

Bruegel  
“EMU and labour markets»  
11 December 2012

Session 1 – Evidence on wage adjustment  
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# Relevance of the WDN and other micro sources

- Firm level evidence on wage/price setting
- Strategies conditional on firms' characteristics, on institutional factors and on kind and size of shocks
- Cross section (many EU countries)
- Potentially important insight for policy prescriptions

# Issues to be addressed

- Were all relevant questions made?
- Do answers match all our a-priori?
- What did we learn?
- Could the data provide additional insight?
- Any policy prescription?

# Main a-priori

- a) Price - and wages - are sticky
- b) Exposed sectors have lower profit margins and adjust faster to nominal changes
- c) Smaller companies are more flexible and face less obstacles when adjusting
- d) Cost adjustment operates mostly on intensive and extensive margin of labour force
- e) Unions are “pervasive”

# Wage and price rigidities

## Confirmed

- Widespread nominal (downwards) rigidity, especially in the euro area.
- Very interesting: duration measures provided
- Explained by both contractual/institutional arrangements and efficiency wage arguments

Nominal rigidity can play a positive role, e.g. no indexation when facing costs shocks

# Small companies

- Less clear evidence
- More fragile with respect to financial constraints (expected)
- Less propensity to lay out labour (not expected)

# Cost adjustment

- Labour cost reduction prevails, especially during downturns. consequence of wage rigidity.
- Strategies can be different according to the kind of shock (demand, financial constraint, ...) and to the labour force composition (skill matters)
- What is it the interaction with the question “what does prevent you from cutting wages?”

# Union density

- Very detailed information on phenomena related to Union density
- Most policy prescriptions are currently taken on board by EU governments
- It is however a sensitive issue.
- In many cases it is not a matter of legal institutions. It is instead relevant how social parties interplay in different countries

# Questions

- What kind of insight Central Banks gained for monetary policy?
- Was this evidence useful to cross-check results achieved with macro-economic analysis? E.g. adjustment speed of wages in wage equations, deep parameters in DSGE models,...

# Areas of improvement

- Policy prescription is rather general (i.e. increase wage flexibility) and not yet deeply motivated by the findings presented.
- Is there evidence that firms that enjoy more flexibility on cutting wages are more “successful”? For instance check across the two surveys.
- Is it possible to deliver more detailed prescriptions?