

The evolution of the earnings distribution in a volatile economy: Evidence from Argentina

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This paper studies earnings inequality and dynamics in Argentina between 1996 and 2015. Following the 2001–2002 crisis, the Argentine economy transitioned from a low- to a high-inflation regime, while collective bargaining and the minimum wage gained influence. This transition was associated with a persistent decrease in earnings dispersion and cyclical movements in higher-order moments of the distribution of earnings changes. To shed light on the changing nature of wage rigidity during this period, we develop a new method to estimate regular-wage processes. As the Argentine economy transitioned from low to high inflation, the monthly frequency of regular-wage changes almost doubled, while the distribution of regular-wage changes morphed from having a mode around zero and positive skewness to having a positive mode and more symmetric tails.

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1. INTRODUCTION

How are workers' fates tied to macroeconomic conditions? Who are the relative winners and losers as labor markets adjust to economic downturns and subsequent recoveries? And to what extent does the flexibility to adjust vary with macroeconomic conditions as well as throughout the workforce? The answers to these questions are of great importance for evaluating the welfare consequences of aggregate fluctuations and also for designing economic stabilization tools such as fiscal and monetary policy.

As part of the Global Repository of Income Dynamics (GRID) Project, we study earnings inequality, volatility, and mobility in Argentina. As such, the statistics contained in this paper, as well as many additional ones computed on the data, will be publicly available through the GRID online database together with harmonized statistics for the other countries in this special issue. We address the above questions by studying individual labor market outcomes in Argentina—an upper-middle-income country with a turbulent economic history. Using newly available administrative data, we analyze cross-sectional heterogeneity and time trends in earnings inequality and dynamics from 1996 to 2015 in Argentina. This period was volatile for the Argentine macroeconomy. During those years, the country experienced several severe recessions and a sharp devaluation of its currency, which prompted a switch in the inflation regime. At the same time, there were substantial changes in the role of unions, the minimum wage, and other labor market institutions. The confluence of these events makes Argentina a particularly interesting setting to study worker-level labor market outcomes in the shadow of macroeconomic turbulence.

Our paper is the first to use administrative data from Argentina to document recent trends in earnings inequality, volatility, and mobility. We leverage newly available administrative data from Argentina's social security system, which comprise over 100 million job records over the period from 1996 to 2015. The large-scale administrative data provide a richer picture of the evolution of earnings inequality, volatility, and mobility than has been possible in previous studies.¹ Specifically, we are able to reliably compute the evolution of higher-order (i.e., third and fourth) standardized moments of Argentina's distribution of earnings and earnings changes, akin to a recent study by [Guvenen, Ozkan, and Song \(2014\)](#) based on 34 years of U.S. social security records. Since the administrative data cover only jobs in Argentina's formal sector, we also supplement our analysis with rich household survey data that allow us to validate our findings based on administrative records and also to compare labor market outcomes in Argentina's formal and informal sectors. In addition, a unique contribution of our paper is our leveraging of administrative data to measure the frequency and size of wage adjustments in Argentina

¹Previous studies of the earnings distribution in Argentina have relied on household survey data. See, for example, [Cruces and Gasparini \(2009\)](#), [Gasparini and Cruces \(2010\)](#), and [Alvaredo, Cruces, and Gasparini \(2018\)](#).

during low- and high-inflation regimes, both in the aggregate and across subgroups of workers.

The first part of this paper implements a set of standardized measurement exercises related to earnings inequality, volatility, and mobility, using detailed administrative data on all formal, private sector jobs in Argentina. After nearly stagnant earnings from 1996 to 2001, the vast majority of workers saw a remarkable drop of over 20% in real terms amidst Argentina's economic crisis in 2001–2002. Following the crash, real earnings recovered quickly and reached new heights between 2002 and 2008, with more moderate growth thereafter, led by relatively more pronounced growth at the bottom of the distribution. These facts hold true among the bottom 90 of the formal sector earnings distribution, while real earnings above the 90th percentile fluctuated without significant net gains over this period. As a result, Argentina saw a marked decrease in earnings inequality among formal sector workers between 2002 and 2008, both within and across cohorts.

We then document cyclical movements in the dispersion, Kelley skewness, and Crow–Siddiqui kurtosis of earnings changes in Argentina from 1996 to 2015, building on previous work by [Guvenen, Ozkan, and Song \(2014\)](#) and [Guvenen, Karahan, Ozkan, and Song \(2021\)](#). We find that lower-tail dispersion (i.e., the 50th–10th percentiles gap) in 1-year earnings changes is countercyclical (i.e., it is higher during recessions), while upper-tail dispersion (i.e., the 90th–50th percentiles gap) is procyclical (i.e., it is lower during recessions); these findings are similar to patterns that have been documented for the U.S. This means that, in net, offsetting cyclical movements in the two tails of the distribution lead to muted cyclical movements in the overall dispersion in earnings changes at business cycle frequency. In levels, the Kelley skewness of 1-year earnings changes in Argentina is more positive than that for the U.S., while the Crow–Siddiqui kurtosis is of comparable levels. Over time, both the Kelley skewness and the Crow–Siddiqui kurtosis of 1-year earnings changes are strongly procyclical in Argentina, akin to those of the U.S.

A common view holds that cross-sectional earnings inequality is less concerning if accompanied by high rates of earnings mobility (meaning greater movement through the ranks of the earnings distribution) over time. [Kopczuk, Saez, and Song \(2010\)](#) find that long-term mobility in the U.S. has increased overall but slightly decreased for men over the second half of the 20th century. Compared with recent evidence on earnings mobility in the U.S. ([McKinney, Abowd, and Janicki \(2021\)](#)) and Canada ([Bowlus, Gouin-Bonenfant, Liu, Lochner, and Park \(2021\)](#)), our findings document significantly higher 10-year earnings mobility among workers in the bottom quartile of the earnings distribution in Argentina. We find that both upward and downward mobility are higher for younger workers and comparable between men and women. Furthermore, mobility in Argentina has been approximately stable during the 2000s.

As part of our empirical investigation, we use rich household survey data to complement the administrative records and achieve two goals. First, we can validate our findings on earnings inequality and dynamics in Argentina's formal sector between the two—administrative and household survey—data sets. We find that they show qualitatively similar patterns but have some important quantitative differences. Second, we

can compare earnings inequality and dynamics between Argentina's formal and informal sectors. As is the case in other emerging economies, the informal sector constitutes an important part of Argentina's economy, with between 29% and 43% of all employees in our sample working in informal (i.e., not covered by the social security system) jobs over the period we study. Here, we document significant differences in the distribution of earnings between formal and informal jobs, both in levels and also in time trends.²

The second part of this paper studies a particular aspect of the flexibility of labor market adjustments to macroeconomic conditions by quantifying nominal wage rigidities in Argentina. Frictions that prevent the adjustment of nominal wages are a core ingredient in many macroeconomic models of empirically realistic business cycle fluctuations. For instance, [Christiano, Eichenbaum, and Evans \(2005\)](#) highlight staggered wage contracts as one of the most important features needed to match the observed dynamic effect of a monetary policy shock in a New Keynesian model. Similarly, [Shimer \(2004\)](#) shows that wage rigidity can solve the lack of propagation in the Mortensen–Pissarides search and matching model. In the international macro literature, [Schmitt-Grohé and Uribe \(2016\)](#) argue that wage rigidity can explain sharp differences in employment dynamics between fixed and floating exchange rates in a small-open-economy neoclassical model. Given the importance of wage rigidity in modern business cycle theories, extensive studies measure aggregate wages' business cycle properties. While business cycle moments of *aggregate* wages have been extensively studied, our understanding of the nature of wage rigidity is incomplete without a set of facts about wage setting at the microlevel. In this regard, we contribute to a literature that has made important progress on measuring the microlevel behavior of wages ([Grigsby, Hurst, and Yildirmaz \(2021\)](#), [Hazell and Taska \(2020\)](#), [Gertler, Huckfeldt, and Trigari \(2020\)](#)). A key contribution of the current paper is to study Argentina during a volatile economic period from 1996 and 2015, which allows us to link wage dynamics at the microlevel to different inflation regimes, with important implications for other developing countries and economies with high (risk of) inflation.

Our analysis adds to our understanding of wage rigidities by presenting facts about nominal wage setting under different inflation regimes. At first glance of our data, individual wages appear to be changing almost every month, even when inflation is low and aggregate wages remain almost constant. On closer inspection, individual wages exhibit two clear patterns: either they revert to the exact previous nominal value after temporary deviations, or they fluctuate closely around a “regular” wage. Theory in the price-setting literature shows that aggregate price flexibility depends on the composition of price changes between those of a transitory or a permanent nature (see [Eichenbaum, Jaimovich, and Rebelo \(2011\)](#), [Kehoe and Midrigan \(2015\)](#), [Alvarez and Lippi \(2020\)](#)). Motivated by this theory, we use methods developed in the pricing literature to construct regular-wage changes. We construct regular wages using the Break Test proposed by [Stevens \(2020\)](#). This methodology detects breaks in the stochastic process of wages in non-Gaussian wage setting models. We verify the validity of this methodology by cali-

²In this manner, we contribute to an emerging literature that compares administrative and household survey data in other emerging economies such as Brazil ([Engbom, Gonzaga, Moser, and Olivieri \(2022\)](#)) and Mexico ([Puggioni, Calderón, Cebreros Zurita, Fernández Bujanda, Inguanzo González, and Jaume \(2021\)](#)).

brating and simulating a model that matches features of the wage setting process in the actual data.

Our main finding pertains to the evolution of the frequency of regular-wage changes. We find that in periods of low inflation (such as 1997–2001), the average monthly and annual frequencies are 0.09 and 0.64, respectively. Similar results have been found in other countries with low inflation (see, e.g., Grigsby, Hurst, and Yildirmaz (2021)), which provides further support to our methodology for constructing regular wages. In contrast, during the period of high inflation (i.e., 2007–2015), the average annual frequency of wage change rises to 0.95. In addition, the transition from these two inflationary regimes encompasses other differences: the annual frequency of upward wage changes increases from an average of 0.44 to 0.90, while the frequency of decreases plummets from 0.2 to 0.05. Finally, the richness of the data allows us to study the frequency of wage adjustment for a wide set of workers. We find that in periods of low inflation, the frequency of wage changes falls with workers' ages and earnings ranks, and is largely heterogeneous across sectors. However, as inflation rises, the heterogeneity across workers becomes less pronounced.

Finally, we document a significant difference in the shape of the distribution of regular wage changes between low- and high-inflation regimes. During the low-inflation period, the distribution of regular-wage changes (i) is asymmetric, with a missing mass of negative wage changes, and (ii) exhibits a large spike at positive-small changes. The pronounced asymmetry between positive and negative wage changes is consistent with previous studies analyzing the distribution of wage changes in low-inflation environments (see, e.g., Dickens et al. (2007), Barattieri, Basu, and Gottschalk (2014), Grigsby, Hurst, and Yildirmaz (2021)). In contrast, during the high-inflation period, the wage change distribution is symmetric around a mean close to the annual inflation rate. The gap between the 50th and 10th percentiles of the change distribution is 22 log points, almost equal to the difference between the 90th and 50th percentiles (21 log points).

The paper is organized as follows. Section 2 describes the data and describes the macroeconomic and institutional background in Argentina during the period of analysis. Section 3 presents a set of standardized statistics on earnings inequality, volatility, and mobility for Argentina's formal sector based on administrative data and validates those findings by comparing administrative and household survey data. Section 4 presents our results relating to nominal wage adjustments under low- and high-inflation regimes. Finally, Section 5 concludes.

2. DATA AND BACKGROUND

2.1 *Data description*

In this subsection, we introduce the administrative data we use to study earnings inequality and dynamics in Argentina. We also describe the selection criteria applied to select various samples, define the main variables, and present summary statistics. We complement our analysis using household survey data, which we use for data validation and comparisons of earnings inequality and dynamics in Argentina's formal and informal sectors. Finally, we briefly discuss other data sources that we use in our analysis.

2.1.1 *Administrative data*

2.1.1.1 *Data description* Our primary data source consists of employer–employee matched panel data based on administrative records from Argentina’s social security system, called *Sistema Integrado Previsional Argentino* (SIPA). Records come from sworn statements that employers must present by law each month to Argentina’s tax authority, *Administración Federal de Ingresos Públicos* (AFIP). These records contain information about payroll for which employers pay social security contributions (i.e., that for formal workers). We work with a 3% random, anonymized subsample of employees in the private sector spanning the 1996–2015 period.³

Employees’ information includes monthly gross labor earnings, inclusive of all forms of compensation subject to taxation and social security contributions (i.e., base salary, overtime compensation, performance and seasonal bonuses, paid vacations, paid sick leaves, and severance payments). It also includes demographic characteristics such as gender, year of birth, and the province of the establishment where they work. Earnings information for individuals above the 98th percentile of the within-industry earnings distribution are anonymized in order to protect the privacy of employees in the data.⁴ However, statements do not include information about employees’ education status. Information about employers includes their four-digit industry code.⁵ Employees’ anonymized unique identifiers and identifiers for each employer–employee match allow us to track individual workers and formal employment relationships over time.⁶

The data set is representative of the formally employed population at private firms in all sectors and regions and covers all types of contracts (e.g., full-time workers, internships, temporary workers). It contains data from about 130,000 workers in 1996 to 230,000 in 2015. With formal private employment accounting for roughly 30% to 40% of total employment over the period (including independent and self-employed workers), the sample amounts to about 1% of the employed population in any given year.

2.1.1.2 *Sample selection* To enhance harmonization and allow meaningful comparisons across countries in the project, we restrict the original data set according to the following criteria. First, we focus on workers between 25 and 55 years old, a range within which most education choices are usually completed in Argentina and after which workers tend to leave the labor force for retirement.⁷

Second, we drop observations with earnings below a threshold to avoid observations from workers without a meaningful attachment to the labor force or with very low earnings, which could skew log-based statistics. Specifically, we discard observations with

³The random sample is the *Registered Employment Longitudinal Sample* (RELS) compiled by the Ministry of Labor, Employment and Social Security of Argentina at monthly frequency. The microdata and documentation are publicly available at <http://www.trabajo.gob.ar/estadisticas/oede/mler.asp>.

⁴See Appendix A.1 of the Online Supplemental Material (Blanco, Diaz de Astarloa, Drenik, Moser, and Trupkin (2022)) for further details of the anonymization procedure.

⁵To complete information about employers and employees, the Ministry of Labor, Employment and Social Security combines records from SIPA with employers’ sector and type information from AFIP, and workers’ gender and year of birth from Argentina’s Social Security Agency (ANSES). The industry classification was developed by AFIP, closely following a correspondence with the ISIC Revision 4.

⁶Employers’ identifiers are not included in the sample.

⁷Note that the minimum formal retirement age in Argentina is 65 for men and 60 for women.

earnings below what a worker would earn if they were to work part-time for one quarter at the national minimum wage. In Argentina, the minimum wage is set as a monthly wage and is usually revised in the middle of the year. Maximum legal working hours are 48 hours per week, which in an average month amount to $52/12 \times 48 = 208$ hours. We compute the equivalent hourly minimum wage for Argentina as $y_{ts}^h \equiv y_{ts}^m/208$, where y_{ts}^m is the minimum wage in year t and month s . The annual average hourly minimum wage is then $y_t^h = \sum_{s=1}^{12} y_{ts}^h/12$. Finally, the threshold is chosen as part-time (24 hours) earnings for one quarter (13 weeks) at the national minimum wage, or $\underline{y}_t \equiv y_t^h \times 13 \times 24$. For future reference, we label the sample with age and minimum earnings restrictions as the CS sample.

