



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM



Babecky et al.: Non-base wage components as a Source of Wage Adaptability: Discussion

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What is in this paper...



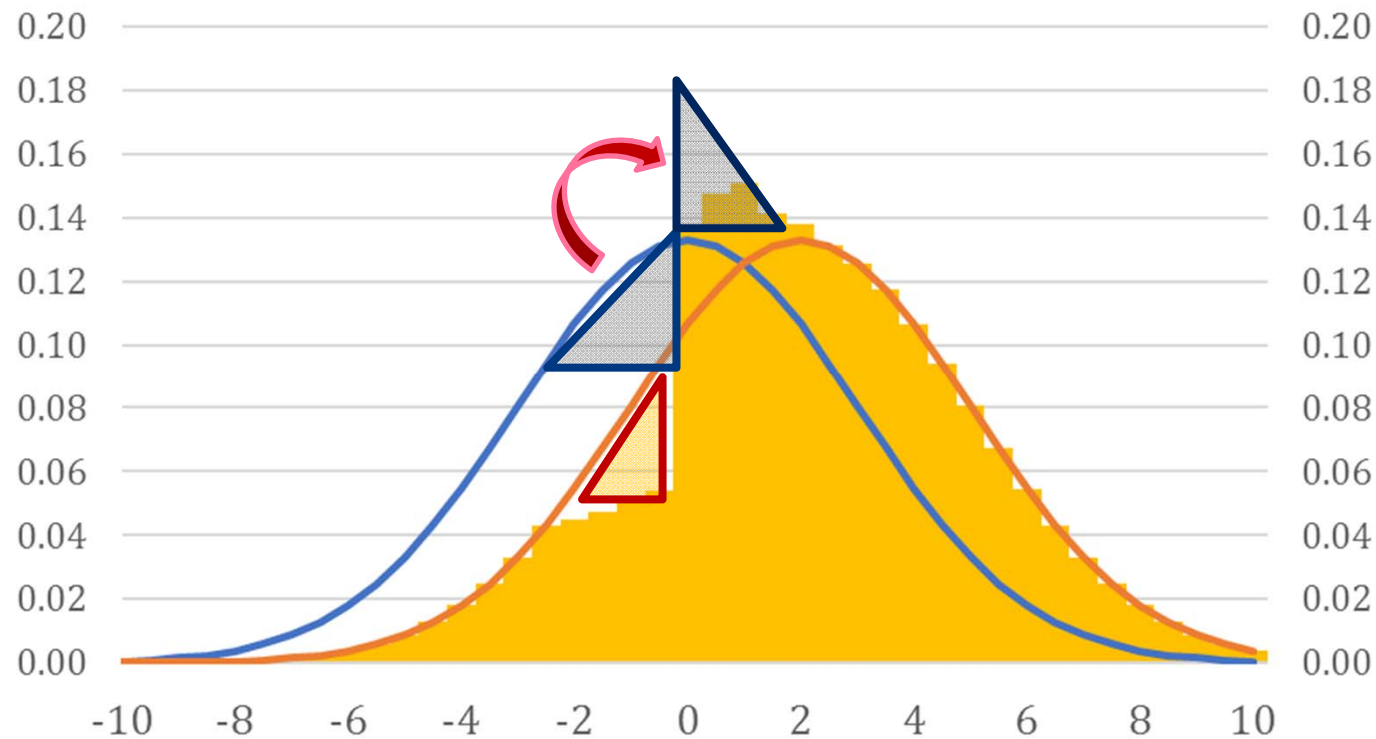
- Densed statistical summary of one segment of the Wage Dynamics Network - specifically, **wage rigidity** is at the core.
- Following Lebow et al.(1999), Bewley (1999), Dwyer and Leong (2003) and multiple others, the authors pursue a deep analysis of
 - how firms may undertake downward wage adjustment,
 - adjustments beyond DNWR,
 - drivers behind adjustments
- Very well written,
- Although missing more storytelling,
- Learned a lot, many questions pop up.

