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PRESS RELEASE

How do firms adjust their wage bill in Belgium?
A decomposition along the intensive and extensive margins.
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This working paper "How do firms adjust their wage bill is the result of a research project conducted within the Wage Dynamics Network, a research network coordinated by the European Central Bank.

The paper assesses the relative contribution of wage and employment changes to wage bill adjustment in Belgium. The analysis is backed up by information on wages per type of worker (by occupation, age and whether they are job stayers or newly-hired workers), and on entries and exits. It also considers the evolution of hours worked per employee and hours worked by interim workers.

The analysis relies on an administrative dataset covering around one-third of individual annual earnings in the private sector merged with firms' annual accounts and social balance sheets over the period 1997-2001, for the manufacturing, construction and commercial services sectors.

The results show that, on average, wage changes and net employment flows contribute to wage bill fluctuations in the same proportion. However, a comparison of favourable and adverse economic situations highlights a strongly asymmetric pattern. If wage bills contract, wage growth remains positive on average, so that job cuts make up the bulk of the reduction in the wage bill.

The analysis is carried out for firms from different size classes and sectors, as well as for cases of falling sales. The results suggest that smaller firms and the construction and services sectors experience larger fluctuations in wage bill growth and employment than do larger firms and the manufacturing sector. The drop in wage bill growth is larger in cases of wage bill contraction than in cases of falling sales.

In cases of wage bill contraction, the growth rate of the average wage level in the firm is moderated but remains positive. There is, on average, no wage cut for workers employed by the company for several years. Furthermore, there is no evidence that firms reduce the pay rate of entrants relative to incumbents in adverse times.

Therefore, employment contractions are the main source of wage bill reductions. The research findings show that reductions in the labour force are achieved both through reduced entries and, to a slightly lesser extent, through increased exits. There is evidence that early retirement is more common in unfavourable economic circumstances, especially in the manufacturing sector. Results also point to a slight fall in fixed-term contract hires, particularly in large firms and in the manufacturing industry.

Lastly, in addition to a reduction in the number of employees, there is evidence that the number of hours worked falls in adverse times too. The paper reports evidence of a reduction in hours worked and number of days worked (possibly due to a reduction in overtime hours and more use of temporary unemployment), as well as a cut in hours worked by interim workers, particularly in cases of falling sales.