Findings from the European survey on wage-setting [(*)]

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Introduction

The harmonised survey of European firms' wage-setting practices was conducted in twenty-five countries of the European Union in 2014 and in 2015. Focusing in particular on the period 2010-2013, it featured questions on firms' perception of the nature of the changes in the economic environment after the sovereign debt crisis, on their reactions to these changes and on the role of financial constraints. This update of the two previous surveys, carried out respectively in 2007 and in 2009, was largely inspired by the need to gain a better understanding of the nature of the shocks that have hit companies and how they have reacted to them in a context marked by reforms affecting the functioning of the labour market in many countries.

The survey [(1)] as well as initial analyses of the findings have been compiled and coordinated under the auspices of the Wage Dynamics Network (WDN), a European System of Central Banks (ESCB) research network that studies the characteristics of wage dynamics. The country-by-country results have been analysed in detail in a series of national reports published on the ECB's website in 2015 and in 2016 [(2)]. In Belgium's case, the findings were also covered in an article which appeared in the December 2015 edition of the Bank's Economic Review [(3)]. The Bank has also published detailed results per branch of activity for Belgium on its website [(4)]. This article draws on one of the survey's plus points, namely the harmonisation of the questionnaire compiled jointly through consultations between the 25 participant countries, thus adding to previous analyses with a comparative study of the data gathered in the different countries. For this reason, it is largely based on a preliminary version of the research network report compiled by seven of its members (Mario Izquierdo, Juan F. Jimeno, Theodora Kosma, Ana Lamo, Stephen Millard, Tairi Rõõm and Eliana Viviano) and entitled "Labour market adjustment in Europe during crisis : Microeconomic evidence from the Wage Dynamics Network Survey". This report will be published shortly as an ECB Occasional Paper.

The article only covers part of the aspects addressed by the survey. The wealth of information gathered calls for more specific research projects, some of which are underway in different national central banks. They will be covered by separate publications, for example in the Bank's or the ECB's Working Paper series. Another of the article's objectives is to encourage further studies outside the network : arrangements are in fact being made for interested research workers to have access to the database during the course of 2017.

In this article, as in the network report mentioned above, the results given are weighted by employment [(5)], to make them representative of the entire company population. Moreover, even though certain countries, including Belgium, have also collected information for very small businesses, the analysis here focuses on firms employing five or more workers.

The article contains four parts. After a short recapitulation on the economic context and a description of the

(*) The article is largely based on a preliminary version of the report from the WDN research network compiled by seven of its members, Mario Izquierdo, Juan F. Jimeno, Theodora Kosma, Ana Lamo, Stephen Millard, Tairi Rõõm and Eliana Viviano, and entitled "Labour market adjustment in Europe during the crisis : Microeconomic evidence from the Wage Dynamics Network Survey". This report will shortly be available in the form of an ECB Occasional Paper.

(1) The questionnaire for Belgium can be consulted on the Bank's website (www.nbb.be/en/wage-dynamics-network-wdn-3).

(2) See http://www.ecb.europa.eu/pub/economic-research/research-networks/html/researcher_wdn.en.html.

(3) See Cornille (2015).

(4) See www.nbb.be/fr/wage-dynamics-network-wdn-3.

(5) See Druant *et al.* (2008).

selections made to facilitate the analysis (for example as regards country groupings), it describes how companies have perceived changes in the economic environment. It then goes on to study the adjustment channels open to firms, before broaching public authorities' reactions and the challenges in the field of economic policy.

1. A mixed economic context in the European Union

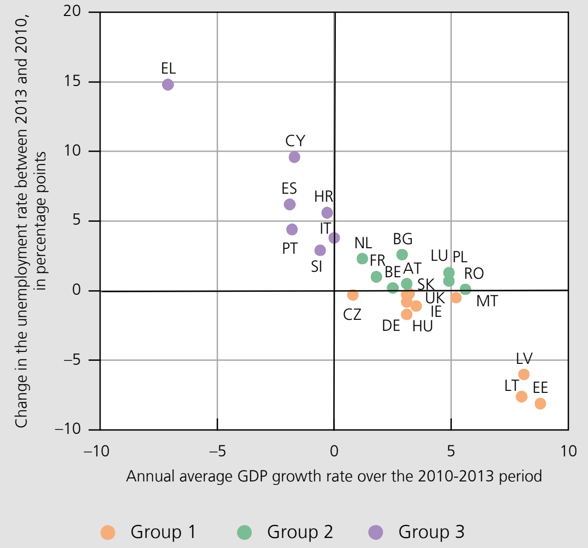
The survey covers the years 2010 to 2013, which, in the majority of European nations, were marked by changes in the economic environment following the sovereign debt crisis. However, they were not all affected in the same way nor with the same intensity; and episodes of strong economic tensions did not always coincide. One of the difficulties encountered when the survey was being compiled was choosing a common reference period for all countries, even though it was decided not to establish any explicit link in the questionnaire between the period selected and the term "crisis".

Several macroeconomic indicators reflect these mixed reactions of the European economies, and on the labour market in particular. The period is thus marked not just by a rise in the unemployment rate, but also by a widening of the differentials between the various countries' unemployment rates. Increasing labour market participation rates can also be observed, including in countries where the unemployment rate is on the rise, something which is quite atypical in crisis times, as well as a decline in hours worked per person, always with major divergences between countries. As far as Belgium is concerned, a relatively weak rise in the unemployment rate, a virtually unchanged labour market participation rate and a slight upturn in hours worked per person can be noted.