Inflation and wages



Inflation helps to buffer for real wage cuts

- Inflation is needed to adjust relative wages



Inflation and wages



But, if there is LOW or NO inflation

- other margins need to be at hand
 - cuts in bonuses, commissions..(non-base wage) **instead of base wage cuts**
 - employment hours **instead of cuts in employment**

Paper questions

1. shock absorption to avoid base wage cuts
2. pattern (heterogeneity)
3. hard tools vs. softer alternatives
4. drivers of cost cutting strategies

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Use the third wave of WDN – questions related to market adjustments

Shock absorbing



Main findings on 2013 data

- Cutting non-base wages is more likely than cutting base wages (13% vs. 5%), DNWR bites
- Anecdotal evidence that economic cycle drives the portion of non-wage benefits (7% vs. 11% pre crisis)
- But data evidence that demand shocks (and their severance) ignite labour cost cutting
- Base wage cuts never applied before non-base wages

Confirmed: shock absorbers

Heterogeneity



Non-base wage component

- variable across countries
 - euro area firms pay less than firms outside the euro area
- falling in time (2007 - 2011)
- higher in larger firms
- in firms with higher labor cost share (more tenured workers)
- if small firms do pay, then they use it substantially
- financial sector pays the most, construction pays the least
- lower bonuses if collective agreements in force

**Lots of interesting statistics, but many
„WHY“ questions arise....**

Question 1



Why so much differences across countries?

Some structural reasons?

- are bonuses or benefits taxed differently across countries ?
- a motivation game of employers in middle income countries ?
 - higher flexible component
- labour market institutions ?

Genre, Kohn and Momferatou (2009) – *„...wage heterogeneity across sectors remains. Idiosyncratic sector and country specifics, reflecting different sociocultural and institutional backgrounds, appear to bear a major role ..“*

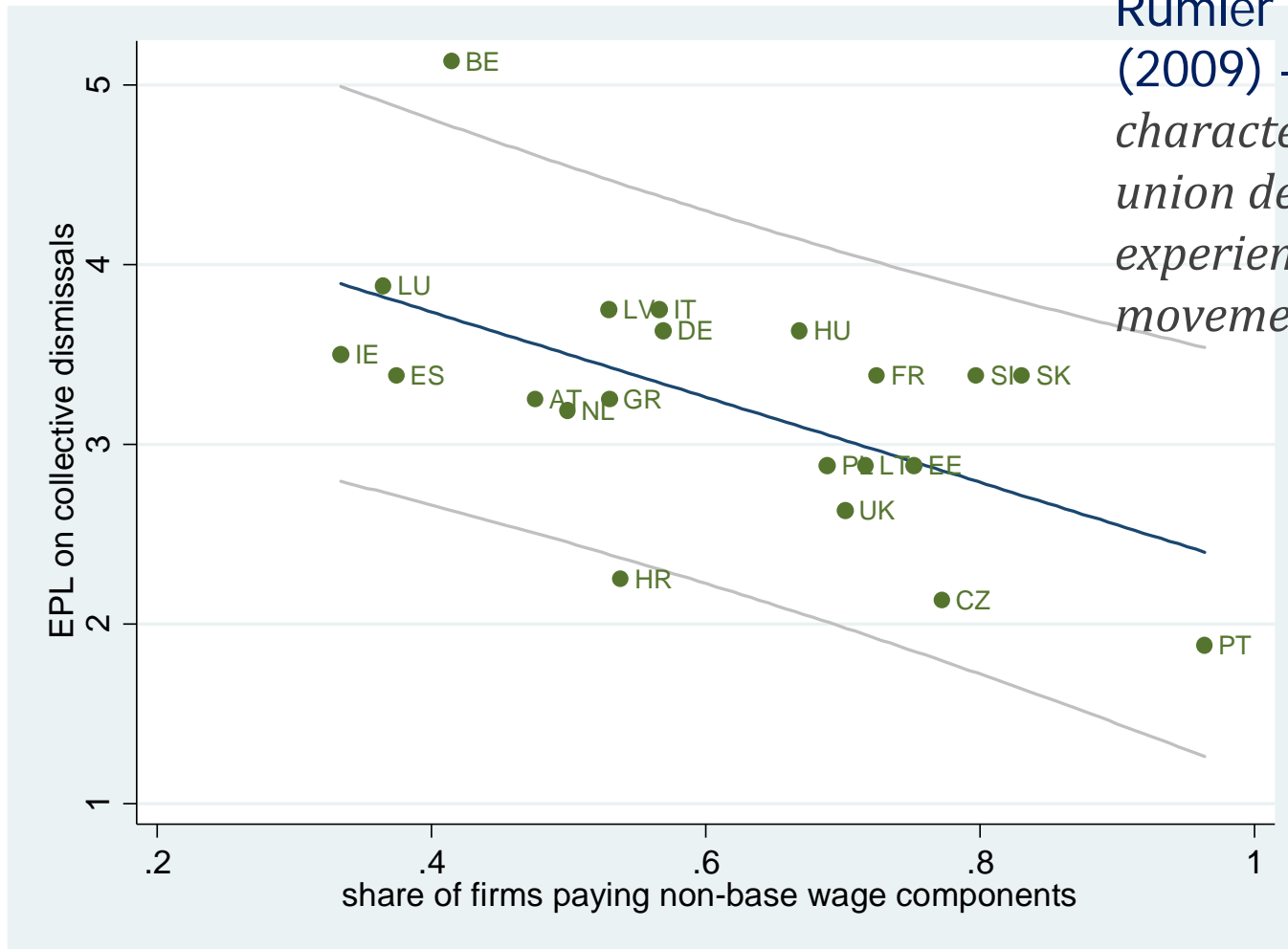
Rumler and Sharler (2009) – *„countries characterized by high union density tend to experience more volatile movements in output “*

