

# IAB-DiskAB

Invitation

## Wage Rigidity and Employment Outcomes: Evidence from German Administrative Data

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This paper examines the relationship between downward nominal wage rigidity (DNWR) and establishment level employment adjustment using linked employer-employee, establishment-level, administrative data from Germany. Establishment-level estimates suggest that DNWR prevents approximately 24 percent of counterfactual wage cuts, on average, that would otherwise occur. The paper models an establishment's optimal employment and wage policies in the presence of DNWR, which implies that establishments with more downwardly rigid wages should exhibit higher layoff rates and lower quit and hire rates. Consistent with these predictions, empirical estimates show that an establishment with the sample average of DNWR (approximately 24 percent) is associated with a 0.8 percentage point increase in the layoff rate, a 1.8 percentage point reduction in the quit rate, and a 1.4 (0.08 s.d.) percentage point decrease in the hire rate compared to an establishment with no measured DNWR. Furthermore, wage rigidity interacts with movements in establishment revenue in economically meaningful ways, amplifying the relationship between DNWR and establishment-level layoff, quit, and hire rates. Model calibration implies that cutting nominal wages imposes a per-employee cost of 1.8 percent of the average wage, suggesting that even relatively small costs of cutting nominal wages generate meaningful effects on establishment employment adjustment.

**Monday, December 9, 2013**

**10.00**

**Room 126a**