In addition to age- and minimum earnings-related criteria, when computing longitudinal statistics, we apply two additional restrictions. First, we consider a subsample of workers for which we can compute 1-year and 5-year earnings changes; we call this the LX sample. Then we further restrict the LX sample to observations for which we can compute a permanent earnings measure, as defined below; this limits the sample to workers in a given year who have been in the sample for the previous three consecutive years. We label the latter LX^+ sample.

2.1.1.3 Variable construction For our statistical analysis, we construct several measures of earnings for worker i in year t :

1. Raw real earnings in levels, y_{it} , and logs, $\log(y_{it})$. We compute real earnings from total annual worker compensation and our measure of CPI inflation.
2. Residualized log earnings, ε_{it} . This measure is the residual from a regression of log real earnings on a full set of age dummies, separately for each year and gender. It is intended to control for trends in earnings across workers at different stages of their life or business cycle.
3. Permanent earnings, P_{it-1} . They are defined as average earnings over the previous three years, $P_{it-1} = (\sum_{s=t-3}^{t-1} y_{is})/3$, where y_{is} can include earnings below \underline{y}_s for at most 1 year.
4. Residualized permanent earnings, ε_{it}^P . These are computed from P_{it-1} similar to ε_{it} .
5. 1-year change in residualized log earnings, g_{it}^1 . It is the 1-year forward change in ε_{it} , $g_{it}^1 \equiv \Delta \varepsilon_{it} = \varepsilon_{it+1} - \varepsilon_{it}$, where earnings must be above \underline{y} for both years.
6. 5-year change in residualized log earnings, g_{it}^5 . It is the 5-year forward change in ε_{it} , $g_{it}^5 \equiv \Delta^5 \varepsilon_{it} = \varepsilon_{it+5} - \varepsilon_{it}$, where earnings must be above \underline{y} for both years.

We will frequently refer to percentiles of the distribution of (residual) log earnings or (residual) log earnings changes. To this end, we use the notation Pp , for $p \in [0, 100]$, to denote the p th percentile in logs. For example, P50 denotes the median while P99.9 denotes the top 0.1 percentile. Similarly, $Pp_1 - Pp_2$, for $p_1, p_2 \in [0, 100]$, denotes the difference between Pp_1 and Pp_2 , or the log ratio between the p_1 th percentile and the p_2 th percentile.

TABLE 1. Employment in administrative data across samples, 1996–2015.

| Year | Original data set | | CS sample | | LX sample | | LX ⁺ sample | |
|------|-------------------|---------|-----------|---------|-----------|---------|------------------------|---------|
| | N | % Women | N | % Women | N | % Women | N | % Women |
| 1996 | 134,430 | 27.0 | 97,197 | 26.5 | 55,413 | 25.2 | – | – |
| 2000 | 148,805 | 29.5 | 107,375 | 29.3 | 63,643 | 28.1 | 50,860 | 26.53 |
| 2005 | 173,522 | 29.9 | 123,375 | 29.8 | 80,897 | 28.0 | 58,545 | 27.68 |
| 2010 | 213,263 | 31.5 | 153,392 | 31.6 | 99,651 | 29.9 | 81,469 | 28.69 |
| 2015 | 229,876 | 32.3 | 167,595 | 32.8 | – | – | – | – |

Note: This table reports the number of workers (N) and the fraction of women for the original random sample and under alternative sample selection criteria. The CS sample includes age and minimum earnings restrictions; the LX sample includes further restrictions to compute 1- and 5-year changes in earnings; the LX⁺ sample includes still further restrictions to compute permanent earnings. *Source:* Registered Employment Longitudinal Sample (Ministry of Labor, Employment and Social Security of Argentina), 1996–2015.

2.1.1.4 Summary statistics Table 1 presents sample sizes for our different sample selection criteria. After imposing restrictions on age and minimum earnings for cross-sectional analysis (the CS sample), we are left with around 70% of the sample. When we further restrict the sample for longitudinal analysis involving 1- and 5-year changes, the LX sample reduces to between 41% and 47%. The LX⁺ sample, which reduces to observations between 1999 and 2010, includes between 34% and 38% of the original sample. The percentage of women remains almost identical after the cross-sectional restrictions and slightly decreases after selecting the sample to allow for the computation of 1- and 5-year changes and permanent earnings.

Table 2 reports summary statistics of the monthly real earnings distribution in the unrestricted sample. Average monthly real earnings (in 2018 AR\$) increased by 34% over the sample period, from AR\$11,725 to AR\$15,673. There is wide dispersion in earnings, with the 5th and 99th percentiles of the distribution representing on average around 9% and 580% of the mean, respectively. As we will study in detail below, although there was an overall increase in real earnings over the period, growth was monotonically decreasing in percentiles of the earnings distribution. Real monthly earnings at the 5th

TABLE 2. Monthly labor earnings summary statistics, 1996–2015.

| Year | Mean | Std. Dev. | P5 | P25 | P50 | P75 | P95 | P99 |
|---------------|--------|-----------|------|------|--------|--------|--------|--------|
| 1996 | 11,725 | 16,975 | 828 | 3764 | 7415 | 13,949 | 35,017 | 74,876 |
| 2000 | 12,573 | 22,109 | 873 | 3983 | 7527 | 14,259 | 37,822 | 87,041 |
| 2005 | 11,762 | 17,772 | 1239 | 4583 | 8565 | 13,401 | 31,142 | 67,819 |
| 2010 | 14,241 | 17,370 | 1569 | 5865 | 10,985 | 17,121 | 37,100 | 70,419 |
| 2015 | 15,673 | 18,794 | 1570 | 6569 | 12,597 | 19,175 | 40,093 | 76,745 |
| %Δ, 1996–2015 | 33.7 | 10.7 | 89.6 | 74.5 | 69.9 | 37.5 | 14.5 | 2.5 |

Note: This table reports monthly real earnings in 2018 AR\$. P_x indicates the x th percentile of the cross-sectional monthly labor earnings distribution for each year. The last row of the table computes the percentage growth rate of each column between 1996 and 2015. *Source:* Registered Employment Longitudinal Sample (Ministry of Labor, Employment and Social Security of Argentina), 1996–2015.

percentile grew by 90% between 1996 and 2015, while earnings at the 95th and 99th percentiles increased in real terms by only 14.5% and 2.5%, respectively.

2.1.2 Household survey data

2.1.2.1 Data description We complement our analysis with rich household survey data covering both formal and informal employment in Argentina. The Permanent Household Survey (*Encuesta Permanente de Hogares* or EPH) is Argentina's primary household survey collected by the National Institute of Statistics and Census (*Instituto Nacional de Estadística y Censos* or INDEC). It covers 31 large urban areas that represent more than 60% of the total population. Every year, the overall sample size is around 100,000 households, and the average response rate is roughly 90%, which is similar to that of the March Supplement of the U.S. Current Population Survey. The EPH questionnaire elicits responses pertaining to demographics (e.g., gender, level of education, age) and labor market outcomes (e.g., labor force status, hours worked, earnings, tenure, sector, occupation, and formality status). The EPH was conducted twice a year between 1995 and 2003 and has been conducted quarterly since 2003, with a rotating panel structure allowing households to be followed across 2 consecutive years.

The EPH distinguishes between informal and formal employees, which allows us to both validate our findings based on administrative data and also compare labor market outcomes across the formal and informal sectors of Argentina. The definition of (in)formality follows standard proposals by the International Labour Organization, which classifies a worker as formal if his or her employer makes mandatory social security contributions; otherwise, the worker is classified as informal.

2.1.2.2 Sample selection We apply selection criteria similar to those for the administrative data for Argentina's formal sector. Specifically, we keep women and men between the ages of 25 and 55 who are employed in a private sector job and earn at least half the current minimum wage.

2.1.2.3 Variable construction Using the biannual (before 2003) or quarterly (after 2003) short-panel data, we first construct a data set at the worker-year level by constructing residualized annual earnings based on an aggregation of the (one or two) available observations per worker in each year. Appendix A.2 of the Online Supplemental Material (Blanco et al. (2022)) describes the details of this procedure.

2.1.2.4 Summary statistics Appendix Table A.1 of the Online Supplemental Material shows the number of observations in each year-quarter in the raw data. Appendix Table A.2 of the Online Supplemental Material shows quarter-quarter combinations for the same individual within a given year based on the rotating panel structure of the EPH household survey data. Appendix Table A.3 of the Online Supplemental Material shows sample sizes for each year when cumulatively applying our sample selection criteria.

2.1.3 *Macroeconomic variables* In our analysis, we use two additional data series, CPI inflation and the Argentine peso to U.S. dollar nominal exchange rate, which we obtained from INDEC and the Central Bank of Argentina.⁸

2.2 *Macroeconomic and institutional background*

This subsection provides a brief description of the macroeconomic context in Argentina during 1996–2015 and relevant institutional features of the labor market, especially those associated with wage setting, such as the role of unions and the minimum wage. To illustrate the macroeconomic context, panel (a) of Figure 1 displays the cyclical component of real gross domestic product (GDP), panel (b) shows the evolution of inflation, panel (c) shows the nominal exchange rate, panel (d) displays the unemployment rate, while panel (e) displays the formality rate during the period of analysis.

2.2.1 *Macroeconomic environment* Our analysis below distinguishes two subperiods, 1996–2001 and 2002–2015. During the first subperiod, Argentina was under a currency board established by the Convertibility Plan, which pegged the Argentine peso to the U.S. dollar. By 1996, Argentina had stopped the hyperinflation of the early 1990s and had implemented a series of structural reforms. During this first period, the economy was characterized by low inflation rates and even deflation. After a strong recovery starting in 1991, Argentina's economy faced a series of adverse events in 1995 (the Mexican devaluation) and 1998–1999 (devaluations in east Asia, Russia, and later Brazil—Argentina's largest trade partner), which eventually pushed Argentina into a deep recession that culminated in the 2001–2002 crisis. Between 1998 and late 2001, real GDP fell by 15% and the unemployment rate increased from 12% to 20%, making this the largest crisis Argentina has experienced up to that point.

In 2002, Argentina abandoned the exchange rate peg, which raised the Argentine peso-U.S. dollar nominal exchange by more than 200%. The nominal devaluation (incompletely) passed through to domestic prices, increasing the CPI by more than 40% in a year. Real wages fell by more than 20%, and the poverty rate reached a record high of 52% of the population.

Following the crisis and devaluation, the economy recovered strongly, averaging 8% real GDP growth per year between 2004 and 2007. Changes in relative prices generated a switch in aggregate expenditure toward tradable, labor-intensive, import-substitutive sectors. The employment rate increased consistently, and by 2006, it was back to its 1998 levels. The unemployment rate decreased sharply and went below 10% by 2006.

After inflation stabilized in 2003–2004, inflationary pressures started mounting, fueled by a combination of growing aggregate demand for nontradable goods and services, increased public spending (part of which was financed by central bank transfers), and nominal devaluations in 2009 and 2014. Between 2008 and 2015, monthly year-on-year inflation averaged 25%. After the 2008 global recession, Argentina was not able to attain high output growth rates. Eventually, the economy entered into stagflation: between 2011 and 2015, the economy was in a recession in roughly half of the quarters.

⁸Because of the manipulation of official inflation statistics, we use consumer price indices provided by national statistics before 2007 and the Central Bank of Argentina from 2007 onward.

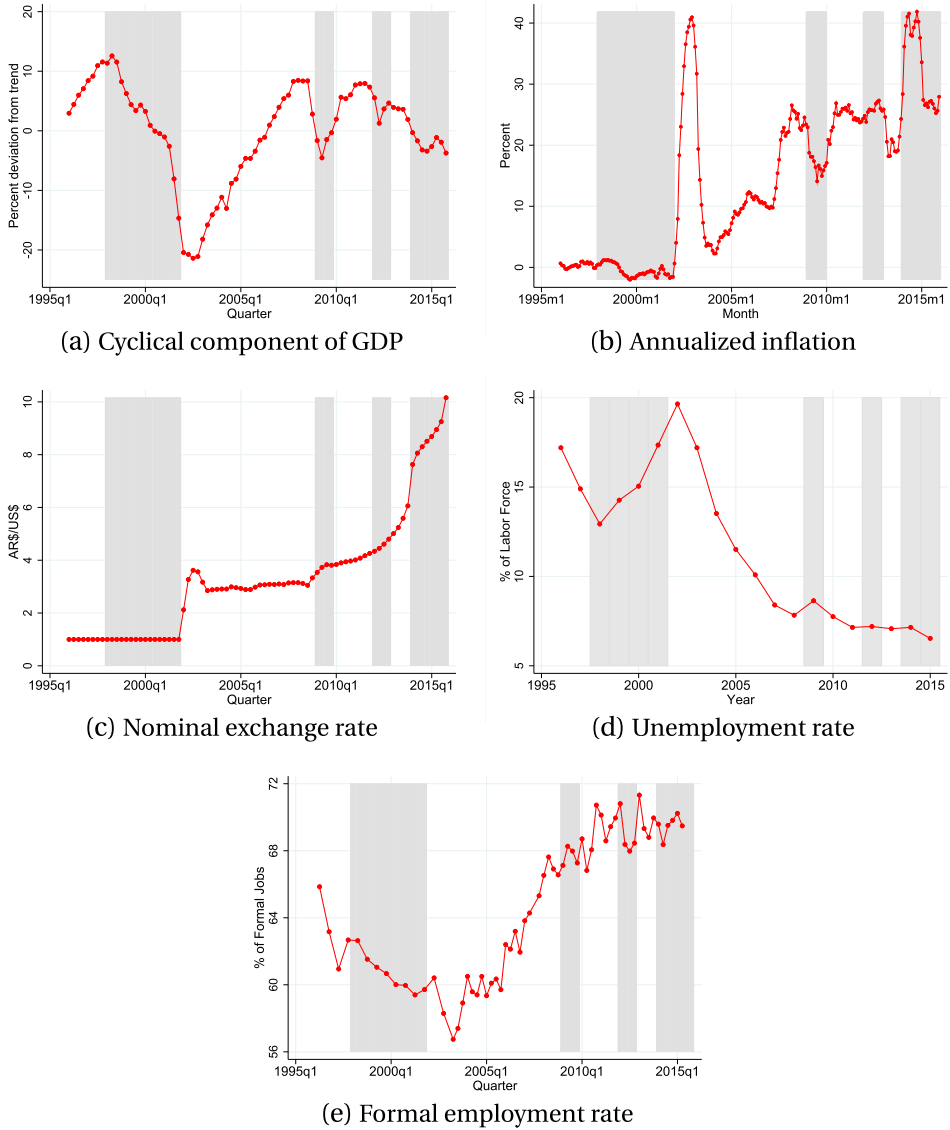


FIGURE 1. GDP, inflation, exchange rate, unemployment, and formal employment rate, 1996–2015. *Notes:* Panels (a) to (e) show: (a) the deviation of quarterly real GDP from log linear trend, (b) the annual percentage change in the consumer price index, (c) the AR\$ to US\$ nominal exchange rate, (d) unemployment as a fraction of the labor force, and (e) the share of employment in the formal sector relative to total (formal and informal sector) employment. Shaded areas indicate recession periods. *Source:* Authors’ calculations based on INDEC, EPH, and Central Bank of Argentina.

