



ABSTRACT

Title: Estimating wage rigidities in European regions

Authors and e-mails:

Damiaan persyn

damiaan.persyn@ec.europa.eu

Department: DG JRC

University: European Commission

Ragnar Nymoen

ragnar.nymoen@econ.uio.no

Department: Economics

University: University of Oslo

Subject area: *(please, indicate the subject area which corresponds to the paper)*

Regional labour markets, unemployment... S10? S13?

Abstract: *(minimum 300 words)*

The degree of wage rigidity in a region or country plays a crucial role in how economics shocks affect the labour market. This is the case both in the real world, as well as in macro-economic models that are used to evaluate fiscal and monetary policy. Most empirical and theoretical models work on wage rigidities operate on the national level. However, it is clear especially in Europe that on the one hand there exist both large and persistent regional unemployment differences, which calls for analysis on the regional level; but on the other hand institutions such labour unions or legislation on wage negotiations make that variables at the national level may also have a large influence on regional wages. This paper therefore estimates wage rigidities at the regional level, but controls for relevant determinants at the national level. We are not the first to consider such a mix of regional and national variables in regional wage regressions, (see for example Jimeno and Bentolila 1998). To the best of our knowledge we are the first to do this systematically on the level of the EU.

As a second contribution to this literature, we argue that there exists an aggregation bias when estimating wage rigidities on the national level. Our results show that estimating wage curves on national data leads to higher parameter estimates (a steeper wage curve).



We provide results to show that 1/ only when regional unemployment rates are equal, the country-level wage curve coincides with the underlying regional wage curves. 2/ the national wage curve is steeper compared to the regional wage curve is the variation in unemployment stems from the region with relatively low unemployment. 3/ the national wage curve is flatter when the variation stems from the region with relatively high unemployment region.

Keywords: *regional labour markets; wage rigidities; unemployment; nawru*

JEL codes: E24; J30; J50; E64