

Wage trends in Central and Eastern Europe

Has pay kept up with productivity in Central and Eastern Europe? How big is the wage gap between the present EU Member States and the candidate countries? Do unions in the new market economies need to change tack?

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When discussing wages in Central and Eastern Europe, the specifics of the Eastern European transition must be borne in mind. It is well known that wages had a different function in state socialism than they have in market economies. At that time, wages were not intended to cover the whole cost of the reproduction of labour. They were seen as one form of compensation for work, alongside several others. The State and also the companies bore certain of the employees' living costs. Besides free health care and education, housing was virtually free and a wide range of consumer price subsidies compensated for low wage levels. Various social services were supplied by the employer (kindergartens, housing subsidies, free holiday resorts, etc.).

With the transition to a market economy, the overwhelming majority of these non-wage subsidies were discontinued and the role of the State was extensively cut back. However, wages did not rise sufficiently to compensate for the loss of these subsidies. Rather, the real value of wages began to decline during the first period of transition. This resulted in a massive drop in living standards. Even after wages caught up substantially in the second half of the decade (in the more fortunate countries of the region), pay did not take on all

the functions that would be normal in developed market economies.

Thus, it must be emphasized that cost structures in Central and Eastern Europe (CEE) are still quite different from Western ones. Many of these differences can be attributed to the low cost levels of services that appear in the calculations of purchasing power parities. Some of the cost advantages of CEE employees do not appear in these calculations, however. It is certainly true that housing costs for most CEE citizens are still much lower than those for their Western counterparts, as the previously obtained cheap housing facilities constitute a rather light financial burden. The majority of CEE employees would not be able to finance market-based housing, which is normal in the West.

As a consequence of this, even purchasing power parity wage calculations result in lower wage estimates than would be the case for the equivalent of Eastern wages in a Western environment. It should also be noted that wages in CEE account for a lower proportion of total incomes than in the West.

Two other phenomena should be mentioned when discussing wages in Eastern Europe. There are some countries, even among those in line to join the EU, where the problem of wage arrears still plays

a role. As a consequence of delayed and distorted structural change and the lack of proper legal control, hundreds of thousands of people are the victims of non-payment of wages due to bankruptcy crimes or other fraudulent business manoeuvres. This is still a massive problem in Bulgaria and Romania, and to a lesser extent in Latvia. Fortunately, in other EU candidate countries, the same situation does not apply.

However, a common anomaly throughout the region is a form of tax evasion under which only the minimum wage is declared on the payroll, while the rest is paid directly or indirectly to the employee. Not only does this violate the principle of sharing public burdens proportionately, it also leaves a great number of employees without labour protection.

Bearing in mind all these specific features, we turn to a more detailed analysis of “regular” wage developments in Central and Eastern Europe in the last decade.

Wage levels in CEE countries

When examining wage developments in CEE countries in the past decade, we should be aware of several difficulties. As price and cost structures in transitional economies still show substantial differences to those in developed market economies, direct comparison of wage levels in nominal terms expressed in euros can be misleading. It is also true that unequal and disproportionate transformational developments in individual countries can lead to substantial shifts in certain economic indicators year by year. The impact of inflation and changing currency regimes, such as stabilization measures, can produce sudden changes from one year to another. It is important to examine wage developments for the whole period, as data from one particular year are not necessarily characteristic.

In attempting to analyse wage developments in ten Eastern European countries, two basic approaches will be applied. Comparison with EU countries will be made both in nominal terms and also by

taking purchasing power differences into account. When comparing subsistence levels, purchasing power parity figures will be examined. These relative figures can express differences in living standards and can be of use in estimating potential migratory pressures. On the other hand, nominal wage levels are also significant, since these determine competitiveness and also investment decisions.

But if we focus our interest on the immanent development features of transition countries, then the comparison of wages with other economic indicators, such as the gross domestic product (GDP) and productivity, becomes decisive. The development of wages relative to other indicators of economic performance can help us to estimate how employees participate in the economic wealth produced in the country.

