

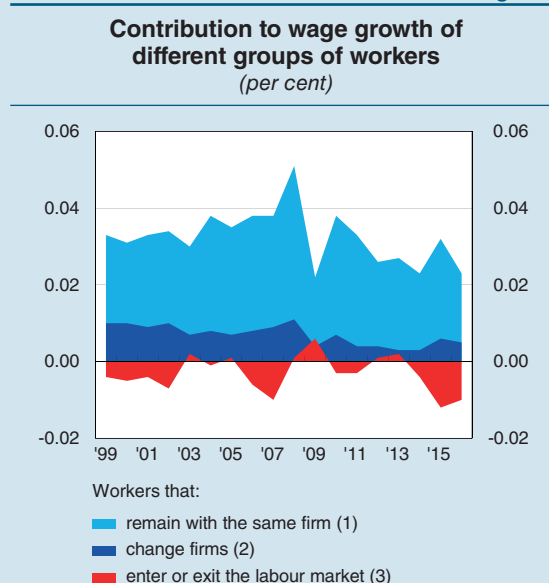
LABOUR MARKET MOBILITY AND WAGE PRESSURES

Changing jobs usually involves a wage renegotiation. Aggregate wage dynamics may be affected not only by fluctuations in the unemployment rate (which is the main determinant of wage dynamics according to the Phillips curve), but also by the number of workers that change jobs and by the wage increase that they negotiate with their new employer. There is also an indirect effect relating to wage increases offered by firms as an employee retention measure, done to avoid a costly search to replace a departing worker. Recent studies from the United States¹ have examined the macroeconomic implications of these factors, concluding that the aggregate growth in US wages is tied more to fluctuations in the average probability of job-to-job transitions than to cyclical changes in the unemployment rate.

To assess the effect of transitioning from one job to another in Italy, using INPS data, private-sector wage growth can be sub-divided into three groups: workers that remain with the same employer from one year to the next, workers that transition to a different employer, and workers that enter or exit the labour market (Figure A).²

The first group prevails in Italy, reflecting the large share of total employed persons that remain with the same employer from one year to the next (on average about 80 per cent). In contrast, the contribution to wage dynamics of those that change firms is smaller, especially because of the lower share of total employed persons belonging to this category (just over 10 per cent), notwithstanding the fact that the annual growth in wages for this type of worker is about 3 percentage points higher on average than that of workers that stay with the same firm (Figure B). The contribution of the last group, which

Figure A



Source: Based on INPS data for non-agricultural private sector workers between the ages of 25 and 50.

(1) Calculated as the ratio of the average annual growth in daily wages of workers employed with the same firm over the course of the year to total employed persons. – (2) Calculated as the ratio between average annual growth in daily wages of workers who changed firms over the course of the year to total employed persons. – (3) Difference between (a) the average daily wage of new entrants to the labour market, compared with that of workers that remain employed, multiplied by the share of new entrants and (b) the average daily wage of workers exiting the labour market, compared with that of workers that remain employed, multiplied by the share of exiting workers.

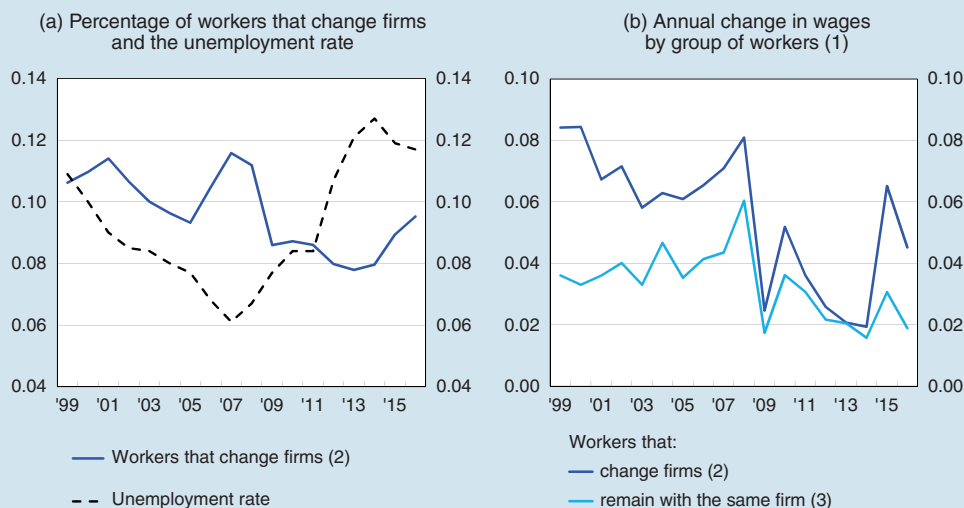
¹ For example, G. Moscarini and F. Postel-Vinay, 'Wage posting and business cycles', *American Economic Review: Papers & Proceedings*, 106, 5, 2016, 208-213 and F. Karahan, R. Michaels, B. Pugsley, A. Şahin and R. Schuh, 'Do job-to-job transitions drive wage fluctuations over the business cycle?', *American Economic Review: Papers & Proceedings*, 107, 5, 2017, 353-357.

² C. Berson, M. De Philippis and E. Viviano, 'Job-to-job flows and wage cyclicality in France and Italy', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming.

depends on the difference between the average wage of exiting workers and that of new entrants, is generally anticyclical: during recessions the workers who exit the labour market tend to be less-qualified and earn lower wages.³

Figure B

Share of workers and wage change by occupational status
(per cent)



Sources: Based on INPS data for non-agricultural private sector workers between the ages of 25 and 50, and Istat data from its labour force survey.

(1) The figure refers to the annual growth in average daily wages. – (2) Workers that change firms over the course of the year. – (3) Workers employed with the same firm over the course of the year.

However, this decomposition does not identify the indirect effects on wage dynamics relating to wage increases offered by firms to retain workers who would otherwise transition to another employer. Using the same INPS data it was possible, based on socio-demographic characteristics (age, gender and educational level), the business sector and the region of residence, to estimate the probability that, over the course of each year, individuals in a given segment would either: (a) transition from one firm to another; (b) transition from non-employment to employment; or (c) become non-employed. The changes in overall wages were then examined in response to cyclical changes in these probabilities.

In the United States, wage dynamics are almost entirely explained by the changes in the average probability of a worker changing jobs; in Italy, a significant part of wage dynamics instead depends on the probability of entering or exiting the labour force. In 2009, immediately after the start of the global financial crisis, the decline in job-to-job transitions helped to reduce wage growth by 0.19 percentage points; the negative contribution provided by the increase in workers exiting the labour market and the reduction in new entrants was substantially similar (0.18 percentage points lower).

³ E. Adamopoulou, E. Bobbio, M. De Philippis and F. Giorgi, 'Reallocation and the role of firm composition effects on aggregate wage dynamics', *IZA Journal of Labor Economics*, forthcoming.