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PRESS RELEASE

Rigid labour compensation and flexible employment?
Firm-level evidence with regard to productivity for Belgium

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The paper entitled "Rigid labour compensation and flexible employment? Firm-level evidence with regard to productivity for Belgium" (C. Fuss and L. Wintr) assesses and compares the elasticity of the average wage bill per worker and employment elasticity to Total Factor Productivity (TFP), while distinguishing changes in firm-specific TFP from those common to the sector as a whole. The analysis is based on the annual accounts and social balance sheets of firms with more than 50 workers, for the period 1997-2005.

The findings suggest that

(i) the elasticity of the real wage bill per worker to firm-specific TFP is close to zero, while the elasticity of employment is high. Such findings are consistent with the predictions of models with real wage rigidity. They are also in keeping with a highly competitive labour market, where firms are reluctant to cut wages in isolation for fear of seeing their workers leave for other companies that pay better wages;

(ii) although the elasticity of average labour compensation per worker to firm-specific TFP is close to zero, the elasticity to aggregate TFP for all firms in the sector is high. The results suggest that adjustments to movements in sectoral productivity are made through sectoral collective bargaining agreements. This points up the role played by coordination of wage changes in solving the problems connected with competition on the labour market mentioned above;

(iii) incidentally, the estimates reveal that the adjustments in employment mainly take the form of changes in workforce numbers rather than changes in the number of hours worked by employees, and that there is a positive reaction by hours worked to TFP, unlike the predictions made from models with price rigidity.