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PRESS RELEASE

Downward wage rigidity for different workers and firms:
an evaluation for Belgium using the IWFP procedure
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The working paper entitled "Downward wage rigidity for different workers and firms: an evaluation for Belgium using the IWFP procedure" is the result of a detailed analysis conducted within the Wage Dynamics Network, a research network coordinated by the European Central Bank.

This paper evaluates the extent of downward nominal and real wage rigidity in Belgium for different categories of workers and firms. It measures wage rigidity in a large administrative matched employer-employee dataset on individual earnings for the private sector, merged with information from employers' annual accounts.

Downward nominal and real wage rigidity are measured as the fraction of workers subject to a (nominal or real) wage freeze when they would have been due for a (nominal or real) wage cut if there were no wage rigidity, independent of the reason for this wage cut.

Our results may be summarised as follows.

- First, Belgium is characterised by strong real wage rigidity and very low nominal wage rigidity, consistent with the country's fully index-linked wage formation system.

- Second, real rigidity is stronger for white-collar workers than for blue-collar workers. Economic theory explains this by the fact that white-collar workers are more difficult to replace and harder to monitor, so that firms are more reluctant to cut their wages. In addition, automatic real wage increases are largely absent for blue-collar workers in Belgium.

- Third, real rigidity decreases with age. The theoretical argument to explain this is that older workers may accept wage concessions more easily because the cost of job loss is higher, i.e. finding an equivalent job is more difficult. Furthermore, the automatic tenure-related and age-related wage increases become less prominent with age.

- Fourth, real rigidity also diminishes with the earnings level. In addition to the positive link between earnings and age, this may result from the fact that typically as income grows, a larger fraction of earnings is attributable to more flexible components, such as bonuses and premia.

- Fifth, downward real wage rigidity is more prevalent in small firms than in large firms. The latter often apply a company-level wage agreement with more variable wage components that enhance their flexibility.

- Sixth, our results also suggest that firms with low quit rates are characterised by stronger real wage rigidity. Provided that firms with low quit rates are those with high turnover costs, they have an incentive to avoid (real) wage cuts in order to reduce (costly) job quits.

- Seventh, real wage rigidity is lower when the firm faces adverse economic conditions, consistent with the view that workers may accept wage concessions more easily as the fear of job loss increases.