
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 Mobiliare Italiano (OMI), used to compute a cost of living measure at the municipality 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 different computations of local price indexes, and to the use of local labour markets instead of municipalities. Further, we show that sorting of workers and firms in dense areas is much weaker when considering real wages instead of nominal ones, as well as the degree of assortative matching.

Keywords: Urban Wage Premium, Cost of Living, Wage Setting, Assortative Matching
JEL Codes: R12, R31, J31

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