In analysing the 25 countries taking part in the survey from the perspective of the link between unemployment and GDP growth, a relationship also known as Okun's law, it also appears that the 2010-2013 period was marked by a certain degree of heterogeneity. After the great recession, most countries returned to positive growth, but two groups among them can be distinguished, depending on whether unemployment fell back there or not. This way of classifying countries, according to changes in their unemployment and their GDP rates between 2010 and 2013, has been chosen by the network to facilitate presentation and analysis of the survey results. This analytical grouping enables three groups to be defined:

– Group 1: countries that saw their unemployment rate go down and their GDP increase (Germany, Estonia, Hungary, Ireland, Latvia, Lithuania, Malta, Czech Republic, United Kingdom and Slovakia)
– Group 2: countries whose unemployment rate has gone up while GDP was rising (Austria, Belgium, Bulgaria, France, Luxembourg, the Netherlands, Poland and Romania)
– Group 3: countries hit by a rise in unemployment and a fall in GDP (Cyprus, Croatia, Spain, Greece, Italy, Portugal and Slovenia).

CHART 1 ANALYTICAL GROUPING OF COUNTRIES COVERED BY THE SURVEY
(in %)



Sources: EC; M. Izquierdo, J. F. Jimeno, T. Kosma, A. Lamo, S. Millard, T. Rõõm and E. Viviano (2017, to be published).

The picture in Belgium is one of relative stability. For instance, although the unemployment rate did not drop back, the crisis did not have a very great impact on employment, with the exception of the manufacturing sector. Nor has Belgium featured any radical labour market reforms, although various measures have been taken, for example in the area of wage moderation or job protection in the form of mechanisms intended to boost flexibility (temporary lay-offs). Nevertheless, as in the other countries, firms have been affected to varying degrees.

2. Firms' perception of the changing economic environment

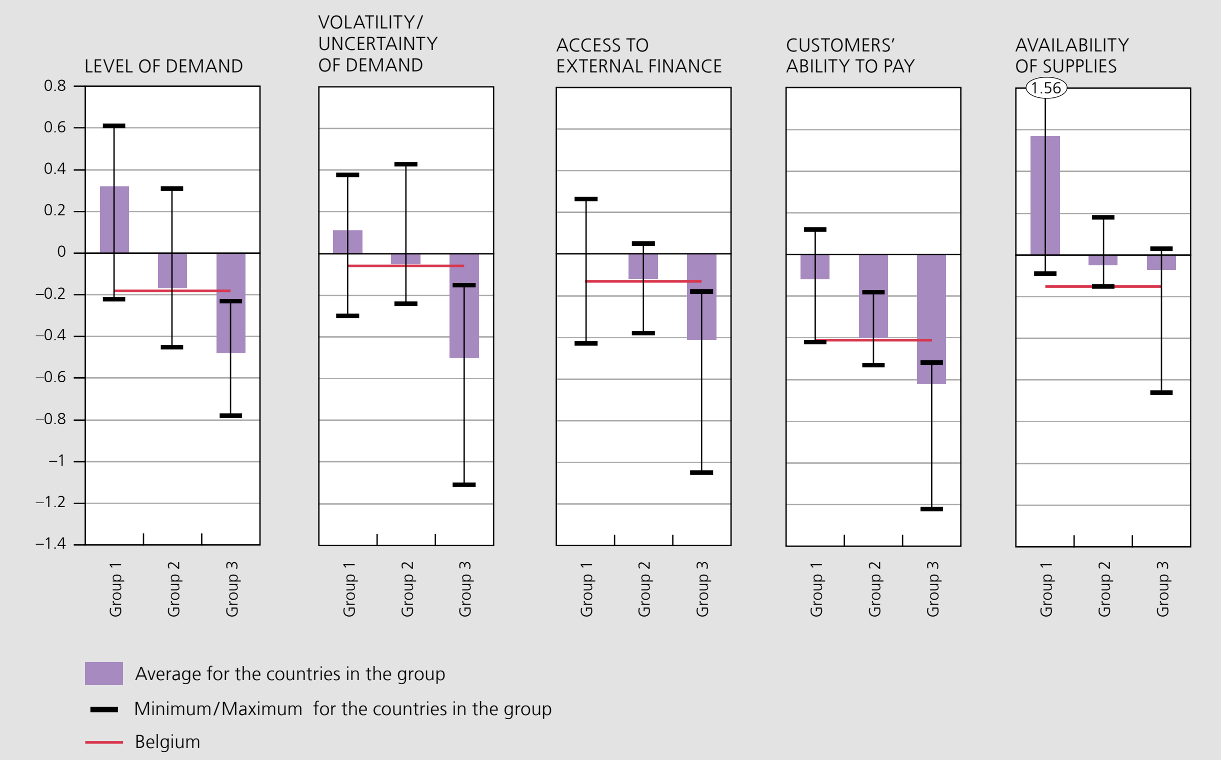
The survey contains a wealth of information about firms' perception of the changes in their economic environment over the 2010-2013 period. For instance, it covers the impact on firms' activity of not only demand for their products, but also of uncertainty about fluctuations in this demand. The role of access to external financing can also be studied quite carefully, by means of details by type of objective (new investment, working capital, refinancing) and constraints (rationing or excessively onerous conditions). The survey also makes it possible to assess such things as the extent to which firms have been affected by customers' ability to pay and the availability of goods and services procured from their suppliers.

Chart 2 sums up the way in which firms have perceived the impact of the economic situation on their own activity, for a selection of five factors (namely, level of demand, volatility of demand, access to external financing, customers' ability to pay and availability of supplies). For this purpose, values have been attributed to firms' replies to the questions: –2 for "strong decrease" (in activity), –1 for "moderate decrease", 0 for "unchanged", 1 for "moderate increase" and 2 for "strong increase". A weighted average of these indicators has then been calculated per country and for the three groups of countries previously described. The chart also includes the results for countries positioned at the extremes (minimum and maximum) for each group, as well as those for Belgium. As a reminder, negative values indicate that the impact of the factor on firms' activity has been negative on average.