It is worth noting that unemployment sharply increased during the 1998–2002 recessionary period but has been relatively unresponsive to the following three recessions. Similarly, while the formal-employment rate decreased notably during the 1998–2001 re-

cessionary period, formality has also been relatively stable during the subsequent three recessions.

2.2.2 Labor market institutions In addition to the formal sector, Argentina has an informal sector, which represents over one-third of all employment. Wages are market-based for informal workers, while in the formal sector, they are subject to additional labor regulations. Below, we briefly describe the role of two labor market institutions that are essential to the process of wage setting in Argentina over the period we study: collective bargaining agreements and the minimum wage.

2.2.2.1 Collective bargaining agreements A fundamental aspect of wage setting in Argentina is the collective bargaining mechanism. Centralized unions and employers reach collective agreements with force of law, either at the sector or firm level. Agreements at the sector level apply to all formal labor relations associated with a particular sector, irrespective of whether employees have union affiliation. In contrast, firm-level agreements apply only to labor relations within the firm.⁹ Once a collective agreement is signed, its rules prevail until they are explicitly modified by a new agreement, even if no new agreement is reached before the original one expires.

During the 1990s, unions' role in the wage setting process was reduced to a minimum. Most agreements were reached at the firm level and included clauses stipulating flexible working conditions rather than wage adjustment clauses. Price stability, a rigid minimum wage, and increasing unemployment discouraged unions from negotiating new agreements under very unfavorable conditions. In this way, unions preserved previously negotiated collective clauses (Palomino and Trajtemberg (2006)).

After the 2001–2002 crisis, the collective bargaining process was gradually reestablished. First, in 2002, the government established a sequence of nontaxable lump-sum increases for wage earners in the private sector. In 2003, these were incorporated as updates to base wages established by previous agreements, effectively kick-starting collective bargaining between firms and unions.¹⁰ Since 2004, collective bargaining has become more widespread, extending to virtually all sectors, and wages paid by firms gradually converged to those established in collective agreements. According to Palomino and Trajtemberg (2006), bargained wages represented around 50% of those effectively paid by firms in 2001, compared with 81% in 2006. To further illustrate this, Figure 2 shows the number of collective agreements renewals by year, which saw an unprecedented increase after 2003. While the number of agreements between 1991 and 2002 averaged 177 per year, it reached 348 in 2004 and peaked at 2,038 in 2010. As employment grew during the period, the number of private, nonagricultural workers covered by collective agreements increased substantially, from 3 to 5 million between 2003 and

⁹Specific groups of workers, such as those employed in the public sector and the agricultural and private education sectors, are excluded from the collective bargaining process in Argentina.

¹⁰Eventually, these wage adjustments flattened wage scales by reducing differentials among different categories of workers. Typically, collective bargaining contracts specify a scale of base wages for workers with different occupations and tenure. These scales define the wage over which workers pay taxes and social security contributions and what constitutes nontaxable labor income.

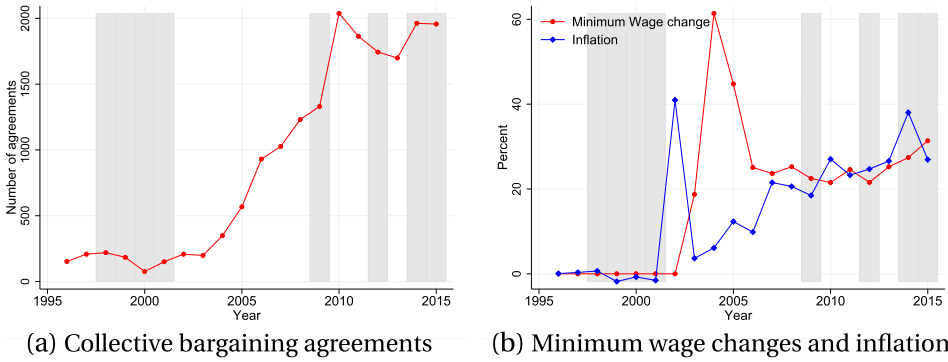


FIGURE 2. Collective bargaining agreements, minimum wage changes, and inflation, 1996–2015. *Notes:* This figure plots the evolution over the 1996–2015 period of the annual number of collective bargaining agreements in panel (a) and of the annual percentage change of the minimum wage and the consumer price index in panel (b). *Source:* Ministry of Employment, Labor and Social Security of Argentina, INDEC, and Central Bank of Argentina.

2010 (Ministerio de Trabajo, Empleo y Seguridad Social (2011)).¹¹ A recovery based on labor-intensive sectors and the need to protect purchasing power against rising inflation explain part of this trend. Moreover, governments in this period relied on political support from unions and favored the conditions for this development.

2.2.2.2 Minimum wage In Argentina, the minimum wage is set by the Council for Employment, Productivity, and the Minimum Wage (henceforth, the “Council”), whose role is to bring together representatives of workers, employers, and the government to discuss broad issues related to labor relations and set the national minimum wage. Between 1993 and 2003, the Council was mostly inactive, and the minimum wage was fixed at AR\$200. During 2003 and 2004, the government unilaterally raised the minimum wage, which increased by 90% from 2002 to 2004 (see Figure 2). In 2004, the Council became active again, and since then, it has set new levels for the minimum wage with an approximately annual frequency, increasing wage floors in collective bargaining between unions and employers.¹² The latter tended to favor the weakest unions, granting their workers a higher wage floor, while stimulating the negotiation of new wage scales for unions with greater bargaining power. Between 2004 and 2015, the minimum wage increased by around 1,225% nominally and by 56% in real terms.

3. CORE STATISTICS ON EARNINGS INEQUALITY AND DYNAMICS IN ARGENTINA

This section describes our main results regarding the evolution of earnings inequality, volatility, and mobility in Argentina during the 1996–2015 period, based on the administrative microdata for Argentina’s formal sector.

¹¹The fraction of workers covered by collective agreements changed only slightly, however, from around 82% in 2002 to 85% in 2009.

¹²See Casanova, Jiménez, and Jiménez (2015) for a discussion of the enforcement of the minimum wage in Argentina after 2003.

3.1 *Earnings inequality*

We first document the evolution of different percentiles of the earnings distribution. Then we describe the implications of this evolution for overall earnings inequality. Finally, we present results regarding the concentration of earnings at the top of the distribution.

3.1.1 *The evolution of different earnings percentiles* Panels (a) and (b) of Figure 3 present the evolution of percentiles of the earnings distribution of men and women, respectively, normalized by their value in 1996.¹³ Over the sample period, there was an overall increase in real earnings across the entire earnings distribution for both men and women. To illustrate this trend, median log real earnings were 56 and 45 log points higher for men and women, respectively, in 2015 relative to 1996. However, the magnitude of the increase was not homogeneous across the distribution. Instead, the size of the increase was monotonically decreasing in percentiles of the earnings distribution. While the 10th percentile of men's distribution increased by 69 log points, the 90th percentile increased by only 23 log points. Similar trends hold for women. The only exception to this pattern is the dynamics at the top of the earnings distribution, illustrated in panels (c) and (d) of Figure 3 for men and women, respectively.¹⁴

Not only were the long-run gains experienced at the top the lowest among the reported percentiles, but some percentiles experienced small net gains, or even losses, between 1996 and 2015. Examples of such small gains or losses include the 99th and 99.9th percentiles of the distribution for men.

In addition to these long-run trends, Figure 3 shows significant fluctuations at the business cycle frequency, particularly around the 2001–2002 crisis. In the years before the crisis, there was an increase in real earnings, which was more pronounced for women at the bottom of the distribution and all workers at the top of the distribution.¹⁵ However, given the large pass-through of the 2002 nominal devaluation to domestic prices, real earnings fell by more than 20 log points for the vast majority of workers. The only exception to this aggregate decline was the earnings dynamics of workers at the very top of the distribution—those above the 99.9th percentile—which exhibited resilience against the crisis and the increase in inflation. Following the crisis, there was a heterogeneous recovery of real earnings: the bottom of the earnings distribution of both men and women reached the pre-devaluation level of earnings much faster than the top of the distribution.

Blanco, Drenik, and Zaratiegui (2022) analyze the labor market around the 2001–2002 crisis and highlight how labor mobility and statutory earnings floors set by unions

¹³Appendix Figure A.1 of the Online Supplemental Material shows similar results for the entire population.

¹⁴The size of the CS sample implies that relatively few observations are used to estimate percentiles above the 99th percentile. Given that they are imprecisely estimated, one should be cautious when interpreting our results for percentiles at the very top of the earnings distribution.

¹⁵Using household survey data, Cruces (2005) finds that the impact of fluctuations in total household income during 1995–2002 was three times higher among households in the bottom quintile of the income distribution compared with those in the top quintile, even during periods of positive GDP growth between 1996 and 1998.

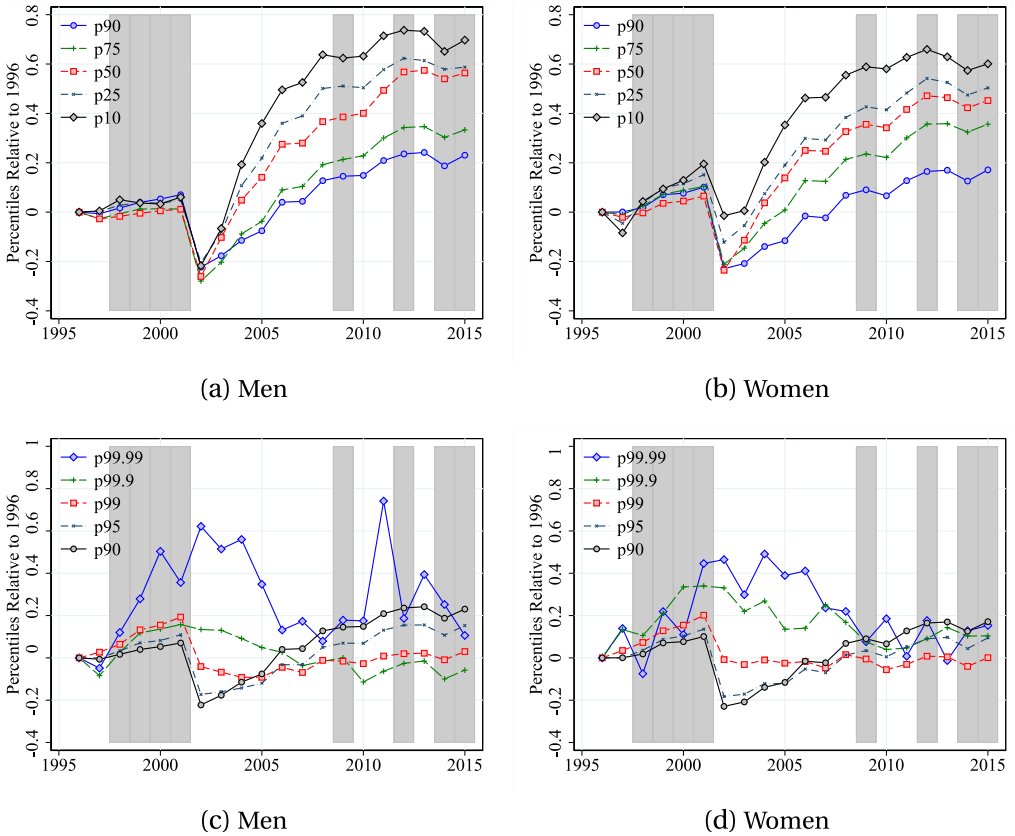


FIGURE 3. Change of percentiles of the log real earnings distribution. *Notes:* Using raw log earnings and the CS sample, Figure 3 plots the following variables against time: (a) Men: P10, P25, P50, P75, P90; (b) Women: P10, P25, P50, P75, P90; (c) Men: P90, P95, P99, P99.9, P99.99; (d) Women: P90, P95, P99, P99.9, P99.99. All percentiles are normalized to 0 in the first available year. Shaded areas indicate recessions. *Source:* Authors’ calculations based on the RELS, 1996–2015.

were important in generating this heterogeneous recovery during the subsequent years. During the recessions between 2007 and 2015, the decline in real earnings was much less pronounced, and the effects on workers’ earnings were limited to a slowdown in growth rates.

3.1.2 *The evolution of earnings inequality* As a result of the faster earnings growth at the bottom of the distribution, Argentina has experienced a large decline in inequality since 2002. Panels (a) and (b) of Figure 4 show the dynamics of two measures of log earnings inequality for men and women, respectively, the difference between the 90th and 10th percentiles and the standard deviation, scaled by a factor of 2.56, which corresponds to the P90-P10 differential for a Gaussian distribution. First, in terms of the level of inequality, the earnings distribution for women has been consistently less unequal than the distribution for men. Second, inequality started to decrease sharply after 2002 for both groups of workers. During the 2002–2008 period, the P90-P10 differential

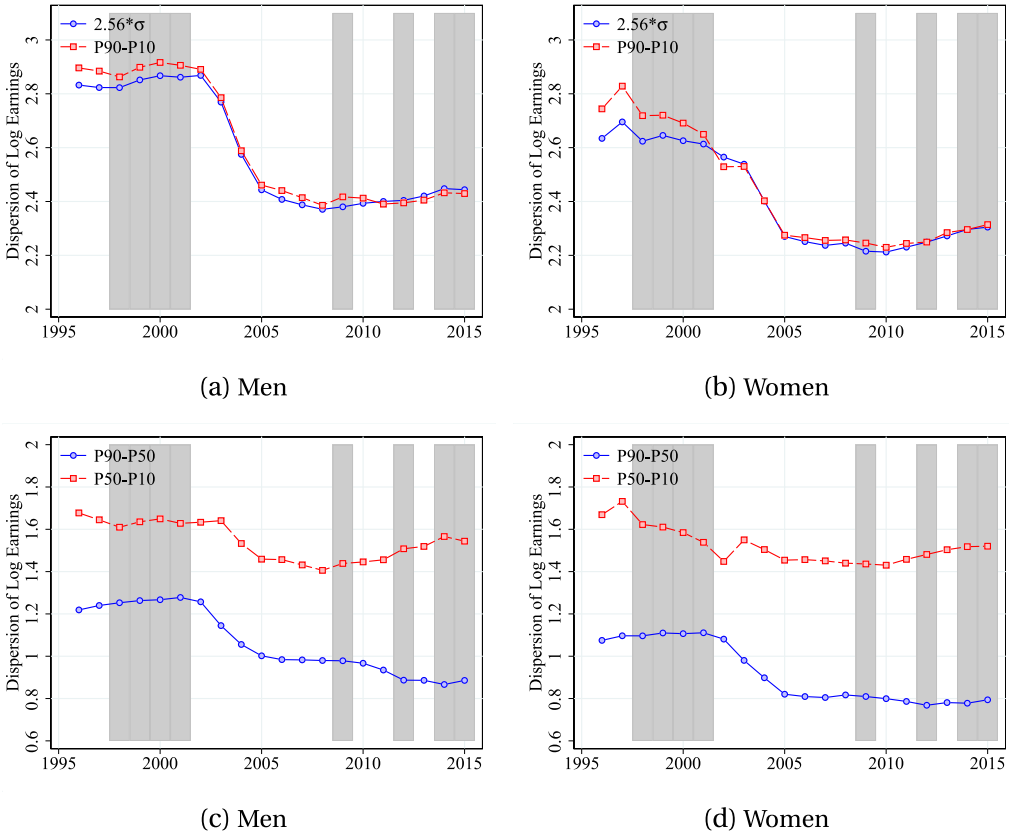


FIGURE 4. Earnings inequality. *Notes:* Using raw log earnings and the CS sample, Figure 4 plots the following variables against time: (a) Men: P90-10 and $2.56 \cdot \text{SD}$ of log earnings, (b) Women: P90-10 and $2.56 \cdot \text{SD}$ of log earnings, (c) Men: P90-50 and P50-10, (d) Women: P90-50 and P50-10. Shaded areas indicate recessions. $2.56 \cdot \text{SD}$ corresponds to the P90-10 differential for a Gaussian distribution. *Source:* Authors' calculations based on the RELS, 1996–2015.