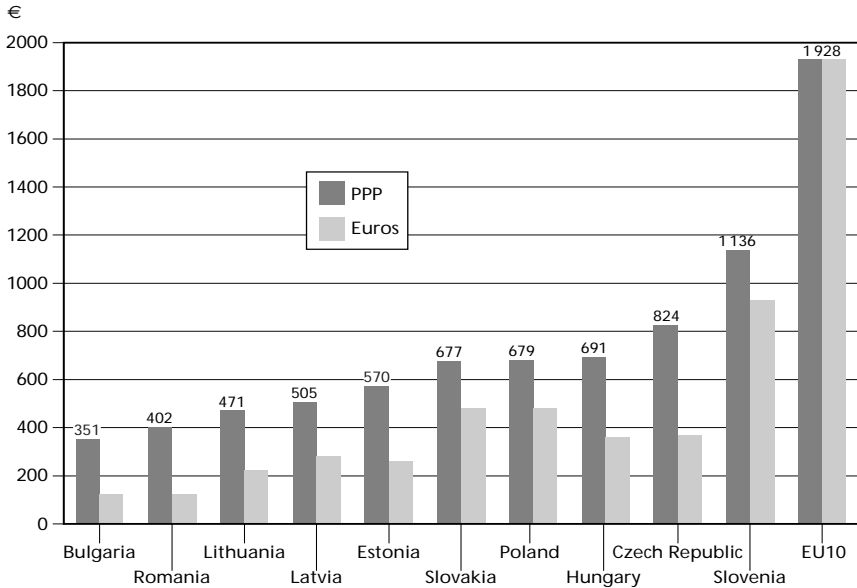
Figure 1 shows the levels of average gross industrial wages in CEE countries, calculated in euros at official exchange rates. For a better comparison, wages are also shown at purchasing power parities, also expressed in euros.

Monthly average gross nominal wages throughout the transition countries (light grey columns in the graph) range from 123 euros in Bulgaria and Romania through 480 euros in Poland to 925 euros in Slovenia, resulting in an average of 345 euros. Monthly average gross wages throughout the European Union range from 606 euros in Portugal to 2,997 euros in Denmark (1998 data), resulting in an average of 1,928 euros, which is indicated in the graph for reference value.

These figures seem rather shocking, although wage levels at purchasing power parity (PPP) show a somewhat less dramatic view (dark grey columns in the graph).

The average of the industrial wages at PPP of the ten Eastern European countries is 634 euros, which compared to the 1,928 euros for the ten EU countries gives a more balanced distribution. This indicates that the gap in living standards is not as big as the nominal data imply. Thus, the danger of social dumping is not as great as it might seem at first sight.

Figure 1. Wage levels, current euros vs. PPP



Source: WIIW database, own calculations.

Wage characteristics of CEE countries compared to their economic performance

Also important, however, is the way in which wages in transition countries relate to their economic performance. Below, an attempt is made to show how employees participate in the wealth produced in their countries and how this is distributed. These findings are then examined in relation to the corresponding figures for EU Member States.

Wages and GDP

The share of wages in the GDP of the ten Central and Eastern European countries is 40.5 per cent on average, while the same value for the 15 EU Member States is 59 per cent. The lowest level is shown by Hungary at 31 per cent, and the highest by Poland at 52 per cent. Low wage content of GDP is also characteristic of Bulgaria (33 per cent), Slovakia (34 per cent) and

the Czech Republic (39 per cent). Along with Poland, Latvia has a rather high wage ratio, at 49 per cent.

