

Accepted Manuscript

Title: Wage rigidities in Colombia: Measurement, causes, and policy implications

Authors: Sonia A. Agudelo, Hector Sala

PII: S0161-8938(17)30041-8
DOI: <http://dx.doi.org/doi:10.1016/j.jpolmod.2017.04.004>
Reference: JPO 6348



To appear in: *Journal of Policy Modeling*

Received date: 12-1-2017
Revised date: 3-3-2017
Accepted date: 25-4-2017

Please cite this article as: Agudelo, Sonia A., & Sala, Hector., Wage rigidities in Colombia: Measurement, causes, and policy implications. *Journal of Policy Modeling* <http://dx.doi.org/10.1016/j.jpolmod.2017.04.004>

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Wage rigidities in Colombia: Measurement, causes, and policy implications¹

Sonia A. Agudelo*,**, Hector Sala*,***

* Universitat Autònoma de Barcelona, Campus UAB, 08190 Bellaterra; Spain.

** Universidad de Medellín, Carrera 87 No. 30-65, Bloque 6-oficina 108, Medellín; Colombia.

*** Institute for the Study of Labor (IZA), Bonn, Germany

Abstract

This paper evaluates the extent of wage rigidities in Colombia over a period, 2002-2014, in which the fall in unemployment was relatively slow with respect to sustained economic growth. Following Holden and Wulfsberg (2009), we compute a measure of downward real wage rigidity (DRWR) of 12.09%, four times bigger than their aggregate estimate for the OECD economies. Moreover, in contrast to the evidence for the advanced economies, the determinants of such rigidities show no connection to the wage bargaining system. Amid the absence of effective labor market institutions to make rigidities less prevalent, economic growth appears as the most powerful mechanism to ward them off. Under this light, we provide a stylized description of the wage setting rule in Colombia, compare it with the common one in the advanced economies, and call for a far-reaching reform of the Colombian wage bargaining setup.

JEL Classification: E24, J3, J48, J58.

Keywords: Downward Real Wage Rigidity, Wage bargaining, Minimum Wage, Informality, Unemployment.

¹Sonia A. Agudelo and Hector Sala are grateful for financial support received, respectively, from COLCIENCIAS and the Spanish Ministry of Economy and Competitiveness through grant ECO2016-75623-R.

Corresponding authors:

E-mail addresses: hector.sala@uab.es (Hector Sala); soagudelo@udem.edu.co (Sonia Agudelo)

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