Q1 Link to labor market stiffness



Costs of employment protection weighs on firm decisions to pay bonuses

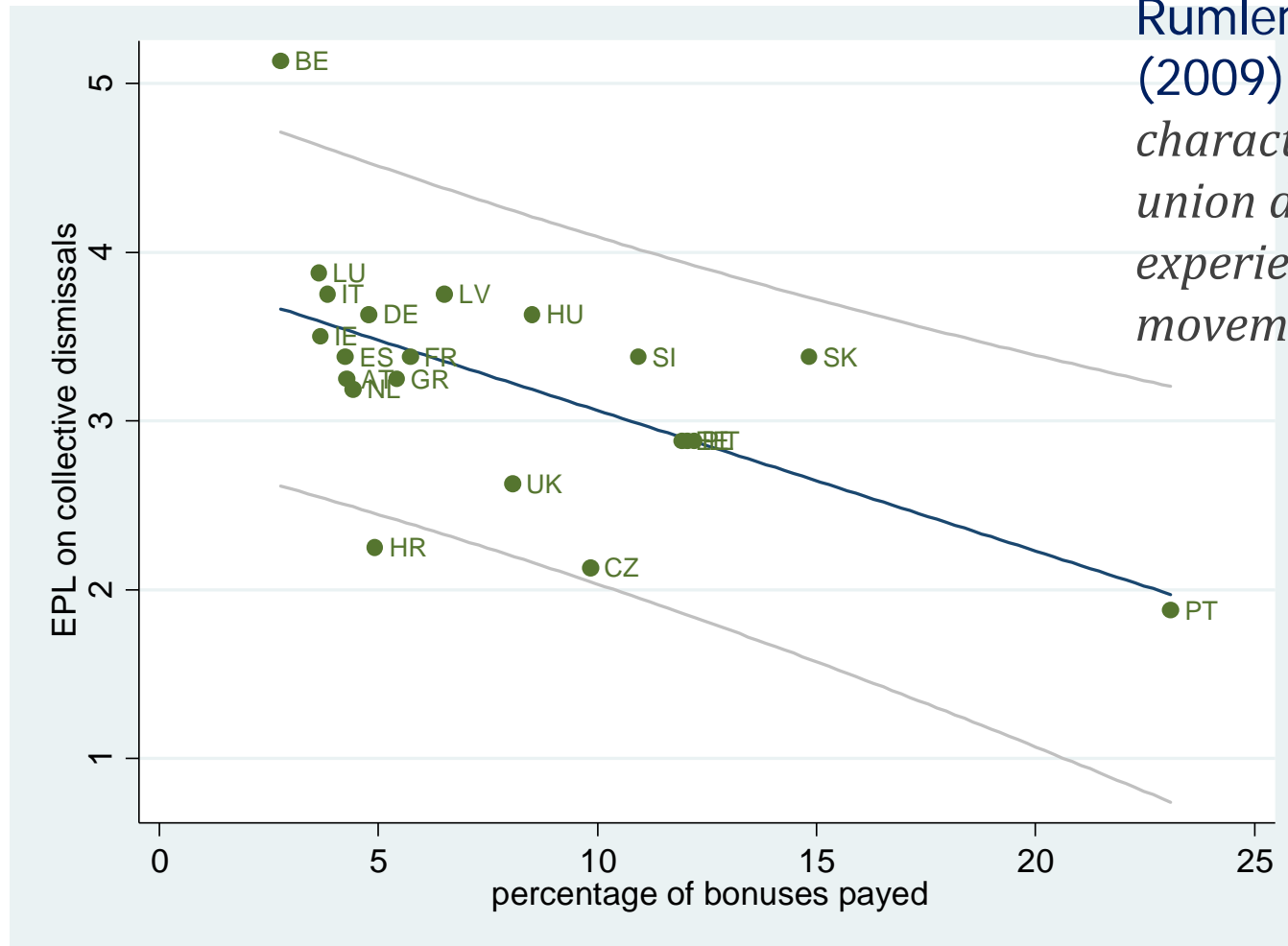
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Q1 Link to labor market stiffness