Employment ratios are not significantly different among the various transition countries. The ratio of the total of employed persons to the population as a whole ranges from 38 per cent in Hungary to 43 per cent in Estonia, and only Latvia and the Czech Republic show significantly higher values, at 47 per cent. As these figures comprise both demographic characteristics and economic activity ratios, each factor alone may show higher discrepancies when examined separately. It is certainly true that demographic and employment characteristics have their part to play in explaining why wage shares in CEE are lower than in developed market economies. These figures also show, however, that the importance of wages in transition economies is smaller than in Western economies. Moreover, this is also an indication that wages in CEE are depressed, even when compared to their economic performance.

Development of wages, productivity and GDP

A worthwhile exercise is to track the productivity development of transition countries and then to compare it with the development of real wages.

As regards the relation between real wages and labour productivity developments in industry, data for most countries are available from 1992. A full overview will therefore be given for this period.

The most important lesson of the data in table 1 is that the development of real wages in the period between 1992 and 2000 lagged substantially behind labour productivity developments, and in most countries also behind GDP growth. Exceptions are Lithuania, Latvia and Estonia, where wages increased almost as much as productivity and much more than GDP over the eight-year period. In these latter countries, wage increases in this period seem to have been beyond economic performance. Lithuania is the only CEE country where wage increases substantially outstripped both productivity and GDP growth. The trends in all three Baltic countries show that wages grew faster than productivity in the first half of the period and the tendency was reversed only in the last couple of years.

In the Czech Republic, Slovenia, Slovakia and Poland wage increases follow productivity developments to some extent and correspond to or even surpass GDP growth. In the Czech Republic, productivity in the eight-year period grew 10 per cent faster than wages. Apart from the Baltic states, the Czech Republic is the only CEE country where wages grew substantially more than GDP.

In Slovenia and Poland, wages and economic performance seem to have been more or less evenly matched.

The same can by no means be said for Romania, Bulgaria and especially Hungary. In these countries, wages lagged far behind economic performance. In Romania, the relative level of productivity was twice as high as that of wages in the period 1992-2000. Wage dynamics have also lagged behind GDP developments.

In Hungary, however, wages were most depressed in comparison with economic performance. There, the level of productivity is almost 2.5 times higher than that of wages, if 1992 is taken as the base. Wages are also roughly 20 per cent behind GDP growth.

However, the situation in Romania and Bulgaria gives the greatest cause for concern. Not only is the relative position of wages very low, but pay is also very low in absolute terms.

Not to put too fine a point on it, it may be said that:

- strong productivity gains in Hungary were not rewarded by wage increases at all;
- in Romania and Bulgaria, productivity increases were punished;
- in Poland, strong productivity gains were rewarded quite ungenerously;
- in the Czech Republic, Slovenia and Slovakia, weaker productivity increases were rewarded generously;
- in the Baltic states, minor gains in productivity were rewarded overgenerously.

Shortcomings of industrial relations in CEE countries

As we saw above, wages are depressed and their uneven development is not in line with economic performance in most CEE countries. This is a clear critique of the functioning of industrial relations and interest representation strategies. It is quite obvious that present-day industrial relations in CEE are quite far removed from the patterns in the EU countries. In CEE, trade union activity is overpoliticized and tripartite structures are given too much weight, while industrial relations at the sectoral level are still underdeveloped. Industrial relations are less organic in CEE, as they are not rooted in the socio-economic development of the particular countries. It should be remembered that the prevail-

Table 1. Development of labour productivity, real wages and real GDP in CEE countries (cumulative index, level of 1992 = 100.0)