decreased from 2.90 to 2.43 for men and from 2.74 to 2.31 for women. Since then, inequality has mildly and similarly increased for both men and women.¹⁶

Panels (c) and (d) of Figure 4 show the contribution of top and bottom inequality as measured by the P90-P50 and P50-P10 differences, respectively, to the aggregate dynamics of inequality. For men, there was a similar decline in top and bottom inequality of 28 and 23 log points, respectively, between 2002 and 2008 when inequality decreased. By contrast, for women, the main contributor to the decline in inequality during the same period was top inequality, which decreased by 26 log points. While top inequality

¹⁶Appendix Figure A.6 of the Online Supplemental Material shows the evolution of the Gini coefficient for the overall population, which followed dynamics similar to the previous measures of inequality, albeit with a more pronounced increase in inequality between 1996 and 2002.

since 2008 has remained stable or even decreased, bottom inequality has been steadily increasing, especially for men.¹⁷

Cruces and Gasparini (2009) highlight four forces behind the reduction in earnings inequality during 2003–2007: first, the recovery of labor demand, which induced upward pressure on nominal wages and earnings growth of the previously unemployed; second, changes in relative prices favoring labor-intensive industries, who were protected from imports following the devaluation; third, the potential role of decreasing technology adoption, which could have reduced earnings inequality by inducing less substitution of unskilled labor; and fourth, the aforementioned establishment of nontaxable lump-sum increases in formal workers’ salaries by the government.

3.1.3 Initial and life-cycle earnings inequality Previous literature has documented that earnings inequality differs significantly over the life cycle (see, e.g., Deaton and Paxson (1994), Storesletten, Telmer, and Yaron (2004)). Figure 5 reports the evolution of top and bottom inequality for 25-year-old workers. Inequality among young workers followed dynamics similar to those in the overall population: inequality consistently decreased until 2008, particularly at the bottom, and then increased until the end of the sample. The only difference is that the decline in inequality started before 2002, especially for the decline in top inequality. Another pattern worth highlighting is that while younger workers’ earnings have lower average dispersion at the top of the distribution (e.g., top-tail inequality measured by the log P90/P50 earnings percentile ratio was 0.84 for 25-year-old men vs. 1.07 for all men), they exhibit slightly higher dispersion at the bottom of the distribution (e.g., bottom-tail inequality measured by the log P50/P10 earnings percentile ratio was 1.63 for 25-year-old men vs. 1.54 for all men).

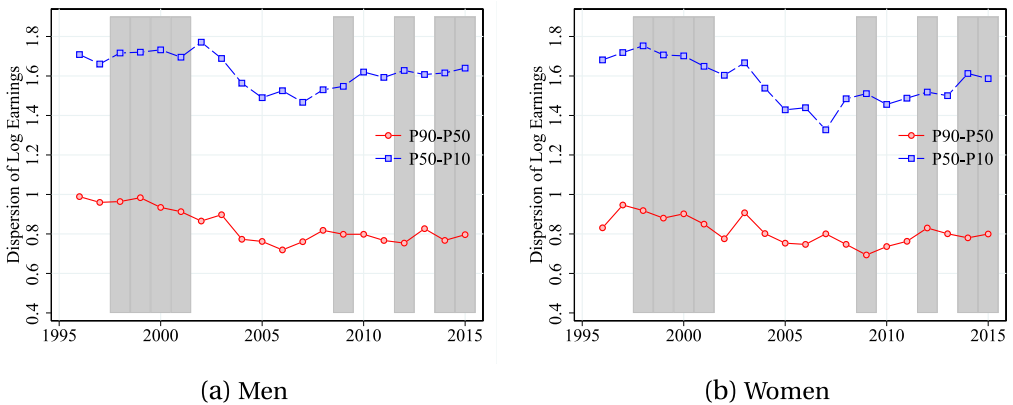


FIGURE 5. Initial earnings inequality among 25-year-olds. *Notes:* Using raw log earnings and the CS sample, Figure 5 plots the following variables against time: (a) Men: P90-50 and P50-10 at age 25, (b) Women: P90-50 and P50-10 at age 25. Shaded areas indicate recessions. *Source:* Authors’ calculations based on the RELS, 1996–2015.

¹⁷Appendix Figure A.2 of the Online Supplemental Material presents similar dynamics for residual earnings after controlling for age, indicating that results are not driven by changes in the age composition of the population.

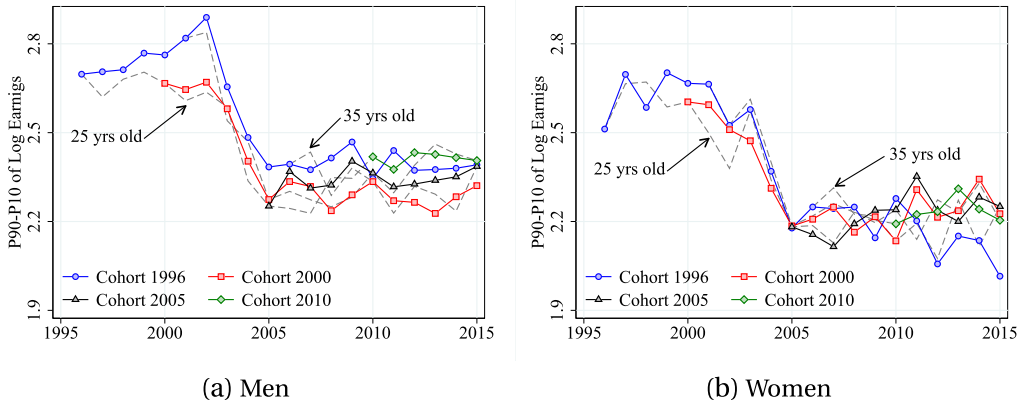


FIGURE 6. Life-cycle earnings inequality across cohorts. *Notes:* Using raw log earnings and the CS sample, Figure 6 plots the following variables against time: (a) Men: P90-10 over the life cycle for all available cohorts, (b) Women: P90-10 over the life cycle for all available cohorts. *Source:* Authors' calculations based on the RELS, 1996–2015.

In Figure 6, we report the evolution of the log earnings P90-P10 differential for four different cohorts: workers who turned 25 years old in 1996, 2000, 2005, and 2010. The dashed lines show the evolution of log earnings dispersion for 25-, 30-, and 35-year-old workers. The overall pattern is dominated by the aggregate decline in inequality precipitated by the 2001–2002 crisis. Since 2005, earnings inequality for men has been increasing with each additional cohort. For women, there are no large differences across the most recent cohorts.

3.1.4 Top earnings inequality Figure A.3 in the Appendix of the Online Supplemental Material plots the log complementary cumulative distribution function of the earnings distribution against log earnings for workers within the top 1% of the earnings distributions in 1996 and 2015. The close-to-linear relationship found in the data indicates that a Pareto distribution approximates well the right tail of the earnings distribution in Argentina. The same figure also reports estimates of the slope of the relationship between these variables, which is equal to (the negative of) the shape parameter of the Pareto distribution. Two patterns emerge. First, the earnings distribution for men became more fat-tailed than the distribution for women, as captured by the similar shape parameter in 1996 and the lower shape parameter in 2015. Second, over time, the Pareto tail became thicker for both men and women.

Despite the overall decline in inequality at the top of the earnings distribution, there is substantial heterogeneity within the top 1%. Panels (a) and (b) of Appendix Figure A.5 of the Online Supplemental Material plot the evolution of earnings shares by quintiles and by selected percentiles, respectively. Broadly, the share of earnings received by the first four quintiles increased from 1996 to 2015, at the expense of a decline of 7.7 percentage points (p.p.) of the top quintile's earnings share. While the earnings share received by the top 10% experienced a similar decline, the change in earnings shares received by those at the very top was remarkably different. For example, the earnings share received

by the top 1% declined by only 2.5 p.p., and the earnings share of those above the top 0.1% and 0.01% remained virtually constant throughout the entire period.

Consistent with the patterns we show in Appendix Figure A.5 of the Online Supplemental Material, [Alvaredo \(2010\)](#) estimates, based on personal income tax returns, that the share of income excluding capital gains that accrues to the top 0.1% increased from 4.3% in 1997 to 7% in 2004, and that of the 0.01% almost doubled from 1.4% to 2.5% over the same period. He associates this increase with the employment of high-income individuals in export-oriented sectors, which benefited from the real depreciation of the Argentine peso following the country’s currency devaluation in 2002.

3.2 Earnings dynamics

A standard life-cycle model with incomplete markets predicts that idiosyncratic earnings risk is an important determinant of consumption and savings decisions. In what follows, we document the dynamics of the distribution of earnings *changes*. More specifically, we report the evolution of the dispersion and higher moments of the distribution of the 1-year change in log residual earnings, g_{it}^1 .¹⁸

3.2.1 Earnings dynamics over time Figure 7 shows the evolution of the P90-P50 and P50-P10 gaps of the distribution of 1-year residualized log earnings changes, which intend to capture a measure of earnings risk. The first fact to notice is that Argentina’s level of earnings risk is higher than the measured risk in more advanced economies. For example, [Guvnen, Ozkan, and Song \(2014\)](#) report the same measures for men in the U.S., which fluctuate mostly within the [0.40, 0.55] range. Instead, in Argentina, the top and bottom inequality of g_{it}^1 exceeds that upper bound, reaching levels above 0.7. Despite

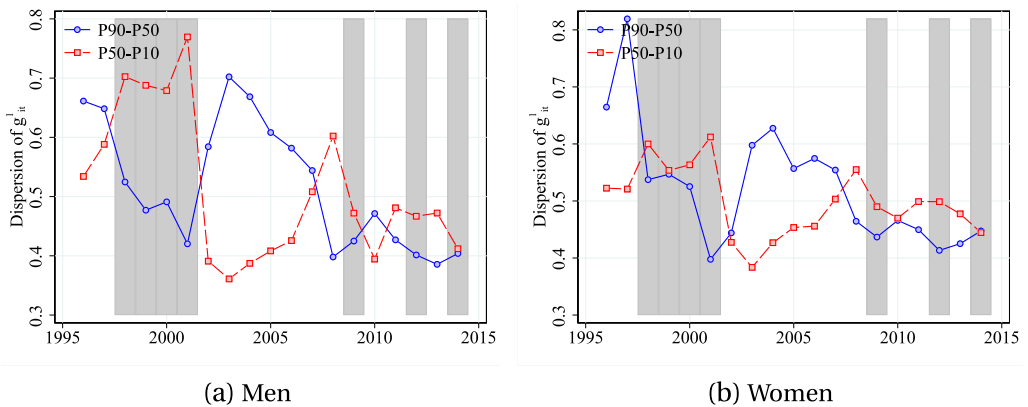


FIGURE 7. Dispersion of 1-year log earnings changes. *Notes:* Using residual 1-year earnings changes and the LS sample, Figure 7 plots the following variables against time: (a) Men: P90-50 and P50-10 differentials, (b) Women: P90-50 and P50-10 differentials. Shaded areas are recessions. *Source:* Authors’ calculations based on the RELS, 1996–2015.

¹⁸In Figures A.7 and A.8 of Appendix A.3 of the Online Supplemental Material, we report similar qualitative patterns for 5-year changes in log residual earnings, denoted by g_{it}^5 .

these differences in levels, earnings dynamics in Argentina share patterns over time similar to those of the relative to the U.S. Over the period of analysis, overall dispersion of 1-year changes (i.e., the log P90/P10 gap) decreased by 0.38 and 0.29 log points per year for men and women, respectively. Also, top and bottom inequality exhibited a negative co-movement during the business cycle, with positive (negative) earnings changes becoming less (more) likely during recessions.

Panel (a) of Figure 8 plots the dynamics of the Kelley skewness—a measure of symmetry—of the 1-year residualized log earnings change distribution, defined as $[(P90 - P50) - (P50 - P10)] / (P90 - P10)$. Consistent with the fact that in recessions, large negative changes become more prevalent, the figure shows a procyclical measure of Kelley skewness, similar to what Guvenen, Ozkan, and Song (2014) find in the U.S. Such procyclicality of Kelley skewness is more pronounced for men than for women. As highlighted by Hoffmann and Malacrino (2019), this cyclical pattern can be explained by changes in employment time (e.g., due to countercyclical unemployment risk). Additionally, in Section 4, we analyze an additional source of negative Kelley skewness in recessions: the asymmetric distribution of 12-month changes in nominal monthly earnings.¹⁹ The large shift from a negative to a positive Kelley skewness around 2002 can be explained by the slow and infrequent adjustment of nominal wages to the inflation spike that occurred in the wake of the devaluation.

Panel (b) of Figure 8 plots the dynamics of the excess Crow–Siddiqui kurtosis—a measure of “tailedness”—of the distribution of 1-year residualized log earnings changes,

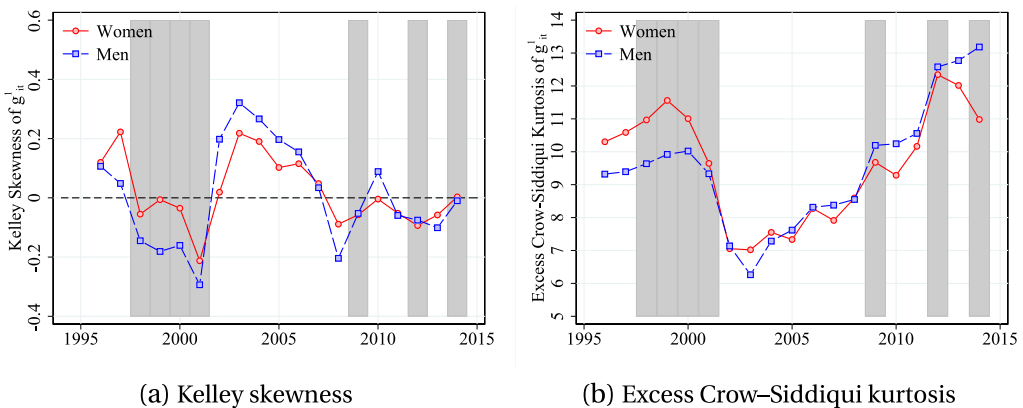


FIGURE 8. Kelley skewness and excess Crow–Siddiqui kurtosis of 1-year log earnings changes. *Notes:* Using residual 1-year earnings changes and the *LS* sample, Figure 8 plots the following variables against time: (a) Men and Women: Kelley skewness, (b) Men and Women: Excess Crow–Siddiqui kurtosis calculated as $\frac{P_{97.5} - P_{2.5}}{P_{75} - P_{25}} - 2.91$, where the first term is the Crow–Siddiqui measure of kurtosis and 2.91 corresponds to the value of this measure for the Normal distribution. Shaded areas indicate recessions. *Source:* Authors’ calculations based on the RELS, 1996–2015.

