

Does Commuting Reduce Wage Disparities?

MIHAILS HAZANS

Non-technical summary

This paper explores the effect of rural-urban and inter-city commuting on urban and rural labor markets and on national welfare. This is done in the context of three Baltic countries (Estonia, Latvia, and Lithuania), which feature considerable disparities in earnings and employment possibilities between urban and rural areas, as well as between capital and other cities. The analysis is based on data from Labor Force Surveys 1999-2000.

The author finds that in each of the three Baltic countries

- about 20 percent of employees work not in the same municipality where they live
- commuters from other municipalities account for about 15 percent of all employees in the capital cities
- rural markets see net outflow varying from one sixth (Latvia) to one third (Lithuania) of resident full-time employees
- commuting reduces urban-rural wage and employment disparities and, congestion aside, increases national output and welfare, even if time lost to commuting is accounted for.

The latter finding is based on mild assumptions which have been verified for the Baltic countries and can be easily checked in other cases.

The wage effect of commuting has two parts:

- wage levels in the capital city and in the countryside become closer to each other
- wage differential between *residents* of the capital city and the countryside become smaller than similar differentials measured by *job location*.

This study offers a method of quantifying the latter effect (reduction in spatial wage differentials) by estimating two sets of earnings functions with location variables measured at workplace in one case and at residence in the other. The results indicate that:

- in Estonia and Latvia commuting substantially reduces wage differentials between capital city and rural areas, as well as between capital and other cities
- in Lithuania the only differential significantly reduced by commuting is the one between capital city and surrounding urban areas
- wage discrimination against rural residents in urban labor markets is found only in Lithuania.

The study also explores:

- individual wage gains to commuting
- educational and occupational composition of commuting flows
- impact of education, gender, ethnicity, and local labor market conditions on the commuting decision.

The paper finds that rural-urban commuters

- are predominantly skilled in Estonia and Latvia but unskilled in Lithuania
- earn more than otherwise similar stayers, and this gain is smallest in Lithuania.

The author argues that the paper provides support for public policies which promote commuting.

Keywords: commuting; urban-rural and regional disparities; earnings functions; wage discrimination; Baltic countries.

DETERMINANTS OF INTER-REGIONAL MIGRATION IN THE BALTIC COUNTRIES

MIHAILS HAZANS

Non-technical summary

The Baltic countries, Estonia, Latvia and Lithuania, have become members of the EU in 2004. As legal restrictions to labor mobility from these countries to 'old' EU member states have been partially removed and are expected to be fully eliminated in the years to come, it is important to understand how mobile is the population of the Baltic countries and to what extent its internal mobility in the past can be explained by economic incentives.

This paper

- explores the development of regional disparities and inter-regional migration in the Baltic countries during the transition
- uses evidence from regional inflows and outflows in Latvia (1993-2001) and microdata of Estonian Labor Force Survey (1998-2000) to estimate the effects of regional unemployment and wage differentials, as well as other factors, on migration flows and individuals' decisions to move to another region.

The author finds that in each of the three Baltic countries:

- recent gross migration rates are well above those found in Czech R., Slovakia and Slovenia for comparable regions
- despite relatively high migration rates, distribution of population between regions, as well as between urban and rural areas has changed very little since 1989 because of opposite migration flows
- unemployment rates and wage levels feature considerable and persistent regional disparities
- regional disparities in earnings and unemployment increased in the beginning of transition, showed signs of convergence in the mid 1990s and slightly increased again in the end of the observation period (1990-2001)
- high unemployment regions tend to have low wages, although in Lithuania this effect is weaker than in the other two countries.

The results of econometric analysis indicate that:

- both gross and net inter-regional migration flows in Latvia, as well as outflows in Estonia responded to wage differentials in the expected way, i.e. higher wages discouraged emigration and encouraged immigration thus enhancing net migration
- in Latvia, impact of wage differentials on migration has increased in the late transition
- high unemployment regions in Latvia were exposed to significantly larger outflows but also inflows
- non-labour-related reasons, especially family ones, also were important determinants of inter-regional flows
- in Estonia, inactive and unemployed persons, recent university graduates, as well as commuters between regions, were significantly more inclined, other things equal, to move permanently to another region

The findings of this study suggest that internal mobility of the Baltic population is relatively high and responsive to economic incentives.

Keywords: Keywords: migration; regional disparities; regional labour markets; Baltic countries.