It is interesting to note that, for each of the five factors studied, the three analytical groups as defined above obtain an identical ranking. It appears that, on average, the companies in group 1 (countries characterised by a rise in GDP and a drop in unemployment over the period 2010-2013) suffered almost no impact on their activity from changes in economic environment, except – and only marginally – in the case of customers' ability to pay. The findings from group 2 (countries where both GDP and unemployment have risen) are less favourable, suggesting that firms have seen their activity affected by each of the selected factors, albeit to a lesser extent than those from group 3 (countries that have registered a fall in GDP and a rise in unemployment), which posted the worst results. The analysis by M. Izquierdo, J.F. Jimeno, T. Kosma, A. Lamo, S. Millard, T. Rõõm and

CHART 2 ECONOMIC SITUATION AND ITS EFFECTS ON FIRMS' ACTIVITY OVER THE PERIOD 2010 2013

(Firms' replies standardised to 0, positive (negative) values indicate positive (negative) effects, averages per group of countries)



Sources: WDN, M. Izquierdo, J.F. Jimeno, T. Kosma, A. Lamo, S. Millard, T. Rõõm and E. Viviano (2017, to be published).
Weighted and re-scaled results disregarding missing answers.

E. Viviano (2017, to be published) confirms through robust econometric methods that there is in fact a strong correlation between the way in which shocks are felt by firms and changes in GDP or unemployment.

Calculation of the averages masks different situations from one country to another, and even more so within countries themselves. As regards divergences between countries, even between those in group 1, it can be seen that some countries have suffered negative repercussions from the shocks more than others, even though, on average, the group as a whole has not. The opposite applies to group 2, where several countries post positive results while, on average, the group is in negative territory. By contrast, the impact is negative for all the countries in group 3. Belgium is almost always at the average for group 2, which it belongs to alongside France and the Netherlands. However, these two countries' scores in nearly all cases are more negative than those for Belgium, not least as regards the effect of the level of demand and, for the Netherlands, regarding access to financing too. On the other hand, the results for Germany, a heavyweight in group 1, are always above the group average.

The WDN survey also enables an assessment of the impact of shocks according to firms' individual characteristics, such as their size, their sector of activity, whether they are subsidiaries or stand-alone companies, foreign or domestic, whether they are active or not on international markets, etc. Although a systematic analysis of these characteristics is outside the scope of this article, a few salient features are nevertheless worth mentioning. It actually turns out that, whatever group they belong to, small firms are more sensitive to shocks, in particular concerning demand and access to financing. As far as branch of activity is concerned, services firms generally tend to be the most sensitive to negative shocks, although that seems to be less the case in Belgium, where industry is hit harder, especially by demand-related shocks. These aspects are examined in more detail in M. Izquierdo, J.F. Jimeno, T. Kosma, A. Lamo, S. Millard, T. Rõõm and E. Viviano (2017, to be published).

3. Firms are using varied adjustment channels

The survey helps identify the channels that companies are using to meet the challenges facing them. As far as production costs are concerned, the survey shows that a majority of firms have been subject to rising costs, and in particular wage costs (a trend apparent in all countries apart from Greece and Cyprus). Now, wage costs can in theory be adjusted by adapting either the volume of labour, i.e. employment, or the cost of labour, i.e. wages. From a macroeconomic point of view, one observation is that the dynamics of hours worked have actually been very diverse from one country to another, while those for nominal hourly wages have been a lot less varied. Thanks to the survey, it can be checked whether that is linked to the shocks firms have suffered and, to some extent, the specific role of labour market institutions can also be singled out.

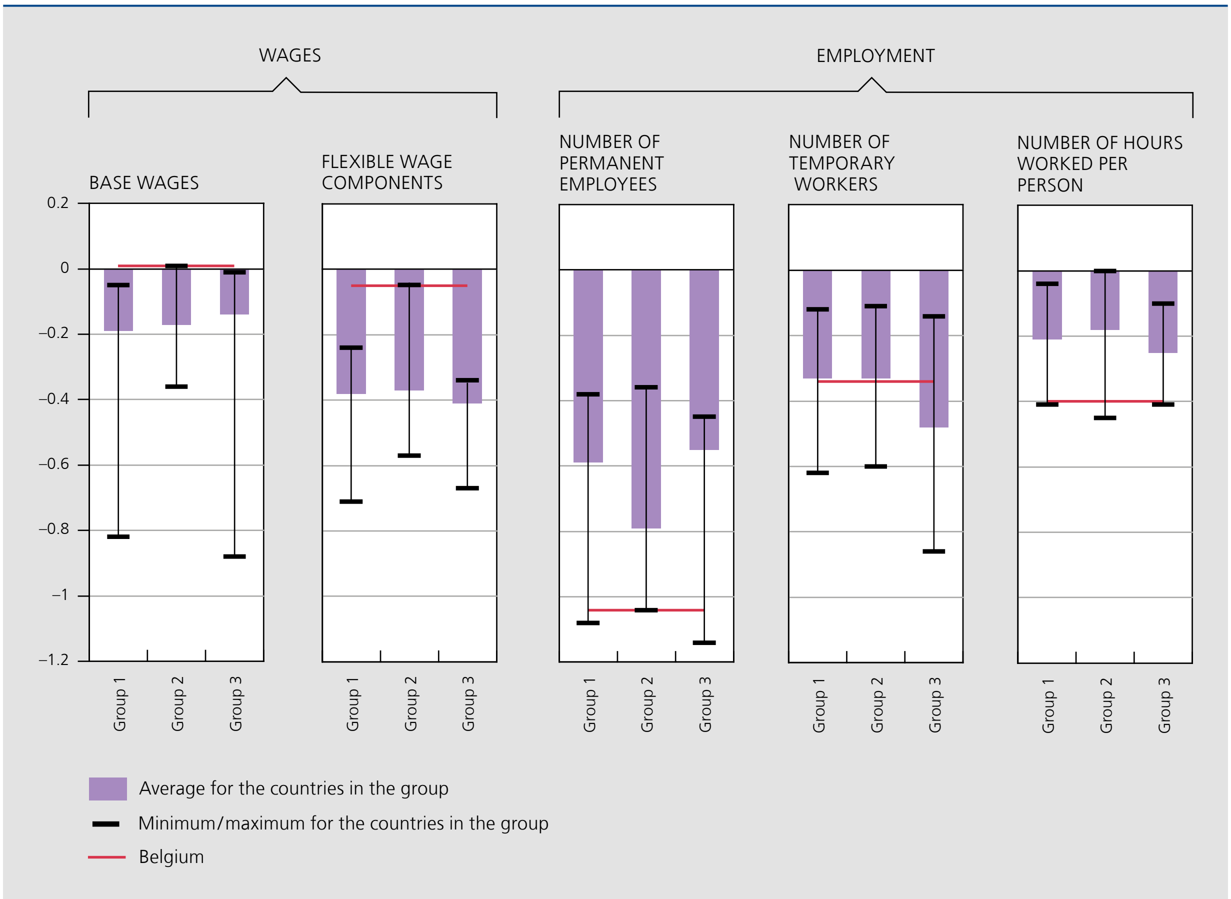
If the appraisal is limited to just demand shocks and comparing the reactions of firms that mentioned such a negative shock with those of firms which said it had a neutral or positive effect, it appears that companies which have suffered a shock of this kind have tended more to adjust the various determinants of wage costs downwards. The difference is the most evident for the volume of labour used as an input, and particularly for the number of permanent employees. The effect is not quite so pronounced for the number of temporary workers, and it is even less so when it comes to hours worked per person. On average, the variable component of wages has also played an adjustment role, while that has been much less the case for base wages. However, the survey does not enable us to measure the exact magnitude of these adjustments, as it is not, for example, possible to determine *a priori* whether a sharp reduction in the variable wage components has a bigger or smaller impact on costs than a small decline in base wages.

