

## **Nominal wage flexibility and institutions: micro-evidence from the Europanel.**

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While the existing microeconomic studies on nominal wage flexibility, carried out initially for the US and recently for some European countries, focus on the relationship between inflation and wage flexibility, there is no attempt of systematic comparisons of nominal wage changes distributions across countries, nor any empirical evaluation of how nominal wage flexibility is affected by labor market institutions. On the other hand, the existing literature about the relationship between macroeconomic performance and collective bargaining is mainly focused on the impact of institutional variables on the rate of unemployment, failing to address the effects on individual wage changes. In this paper we try to link these two approaches, analysing the relationship between nominal wage flexibility and institutions on individual data. In the first part of our analysis we investigate wage dynamics at individual level using the 1994-2000 data from the ECHP survey. Wage rigidity at micro-level is defined, as in most of the related literature, as the existence of a clear spike at zero wage changes, together with an asymmetry of the wage changes distribution around zero. The particular feature of the ECHP has two advantages for the analysis of nominal wage rigidity at micro-level: 1) it allows to extend the empirical evidence to 15 European countries; and 2) due the homogeneity of measures of wages available, it allows inter-country comparisons. First of all, from the analysis of wage changes distributions we find evidence of nominal wage rigidity. But the percentage of employees receiving no wage changes is different across countries, with Germany and Ireland ranking at the top and the bottom respectively. At the same time, nominal wage cuts are not rare, and frequencies are different across countries. These differences seem to reflect differences in institutional settings across the European countries. Therefore, in the second part of the paper, some measures of downward wage flexibility are stacked by country into a single variable and regressed on a set of institutional variables typically used in the macroeconomic performance literature, thus trying to explain nominal wage flexibility with country-specific institutional characteristics. We find that the percentage of employees covered by trade unions collective agreements has a positive impact on wage changes, whereas centralization and coordination of bargaining have a U-shaped relationship with wage cuts. Therefore, wages are more flexible in countries where bargaining is centralized and decentralized than in countries where the level of bargaining is intermediate.

Keywords: nominal wage rigidity, centralisation, coverage, employment protection legislation.

JEL Codes: J3 and J51.