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PRESS RELEASE

The incidence of nominal and real wage rigidity: An individual-based sectoral approach

by Julián Messina, Philip Du Caju, Cláudia Filipa Duarte, Niels Lynggård Hansen, Mario Izquierdo

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The authors estimate downward nominal wage rigidity (DNWR) and downward real wage rigidity (DRWR) based on individual data for thirteen sectors (both manufacturing and services) in four different countries: Belgium, Denmark, Spain and Portugal. In all four cases, the sources are administrative databases covering most sectors in the economy. The time frame of the study spans the 1990-2007 period, although the available years vary from country to country.

The sectoral approach of the paper has several advantages, which allow us to add to the existing literature in a number of ways. First, we provide a test for robustness of previous research findings. Our sectoral data easily allow us to control for country and sector unobserved heterogeneity and compositional effects. Second, we extend previous analysis on the determinants of wage rigidity. We explore the role of compositional effects, including worker characteristics such as the gender, age and skill composition, and firm characteristics, such as the size distribution of sectors, in causing downward nominal and real rigidity. Moreover, we explore the impact of three crucial elements in the determination of wage rigidity,such as the role of collective wage agreements, product market competition and flexible wage components in firms' pay policies.

Our results show that differences across countries are clearly bigger than differences across sectors when it comes to the incidence of different types of wage rigidity, suggesting a prominent role for labour market institutions in their determination. Nevertheless, there are still differences between sectors within the same country and we find some relationship between worker and firm characteristics and the extent of wage rigidity. In this context, we find that the use of firm-level collective agreements is associated with a lower degree of real wage rigidity. Bearing in mind that, in the four countries under study, the dominant level of wage negotiations is outside the firm, this finding suggests that some degree of decentralisation within centralised countries allows firms to adjust wages downwards, when business conditions take a turn for the worse.

Communication
National Bank of Belgium Ltd.
boulevard de Berlaimont 14
1000 Brussels
phone + 32 2 221 46 28
www.nbb.be
Company’s number:
0203.201.340 – RLP Brussels