

**Nominal and Real Wage Rigidity:  
An Assessment Using Italian Microdata**

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This paper uses administrative longitudinal micro-data from the Social Security Institute (INPS) to estimate the extent of nominal and real wage rigidity in Italy. Using a switching regime model of individual wage changes, which accounts for both the determinants of notional wage changes and measurement errors in individual wages, the paper sheds light on the relative importance of the two sources of rigidity. Overall, estimates show that wages in Italy are inflexible, but this is mainly due to real wage rigidity rather than downward nominal wage rigidity. Between 50 and 80% of all notional wage changes that lie below a sort of inflation-related or union-set threshold are forced to align to this level. On the other hand, only about 10% of the negative notional wage changes are transformed into wage freezes by the operation of the downward nominal wage rigidity constraint, which existing literature has mainly focused on. The implications of the estimated nominal wage rigidity for the real side of the economy are also explored.

Keywords: Nominal wage rigidity, real rigidity, switching regression, measurement error.