 groceries

Even when inflation goes back to 2%,  
you still pay €120 — not €100.

So in 2024-2025:

- purchasing power statistically improves again

# Sectorial Differences

Civil Servants – an easy target for the government

# Civil Servants

## 1) What is the “indice” (point d’indice) ?

Civil servants are not paid by negotiated salary like private employees.

Their gross pay is:

**Salary = indice majoré × valeur du point d’indice**

The *valeur du point d’indice* is set directly by the government.

If the government freezes it → **all base salaries stop increasing**, regardless of inflation.

This is therefore equivalent to freezing wages nationwide for teachers, nurses, police officers, administrative staff, etc.

## 4) Concrete effect on purchasing power

Economists (INSEE, Cour des comptes, IRES) converge on roughly:

Between 2010 and 2023, real wages of civil servants fell about **-10% to -20%** depending on category.

I personally lost 16% of purchasing power (Ministry of Agriculture) and it has remained that way

# The Double Whammy

## 6) The pension effect (often overlooked)

This is extremely important.

French civil service pensions are calculated from **last 6 months salary (base index)**.

Because the index stagnated:

The purchasing power loss is permanent — it also lowers future pensions.

So the freeze didn't just reduce current income.

It also reduced lifetime income.

The economic effect on France. There are about 5.7 million civil servants in France : Education, Health, Administration, Local authorities, Defence, Security etc. Therefore there is a negative multiplier effect.

# Members of Parliament vs Civil Servants

## 1) What MPs are (and are not)

French MPs (both the Assemblée nationale (France) and the Sénat (France)) have a constitutional status:

They hold a *mandat électif national*.

So they:

- are not state employees
- are not in the civil service pay grid
- have no *indice majoré*
- are not affected by the public-sector wage freeze

Therefore when the government froze the **point d'indice**, it mechanically froze teachers' and nurses' base pay — but it had **zero automatic effect on MPs' remuneration**.