¹⁹Such asymmetry is observed only in the low-inflation period (before 2002), which can explain the lower fluctuation of Kelley skewness in the high-inflation period (after 2007).

defined as $(P97.5 - P2.5)/(P75 - P25)$. This measure is presented relative to that corresponding to the Normal distribution. First, for both men and women, the distribution of earnings changes exhibits much fatter tails than a Normal distribution, as was previously documented by Guvenen, Ozkan, and Song (2014) and Guvenen et al. (2021) for the U.S. Second, we find a secular increase in the excess Crow–Siddiqui kurtosis, which was temporarily interrupted around the end of the 2002 crisis.

To summarize, the facts shown in Figure 8 point to significant deviations between the empirical distribution of earnings changes and a Normal distribution.²⁰

3.2.2 Earnings dynamics by age and earnings rank Next, we provide facts about the distribution of 1-year earnings changes by age, earnings rank, and gender. To do so, we group workers into three age groups (25–34, 35–44, and 45–55 years) and permanent earnings percentiles over the last 3 years.

We find that the dispersion of earnings changes (i.e., the P90/P10 gap) is decreasing in age conditional on earnings; see panels (a) and (b) of Figure 9 for results for men and women, respectively. We also find a U-shaped pattern of dispersion by earnings conditional on age. While the decline in permanent earnings at the bottom of the distribution is gradual, the increase in earnings occurs above the 95th percentile and is steep. The overall pattern is similar across gender groups, except for a higher dispersion for men at the bottom of the permanent earnings distribution, irrespective of age.

Panels (c) and (d) of Figure 9 present the Kelley skewness of 1-year earnings changes. We find a more symmetric distribution for men: Kelley skewness is mostly positive but close to zero. Also, differences in Kelley skewness across earnings and age groups among men are small. In contrast, Kelley skewness among women is much more heterogeneous across the earnings distribution: it fluctuates in the $[-0.15, 0.15]$ range, which is much wider than the range of fluctuations for men of $[-0.05, 0.10]$. Such fluctuations also follow a U-shaped pattern across the earnings distribution, especially those for young women: for women, Kelley skewness is positive at the bottom third of the distribution, negative in the second third, and closer to zero for women in the top third.

Regarding the excess Crow–Siddiqui kurtosis of earnings changes, panels (e) and (f) of Figure 9 show an inverted U-shaped pattern across the permanent earnings distribution. The degree of heterogeneity across the distribution is much more pronounced for men than for women. For the former, there is a steeper increase in excess Crow–Siddiqui kurtosis for older workers at the bottom third of the distribution. For men in the middle and top of the distribution, excess Crow–Siddiqui kurtosis is highest among the youngest workers. We also observe an increase at the bottom of the distribution for women across all age groups, albeit one that is smaller in magnitude. In addition, the decline is more gradual and observed mostly among younger women.

Figure A.18 in the Appendix of the Online Supplemental Material presents the same statistics for the pooled sample of men and women, with overall similar results. Figure

²⁰Figures A.11 and A.12 in the Appendix of the Online Supplemental Material plot the empirical log-densities of 1- and 5-year earnings growth changes. Deviations from normality are evident: the distributions exhibit nonzero skewness and are leptokurtic (i.e., a more pronounced “peak” around zero changes and fatter tails).

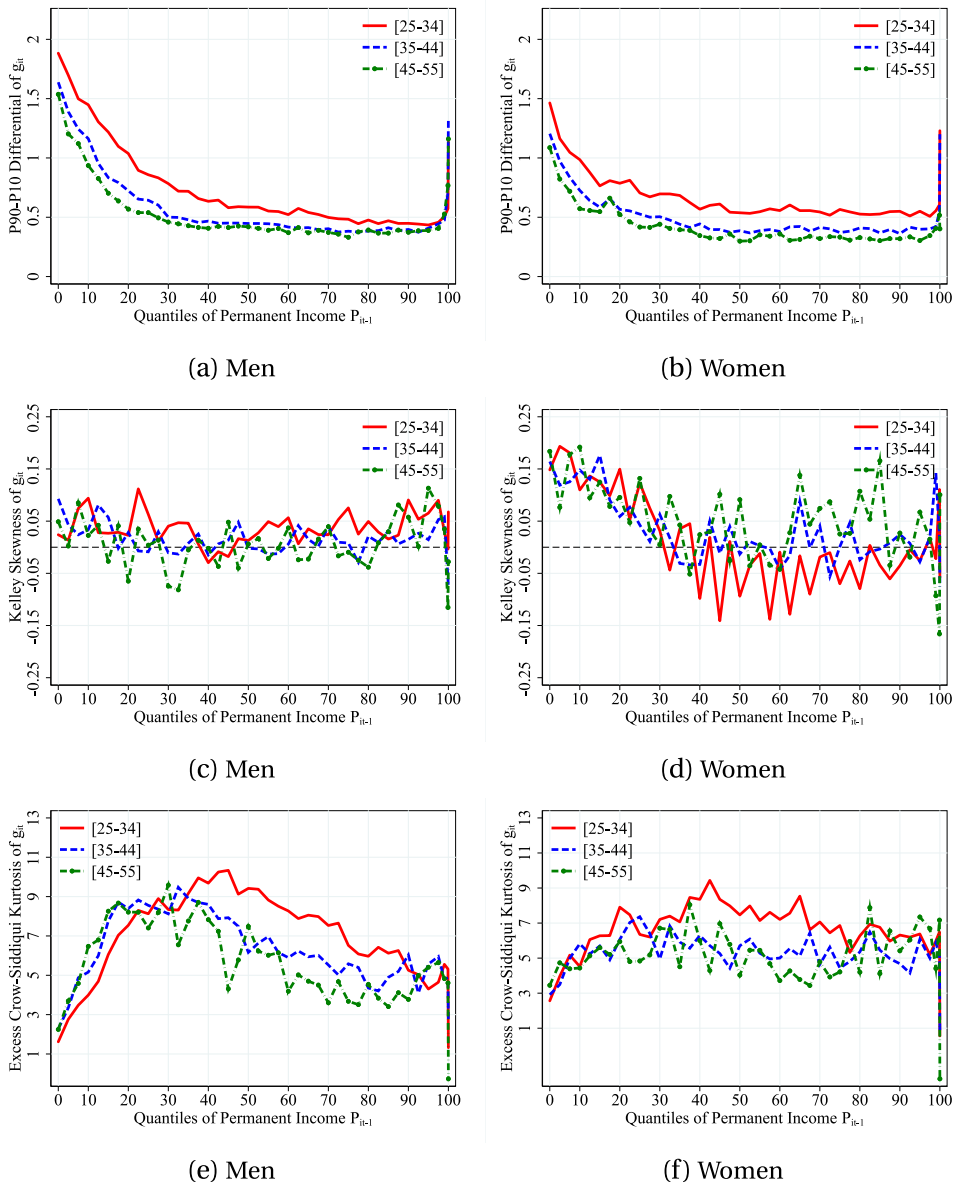


FIGURE 9. Dispersion, Kelley skewness and excess Crow–Siddiqui kurtosis of 1-year log earnings changes, by gender. *Notes:* Using residual 1-year earnings changes and the LS^+ sample, Figure 9 plots the following variables against permanent earnings quantile groups for the three age groups: (a) Men: P90–10, (b) Women: P90–10, (c) Men: Kelley skewness, (d) Women: Kelley skewness, (e) Men: Excess Crow–Siddiqui kurtosis, (f) Women: Excess Crow–Siddiqui kurtosis. Excess Crow–Siddiqui kurtosis is calculated as $\frac{P_{97.5}-P_{2.5}}{P_{75}-P_{25}} - 2.91$, where the first term is the Crow–Siddiqui measure of kurtosis and 2.91 corresponds to the value of this measure for the Normal distribution. *Source:* Authors’ calculations based on the RELS, 1996–2015.

A.13 in the Appendix of the Online Supplemental Material also presents results for the distribution of 5-year earnings changes by age, earnings, and gender. The overall patterns are similar, but with three main differences. First, as expected, the level of earnings volatility is higher across the earnings distribution and age groups. Second, the distribution of the 5-year earnings changes exhibits negative Kelley skewness also for men. Finally, the distribution of 5-year earnings changes has thinner tails than that of 1-year earnings changes.

3.3 Mobility

In Figure 10, we analyze how earnings dynamics have affected earnings mobility over the life cycle in Argentina. We consider the average rank-rank mobility of permanent earnings over a 10-year period and look at two age brackets, 25–34 and 35–44, for both men and women. Consistent with the compression in the earnings distribution we have documented so far, we see upward (downward) rank mobility below (above) the 40th percentile of the permanent earnings distribution. Those at the lower end of the distribution exhibit higher mobility. For instance, on average, workers at the 10th percentile of the permanent earnings distribution manage to transition to between the 25th and 30th percentiles after 10 years. Women seem to exhibit slightly higher mobility than men and younger workers show higher mobility than their older counterparts for both genders, especially at the extremes of the distribution.²¹

Figure 11 further compares mobility patterns over time, looking at 10-year changes in 2000 and 2005. Mobility patterns seem to be very stable for both men and women in

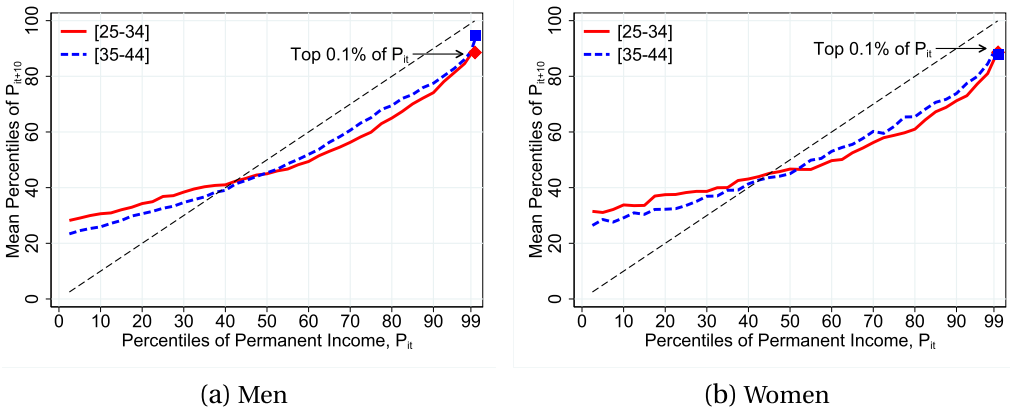


FIGURE 10. Evolution of 10-year mobility over the life cycle. *Notes:* Figure 10 plots average rank-rank mobility over a 10-year period by showing average rank of permanent earnings in $t + 10$ as a function of the permanent earnings rank in t . Results are reported as the average mobility during the period of analysis from 1996–2015 and for two age groups defined in period t (i.e., 25–34 and 35–44). *Source:* Authors’ calculations based on the RELS, 1996–2015.

²¹In the Appendix of the Online Supplemental Material, we look at 5-year mobility and confirm that mobility falls monotonically with age when we include an additional age group: those between 45 to 55 years of age.

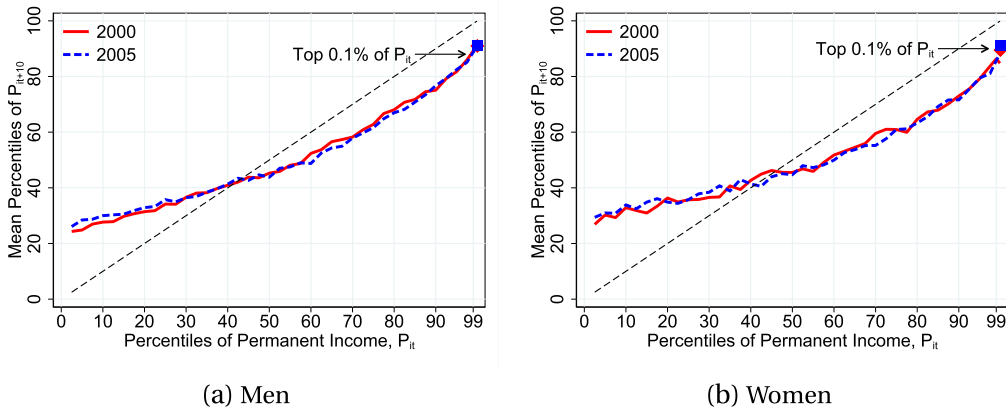


FIGURE 11. Evolution of 10-year mobility over time. *Notes:* Figure 11 plots average rank-rank mobility over a 10-year period by showing average rank of permanent earnings in $t + 10$ as a function of the permanent earnings rank in t . Results are reported for $t = 2000$ and $t = 2005$. *Source:* Authors' calculations based on the RELS, 1996–2015.

Argentina over this period. Finally, Figures A.16 and A.17 in the Appendix of the Online Supplemental Material show that these mobility patterns are similar in the short run when looking at a 5-year horizon.

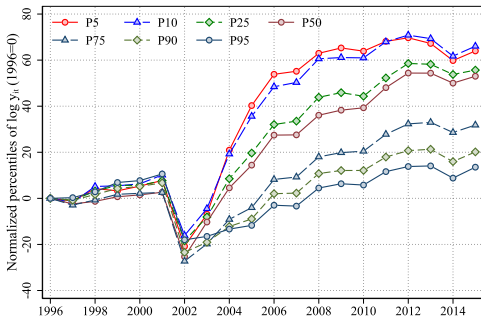
3.4 Comparing data sources and economic sectors

While the SIPA administrative data have several advantages in measuring labor market outcomes, they naturally miss a significant share of Argentina's informal labor market. This section compares the administrative data from SIPA with independent household survey data from the EPH. We validate cross-sectional statistics in both samples, highlighting similarities and differences between the two data sources. Using the EPH household survey data only, we also compare earnings inequality and dynamics in Argentina's formal and informal sectors over this period.

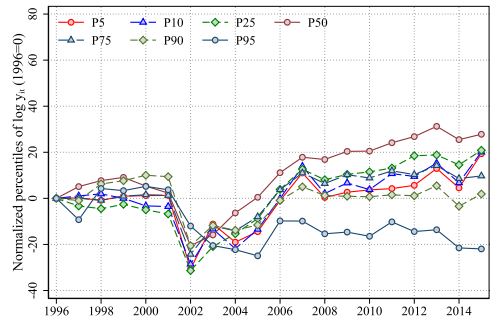
3.4.1 Comparing the formal sector between administrative and household survey data

A characteristic feature of the earnings distribution during Argentina's economic crisis was the sharp inflation spike surrounding the country's devaluation in January 2002. We have already shown that this spike in the general price level resulted in a concurrent drop in real wages in Argentina's formal sector. In Figure 12, we confirm a similar drop in real earnings for workers at all percentiles in Argentina's formal sector in 2002. To do so, we use administrative data from SIPA in panel (a) and household survey data from EPH in panel (b). Over the 15 years following Argentina's devaluation in 2002, real earnings among workers in the formal sector recovered in both SIPA and EPH.

