



The Public Defense
of the Doctoral Thesis in Economics

by

Gábor Antal

on

WAGES AND FOREIGN DIRECT INVESTMENT IN HUNGARY

will be held on

Tuesday, October 25, 2011 at 2:00 pm

in the

Monument Building, Popper room

Central European University

Nádor Street 9, Budapest

Thesis Committee:

Julius Horvath (Chair)

Gábor Kézdi (Internal examiner)

Gergely Csorba (External member)

György Molnár (External member)

Álmos Telegdy (Internal member)

The doctoral thesis is available for inspection
at the CEU Economics Department

Abstract

The thesis consists of three self-standing papers that all investigate topics related to the distribution of earnings in Hungary between 1986 and 2008. In Chapter 1 I analyze the evolution of changes in wage inequality in general, by also shedding light on some of the underlying factors that contributed to these changes. The focus of Chapter 2 is to identify the causal effect of foreign acquisitions on average wages and the wage structure, and to find explanations for the acquisition wage premium. In contrast, Chapter 3 addresses the role that increasing foreign direct investment played in changes of wage inequality during early transition.

Chapter 1 “Dispersion of Wages in Transition: Trends and Reasons of Changes in Wage Inequality in the Hungarian Business Sector, 1986-2008”

Exploiting a large linked employer-employee dataset of 2.8 million observations on workers employed by 37,000 enterprises, I study earnings inequality of full-time employees in the Hungarian business sector. I find that the dispersion of real monthly earnings – as measured by several inequality indices – increased rapidly from 1989 to 2000, then declined significantly until 2002, started to rise again shortly, but has been falling since 2005. At its peak level, wage inequality was the highest among OECD countries. Within-firm variance constantly declined throughout the period while all changes in total inequality are reflected in between-firm variance. This is to some extent explained by the different behavior of different cohorts of new entrant firms. Half of the decline between 2000 and 2002 is explained by a 57% increase in the real value of the minimum wage. For the years 2002-2008, when measures on working hours are available, I do not find any evidence of longer working hours explaining higher inequality of monthly earnings. Results do not change significantly when controlling for the changing size criteria of sample inclusion for companies across years. The contribution of changes in skill composition is around 30%, mainly due to the increasing dominance of the group of high-skilled workers in terms of employment and group-level inequality, and mean wages. Yet, a large portion of inequality changes remains unexplained.

Chapter 2 “The Effect of Foreign Acquisitions on Wages: Evidence from Hungarian Firm and Linked Employer-Employee Data” (joint with John S. Earle and Álmos Telegdy)

This paper estimates the effects of foreign acquisitions on average and worker-specific wages in previously domestically owned firms in Hungary. The analysis is carried out both at the firm level using universal data for all Hungarian corporations and at the worker level using linked employer-employee data from a very large survey. The panel is much longer (23 years) than in previous studies and the data contain a large number of foreign acquisitions with information both before and after the change in ownership. Our empirical methods include matching on

multiple years of pre-acquisition data and fixed effects for firms, detailed worker groups, and individuals (where workers can be linked inside firms). We also exploit reversals in ownership status: acquisition followed later by divestment. While point estimates are sensitive to specification, we find in all cases positive effects of FDI on average wages, and even on wages of all worker types. The only significantly higher foreign premium is associated with university education. We consider possible explanations for the findings, including productivity, as well as selection and measurement. The evidence suggests that the foreign premium is strongly associated with a similar differential in productivity.

Chapter 3 “Foreign Ownership and the Distribution of Wages in Hungary, 1992-2000: An Unconditional Quantile Decomposition Approach”

With the help of a rich linked dataset on both firms and workers of the Hungarian corporate sector, this paper analyzes how changes in foreign direct investment contributed to changes in the unconditional wage distribution at different quantiles between 1992 and 2000. After transition, Hungary experienced an extraordinary amount of continuous FDI inflow during the nineties, while earnings inequality increased by close to seventy percent in just ten years, compared to its 1989 level. The role of FDI in inequality changes is partialled out by a detailed decomposition of log wage changes based on a recently developed method by Firpo et al. (2009) that extends the standard Oaxaca-Blinder decomposition to unconditional quantiles of the distribution. I find that at every point in time, the share of employees of foreign-owned firms has a positive and significant wage level effect at every unconditional quantile, and these effects are inequality enhancing for men while they have an ambiguous effect on the unconditional dispersion for women. FDI contributed strongly to wage changes at every part of the distribution through an increased foreign employment share in the economy, but not through changes in the returns to being employed by foreign-owned firms. However, it played only a moderate role in the growth of inequality.

