INDUSTRIAL RELATIONS IN EUROPE
FOSTERING EQUALITY AND CROSS-COUNTRY CONVERGENCE?

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Baltic states: How are social indicators integrated into economic convergence?

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An exemplary catching-up: 1995–2011 the Baltics had one of the highest growth rates in EU, 4.0 per cent in EE, 4.1 per cent in LV, 4.3 per cent in LT, compared with the EU15’s 1.6 per cent; though with slow-downs later – ‘middle-income trap’? High growth volatility, e.g. transition shock, EU enlargement in 2004 (highest positive effect), Great Recession (GDP ca -14% in 2009) – risks for economic and social convergence e.g. via outward migration, esp. in Latvia and Lithuania.
Motivation – how are economic and social convergence linked?

• **Welfare state or variety of capitalism** – Baltic’s belonging to liberal model (Masso and Paas 2007) or a ‘flexible market economy’ (Kuokštis 2011) with limited social dialogue and social protection; arguments against extensive welfare – ‘growth first’ (Trumm 2006).

• **Differing views among social partners on the linkage** –
  - Under dominance of right-wing parties unions have had to link their arguments with economic development (Peterson 2018)
  - By some employers opinion social convergence is ahead of the economic one (Tamsar 2018)
Income convergence: implications for social convergence

- Income convergence reflected in rapid growth in wages, e.g. 1995-2015 in Estonia wages increased from 8% of EU15 level to 32%
- Wage share stays generally lower than at EU15, no consistent convergence performance; some decrease in wage inequality: D9/D1 ratio 4.4-6.0 in 2006 down to 4.2-3.9 in 2015 (Eurostat Structure of Earnings Survey); high persistent gender pay gap especially in Estonia (ca 30%; no 1 in EU, 2nd highest in OECD)
- Companies’ income has demonstrated stronger convergence as to households – by 2015 companies achieved 52-63% of EU27 level and households 44-48% (AMECO data)
- Almost no working time convergence due to wage convergence – low part-time even among females (in 2015 10-15% instead of 38% in EU15) explained by low wages, strong concentration around 40 hours, cultural norms; social partners view higher part-time addressing labour shortages (employment rates in 2015 72% in EE vs 66% in EU15)
Social convergence: well below in a context of weak industrial relations

• **Higher income inequality** (34-35% instead of 32% in EU15 in 2015), rather different dynamics across the countries despite of similar growth dynamics and institutions – skill premium differences (Cho and Diaz 2018)?

• **No convergence in social protection indicators** (ca 12-16% of GDP cf 26-29% in EU15) – lower health expenditures, lower replacement rates for pensions; social partners involvement in different bodies (Estonian Unemployment Insurance Fund and the Estonian Health Insurance Fund) had had limited effect on policy making

• **Inequalities exacerbated on low and declining union density** (1995-2015; 32-15% down to 13-6%), limited extent of sectoral collective agreements and bargaining mainly at company level (Glassner 2013), no positive effect on wage compression (Peterson 2018)
  
  • **Education as one exception setting positive example** - important also for convergence via ensuring quality (e.g. Estonia got best results in PISA in 2015 – is that sustainable with low wages)?
Positive example of social dialogue on social convergence: minimum wage increases in Estonia since 2011

- Reduced wage inequalities in lower part of the wage distribution (Ferraro et al. 2016), yet very limited if any negative employment effects (Ferraro 2018)
- Consensus among social partners about the increase; poverty reduction as the target, but in unions view positive effect on positive net labour migration (since 2015) reliving labour shortages
- Should minimum wages be even higher (e.g. by unions 100 EUR) to reflect adequately differences in productivity (Estonia vs Germany)?
Case study 3: the role of foreign ownership for social convergence

- **Strong FDI dependence:** inward FDI as a % of GDP in 2016 was 83 per cent in Estonia, 51 per cent in Latvia and 34 per cent in Lithuania (OECD data).

- **FDI fostering income convergence** (via providing capital, technology, increased competition), **FDI’s role for social convergence more ambiguous:** adoption to local markets, subsidiaries more autonomous in human resource management as to other functions, greater autonomy in Central and Eastern Europe, pressure for decentralization of wage bargaining (Bembič 2018).

- **By and large FDI companies are good employers,** e.g. provide more training (8.1 vs 5.5% trained in the month of the survey) and higher wages, **yet demonstrate higher inequalities** – male employees get ca 13% wage benefit from working in the FDI company as females

- **Wages of FDI subsidiaries might still be relatively low to support the whole group** (similar to elsewhere like Volkswagen subsidiaries in Poland)

- **Industrial disputes** (cf. the largest EE meat producer Rakvere Meat Processing Plant) stress the importance of the **international cooperation of unions**
Conclusions

• **The strong economic convergence** of the Baltics illustrating that not all differences in social indicators are to decrease due to that

• **Social dialogue could contribute to convergence in many aspects:** make use of the expertise of Baltic States diaspora (case study 2), relieving labour shortages (positive net migration or higher part-time), skill upgrading, sharing economy (case study 1: ‘Uber Act’ in Estonia in 2017; collective agreements as alternatives to exceptions in law – unions viewpoint)

• **Need to change existing business model** based on comparatively cheap labour costs (Peterson 2018), discussions e.g. as to regulating migration

• **Need for better availability of indicators** - may widen attention towards other aspects of social convergence – e.g. median wages, work safety, impact of working conditions on health, lifelong learning