2009-02-19

PRESS RELEASE

Understanding sectoral differences in downward real wage rigidity: workforce composition, institutions, technology and competition

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NBB Working Paper No 156 - Research Series

This working paper is the result of research conducted within the Wage Dynamics Network, a research network coordinated by the European Central Bank.

This paper investigates differences in wage rigidity across workers and across sectors, based on a large administrative employer-employee dataset for Belgium for the period 1990-2002. We consider firms with five employees or more in the manufacturing, business services and construction sectors.

Given that Belgium has very low downward nominal wage rigidity, consistent with its system of full automatic indexation, we focus on real rigidity. Downward real wage rigidity is defined as the fraction of workers who would receive a real wage freeze if they were due for a real wage cut.

Our results point to substantial differences across categories of workers. Downward real wage rigidity is higher for white-collar workers, younger workers and workers with lower earnings and bonus payments. These findings may be explained by a higher risk of job shirking and larger hiring costs for white-collar workers, and also by the existence of automatic age-related wage increases for most white-collar workers in Belgium. Younger workers may have a higher propensity to leave if wages are cut, but also receive lower bonuses and premia.

There are also substantial differences in downward real wage rigidity across sectors. We find that downward real wage rigidity is higher in sectors with (i) a larger proportion of white-collar workers, (ii) larger firms, (iii) more labour-intensive production technology, (iv) stronger competition on the product market, and (v) more centralised wage bargaining. To put this last finding into perspective, it should be noted that sector-level collective wage agreements are very widespread and their coverage is very high in Belgium. In this context, firm-level bargaining, which tends to take closer account of firm-specific economic conditions, may ease wage moderation in adverse times.

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