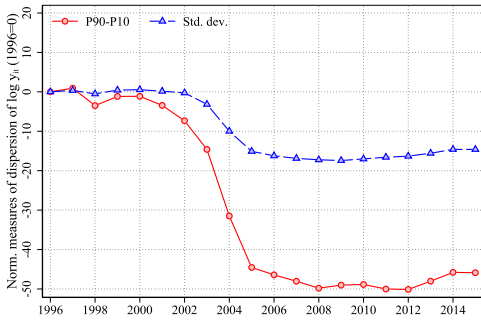
However, the speed and magnitude of recovery are more pronounced in SIPA than EPH, particularly over the period from 2002 to 2008. This is especially true for workers at the bottom of the formal sector's earnings distribution. For example, the P50 grows by around 50 log points between 2002 and 2015 in the EPH household survey data, compared with a more pronounced 80 log points growth over the same period in the SIPA



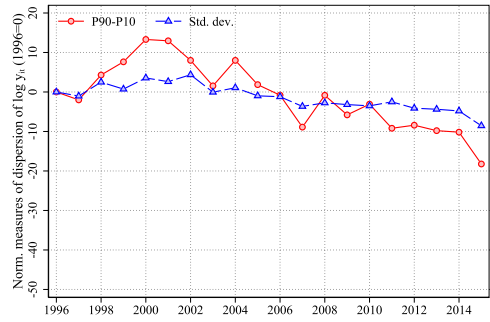
(a) Percentiles, SIPA administrative data



(b) Percentiles, EPH household survey data



(c) Dispersion, SIPA administrative data



(d) Dispersion, EPH household survey data

FIGURE 12. Normalized percentiles and dispersion of log earnings, SIPA and EPH. *Notes:* Figure 12 shows percentiles of the earnings distribution (panels (a) and (b)) and measures of earnings dispersion (panels (c) and (d)), using administrative data from SIPA (panels (a) and (c)) and household survey data from EPH (panels (b) and (d)) for Argentina. *Source:* Authors’ calculations based on the RELS and EPH, 1996–2015.

administrative data. Relative to 2002, real earnings growth is understated across all percentiles in EPH compared with SIPA, although the very bottom percentiles (P5 and P10) grew especially fast in SIPA compared with EPH.

As a result, panels (c) and (d) of Figure 12 show that overall earnings inequality measured by the P90-P10 log percentile ratio or the standard deviation of log earnings has declined in both the SIPA administrative data and the EPH household survey data between 2002 and 2015. However, the magnitude of the decline in earnings inequality is somewhat more pronounced in SIPA than EPH by both inequality measures. For example, the standard deviation of log earnings declined by around 15 log points between 2002 and 2015 in SIPA but by around 10 log points in EPH.

3.4.2 Comparing the formal and informal sectors in household survey data There are many differences between Argentina’s formal and informal sectors. Chief among them is that informal workers are not covered by formal labor institutions such as the minimum wage, collective bargaining agreements, employment protection, and social secu-

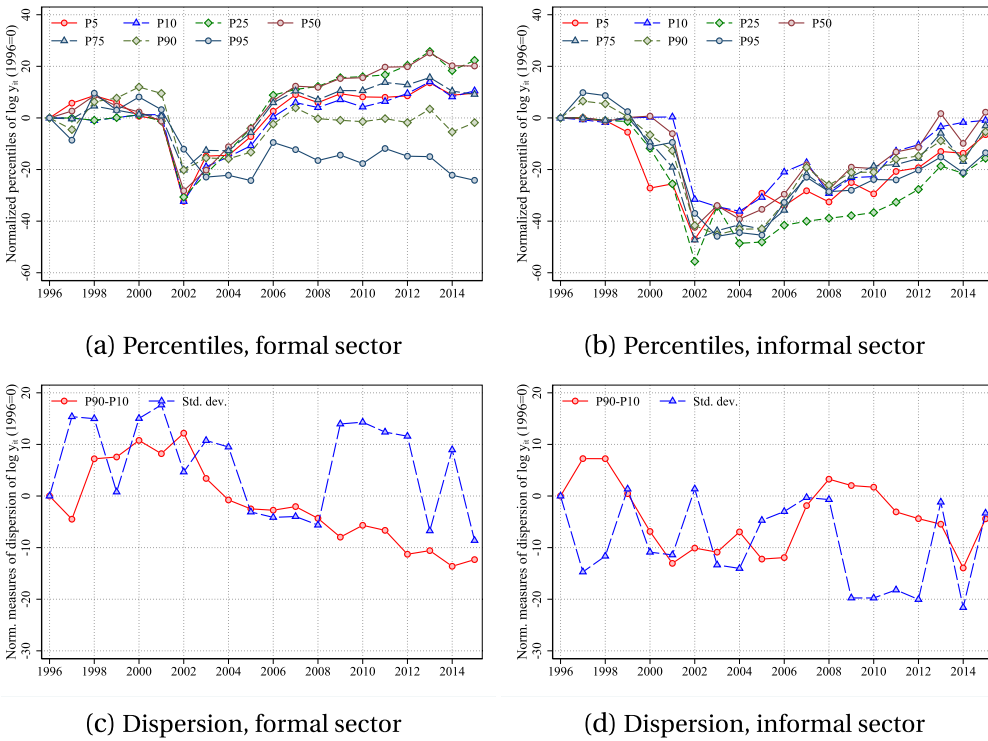


FIGURE 13. Normalized percentiles and dispersion of log earnings, formal and informal sectors. *Notes:* Figure 13 shows percentiles of the earnings distribution (panels (a) and (b)) and measures of earnings dispersion (panels (c) and (d)) for workers in Argentina’s formal sector (panels (a) and (c)) and informal sector (panels (b) and (d)), based on household survey data from EPH. *Source:* Authors’ calculations based on EPH, 1996–2015.

ity benefits. This raises the important question: How do labor market outcomes compare for workers in Argentina’s formal versus informal sectors?

To answer this question, Figure 13 replicates the same set of standardized statistics of the distribution of earnings in Argentina separately for workers in the formal and informal sectors. Panels (a) and (b) of the figure compare the evolution of various percentiles of the earnings distribution from 1996 to 2015. Both sectors saw approximately stagnant earnings from 1996 to 2001, followed by a sharp drop in real earnings due to the inflation spike in 2002. In subsequent years, an interesting pattern emerges. Workers in the lower 75% of the earnings distribution in the formal sector recover significantly faster from the crisis compared with those in the informal sector. Through slower growth of earnings in the informal sector, only around 10 years after the inflation spike do earnings of workers in the informal sector catch up.

As a result of these dynamics, panels (c) and (d) of Figure 13 show a significant decline in earnings dispersion—measured by either the log P90/P10 ratio or the standard deviation of log earnings—starting in 2002 both in the formal sector and also in the informal sector of Argentina. However, the decline in earnings dispersion occurred more quickly in the formal sector than in the informal sector between 2002 and 2008.

These observations are consistent with the role of the minimum wage and of unions, which have a direct effect only on workers in the formal sector.

4. NOMINAL WAGE ADJUSTMENTS UNDER LOW- AND HIGH-INFLATION REGIMES

In this section, we document a series of facts pertaining to wage dynamics across workers in Argentina under low- and high-inflation settings. We first describe how we construct regular wages, and thus regular-wage changes, for each worker. Then we report and discuss various moments based on the distribution of estimated regular-wage changes.

4.1 *Measurement*

In the following analysis, we restrict our attention to total monthly labor compensation—henceforth referred to as “wages”—of workers between 25- and 55-years-old in the private sector. Before we measure nominal wage rigidity in our data, we need to address four measurement challenges associated with administrative wage data in Argentina.

First, since SIPA collects data on workers at a monthly frequency, we do not know the exact day their job spells start or end. Owing to this time aggregation problem, we omit the first and last wage of each job spell. Additionally, the last month of the job spell may include severance payments, so a worker’s wage in the last month of a job spell is not necessarily comparable with previous wages. Second, the SIPA data set features outliers that are incongruent with Argentine labor market policies. Following criteria similar to those in Section 2.1, we define outliers as the wages of workers who earn less than half of the monthly minimum wage. We drop monthly observations with wages below this threshold. Third, observed wages exhibit slight variations (i.e., cents) in total value (e.g., AR\$2,012.75 versus AR\$2,013.15) across months, which we discard by rounding monthly earnings to the nearest integer.

The fourth and most significant measurement challenge is the presence of transitory deviations from a modal or permanent wage. Theory in the price-setting literature shows that aggregate price flexibility depends on the composition of price changes between those of a transitory or a permanent nature (see Eichenbaum, Jaimovich, and Rebelo (2011), Kehoe and Midrigan (2015), Alvarez and Lippi (2020)). In particular, Kehoe and Midrigan (2015) show that aggregate price flexibility depends mainly on price changes that do not revert to their previous nominal value. Intuitively, transitory deviations in prices matter less for aggregate price rigidity as prices revert to their previous value, while the same is not true for permanent changes. For this reason, we distinguish between total wages and “regular” wages and present facts about the latter.

Transitory wage changes typically take one of two forms. First, transitory wage changes frequently occur as small, idiosyncratic deviations around the permanent wage without any particular seasonal patterns. Such idiosyncratic fluctuations in wages can result from changes in the intensive margin of labor supply, small regular bonuses, workers’ commissions, and other temporary economic phenomena. Second, transitory wage changes also frequently occur as large, seasonal deviations around the permanent wage



(a) Example 1: Mario

(b) Example 2: Diana

FIGURE 14. Two examples of the evolution of wages and regular wages. *Notes:* Panels (a) and (b) of Figure 14 plot the evolution of the log wage (red line with circles) and the log regular wage (blue triangles) for two workers in the sample with fictitious names. The black dashed vertical lines mark job changes. *Source:* Authors' calculations based on the RELS, 1996–2015.

in particular months of the year. Such seasonal fluctuations in wages can result from end-of-year performance bonuses, vacation payments, and the administration of a 13th salary, which is commonly established by law or collective bargaining agreements and equal 50% of the highest wage earned over the previous six months, split into two equal payments disbursed in June and December. Our procedure attempts to eliminate both of these types of transitory wage changes by filtering the data as described in detail below.

To illustrate how we measure a worker's regular wage, panels (a) and (b) of Figure 14 show the log wage (circles and solid lines) of two workers—fictitiously called Diana and Mario—from our sample. Each has varying experiences in the labor market. Following our previous description, we start the measurement exercise by first dropping the first and last months of all job spells. As the figures show, Diana changed jobs in March of 1998, so we drop wages earned in March and April to construct the regular wage. Second, we drop any outliers from their reported wage series. Mario's wages are below half of the minimum wage in 2 months, and there is a large spike in Diana's last wage, so we drop those three observations as well.

Notice that the repeated temporary wage increase across the two samples is the wage increase in June and December due to payment of the 13th salary. Although the 13th salary is commonly paid in June and December, there are instances in which, for administrative reasons, they are paid in adjacent months. Finally, observe that in Diana's second job spell, only 7% of wages are repeated, but wages clearly fluctuate around persistent levels. This pattern underlines the importance of filtering out transitory and persistent components of a given wage series. Next, we summarize the methodology to purge wages from their transitory components—the result of which we refer to as the regular wage.

4.1.1 Summary of methodology We construct regular wages within job spells using the Break Test proposed by [Stevens \(2020\)](#), which is an adaptation of the Kolmogorov–Smirnov test of the equality of two distributions. The basic idea behind this methodology is to split a wage series into two contiguous subsamples and test whether those subsamples were drawn from the same distribution. The methodology will identify changes in the regular-wage series—henceforth referred to as “breaks”—whenever differences between observed wage series before and after a potential break are sufficiently large.

This methodology requires the specification of a threshold value, denoted by \mathcal{K} , that determines whether differences in subsamples of wages are large enough to reject the null hypothesis of no break in the series. The appeal of this methodology is that it relies on a single parameter \mathcal{K} . However, there are no standardized critical values to test for this null hypothesis. Therefore, we determine this parameter via a cross-validation exercise based on the estimation and simulation of a structural model of total and regular-wage setting. The procedure to determine \mathcal{K} follows these six steps:

1. Set up a statistical model for total and regular wages indexed by a vector of parameters θ .²² Appendix B.1 of the Online Supplemental Material provides the details of the statistical model.
2. Choose θ to reproduce moments of total wages in the pooled data from 1996 to 2015.²³ Appendix B.2 of the Online Supplemental Material provides the details of the model estimation.
3. From the estimated model, compute the (known) frequency of regular-wage changes $Freq$.
4. Simulate a panel of wage series from the model.
5. For a given value of \mathcal{K} , apply the test in [Stevens \(2020\)](#) to the simulated data, obtain series of regular wages and compute the frequency of these wage changes \widehat{Freq} .
6. Choose the value of \mathcal{K} such that $\widehat{Freq} = Freq$. Appendix B.3 of the Online Supplemental Material provides the details of this step.

Panels (a) and (b) of [Figure 14](#) illustrate the result of this procedure by showing the sample paths of log regular wages for Diana and Mario. Inspection of the figures, together with the results of the structural model, suggests that while the break test is not perfect, it captures well the intuitive notion of a regular wage in the data.

Once we obtain a value for \mathcal{K} , we apply the Break Test on the actual microdata from Argentina and compute the set of statistics of interest. In addition to the Break Test, we apply three other filters used in the pricing literature to recover regular wages ([Nakamura and Steinsson \(2008\)](#), [Kehoe and Midrigan \(2015\)](#), [Blanco \(2021\)](#)). Appendix B.4 of the Online Supplemental Material highlights the advantages of the Break Test over these alternative methods. In addition, we have further analyzed the robustness of our results

²²We adapt the original inaction model of [Caballero and Engel \(1993\)](#) to a wage setting context. See [Alvarez, Lippi, and Paciello \(2011\)](#) for a similar microfoundation in the price-setting context.

