Digitalization, Market Concentration, and Labor Dynamics: Evidence from CEE Countries

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Abstract
This paper examines the relationship between market concentration, digitalization, and labor outcomes in Central and Eastern European (CEE) countries, using aggregated firm-level data from CompNet and EU-KLEMS from 2000 to 2019. We find that in the CEE region, industries characterized by higher market concentration tend to have higher labor productivity and wages, while also having a lower labor share, in line with the superstar firms hypothesis. However, there are differences across CEE countries, highlighting the complexity of labor market dynamics in the region. Moreover, our study underlines the important role of digitalization, which contributes positively to productivity and wage growth, especially in more concentrated industries. Increased investment in digitalization does not mitigate the decline in labor share caused by increasing market concentration, with the exception of investment in communication technologies.

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