Costs of employment protection is associated with actual portion of flexible component



Rumler and Sharler (2009) – „countries characterized by high union density tend to experience more volatile movements in output “

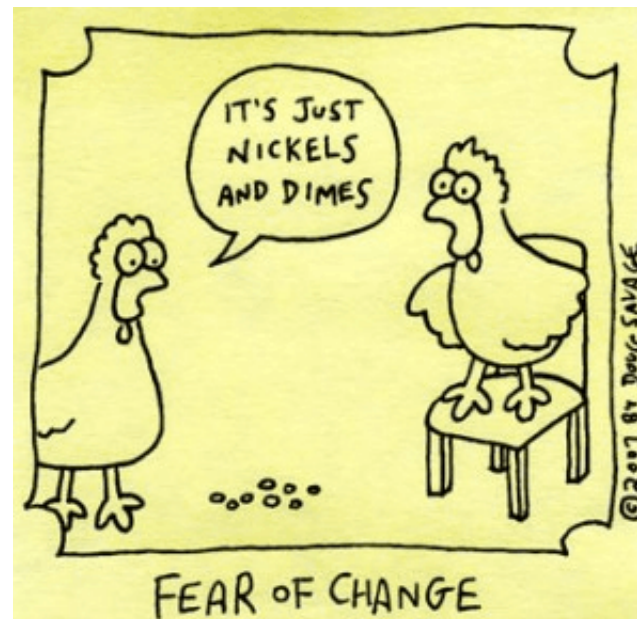
Question 2



Large share of firms report wage freezes also in countries where lower level of firms facing negative shocks.

CY, SK, LT, LV..

- Is there historical memory with negative shocks – need to be prepared ?



Some critique



- Stats to be viewed in context of the debt crisis 2010-2011
 - construction / financials
 - out of EA pay more
 - small firms vulnerable...
- What are actually the wage cuts referred to by firms ?
 - nominal cut
 - fire old, hire young
 - reshuffle job functions (project based)
- Is there a definition of (strong / persistent) demand shock ?
- Relying on marginal effect from probit – estimated at mean?

REAL LIFE

SURVEY

MODEL

Some critique



- Narrow vs. complete information
 - More emphasis on full variety of soft adjustment channels
 - less hours vs. cuts of non-base wages (Table 4 – this is the most interesting part, but underexploited)
- Evidence based shock **absorbing function, but to what extent ?**
 - 75% of those who cut non-base wages
 - 78% of those who cut base wages
 - 86% of those who cut base and non-base wages

do also cut employment !

i.e. somewhat disqualifies the function of margins..☹

IDEA

What is the optimal level of alternative margins ?

– a policy question.

Concluding remarks



- Tons of **interesting statistics** on the use of non-base wages
 - Declined in time, are heterogenous across sectors, countries and firm size,
- **Source of shock matters**
 - Demand – both components, compared to no shock
 - Non-base component respond more strongly and more frequently than base wages to negative shocks
- Very nice overview paper, which **opens many questions** on the underlying reasons of the evidence provided in here..
- ...although more **statistical** than research.