

The Evolution of Wages in CEE

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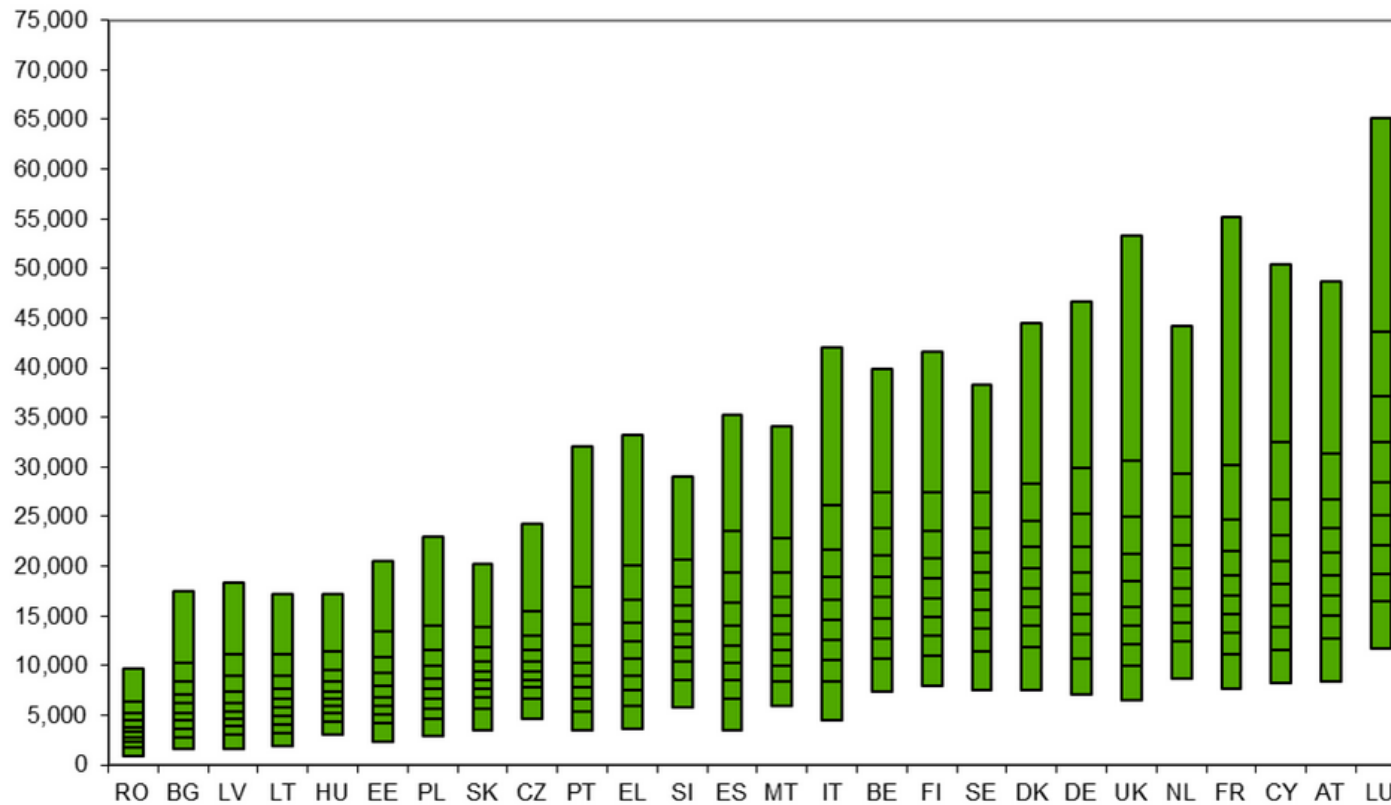
Uni of Western Hungary

Wages diverging from Northwestern Europe

	2004	2014
Bulgaria	25,4	31,3
Czech Republic	21,2	25,7
Estonia	22,7	25,3
Croatia	20,1	25,7
Latvia	24, 2	28,5
Lithuania	23,8	28,6
Hungary	21,1	27,8
Poland	22,3	26,7
Romania	25,1	30,5
Slovenia	15,8	19,5
Slovakia	22,9	25,4

Table 1 – Distances of average total hourly wages in Central and Eastern European economies, in euros, 2004 and 2014 (Source: Eurostat NACE)

Income levels (PPP)



Source: European Commission, Eurostat, cross-sectional EU-SILC 2011, UDB August 2013
Social Situation Monitor

Disadvantages of low wages

- Low standard of living (1.2m earning below living wage in Hu)
- Lower employment levels due to low demand
- Keynesian growth models (Domar, Kaldor): as lower demand retards the increase in increase in productivity

Determinants of wages:

- **Step One:** the *common productivity* of the two factors of production determine value added.
- **Step Two:** capital and labour divide value added based on *raw social power*. There is no meritocratic market based process involved.

