

Abstract

We use new 1991-2005 panel data to address the issue of unemployment in Central-East Europe. We compare the evolution of unemployment, its dynamics and related phenomena in five former communist economies in the Central Europe and use the geographically close West Germany as a benchmark for a mature market economy. We identify the differences and similarities in the evolution of the key labor market variables and contrast different outcomes with the diverse initial conditions and subsequent paths. All countries have experienced aggregate demand shocks, structural shocks and hysteresis. Despite diverse initial conditions and subsequent paths, the patterns observed are surprisingly similar. The eastern part of Germany appears to be a special case with extraordinary high unemployment inflows. Contrary to the theoretical models, in the transition economies we do not observe an initially rapid rise in the inflow rate, followed by a convergence of this rate to the levels of market economies. Rather, there is a relatively gradual rise in the inflow rate towards the level of market economies. The differences in unemployment rates turn out to be attributable to a considerable extent to the actual differences in the inflow rates. The trajectories in the unemployment-vacancy space observed in the Central-East European countries increasingly resemble those observed in the developed market economies. Interestingly, these similarities arise despite differences in the institutional setting across these economies.

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