

Abstract

Differences in regional unemployment in post-communist economies are large and persistent. We show that within-country regional variation in inherited human capital in four such economies explains the bulk of regional variation in unemployment; we explore potential explanations. Our evidence suggests that internal skill-biased migration and the flow of foreign direct investment are not working as adjustment mechanisms but rather help explain the lack of convergence in regional unemployment rates. Although this capital and labour mobility pattern is consistent with the presence of regional skill spillovers, we find little support for this hypothesis. Instead, the observed migration pattern appears to arise from different skill-specific adjustments to regional shocks brought about in part by labour-market institutions such as guaranteed welfare income.

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