There does not seem to have been any profound impact per group of countries, except as regards adjustment of the number of permanent employees, which seems more evident for countries in group 2 (countries registering a rise in both GDP and unemployment), a characteristic that can be compared with more frequent recourse to a freeze or slowdown in new hirings by firms in this group (see below).

A close analysis of these results using multivariate econometric methods corroborates these conclusions, while highlighting other significant effects. By following this approach (controlling for sectoral and firm-size effects), M. Izquierdo, J.F. Jimeno, T. Kosma, A. Lamo, S. Millard, T. Rõõm and E. Viviano (2017, to be published) show that demand shocks are effectively correlated to larger adjustments in wage costs. These findings indicate that, apart from adapting permanent employment more frequently, countries in group 2 are also distinctive in terms of a smaller revision of hours worked. Furthermore, these countries, and even more so those from group 3, are less likely to change base wages than those in group 1 in the event of a demand

CHART 3 EFFECT OF A DEMAND SHOCK ON WAGE COST ADJUSTMENT

(Negative (positive) values indicate that firms suffering a demand shock adjusted the factor downwards (upwards), averages par group of countries)



Source: WDN.
Weighted and re-scaled results disregarding missing answers.
Difference between firms saying they had suffered a negative effect and those mentioning a positive or neutral effect.

shock (a similar but insignificant result is obtained for the flexible part of wages). Finally, this analysis confirms the important role of shocks involving access to external financing, even though the effect of this type of shock on the probability of limiting the different wage costs components is a lot smaller than in the case of demand shocks and there does not seem to be any specific and significant effect per group of countries.

The impact of a demand shock on the adjustment of wage costs is quite noteworthy in Belgium. Even more so than for group 2, to which Belgium belongs, firms' reactions focus on permanent job numbers (the most clear-cut result for this group), hours worked and temporary workers. On the other hand, pay reviews, whether for base or variable wages, are the most limited among all the countries that took part in the survey. This suggests that national features of labour market institutions play a key role in firms' reactions. This is notably the case for wage formation in the private sector in Belgium, which is largely based on pay scales and collectively bargained job classifications, as well as on a wage norm (indicative or maximum) set at national level and supplemented by automatic wage indexation. This framework effectively makes wage cuts very exceptional (see below) and forces firms to turn to other strategies if they need to adjust their labour force.

Labour force adjustments

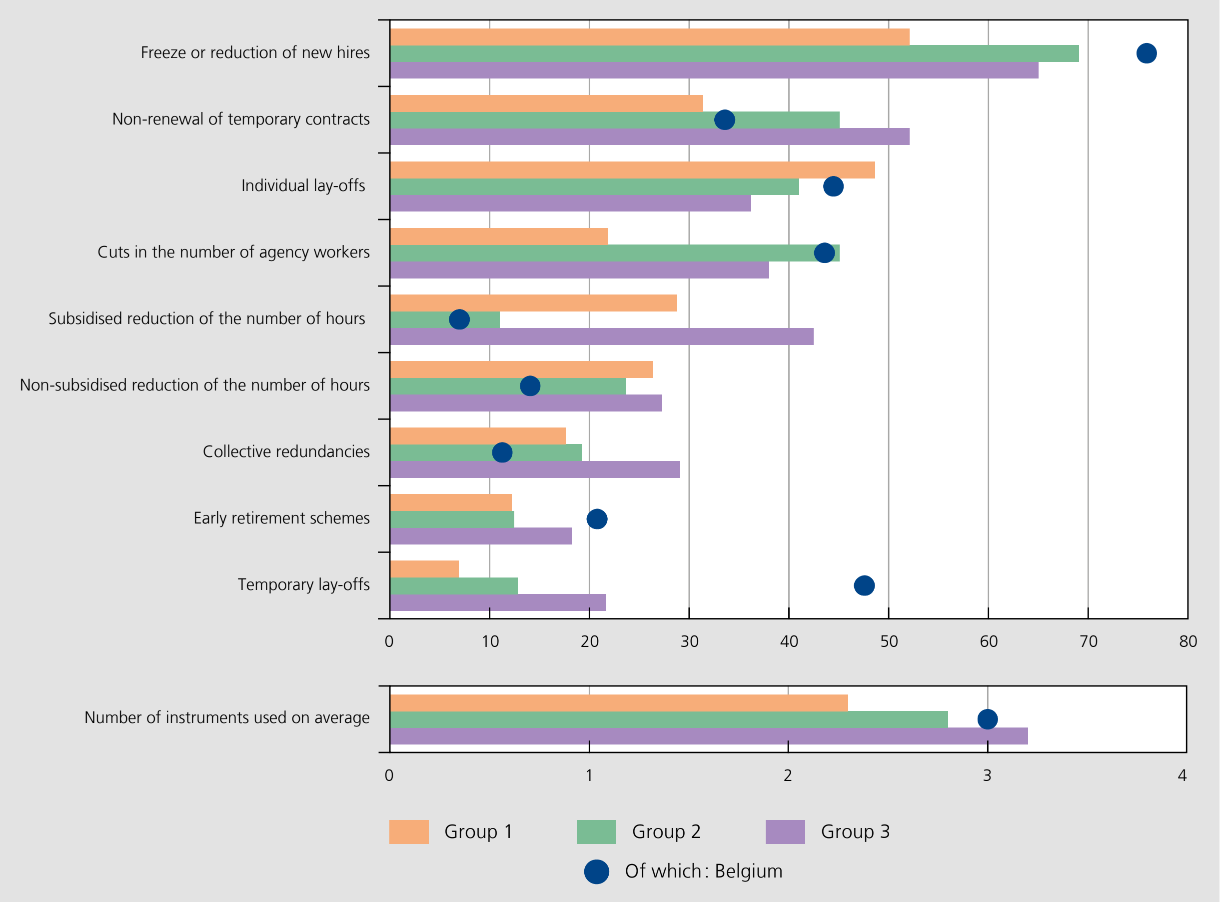
The survey points up these strategies through a specific question about measures companies have resorted to for reducing their workforces or changing their composition. This question was only intended for those firms that had actually had to cut back their staff numbers over the period 2010-2013, that is 22 % of the respondents in group 1, 33 % in group 2 (39 % in Belgium) and 44 % in group 3.

