

**Regional Wage Adjustments and Unemployment:
Estimating the Time-varying Wage Curve**

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We investigate the flexibility of real wages at the regional level by estimating the wage curve, the relationship between the regional unemployment and the regional level of wages. We use a sample of the yearly district-level data of unemployment and wages in the Czech Republic in 1993–2001. Previous estimates of the wage curve for the Czech Republic, including Galuscák and Mùnich (2003), suggested that the regional flexibility of real wages is extraordinarily low. Taking into account endogeneity of unemployment, our results indicate that regional real wages are flexible at the level observed in most developed and developing economies. The temporary deterioration in the regional flexibility observed during the 1997–1999 recession is explained by the standard efficiency wage model. Some indication of weakening elasticity since the end of the 1990s is probably associated with a sharp rise in the incidence of long-term unemployment. As this trend is expected to continue, it could further attenuate the elasticity and complicate adjustment processes if adverse shocks appear in the future, particularly after the EMU entry.

Keywords: Wage curve, wage flexibility, unemployment, panel data

JEL Codes: E24, J64, J31, C23.