

Title of the paper:

**SKILLED-UNSKILLED WAGE GAP AND RETURNS TO EDUCATION IN THE ENLARGED EU
- Sectoral Analysis Based on the Experience of EU-15 Countries and Five New Member States**

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Non-Technical Summary:

Main objective of the paper is to examine the evolution and determinants of wage differentials between different skill groups of workers in several countries of the enlarged European Union. Workers are classified according to their educational background, so as high skilled persons with university education are considered, while the low skilled group encompasses those with less than tertiary education completed. Clearly, wages paid to persons with university education should be higher than salaries of less educated labor force, but there exists considerable variability of such returns to education across European countries and sectors. On top of that, in the recent years, wage differentials have risen in many countries, so it is important to reveal the forces driving such a mechanism.

The research is based on sector level data (12 industries of manufacturing sector) for all former EU-15 economies and five New Member States - NMS (namely: Poland, Hungary, Czech Republic, Slovak Republic and Slovenia). Due to data availability, the paper presents evidence for the years 1995-2005.

Examination of the data confirms that:

- wage differentials are considerable: on average in EU-15 countries in 2005 workers with university education employed in manufacturing earned (by hour) 85% more than those with at most secondary education; in NMS: 2.33 times more;

- levels of skilled/unskilled wage ratios in the analyzed period were higher in New Member States than in EU-15 countries and, on top of that, wage differences rose mainly in NMS.

In order to reveal determinants of rising skilled-unskilled wage gap, two main mechanisms are considered:

- labor substitution across sectors and countries;
- forces stemming from trade integration in Europe.

The key findings are as follows:

- skilled/unskilled wage ratios (between workers with university education and lower) result to be linked mainly to domestic labor conditions and, to a lower extent, to trade patterns in Europe;
- shift of employment structure in favour of skilled workers is associated with a rise in their relative wage;
- greater general relative availability of skilled workers on domestic labor market weakens their bargaining power and tends to be associated with lower skilled-unskilled wage differentials;
- foreign labor market conditions are not so important for domestic wage differentials;
- in general sectors with rising trade openness are characterized by higher wage differentials between workers with and without university education.;
- there is no evidence that trade with NMS can be blamed for a rise in wage inequality in European manufacturing sectors.