More often than not, firms combine several strategies for adjusting employment. The number of instruments used (among those listed in the survey) is higher than two in all countries; in Belgium, it is among the highest with more than three instruments brought into play (see chart 4). Of course, the type of instrument that can be used is closely associated with the national labour market institutions, which explains the relative heterogeneity of the replies, although some broad lines do emerge for the different groups.

The most frequently used instrument is a freeze or reduction of new hires. This applies to Belgium as to all three groups of countries, although it was less the case in group 1 (featuring a rise in GDP and a drop in unemployment). The non-renewal of temporary contracts, just as the reduction in the number of agency workers, have been popular options, and even more so the more the macroeconomic environment was unfavourable. Individual lay-offs have been found more often in countries from group 1, but this is no doubt largely offset in the other countries by wider recourse to collective lay-offs, which have been more common in group 3. There is a more contrasting situation for reductions (subsidised or not) in working hours: Belgium is way behind the average for the other groups, just as that for the group 2 it is part of. It is worth noting that temporary lay-offs, which are very common in Belgium, are not covered by this category for instance and that subsidised reduction of working hours is not an option open to all countries. This instrument was mainly used in Germany and Italy (respectively 36 and 66 %).

Early retirement schemes have generally tended to be used less, except in Belgium, where this instrument remained quite popular. Moreover, the situation is similar with recourse to temporary lay-offs, an option which clearly emerges as the instrument that on average is the least frequently used, regardless of the country group,

CHART 4 EMPLOYMENT ADJUSTMENT CHANNELS IN FIRMS DECLARING A SIGNIFICANT CUT IN THEIR WORKFORCE OR A CHANGE IN ITS COMPOSITION
PROPORTION OF FIRMS HAVING USED EACH INSTRUMENT
(percentages, unless otherwise mentioned)



Source: WDN.

while in Belgium it is precisely one of the most widely used schemes.

Overall, companies seem to have been more inclined to squeeze their extensive margin than their intensive margin, preferring to reduce or keep under control the number of workers rather than the quantity of hours they work. This choice is nevertheless largely influenced by the specific features of national labour market legislation.

Wage adjustments

Another channel that firms can use for adjusting to shocks is that of wages. On the basis of information gathered by means of the survey, two dimensions can be addressed: the frequency of wage changes and the proportion of wages frozen or cut.

As far as the frequency of base wage changes is concerned, although it is found to be lower than the results from the first WDN survey conducted in 2007, it is hard to draw any firm conclusions. These findings have further shown that institutional factors are the main determinants of these changes and that there are still some marked differences from one country to another. A lower level of inflation may also have played a role. However, base wages are adjusted less often when firms are confronted with a restricted access to finance or a demand shock and they are reluctant to cut back nominal wages (M. Izquierdo, J.F. Jimeno, T. Kosma, A. Lamo, S. Millard, T. Rõõm and E. Viviano, 2017, to be published). Moreover, a low wage change frequency may also be a sign that companies wanting to cut them are obliged to stick to the status quo, which indicates the presence of downward wage rigidity.

Companies surveyed also replied to questions seeking to assess the extent of wage cuts and possible wage freezes, as had been the case in previous waves of the survey. Although the length of the reference periods is not directly comparable between the different surveys, the proportion of firms saying they had cut wages at least once has gone up (see table 1). Some degree of heterogeneity can be observed between the three analytical groups. Not only does group 3 (countries featuring a drop in GDP and a rise in unemployment) have the highest proportion of all firms surveyed, but this remains the case if the analysis focuses in more detail on firms that have been affected the most by shocks (they mention that they have had to cut wages more frequently). Group 1 has a similar profile, but with a smaller proportion. By contrast, countries from group 2 are well below those in the other two groups. Belgium is one of the countries where wage cuts have been implemented the least often.

