Wage spillovers across sectors in Eastern Europe

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This paper studies the interactions between wages in the public sector, the traded private sector and the sheltered private sector in ten EU Transition Countries and its relationship to international competitiveness during the decade 2000-2010. The theoretical literature on wage spillovers suggests that the internationally traded sector should be the leader in wage setting, with sheltered and public sector (the non-traded sector) wages adjusting. Using a Cointegrated VAR approach we show that a large heterogeneity across countries is present, with non-traded sectors wages often being leaders in wage determination or at least affecting traded sector wages in the short run. In some countries, public sector wages are weakly exogenous, with the private sectors adjusting. This result is relevant from a policy perspective since wage spillovers, leading to costs growing faster than productivity, may affect the international cost competitiveness of the traded sector.

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