Research Working Papers

Effective Downward Nominal Wage Rigidities

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Cross-country evidence suggests that wage rigidity leads to employment contractions and lower output during recessions.

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Downward nominal wage rigidity limits the downward adjustment of nominal wages, especially during recessions. Although macroeconomic models generally suggest that nominal wage rigidity exacerbates employment losses and generates asymmetric business cycles when inflation is low, direct empirical evidence for this effect is scarce. This paper estimates effective downward nominal wage rigidities that account for different inflation environments across 53 countries and finds that downward wage rigidities are driven by minimum wage policies and widespread, though higher in emerging markets. Further empirical results suggest that countries with higher effective downward nominal wage rigidities are subject to more sizable contractions in employment and real GDP per capita during recessions.

JEL classifications: F41, E23, E24, E32, J31, J50

Article Citations

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Related Research

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