The wage freeze indicators give similar information and flag up the prevalence of downward wage rigidities, which is also confirmed by other measures (see M. Izquierdo, J.F. Jimeno, T. Kosma, A. Lamo, S. Millard, T. Rõõm and E. Viviano, 2017, to be published). This downward nominal wage rigidity may be a factor preventing firms from making an optimal adjustment and forcing them to adapt employment more, as the above-mentioned analysis suggests. One important explanatory factor, particularly pertinent for Belgium, is the role played by labour regulations and collective wage-bargaining agreements, which limit recourse to this option. Firms nonetheless generally tend to avoid cutting wages, fearing that this would sink morale or efforts among staff, just as it would trigger a risk of seeing the most productive workers leave the company. So they only tend to use this channel as a last resort, or in extreme situations.

TABLE 1 SHARE OF FIRMS THAT HAVE CUT WAGES AT LEAST ONCE IN THE PERIOD
(in %)

	Period	Group 1	Group 2	Belgium	Group 3	Total
Share of firms that have cut wages at least once	2002-2007	–	–	3,1	–	2,3
	2008-2009	–	–	1,0	–	3,1
	2010-2013	4,8	2,3	1,5	7,9	4,6 (1)
Share of firms reporting being hit by a fall in demand and which have cut wages	2010-2013	5,7	3,1	0,9	10,2	6,0
Share of firms reporting being hit by a fall in demand and credit restrictions and which have cut wages	2010-2013	10,0	4,1	2,0	13,4	9,4
Share of firms reporting being hit by a sharp fall in demand and credit restrictions and which have cut wages	2010-2013	18,7	3,3	0,0	21,7	13,9

Sources: WDN, M. Izquierdo, J.F. Jimeno, T. Kosma, A. Lamo, S. Millard, T. Rõõm and E. Viviano (2017, to be published).
Weighted and re-scaled results disregarding missing answers.
(1) The total for countries that also took part in the first WDN survey conducted in 2007 is 4.1 %.

In fact, in countries which have had to endure particiularly serious economic difficulties, like Greece and Cyprus, substantial wage cuts have been observed. Respondents for Greek and Cypriot firms said respectively 55 and 38 % of them had resorted to cutting wages. The survey does not easily capture the impact of these extreme shocks ; it does nor provide sufficient granularity in terms of information about the intensity of the shocks (a major shock in a country very badly affected by the crisis cannot be directly distinguished from a major shock experienced in a country hit less heavily). It is therefore necessary to combine various replies to the question or use external indicators.

Relative importance of wage and employment adjustments

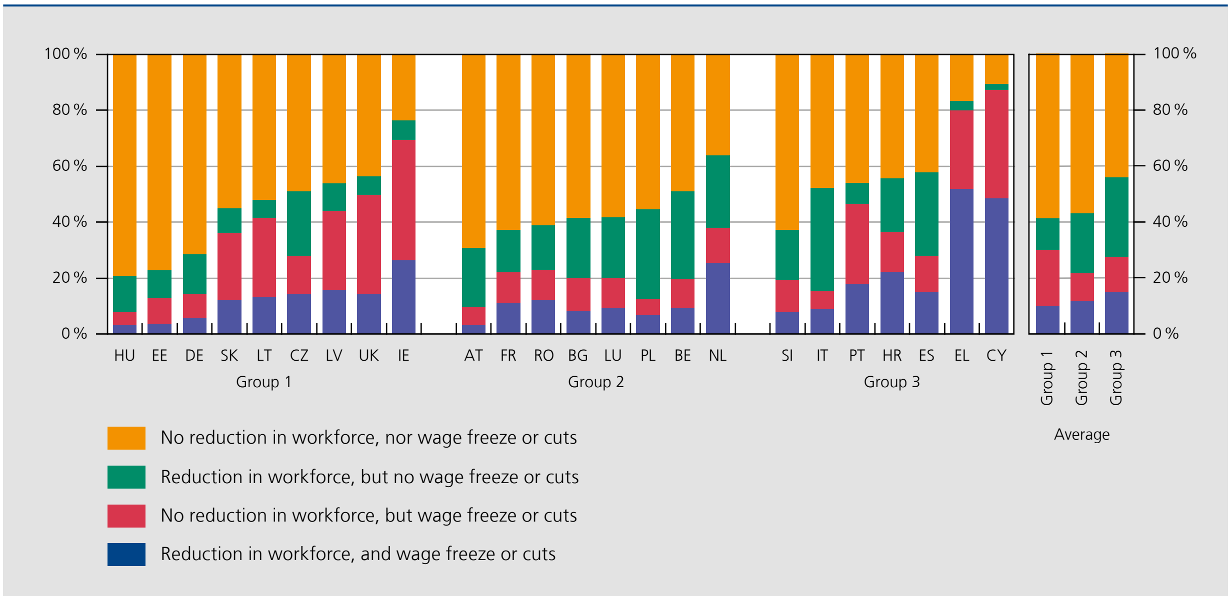
A combination of replies to the question whether firms had reduced or frozen wages as well as those asking about their need to shed staff or modify the composition of their workforce helps to identify the policy mix used the most often to bring down wage costs (see chart 5). It is clear that this mix has been very varied in Europe. However, the analytical grouping shows that adjustments were not only more frequent in countries from group 3, but also that a high proportion of companies there actually combined the two channels (wages and employment). The Greek and Cypriot cases are striking : more than 80 % of firms that had to change the composition of their workforce resorted to using both channels, usually by also cutting or freezing wages too. Within group 2, Belgium features among those countries which opted for changes the most (51 % of firms did so when a labour force adjustment had proved necessary), just behind the Netherlands (64 %) and well ahead of France (37 %). For groups 2 and 3, the most widely used option has been to reduce staff numbers, while in group 1 more firms resorted to a wage cut or freeze at least once between 2010 and 2013. This option has been implemented a lot less in Belgium than on average in the other countries.

Price adjustments

Wage costs are not the only adjustment channel that firms have as they can in principle also act on prices. The survey does provide information on this subject, but this part of the questionnaire has not been included in all countries (only the following 14 countries included these questions in their survey : Belgium, Spain, Estonia, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal and the Czech Republic). Some general findings are set out here but interested readers should refer to the various country reports that have already been released and to the research work that will be published later by the WDN network.

