

Can Labor Market Institutions Explain Real Wage Disparities in CEE Countries?

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Since its accession to the European Union, Croatia has witnessed a strong increase in economic migration. The outflow of the working-active population is primarily caused by high unemployment rate compared to the European Union average, but low wages are also significant factor. Wages in Croatia are lower when compared both to the European Union average and to the average of Central and Eastern European countries. Although in all social research, including the economic ones as well, Central and Eastern European countries are often viewed as one, homogeneous whole, there are many differences between them in various areas of human activity. Wage disparities are just one of them. The labor market is a very complex issue and there is a lot of discussion concerning economic policies that should respond to the challenges in this market. As one of the very important factors in the labor market, labor market institutions are recently mentioned. Their influence on labor market is the subject of many scientific research in developed economies. They are usually referred to as collective organizations such as trade unions, legislative frameworks of public policies, and more delicate factors such as employer-employee relations that all together affect wage and employment determination. Given that all these factors exist and act in today's labor markets, it is obvious that most of the population supports them and considers them as a positive and influential factor. Motivated by the above-mentioned Croatian economic situation, we decided to investigate this claim. In this paper we use panel regressions to determine whether labor market institutions, such as mentioned syndical power, rigidity of legislations and employer-employee relations play important role for wage determination and wage disparities in Central and Eastern European countries. We also use a set of control variables such as inflation, productivity differentials, tax burden, stage of economic cycle and labor market activity. Key contribution of this paper is that it represents the first analysis of the effects of institutional labor market factors on wage disparities in this region.

Keywords: wages, labor market institutions, CEE, panel