



Regional wage differentials in Portugal: Static and dynamic approaches*

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Received: 15 June 2009 / Accepted: 30 June 2010

Abstract. This work aims to study regional wage differentials from both a static and a dynamic perspective. The usual Blinder and Oaxaca static decomposition does not provide clear information about the factors which explain changes in regional wage differentials over the years. To overcome this problem the Juhn, Murphy and Pierce decomposition is employed. The paper analyses the case of Portugal for 1995 and 2002. The results show that, although the changes in the interregional wage inequality were small, they were caused by important and counteracting factors.

JEL classification: J31, J38, J49

Key words: Regions, wage differentials, wage gap decompositions

1 Introduction

Spatial wage differentials are an important issue, attracting the attention of policy-makers and the general public alike. These differentials may be the result of equilibrium or compensating differentials, as the competitive mode predicts, or a consequence of temporary disequilibrium situations, external economies or sorting effects. Each of these situations has different implications for economic development and therefore for public policy. For example, spatial wage differentials caused by climatic differences do not require any policy intervention, whereas differentials explained by inefficiencies due to low labour mobility deserve policy measures to improve economic efficiency. To apply the appropriate policy measures, it is crucially important to have a correct understanding of the causes of wage differentials and their evolution.

Several international studies have analysed this subject using human capital wage equations (see, for example, Blackaby and Murphy 1995; Duranton and Monastiriotis 2002; García and Molina 2002). With the exception of Duranton and Monastiriotis (2002), all have taken a static

* The authors would like to thank three anonymous referees for their helpful comments and suggestions. The authors also gratefully acknowledge the partial financial support of the Fundação para a Ciência e a Tecnologia (FCT), Programa Operacional “Ciência, Tecnologia, Inovação” (POCTI).