CHART 5 REDUCTION IN WAGE COSTS: RELATIVE SIGNIFICANCE OF WAGES AND LABOUR INPUT

(in %)



Source : WDN.
Weighted and re-scaled results disregarding missing answers.

Overall, the results available tend to confirm those gleaned from previous waves of the survey. They indicate that, in most countries, firms adapt their prices once a year. A minority of firms declared that they had to change the frequency of their price adjustments over the period 2010-2013. The proportion of these companies is highest in group 3, and it is also higher for firms mentioning that they had been hit by a negative demand shock. More often than not, the change was upwards, in other words the frequency with which they adjusted prices speeded up. The explanatory factors are mainly related to increased competition and also to more volatile demand.

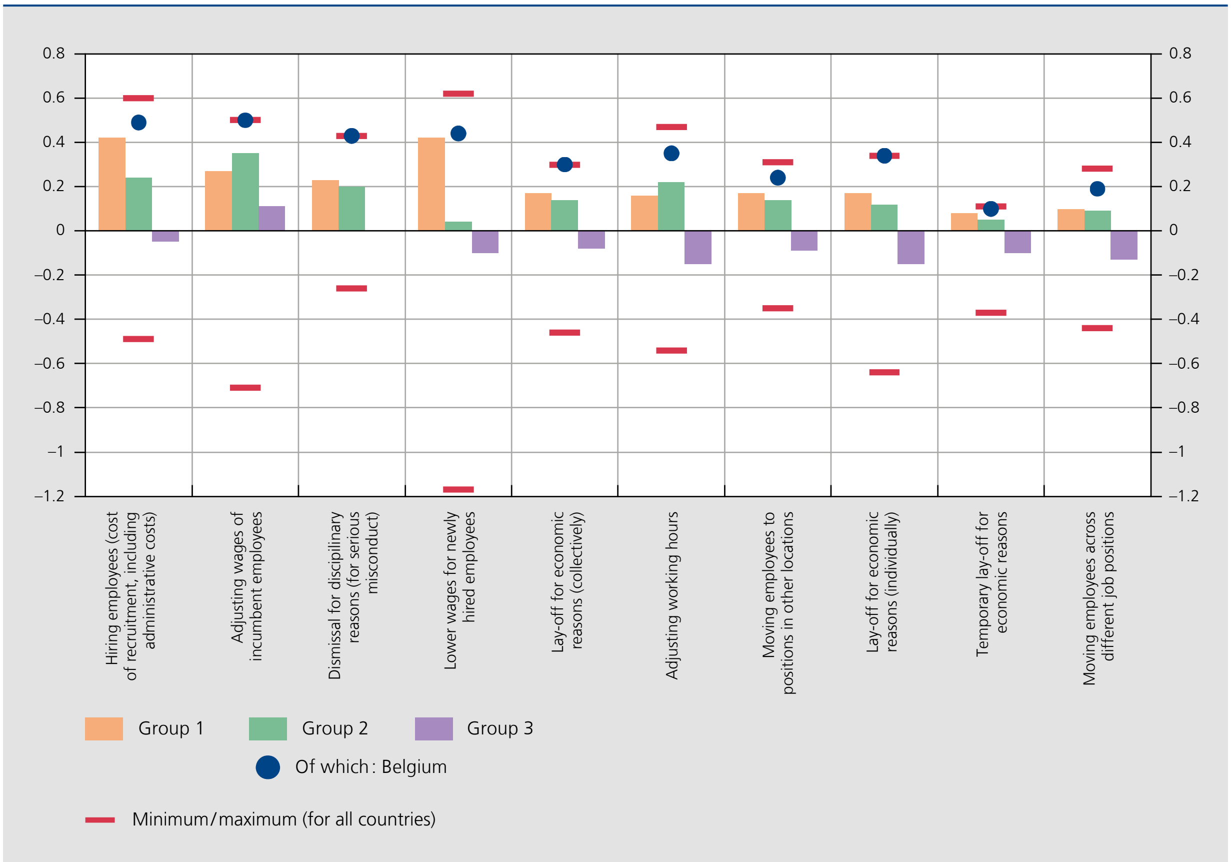
4. Reforms

Alongside the strategies that firms have put in place to deal with the crisis, the public authorities have reacted too, by taking measures ranging from slight adaptations to labour market institutions to more fundamental reforms. One section of the survey examines the way in which firms have perceived these reforms. The questions sought to assess to what extent they have helped them to better face up to the difficulties and also to identify aspects where there is still room for improvement.

Although this article does not seek to describe in any detail the measures or reforms that have been taken in the different countries, some broad lines can be set out. During the initial phase of the crisis, between 2007 and 2010, they mainly sought to preserve employment and limit the negative consequences for the most vulnerable. As the crisis got worse, wider-ranging reforms were adopted with a view to boosting labour market efficiency and competitiveness. The scale of the measures has often been proportional to under-performance of the labour market (see M. Izquierdo, J.F. Jimeno, T. Kosma, A. Lamo, S. Millard, T. Rõõm and E. Viviano, 2017, to be published). In countries from group 1, marked by a falling unemployment rate, these

CHART 6 HAVE SPECIFIC HR POLICIES BECOME MORE OR LESS DIFFICULT TO IMPLEMENT THAN IN 2010 ?

(Firms' replies standardised to 0, positive (negative) values indicate that firms reckon it has become harder (easier) to follow the policy in question, averages per group of countries)



Source : WDN.
Weighted and re-scaled results disregarding missing answers.