²³We use moments of total wages suggested by [Baley and Blanco \(2021\)](#).

by computing different critical \mathcal{K} values for periods of high and low average inflation. More specifically, we split job spells according to their start date into two samples: jobs that started before January 2003 and those that started after. Those samples correspond to periods of low and high inflation, respectively. Then we repeated the same steps described above to each of the two samples. While there are differences in the estimated moments and parameters across periods, we do not find a significant difference in the calibrated critical \mathcal{K} values across samples and regular-wage statistics analyzed below.²⁴

4.1.2 The relevance of regular wages Before documenting our main results, here we show that the regular wages are an important component of total wages, and that changes in regular wages account for a large share of total wage changes. Starting with total wages, we can write total wages (w_t) as the sum of transitory wages (w_t^T) and regular wages (w_t^R), so $w_t = w_t^T + w_t^R$, and decompose the variance of total wages as follows:

$$\underbrace{\text{Var}(w_t)}_{=0.48} = \underbrace{\text{Var}(w_t^R)}_{=0.44} + \underbrace{\text{Var}(w_t^T)}_{=0.03} + \underbrace{2 \times \text{Cov}(w_t^R, w_t^T)}_{=0.01}. \quad (1)$$

This decomposition shows that almost 92% of the dispersion in total wages across workers and years is due to the dispersion in their regular wages. Around 6% of the variation in total wages stems from the dispersion in transitory wages, while the covariance term captures the roughly 2% remaining variation. Figure 15 presents a similar variance decomposition for 12-month changes in the total wage, $\Delta w_t \equiv w_t - w_{t-12}$, and reports the contribution of the variance of the regular and transitory components of wage changes to the overall variance of Δw_t . In periods of low inflation (i.e., between 1996 and 2002),

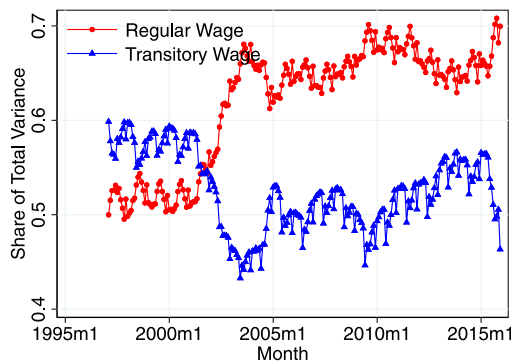


FIGURE 15. Variance decomposition of 12-month wage changes. *Notes:* Figure 15 presents the variance decomposition of $\Delta w_t \equiv w_t - w_{t-12}$ over time, where time t is at the monthly level. The red line with circles shows the variance share due to the regular-wage component and corresponds to $\text{Var}(\Delta w_t^R) / \text{Var}(\Delta w_t)$. The blue line with triangles shows the variance share due to the transitory wage component and corresponds to $\text{Var}(\Delta w_t - \Delta w_t^R) / \text{Var}(\Delta w_t)$. *Source:* Authors' calculations based on the RELS, 1997–2015.

²⁴Table B.2 in the Appendix of the Online Supplemental Material shows the threshold values for the entire sample and the two subsamples. Figures B.9 and B.10 in the Appendix of the Online Supplemental Material reproduce Figures 16 and 19 of the main text, respectively.

changes in the regular and transitory wage account for 52% and 56% of the overall variation, respectively, with a negative covariance component equal to -9.3% . During the period of increasing inflation after 2002, the contribution of regular-wage changes increases to 66%, while that of changes in transitory wages declines to 51%, with a negative covariance term equal to -16.7% . Thus, we conclude that regular wages capture an important component of workers' earnings and their changes, especially in times of high inflation.

4.2 Results

This section presents and discusses the main results. We first report the frequency of regular-wage changes for the aggregate data under low and high inflation. We then discuss the results across different groups of workers by age, gender, earnings, and sector.

4.2.1 Population statistics on changes in regular wages We next provide evidence of the process of regular-wage adjustment for the overall population of workers. We present results for the entire period from 1996 to 2015 but also report summary statistics for two subperiods. The first subperiod is from 1997 to 2001, with low annual inflation rates of -0.3% on average. The second subperiod is from 2007 to 2015, with high annual inflation rates of 24.3% on average. We study these periods to focus on the two clear inflation regimes in Argentina while omitting the transition period originated by the 2002 devaluation and the subsequent adjustment of relative prices.

4.2.1.1 Frequency of regular-wage changes Figure 16, panel (a) displays the annual frequency of regular-wage changes—that is, the share of workers who experienced at least one regular-wage change between $t - 12$ and t . Panel (b) shows the 12-month moving average of the monthly frequency of wage changes. We find that the frequency of wage

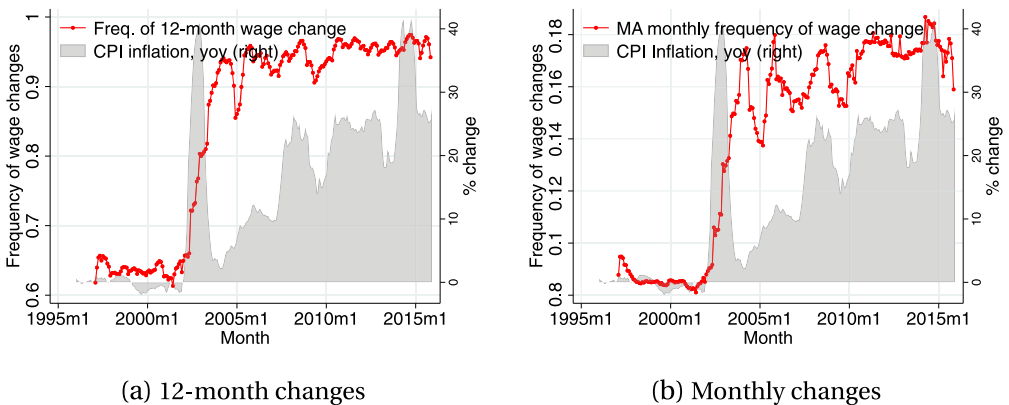


FIGURE 16. Frequency of 12-month regular-wage changes. *Notes:* Panels (a) and (b) of Figure 16 show the annual frequency of regular-wage changes and the 12-month moving-average of the monthly frequency of regular-wage changes. The shaded area shows the annual percentage change in the consumer price index. *Source:* Authors' calculations based on the RELS, Central Bank of Argentina, and INDEC, 1996–2015.

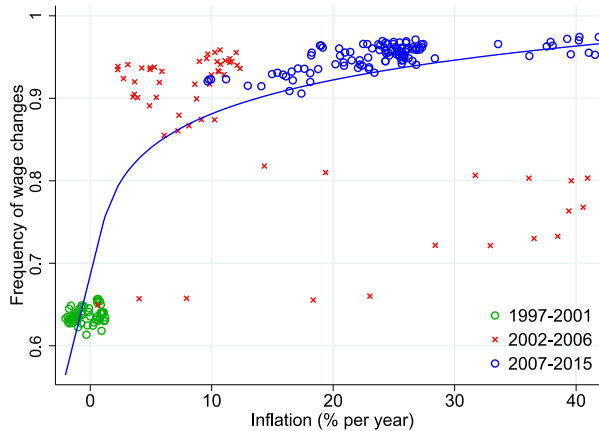


FIGURE 17. Inflation and frequency of 12-month regular-wage changes. *Notes:* Figure 17 plots the frequency of 12-month regular-wage changes against the annual percentage change in the consumer price index. The green circles show the 1997–2001 period of low and negative inflation, the blue circles represent the 2007–2015 period of high inflation, while the red crosses plot the 2002–2006 transition period after Argentina’s 2002 devaluation. The blue line shows least-squares, fitted values for the frequency of 12-month regular-wage changes against $\log(\pi_t)$, for $\pi_t > 1$, and against $(\pi_t - 1)$, for $\pi_t \leq 1$. π_t is the annual percentage change in the consumer price index. *Source:* Authors’ calculations based on the RELS, Central Bank of Argentina, and INDEC, 1997–2015.

changes increases with inflation and is procyclical. For the low-inflation period, the average annual (monthly) frequency is 0.64 (0.09). In the same vein, using administrative payroll data for the U.S. during the 2008–2016 period, Grigsby, Hurst, and Yildirmaz (2021) measure a similar average annual frequency of 0.65, while Sigurdsson and Sigurdardottir (2016) find a mean monthly frequency of (base) wage change of 0.13 using administrative data from Iceland during 1998–2010. During the high-inflation period in Argentina, the average annual frequency of wage change increases to 0.95. Figure 17 further plots the frequency of 12-month regular-wage changes against annual inflation. Consistent with the patterns we show in Figure 16, we find that the frequency of wage changes increases with inflation, especially after the large devaluation of the currency and the subsequent (temporary) spike in inflation in 2002. The wide difference between the level of frequencies of wage adjustments pertaining to the high inflation regime (blue circles in the figure) and those corresponding to the low inflation regime (green circles) reflect the relatively high sensitivity of such frequencies to a switch in the inflation regime. Finally, Table B.7 in the Appendix of the Online Supplemental Material reports the correlation of the frequency of wage changes with inflation, which was 0.67 during the entire sample. However, this correlation is different across inflation regimes: in the low-inflation regime, the correlation was 0.16, while in the high-inflation regime, it was 0.66. This evidence shows strong state dependence of the wage setting mechanism.²⁵

²⁵Figure B.11 in the Appendix of the Online Supplemental Material shows the monthly and annual frequency of changes of total wages and regular wages. A clear pattern holds in the figure; the frequency of

4.2.1.2 Changes in regular wages within job spells Despite this sizeable annual frequency of wage changes, it is not the case that in periods of high inflation workers' wages are constantly updated, as the monthly frequency of wage changes increases from 0.09 to only 0.17 across subperiods. To further illustrate this point, Appendix Figure B.5 of the Online Supplemental Material plots the average fraction of months within a year and job spell that experienced a regular-wage change relative to the previous month. Before 2002, the average job spell experienced a wage change in 7.5% of the months. For a spell that lasted 12 months, this corresponds to slightly less than a single wage change per year. After 2002, this fraction increased to 14.4%, which means that a worker who kept the same job for 12 months experienced on average slightly less than two wage changes per year.

4.2.1.3 Seasonality of changes in regular wages In addition to affecting how often workers experience wage changes, the level of inflation is associated with different seasonal patterns. Appendix Figure B.6 of the Online Supplemental Material plots the average frequency of regular-wage changes by calendar month for low- and high-inflation periods. There are no large seasonal patterns in times of low and stable inflation, except for December, when the average monthly frequency of wage changes is 0.14 (relative to an average of 0.08). Combined with the fact that workers experienced a single change in contractual wages during the year and union bargaining was dormant during this period, this pattern implies that many wage changes reflect idiosyncratic worker-, firm-, or match-level variation, rather than coordinated variation at the time level. Sharper seasonal patterns emerge in times of high inflation, when the monthly frequency of wage changes spikes to 0.35 in June and December, relative to an average of 0.17. This stronger time dependence is consistent with the fact that as inflation increased, unions (i) started playing a more significant role in the adjustment of wages and (ii) were able to negotiate two wage scales within the same contract, with one scale for each 6-month period within a year. As a consequence, wage changes became more synchronized and concentrated in June and December.²⁶

4.2.1.4 Direction of changes in regular wages Figure 18 shows the annual frequency of wage increases and decreases. We find that the frequency of upward (downward) wage changes significantly increases (decreases) with inflation, from an average of 0.44 (0.20) during the low-inflation period to an average of 0.90 (0.05) during the high-inflation period. As expected, at high inflation rates, frequent wage increases become the norm, while wage cuts become very rare.²⁷

annual or monthly wage changes is larger than the frequency of regular-wage changes. For example, the monthly frequency of wage changes is around 0.7 during the low inflation period, while the frequency of regular-wage changes is 0.13. As in the pricing literature, most wages changes are transitory. For example, Kehoe and Midrigan (2015) show that the weekly frequency of price change is 0.34, while the weekly frequency of regular price change is 0.029. Similarly, Stevens (2020) shows that the monthly frequency of price change is close to one at a monthly frequency, and it decreases to 0.12 for the regular prices.

²⁶Sigurdsson and Sigurdardottir (2016) find a similar time-dependence pattern for Iceland, with half of the wage increases concentrated in January because of union settlements, while the remaining wage changes were distributed over the year.

²⁷Figure B.12 in the Appendix of the Online Supplemental Material plots the frequency of 12-month upward and downward regular-wage adjustments against annual inflation. Consistent with Figure 18, we

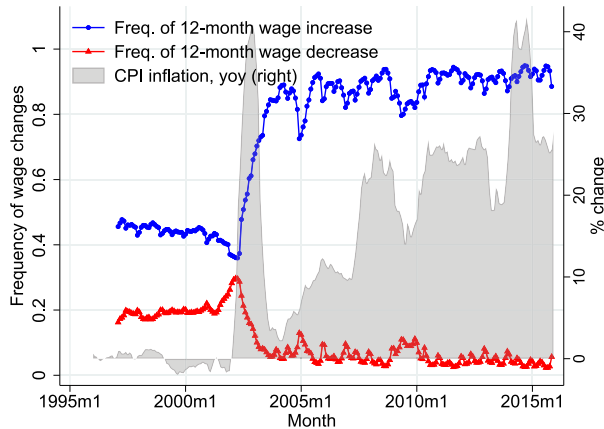


FIGURE 18. Frequency of 12-month upward and downward regular-wage changes. *Notes:* Figure 18 shows the frequency of 12-month upward and downward regular-wage changes. The shaded area shows the annual percent change in the consumer price index. *Source:* Authors' calculations based on the RELS, Central Bank of Argentina, and INDEC, 1997–2015.

In addition to the comovement with inflation, these series seem to respond to the business cycle. This comovement is particularly true during the slowdown in economic activity in 1998 that precipitated the large recession in 2001–2002, when the frequency of wage increases fell from a peak of 0.47 in March 1997 to 0.36 in April 2002. During that same period, the frequency of wage decreases sharply rose from 0.17 to 0.29. It is worth noting that there is a spike in nominal wage cuts before the big drop due to the fact that Argentina entered a recession before the inflation spike; see Figure 1.

Figure B.7 in the Appendix of the Online Supplemental Material reports the evolution of the 12-month average change in regular wages, conditional on experiencing a wage increase or cut. Conditional on a positive (negative) regular-wage change occurring in the previous 12 months during the low-inflation period, the average annual wage increase (decrease) was 13.4% (20.2%). During the high-inflation period, the average positive wage growth increased to 30.2% and closely followed the inflation dynamics, while the average negative wage growth remained virtually unaffected and constant throughout the entire period.²⁸

4.2.1.5 Decomposition of wage inflation Next, we quantify the relative importance of fluctuations in the frequency of wage changes (i.e., the extensive margin) and the av-

find that both frequencies are highly sensitive to the change in the inflation regime, with the frequency of upward (downward) wage changes significantly increasing (decreasing) between low- and high-inflation regimes. Figure B.12 also shows that the two estimated frequencies notably change during the transition period, where we observe high (low) levels of the frequency of upward (downward) wage changes associated with relatively low levels of inflation.

²⁸Figure B.13 in the Appendix of the Online Supplemental Material plots the magnitude of regular-wage changes against price inflation, including lags of 3, 6, and 12 months for price inflation. In addition to the positive relationship between wage inflation and price inflation, the figure illustrates the improvement of the fit when we include lags for price inflation, especially so during the transition period after the 2002 devaluation and the subsequent adjustment of relative prices.

erage wage changes (i.e., the intensive margin). Following Alvarez, Beraja, Gonzalez-Rozada, and Neumeyer (2019), we decompose the average aggregate regular-wage change as

$$\Delta \log W_t^R \equiv \frac{1}{N_t} \sum_i \Delta \log w_{it}^R \tag{2}$$

$$= (Freq_t^{Up} - Freq_t^{Down}) |AveSize_t^{Up}| + Freq_t^{Down} (|AveSize_t^{Up}| - |AveSize_t^{Down}|), \tag{3}$$

whose variance can be decomposed as

$$\text{Var}(\Delta \log W_t^R) = \underbrace{\text{Cov}((Freq_t^{Up} - Freq_t^{Down}) |AveSize_t^{Up}|, \Delta \log W_t^R)}_{\text{Extensive margin}} \tag{4}$$

$$+ \underbrace{\text{Cov}(Freq_t^{Down} (|AveSize_t^{Up}| - |AveSize_t^{Down}|), \Delta \log W_t^R)}_{\text{Intensive margin}}. \tag{5}$$

The variables $Freq_t^{Up}$ and $Freq_t^{Down}$ denote the 12-month frequency of wage increases and decreases in period t , respectively; $AveSize_t^{Up}$ and $AveSize_t^{Down}$ denote the 12-month average wage change conditional on a positive and negative change, respectively. We find that during the low inflation period, the extensive margin accounts for 63% of the total variance of 12-month wage changes. During the high inflation period, the relative importance of this margin increases to 99%. This result is consistent with the findings in Alvarez et al. (2019), who also document a major role for the extensive margin in accounting for the variance of price changes in the market for goods and services. This result suggests the fruitfulness of state-dependent models of wage rigidities.

