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 suggest that downward wage rigidity exacerbates employment losses and generates asymmetric business cycles when inflation is low, 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 associated with minimum wage policies. Further, countries with higher effective downward nominal wage rigidities are more exposed to U.S. monetary spillovers and subject to more sizable contractions in employment and real GDP per capita during recessions.

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Article Citations

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Related Research

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