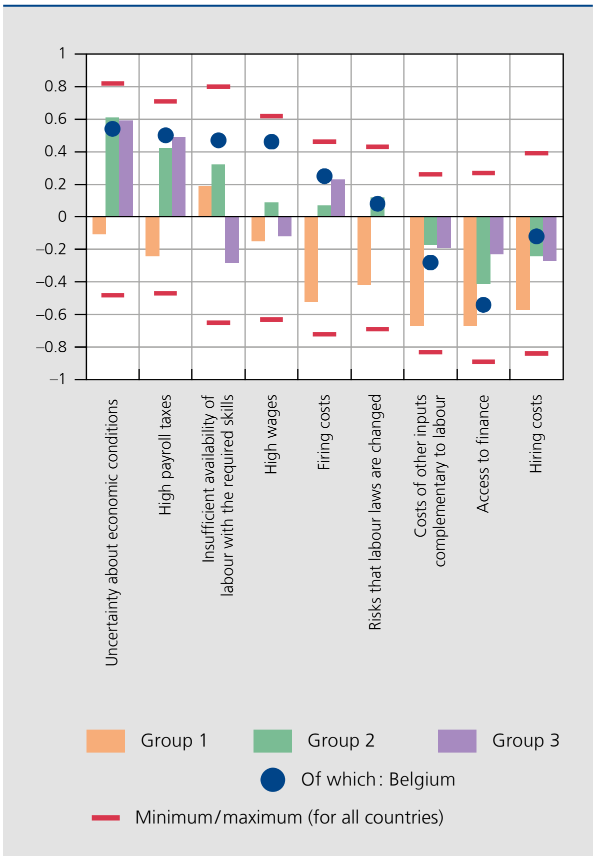
measures have for instance taken the form of training schemes for the unemployed and workers on short-term contracts, so as to boost their employability (Germany). Measures designed to reduce working hours have been taken in several countries from group 2, as in Belgium. Reforms of a more structural nature have also been put in place in these countries, such as increasingly degressive unemployment benefits and a scaling down of options for early retirement with supplementary pension payments from companies in Belgium. However, the most radical measures have been introduced in countries from group 3, in particular those from southern Europe, where they were largely framed by IMF and EU assistance programmes.

The companies surveyed were given a selection of ten human resources policy options and asked to say whether certain actions had become more or less difficult to apply than in 2010. Chart 6 sets out the results for the three country groupings as well as for Belgium, a positive figure indicating that firms reckon that it had become harder to follow this policy. It is striking to note that group 3 countries, which are also the ones to have introduced substantial reforms the most often, give replies confirming that they have indeed facilitated human resources management. In the case of the other groups of countries, the tendency is leaning more in the opposite direction, but the variety of the results is once again a striking element. Belgium is rather atypical. Firms there feel that the various aspects of human resources management mentioned have become more complicated to put in place, and in proportions that are among the least favourable. For four of the ten options (adjusting wages of incumbent employees, dismissing an employee for serious misconduct, laying off employees for economic reasons and collective lay-offs), Belgium is even at the far end of the range of answers. However, there is at first sight no direct explanatory factor, whether from the institutional or labour market reforms that were undertaken in Belgium at the time. One of the reasons put forward, which is also discussed in Cornille (2015), is that the wage moderation policy left little room for flexibility at firm level, notably in terms of wage differentiation. This goes some way towards explaining why adjusting wages of incumbent employees was the measure that most firms considered as being harder to apply than before. Other factors may be related to the reform of early retirement regimes or the harmonisation of the status of manual worker and employee which, although implemented in 2014, seems to have been perceived by firms as having an indirect influence on their flexibility.

Apart from the appraisal of the reforms over the period 2010-2013, firms were also consulted on what, in their view, were the principal obstacles to hiring workers that would remain pertinent for the future (see chart 7). In group 1 countries, where growth and unemployment developments are favorable, companies seem mainly concerned about the availability of suitably skilled labour. On the other hand, they do not seem to worry about other potential obstacles. Firms in group 2, and those in Belgium in particular, also see the non-availability of a suitably trained labour force as a relevant obstacle. By contrast, those in group 3 do not mention this criterion. However, these two groups share the most relevant obstacles: namely, uncertainty about the economic situation and high payroll taxes. In Belgium's case, the high level of wages comes on top of these two factors, while it is judged to be less pertinent by other countries. Belgium is in fact at the top of the ranking for these two aspects – level of wages and taxes. The cost of laying off staff is qualified as relevant in Belgium, as well as in countries from group 3, even though firms from this group of countries acknowledge that it has recently become easier to lay

CHART 7 OBSTACLES TO HIRING WORKERS WITH AN OPEN-ENDED CONTRACT IN THE PERIOD 2010-2013

(Firms' replies standardised to 0, positive (negative) values indicate that firms reckon the factor is relevant (of little relevance or not relevant))



Source: WDN.
Weighted and re-scaled results disregarding missing answers.

off staff. This suggests that, despite all the reforms that have been implemented, there is still a certain degree of rigidity. Other costs and access to financing are generally judged to be of little relevance on average, even though a sizeable share of firms surveyed continue to point to these factors as being a relevant or very relevant obstacle, especially in countries from groups 2 and 3 (respectively around 30 and 40 %, compared with 16 % in group 1), while this is an aspect that may appear to be less directly linked to recruitment of staff.

Conclusion

The survey on wage-setting and price adjustments conducted under the Wage Dynamics Network constitutes a very wide-ranging database enabling more light to be shed on the way in which firms perceive the labour market and on their reactions to the economic and financial crisis over the period 2010-2013. The objective of this article, as well as the network report on which it is largely based, is to set out the main findings of the survey, while acknowledging that many aspects can be studied in more detail. For this reason, the database will be opened to interested researchers in the course of 2017.

Generally speaking, the findings drawn from analysis corroborate the characteristics of the labour market flagged up by the macroeconomic indicators, while shedding fresh light on companies' perceptions. Of course, not all countries went through the period of economic turmoil in the same way, which is why grouping them together according to their performance in terms of economic growth and trend in unemployment offers a useful template.

Various channels enable 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 labour market features 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 still give cause for concern among firms, the accent generally tends to be on the uncertainty with regard to 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 availibility of skilled manpower.

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