4.2.1.6 *Distribution of changes in regular wages* The previous literature has documented that in economies with low inflation, the distribution of regular-wage changes (i) is asymmetric, with a missing mass of negative wage changes, and (ii) exhibits a large spike at positive-small changes (see, e.g., Barattieri, Basu, and Gottschalk (2014), Grigsby, Hurst, and Yildirmaz (2021)). Figure 19 displays the distribution of 12-month nonzero regular-wage changes across inflation regimes.²⁹ During the low-inflation period, we find patterns similar to those described in the previous literature despite a 20% drop in output. First, there is a large spike at zero (omitted from the figure) as 36% of workers do not experience a wage change between $t - 12$ and t . Second, the distribution is asymmetric: the distribution concentrated 24% of the observations in the $[-25\%, 0\%)$ range of wage changes, while 48% of the observations fell in the $(0\%, 25\%]$ range. We also find that during the high-inflation regime, the average wage change was similar to the average inflation rate of the period, which was 25%. Also, at higher levels of inflation, the

²⁹This exercise is fundamentally different from the statistics presented in the first part of our analysis, which were based on 1-year differences in annualized (residual) earnings. Here, we compute year-on-year changes in regular wages based on monthly earnings. Figure B.4 in the Appendix of the Online Supplemental Material illustrates these differences.

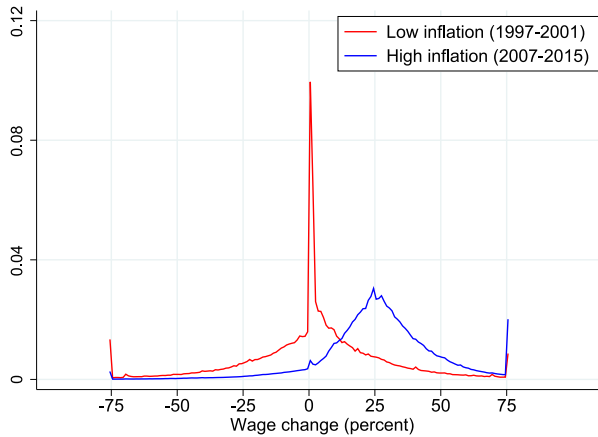


FIGURE 19. Distribution of 12-month regular-wage changes across inflation regimes. *Notes:* Figure 19 plots the distribution of 12-month regular-wage changes under low- and high-inflation regimes (1997–2001 and 2007–2015, respectively). *Source:* Authors’ calculations based on the RELS, 1997–2015.

distribution became much more symmetric: the difference between the mass of workers in the $[0\%, 25\%)$ range of regular-wage changes and the mass in the $(25\%, 50\%]$ range was only 4 p.p., much smaller than the difference of 24 p.p. during the period of low inflation. Thus, higher inflation is associated with a higher prevalence of real wage cuts.

4.2.2 Heterogeneity across worker subgroups The literature that studies price setting has documented considerable heterogeneity in the frequency of price changes across goods (see, e.g., [Bils and Klenow \(2004\)](#), [Nakamura and Steinsson \(2008\)](#)). Next, we show that while the broad aggregate patterns are prevalent in the overall population, there is also significant heterogeneity in wage adjustment processes across different groups of workers. Figure 20 plots the 12-month frequency of regular-wage changes by age, earnings, gender, and sector. Figure B.8 in the Appendix of the Online Supplemental Material plots the evolution of the average 12-month regular-wage increases, and Table B.7 presents summary statistics separately computed during the low and high inflation regimes (i.e., the 1997–2001 and 2007–2015 subperiods), respectively.

4.2.2.1 Heterogeneity by age We present results for four groups of workers at different points of their life cycle: workers who are 26, 35, 45, and 55 years old.³⁰ Several interesting patterns are worth noting. Regardless of the inflation regime, we find that the frequency of wage changes falls with age, especially during the low-inflation period. During this period, the annual frequency was 0.65 for the youngest workers and 0.59 for the oldest workers. However, with high inflation, these differences almost vanish—the frequencies of wage changes increased to 0.95 and 0.94 for these workers.

We also find that, regardless of the inflation regime, average wage increases fall with age. For example, during the low-inflation period, the average regular-wage increases

³⁰Since we focus on the frequency of 12-month wage changes and restrict the sample to workers who are between 25 and 55 years old, for the youngest group, we report results for workers who are 26 years old.

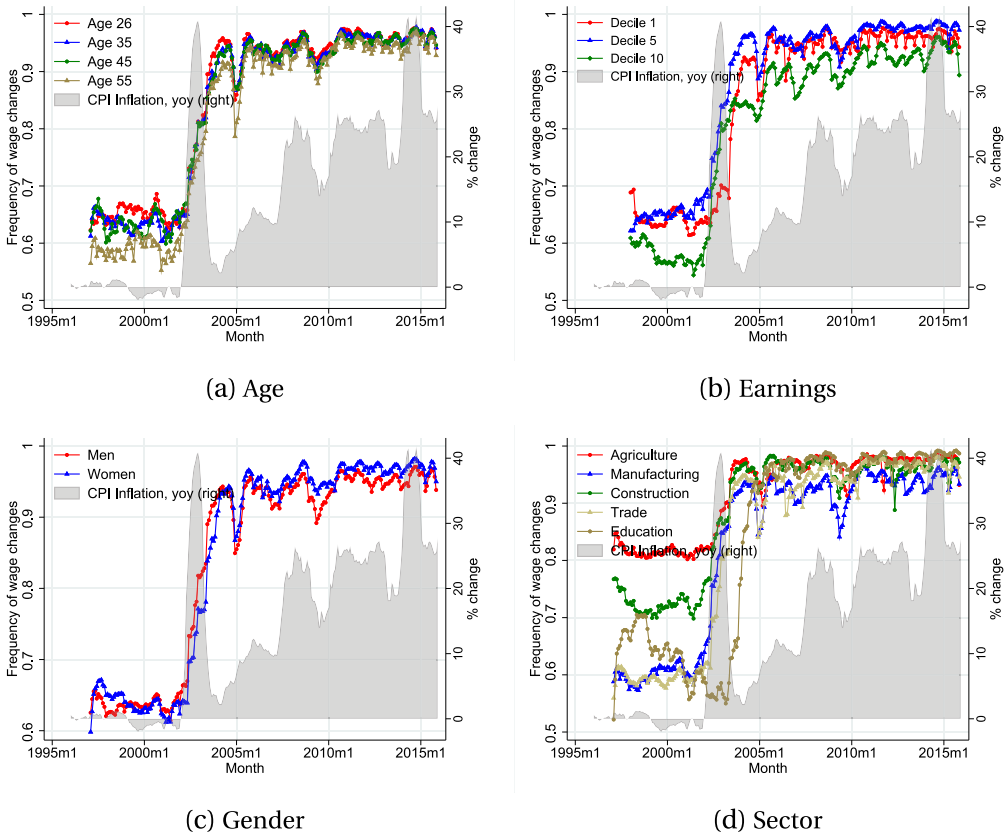


FIGURE 20. Frequency of 12-month regular-wage changes across population subgroups. *Notes:* Figure 20 plots the annual frequency of regular-wage changes for the following groups of workers: (a) ages 26, 35, 45, and 55; (b) earnings deciles 1, 5, and 10; (c) women and men; and (d) agricultural, manufacturing, construction, trade, and education sectors. The shaded area shows the annual percentage change in the consumer price index. *Source:* Authors’ calculations based on the RELS, Central Bank of Argentina, and INDEC, 1997–2015.

for these four groups of workers were: 15.6%, 14%, 12.5%, and 11.7%, respectively. In contrast, there are no similar differences across groups in the average regular-wage decrease.

4.2.2.2 Heterogeneity by earnings To analyze the process of regular-wage changes by earnings, in each month, we first sort workers according to their average monthly earnings in the preceding 24 months. Then we group workers by deciles of this earnings measure. Our first finding is that the frequency of wage changes falls with earnings: throughout the entire period, the average annual frequency of regular-wage changes for workers in the first and last decile was 0.85 and 0.81, respectively. This difference was more pronounced in the low-inflation period, when the gap in the frequency between workers in the 2nd and 10th deciles was 11 p.p. This gap persisted in the high-inflation period, although smaller in magnitude (4 p.p.). In addition, the comovement between the an-

nual frequency of regular-wage changes and inflation also differs across the earnings distribution: in both the low- and high-inflation periods, the correlation between these variables is increasing in earnings.

Workers at the top of the earnings distribution not only had more rigid wages but also experienced wage increases at a lower rate. During the low-inflation period, the probability of a wage increase conditional on a wage change was 0.64 for workers above the median of the earnings distribution, 10 p.p. lower than the probability of a wage increase for workers at the bottom half of the distribution. This difference completely vanished in the high-inflation regime.

Regarding the average size of wage changes, we find a U-shaped pattern for average wage increases, especially during the low-inflation regime. According to this pattern, workers in the 1st, 3rd, and 10th earnings decile experienced average wage increases of 12.9%, 7.5%, and 17.1%, respectively. A relatively similar pattern is found for the average wage decrease, albeit with a more compressed differential and in the low-inflation period only.

4.2.2.3 Heterogeneity by gender Differences in the wage setting mechanism between men and women are among the smallest found in the heterogeneity analysis. The average frequency and size of wage changes are virtually the same. There are only two noteworthy differences. First, the probability of an increase conditional on a wage change was higher for women in the low-inflation period (0.74 vs. 0.67 for men). During the same period, the frequency of wage changes for men exhibited a larger correlation with inflation than the one for women (0.53 and -0.12 , respectively).

4.2.2.4 Heterogeneity by sector Although trade unions' presence is ubiquitous in the Argentine labor market, we find substantial heterogeneity in wage setting processes across sectors. In the interest of space, we present results for a subset of industries representing the degree of potential heterogeneity: agriculture, manufacturing, construction, trade, and education (these sectors capture 57% of formal employment). The most considerable differences in the frequency of regular-wage changes manifested in the period of low inflation, when the gap in this measure between the sector with the most flexible wages (agriculture) and the least flexible one (trade) averaged 23 p.p. It is also evident from Figure 20 that a large fraction of this heterogeneity vanished as the economy transitioned into the high-inflation regime. Similarly, the conditional probability of a wage increase exhibits similar differences across sectors. While 79% of wage changes in the agriculture sector were positive between 1997 and 2001, only 58% were positive in the construction sector. Finally, sectoral heterogeneity goes beyond differences in levels during periods of low and high inflation. While some sectors exhibited a large comovement between the frequency of wage changes and inflation (e.g., a correlation of 0.7 in the manufacturing sector), in others, this relationship is more muted (e.g., a correlation of 0.55 in the education sector).³¹

³¹The latter result highlights the importance of the nature of the labor market for wage setting. Since the education sector operates in an arguably less competitive market, as the government is a large employer in the sector, workers' wages are more insulated from the macroeconomic environment. Figure 20 illustrates

Table B.7 in the Appendix of the Online Supplemental Material shows the average wage increase by sector, which also exhibits large differences across sectors: while the average increase in the agriculture sector between 1997 and 2001 was 7.1%, the average increase in the construction sector was 19.6%. As is consistent with results for other workers' groupings, sectoral heterogeneity in the average wage decrease is much smaller (the widest gap between sectors is 2.5 p.p.). However, we do not find any clear relationship between the frequency of wage changes and the size of the increase. For example, the average increase in the construction and education sectors was similar—19.6% and 19.9%, respectively—but the respective frequencies of wage changes were 0.72 and 0.64.

4.2.3 Persistence of wage change regimes Following Argentina's devaluation and the subsequent spike in inflation in 2002, inflation returned to more modest levels for multiple years before starting to trend up again; see Figure 1. In contrast, our estimated (upward and downward) frequencies of regular-wage changes in the aggregate and across worker subgroups see a structural break around 2002 but then remain relatively constant; see Figures 16, 18, and 20.³² This raises an interesting question: how can the observation of a temporary spike in inflation be associated with persistent changes in the frequency of regular-wage changes? While a fully-specified structural analysis of this question is beyond the scope of the current paper, we want to briefly discuss three candidate explanations for this observation.

The first explanation pertains to a persistent gap between actual and target wages. Due to the high inflation levels of 2002 and initially sticky nominal wages, real wages declined precipitously; see Figure 3. All else equal, this means that the inflation spike led to greater room for actual wages to increase toward target wages in the future. To the extent that wage changes close only parts of this gap—for example, due to fairness concerns within sectors and employers—a one-off inflation spike could result in an extended period of catch-up between actual and target wages.

The second explanation pertains to expectations about future inflation. Argentina's 2001–2002 crisis and the ensuing inflation spike might have unanchored inflation expectations. Since the optimal wage setting depends not just on realized but also on expected inflation, such changes in inflation expectations might lead to persistent effects of a one-off (realized) inflation spike on the future frequency of wage changes. Indeed, after multiple years of more modest inflation rates following the spike in 2002, inflation started to trend up again starting around 2005.

The third explanation pertains to persistent institutional changes. In the aftermath of Argentina's 2001–2002 crisis, collective bargaining and the minimum wage started to become more prominent again, transforming the nature of wage setting during the post-crisis period. To the extent that such changes to labor market institutions are persistent, this may give rise to a persistent increase in the frequency of regular-wage changes.

this point by showing the frequency of wage changes during the 2002 devaluation and subsequent spike in inflation. The sizeable fiscal deficit that originated during the recession prevented the government from adjusting nominal wages at a similar pace in the private sector, creating a large negative effect on the real wages of education workers.

³²It is worth noting that, after the inflation spike of 2002, the mean wage increase in panel (a) of Figure B.7 in the Appendix of the Online Supplemental Material shows a relatively more pronounced decline, although it remains above its pre-2002 levels.

While each of the above hypotheses appears plausible, we leave a further investigation of their validity for future work.

5. CONCLUSION

This paper analyzes earnings inequality and dynamics for the formal private sector in Argentina between 1996 and 2015. We document nearly stagnant earnings from 1996 to 2001 and a significant drop in the mean and dispersion of earnings during the 2001–2002 crisis. While earnings levels recovered after 2003, dispersion remained low during the remaining period. The evolution of earnings inequality coincides with a greater prevalence of centralized wage setting mechanisms and a significant increase in the minimum wage, among other things. We also document novel facts on wage setting during Argentina's transition from a low- to a high-inflation regime. We find that during the high-inflation regime, the frequency of regular-wage changes strongly increased, while exhibiting significant heterogeneity across population subgroups. An interesting avenue for future research is to study the causes of such heterogeneity as well as its macroeconomic consequences.

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