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Is women's human capital valued more by markets than by planners? ☆

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Using micro data on women in the Czech Republic, we compare returns to various measures of human capital at three points in time, namely, the end of Communism (1989), in mid-transition (1996), and in late-transition (2002). We find dramatic increases in returns to education from 1989 to 1996 but no change from 1996 to 2002 and no differences in returns to education in state vs. privately-owned firms. We demonstrate that sheepskin or diploma effects exist in both regimes and rise over time; moreover, they are similar across firm ownership types. We find no difference between the returns to education obtained during Communism and the returns to schooling obtained during the transition. Wage–experience profiles do not change over time. The pattern and rates of increase in the returns to education over these three points in time are similar for women and men. In sum, markets pay women and men equally more for their human capital than did the planners; all of the adjustment occurred early in the transition and it was driven by market forces rather than private ownership. *Journal of Comparative Economics* **33** (2) (2005) 278–299. CERGE-EI, Politickych veznu 7, 111 21

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1. Introduction

Several authors investigate whether the overall gender wage gap has increased in transition economies.[1] In this paper, we examine the extent to which markets pay women more for their human capital than did the planners. In addition, we consider whether the shift to market-based wages affected the return to the human capital of men and women equally and whether the results vary with firm ownership.[2] To address these issues, we use data from special surveys from the Czech Republic and estimate women's returns to education and experience at the end of the Communist period, i.e., 1989 and at both six and twelve years after the start of transition, i.e., 1996 and 2002, respectively. We compare our findings to those in Münich et al. (2005) that estimates men's returns using the same data for 1989 and 1996 and we estimate men's returns in 2002. Finally, we compare our results to those in other studies of the changes in returns to human capital for men and women in other transition economies.

In addition to increasing our understanding of gender differentials in the returns to human capital before and during the transition, our study contributes to the literature by examining returns to various measures of human capital. In particular, we examine the returns to actual years of schooling as a measure of education rather than to imputed years based on the highest degree obtained. We use the information on actual years of education and highest level attained for each individual to test for the bias from using imputed measures of schooling and to measure sheepskin effects, i.e. sharp increases in wages at the time a degree is received after controlling for years of education. We also test directly whether education obtained in the Communist period generates a different rate of return than schooling obtained during the transition period. Finally, we test whether market forces induce identical wage setting in all firms or whether rates of return on human capital differ across firm ownership. In particular, we compare the returns to human capital in the state sector with those in the private sector.

We demonstrate that the Communist system maintained an extremely low rate of return to education for women. In addition, the first six years of the transition resulted in a major increase in the rates of return to a year of education and, surprisingly, the returns remained constant in the second six years of the transition. We find no significant difference in the

[1] Hunt (2002), Joliffe (2002), Jurajda (2003) and Ogloblin (1999) are recent studies of the change in the gender gap in transition economies.

[2] According to our data, the overall gender wage gap fell over the period under consideration. In 1989, women earned 33% less than men, on average, and in 1996 and 2002, the differences were 29 and 25%, respectively.