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PRESS RELEASE

Results of the Bank's survey of wage-setting in Belgian firms

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In the autumn of 2007 the Bank conducted a one-off survey on wage-setting, polling over 1,400 Belgian firms in manufacturing industry, the energy sector, the construction sector, trade, business services and financial institutions employing at least five workers. The sectors covered by the survey together represent 55 p.c. of dependent employment. The survey is the Belgian component of an initiative launched by the "Wage Dynamics Network" (WDN), the research network set up by the European System of Central Banks (ESCB) to examine wage dynamics in general and the existence of wage rigidity in particular. A similar survey was conducted by 17 national central banks and the overall results at European level will be published towards the end of 2008. This article examines the main results of the Belgian survey.

The survey focuses mainly on the wage-setting process, the existence of downward rigidity and the reasons for it, the reaction to three types of shocks, plus the frequency and timing of wage and price adjustments and the connection between the two.

The institutional pattern of wage-setting typical of many European countries, in which wage negotiations are conducted successively at several levels in the hierarchy, is reflected in the Belgian survey. Almost all the respondent firms refer to at least one competent joint committee at sectoral level, and just over a quarter apply a collective wage agreement at firm level. Such agreements are more common in large firms, and in the energy sector, manufacturing industry and financial institutions. Regarding the indexation mechanism, the survey results show that just over half of the firms apply a mechanism with a threshold index, whereas just under half operate in an environment where indexation takes place at fixed intervals. The latter system is more common in large firms.

In the respondent firms, the level of wages paid to newly recruited workers depends mainly on what is specified in collective agreements and on the level of wages paid to comparable workers in the firm. Nevertheless, the wages which the firm actually pays to its staff may differ from the pay scales specified by the joint committees in the sectoral agreements. In the majority of the firms polled, the actual wages paid to unskilled blue-collar workers correspond to the pay scales fixed by the joint committees. In contrast, for white-collar workers, and for highly-skilled staff even more so than for clerical workers, actual wages exceed the sectoral pay scales in the majority of the firms surveyed. Such a wage cushion, which forms a buffer between actual wages and collectively agreed lower limits, is more common in large firms.

Only a small number of firms have frozen or reduced basic wages in the recent past for some of their staff. The main reason for making little or no reduction in basic wages, even if labour costs need to be reduced, is related to theories about the personal commitment of individual workers (more particularly the labour market theories relating to "efficiency wages", "fairness" and "turnover") and institutional obstacles. Overall, firms seldom react to adverse shocks by cutting basic wages or using alternative ways of reducing labour costs per employee. Certainly in large firms, costs are reduced mainly via the employment channel, primarily by reducing the number of permanent staff, and to a somewhat lesser extent by cutting down on the number of temporary workers. Reductions in non-wage costs are also important, while in a few cases the variable pay components are reduced. The strategy of reducing working time is hardly ever used except in small firms, which have a much narrower margin for resorting to the employment channel.

In regard to the frequency of price adjustments, only a quarter of firms state that they adjust their prices more than once a year. Prices are adjusted least frequently in business services and the energy sector (i.e. electricity and gas production and distribution). Time-dependent price adjustments in which the time of the adjustment does not depend on economic conditions occur in 22 p.c. of firms, and are noticeably common in the business services sector. Combined with a low frequency of price adjustments, that points to price rigidity

in this sector. Most firms adjust their wages no more than once a year. The frequency of adjustments on account of inflation is highest, while those due to seniority and reasons unconnected with inflation or seniority are the least frequent. Numerous adjustments are found in the financial sector, followed by construction and the energy sector. These are precisely the sectors with the highest frequency of indexation. Time-dependent wage adjustments in a specific month occur in 61 p.c. of firms, and - like price adjustments - wage changes are concentrated in the month of January. There is another peak in July and, for wages in particular, there is some concentration at the beginning of the second and fourth quarters.

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