		1993	1994	1995	1996	1997	1998	1999	2000
Bulgaria	Productivity	99.8	115.9	124.4	133.1	129.3	124.3	125.2	145.7
	Wages	91.3	72.6	68.6	53.9	45.0	54.3	58.1	62.3
	GDP	98.5	100.3	103.2	92.7	86.4	89.4	91.5	96.8
Czech Republic	Productivity	98.8	103.8	114.8	124.7	136.2	142.6	145.7	157.4
	Wages	103.7	110.4	119.9	130.4	132.8	131.2	139.1	142.7
	GDP	100.6	103.8	110.4	114.7	115.9	112.8	112.3	115.6
Estonia	Productivity	95.2	96.7	91.6	98.9	120.7	127.9	130.6	n.a.
	Wages	102.3	101.9	108.3	110.6	118.9	126.9	132.3	139.7
	GDP	91.0	89.2	93.0	96.7	107.7	112.1	111.3	118.9
Hungary	Productivity	113.4	131.2	144.6	158.2	179.8	201.2	222.4	259.5
	Wages	99.5	104.5	95.2	92.7	95.8	99.2	102.8	106.3
	GDP	99.4	102.3	103.8	105.2	109.8	115.5	120.4	126.6
Latvia	Productivity	92.9	97.6	99.3	110.4	121.5	136.2	135.2	n.a.
	Wages	105.0	117.6	117.1	109.8	123.2	130.7	135.1	139.7
	GDP	85.1	85.6	85.1	87.9	95.5	98.9	99.9	106.5
Lithuania	Productivity	87.0	83.2	87.6	96.4	99.5	104.9	110.9	n.a.
	Wages	75.0	85.6	88.3	91.9	103.4	116.7	123.0	124.3
	GDP	83.8	75.6	78.1	81.7	86.7	90.5	87.0	89.9
Poland	Productivity	109.7	123.9	131.7	143.7	159.8	167.4	189.2	212.2
	Wages	99.6	100.6	103.6	109.3	116.0	120.0	154.0	158.0
	GDP	103.8	109.1	116.8	123.9	132.4	138.7	144.4	150.2
Romania	Productivity	109.0	125.0	142.1	152.7	150.0	138.9	148.8	170.6
	Wages	86.5	85.6	100.2	109.6	85.4	86.1	85.1	85.8
	GDP	101.5	105.4	112.9	117.3	109.2	105.5	102.1	103.7
Slovakia	Productivity	101.8	109.1	113.5	116.3	121.9	133.0	132.0	148.7
	Wages	96.1	100.6	104.6	112.0	119.4	121.4	117.7	111.9
	GDP	96.2	100.9	107.8	115.0	122.4	127.8	130.2	133.1
Slovenia	Productivity	105.8	119.7	127.3	139.0	145.1	152.9	157.7	170.9
	Wages	111.2	116.4	121.4	127.3	131.3	133.4	137.8	140.0
	GDP	102.8	108.2	112.6	116.6	122.0	126.8	133.4	139.6

n.a. = not available.

Source: WIIW 2001. Eurostat 2001. European Training Foundation 1999. own calculations.

ing pattern of industrial relations was established by laws imposed from above at the beginning of the 1990s, and to a great extent it was matched to the economic structure of that time (with a dominant role for the State).

Fundamental changes are needed at the core of industrial relations in CEE countries. On the one hand, this relates to the basis of interest representation, namely to the workplace union strategies. If they are to genuinely represent employee interests, trade unions need solid roots in the workplace. These are missing nowadays. It is most important that unions develop strategies for increasing their workplace presence, adapted to the new structure of the economy. If present trends continue, effective employee representation may soon be restricted to the public sector.

There is a second, closely related, sphere in which trade union strategies need to be reformulated – namely national-level policies.

The most characteristic union attitude in CEE has been self-restraint, union quiescence and a supportive approach to the painful but necessary reforms. This behaviour was justifiable during the most difficult period of the transition. In fact, it could be seen as a necessary element in a successful transition and the preservation of social peace. But now the situation has changed. The bulk of the economic transition is over in the most advanced CEE countries, and their economies are developing dynamically.

For employees to benefit from the results of the transition, trade unions need to become much more dynamic and to take the initiative. Unions must be much bolder in exploiting the opportunities arising from the economic growth in order to further workers' interests. This is also vital from the point of view of social inclusion. Otherwise, only a thin layer of society will profit from the achievements of economic transition.
