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PRESS RELEASE

Findings from the European survey on wage-setting

(Article for the December 2016 Economic Review)

The harmonised survey of European firms' wage- and price-setting practices conducted within the framework of the Wage Dynamics Network constitutes a very wide-ranging database that can shed some light on companies' perception of the labour market, and on their reactions to the crisis over the period 2010-2013.

Generally speaking, the findings drawn from analysis of the survey replies corroborate the characteristics of the labour market flagged up by the macroeconomic indicators, while shedding fresh light on companies' own perceptions. Of course, the 25 countries of the European Union covered by the survey did not all go through the period of economic turmoil in the same way, which is why they are grouped together for analytical purposes according to their performance in terms of economic growth and trend in unemployment.

There are various channels available for companies to adjust. When they resort to the wage cost channel, notably when confronted with demand shocks or problems gaining access to finance, it is more often than not the number of permanent employees, rather than the wages, that are adjusted. In this respect, labour market institutions play a significant role, by largely determining the options open. For instance, in Belgium, the policy of wage moderation has forced companies to look for other margins for adjustment, something which has not been so evident in other countries.

Just as the features of the labour market differ from one country to another, the measures put in place or reforms implemented over the period surveyed have been quite varied. However, the scale of these reforms seems to be affected by a threshold effect: in the event of a major shock, the most striking examples of which being situations where IMF or EU assistance programmes have been needed, countries have had to implement wide-reaching reforms, while in most other cases, governments have adopted more gradual measures. All the same, firms are still pointing up some rigidity.

Among the barriers to hiring that continue to give cause for concern among firms, those generally pointed up are the uncertainty clouding the economic situation, as well as high taxation, and in Belgium high wage levels, too. Strategies aiming to reduce the uncertainty should therefore be encouraged, along with measures seeking to ease the burden on labour. In Belgium, the measures taken by the federal government as part of the tax shift should help to meet some of these concerns. Furthermore, extra investment in training should make it possible to tackle the issues firms have flagged up regarding the supply of skilled manpower.