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CONFERENZA INTERNAZIONALE: ANALISI E PROSPETTIVE DELLE POLITICHE DEL LAVORO

14-15 dicembre 2017

Università Roma Tre, Dipartimento di Economia

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Cost of living, Centralized Wage Setting and Urban Wage Premia.

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Abstract.

This paper aims at estimating the extent of the urban wage premia in Italy, a country characterized by a centralized wage setting system and by a spatially heterogeneous cost of living. We make use of a unique administrative employer-employee database on the universe of the Italian workers provided by the Italian Social Security Institute (INPS), merged with the housing prices collected by Osservatorio del Mercato Immobiliare (OMI), used to compute a cost of living measure at the local level, for the 2005-2015 period. We implement a mincerian regression analysis to compute nominal and real, in spatial terms, urban wage premia, controlling for unobserved individual heterogeneity and endogeneity issues. Our results confirm the presence of positive, although small, nominal urban wage premia and of negative, and not negligible, real urban wage premia: urban workers suffer a penalty in terms of real spatial wages. Our conclusions are robust to a number of robustness checks. Further, investigate the role of the centralized bargaining setting and conclude that it may be deemed as responsible for limiting wage adjustments and so for generating, in the presence of high heterogeneity of the cost of living, real wage penalties for urban workers.