The Inequality Gap Heads East

In just 25 years—the Soviet Union shattered in December 1991—Eastern Europe has sprinted ahead of the West on a key economic front. Unfortunately, it is a race best not won: income inequality.

Gaps in earnings are typically large and growing throughout the world, according to Korn Ferry's Hay Group division, which analyzes pay data in more than 110 countries. In the United States, that gap has become one of the central issues in the presidential campaign.

It turns out, however, that Eastern Europe, where controlled economies once reigned, has some of the biggest gaps of all, nearly twice the U.S. national number and more than double Western Europe's average. What's more, the gaps are only getting bigger in most of the region.

The reason? Joining the world's market economy.

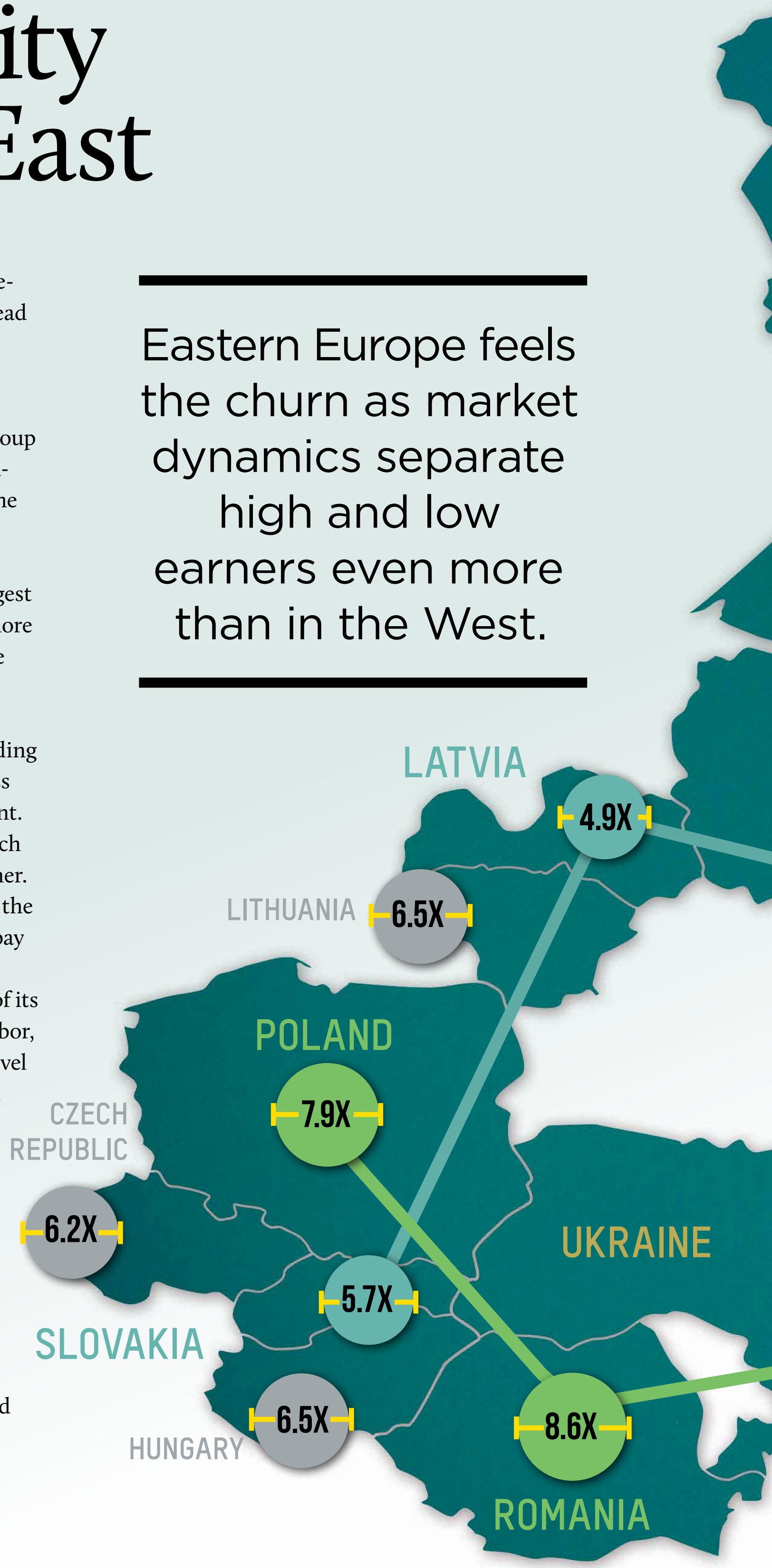
Pay on the high end of the employment ladder is tending to go up faster than on lower levels, where demand is less and the supply is greater, said Ben Frost, a Hay consultant. In the former Soviet bloc, salaries were traditionally much lower than in the West and bunched more tightly together. Now, Frost said, "the bottom end is sort of stuck, tied to the region's lower cost of living. But at the high end, global pay levels are pushing things up."

For example, Hay compared median salaries in two of its 35 job categories: Level 12 (which includes top manual labor, like electricians, and administrative supervisors) and Level 20 (the starting rung of senior management). In Eastern Europe, Level 20 pay was 7.4 times higher on average than Level 12 pay in 2015, Frost said, compared with 3.8 in the U.S. and 3.2 in Western Europe.

The higher the number, the greater the implications. "Large pay gaps have the potential to cause discontent among the workforce," Frost noted.

That said, the economies in Eastern Europe aren't marching in lockstep. National differences are also at play—the pay multiples last year ranged from 4.9 (Latvia) to 12.4 (Ukraine). And two countries (Poland and Romania) even saw their gaps shrink since 2011. ●

Eastern Europe feels the churn as market dynamics separate high and low earners even more than in the West.



BY BARRY ADLER

BIG DIFFERENCES IN PAY

"X" (times) difference in median salaries between senior management and manual/administrative supervisors.

Source: Hay Group database of 20 million job holders in 110 countries.