CURRICULUM VITAE

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CURRENT POSITIONS AND AFFILIATIONS

- 2010- *Researcher*, “Labor Market Forecasting and Structural Change”
(European Social Fund, TÁMOP - 2.3.2-09/1-2009-0001),
Institute of Economics – Hungarian Academy of Sciences
(Budapest, Hungary) www.econ.core.hu
- 2009- *Research Assistant*, Institute of Economics – Hungarian Academy
of Sciences (Budapest, Hungary)
- 2005- *Research Assistant*, CEU Labor Project (Budapest, Hungary)
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EDUCATION

- 2004-2011 *Ph.D Candidate.*, Economics, Central European University
(Budapest, Hungary) www.economics.ceu.hu
Field: Labor Economics
Dissertation: Wages and Foreign Direct Investment
- 1998-2004 *M.A.*, Economics, Corvinus University of Budapest (Budapest,
Hungary) www.uni-corvinus.hu
Major: Economic Policy
Thesis: The Role of the Monetary Pillar in the Monetary Policy Strategy
of the European Central Bank (*Summa Cum Laude*)

2000-2003 *Certificate, German Language Studies in Business Administration (DSG), Corvinus University of Budapest and University of Passau (Budapest, Hungary and Passau, Germany) www.uni-passau.de*

PROFESSIONAL EXPERIENCE

2010-2011 *Sub-Project Leader, “Labor Market Forecasting and Structural Change” (European Social Fund, TÁMOP - 2.3.2-09/1-2009-0001), Institute of Economics – Hungarian Academy of Sciences (Budapest, Hungary) www.econ.core.hu*

2004 *Intern, Roland Berger Strategy Consultants Ltd (Budapest, Hungary)*

2003 *Research Assistant, ICEG European Center (Budapest, Hungary)*

2002 *Intern, Department of Controlling, Kanizsa Trend Ltd (Nagykanizsa, Hungary)*

TEACHING EXPERIENCE

2008 *Instructor, Data Management and Analysis with Stata, ICEG European Center*

2007, 2005 *Teaching Assistant, Microeconomic Theory 2, Central European University*

2001-2002 *Teaching Assistant, Comparative Economic Systems, Corvinus University of Budapest*

WORK IN PROGRESS

“Dispersion of Wages in Transition: Trends and Reasons of Changes in Wage Inequality in the Hungarian Business Sector, 1986-2008”

“The Effect of Foreign Acquisitions on Wages: Evidence from Hungarian Firm and Linked Employer-Employee Data” (with J. Earle and Á. Telegdy)

“Foreign Ownership and the Distribution of Wages in Hungary, 1992-2000: An Unconditional Quantile Decomposition Approach”

PRESENTATIONS

2011 “Economics of Crisis, Education and Labour” SEBA – IE CASS – IE HAS Chinese-Hungarian International Conference (Budapest, Hungary)

2010 10th Comparative Analysis of Enterprise Data (CAED) Conference (London, UK)

- 2010 Meeting of the COST Network “Comparative Analysis of Enterprise Data: Industry Dynamics, Firm Performance, and Worker Outcomes” (Amsterdam, Netherlands)
- 2010 11th International Conference on Economic and Social Development – EACES Workshop (Moscow, Russia)
- 2009 Institute of Economics – Hungarian Academy of Sciences Research Seminar Series (Budapest, Hungary)
- 2008 2nd Annual Conference of the Hungarian Economic Association (Budapest, Hungary)
- 2008 8th Comparative Analysis of Enterprise Data (CAED) Conference (Budapest, Hungary)
- 2008 2nd RGS Doctoral Conference in Economics (Essen, Germany)
- 2008 7th Meeting of the “Microdata Methods and Practice” EU Research Training Network (Budapest, Hungary)

OTHER PROFESSIONAL EXPERIENCE

- 2009 *Member*, Scientific and Organizing Committee, COST Workshop on Wages and Firms, Budapest
- 2008 *Member*, Local Organizing Committee, CAED International Research Conference, Budapest

FELLOWSHIPS AND GRANTS

- 2010 *GDN RRC X Research Grant*, Global Development Network and CERGE-EI (Prague, Czech Republic)
- 2004-2008 *Doctoral Scholarship*, Central European University (Budapest, Hungary)
- 2007 *Visiting Student*, Upjohn Institute for Employment Research (Kalamazoo, Michigan)
- 2002-2003 *DAAD Scholarship*, University of Passau (Passau, Germany)

HONORS AND AWARDS

- 2004 *Graduated Summa Cum Laude*, Corvinus University of Budapest
- 2003 *Helmut Schmalen Medallion*, German Language Studies in Business Administration, Corvinus University of Budapest and University of Passau

SKILLS AND QUALIFICATIONS

Microsoft Office, Stata, Gauss, SPSS, MS Project
 Fluent in English and German, fair in Spanish
 Expertise in Wines (Sommelier Degree)