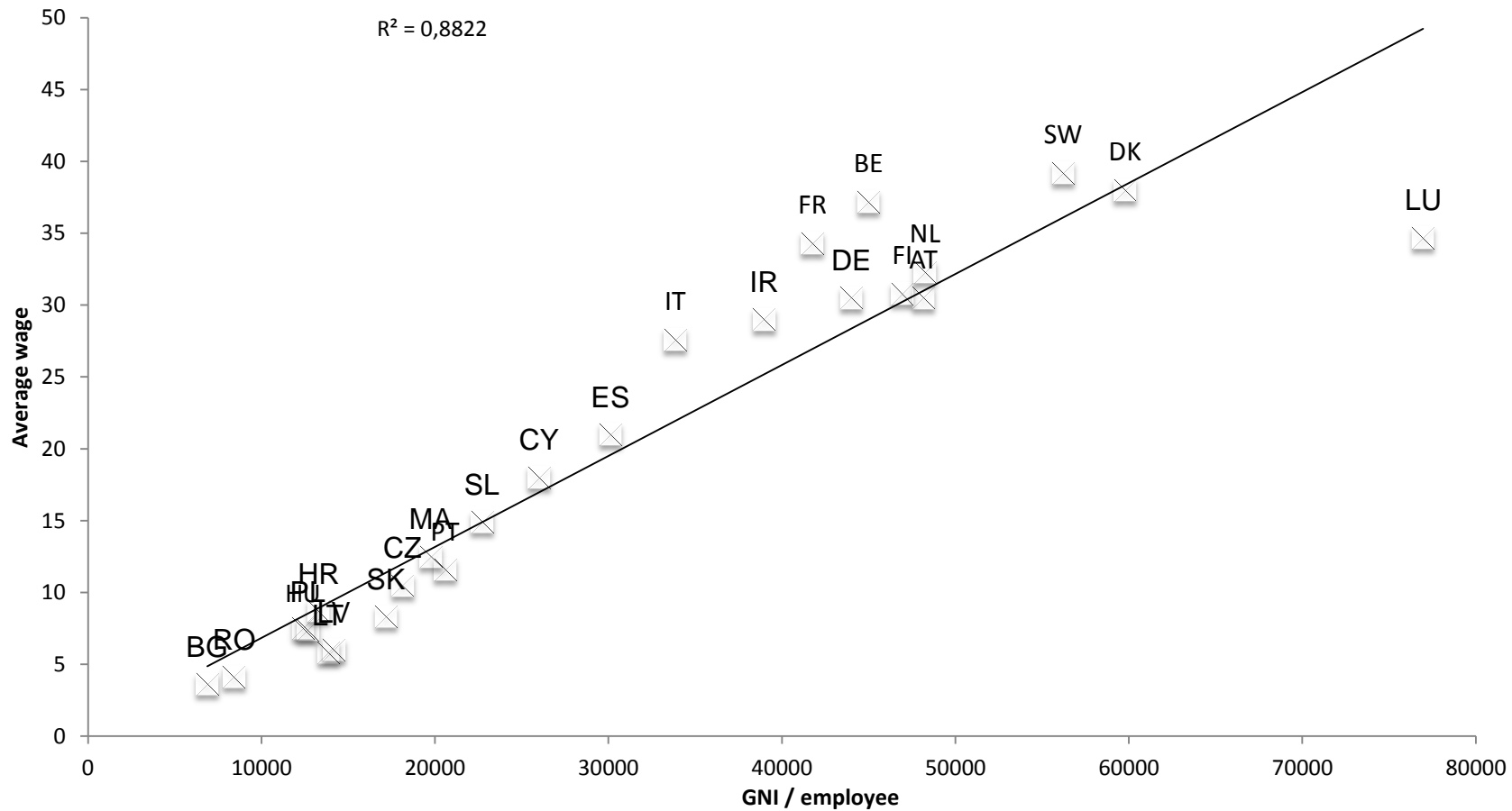
(Piero Sraffa 1960)

OECD PIACC

Market skills of employed, 2013

Olvasási készség	Számolási készség	Problémamegoldás
JAP	JAP	SWE
FIN	FIN	FIN
NED	SWE	NED
SWE	NED	NOR
AUSL	NOR	DEN
NOR	DEN	AUSL
EST	SLK	CAN
SLK	FLA (BEL)	GER
FLA (BEL)	CZE	UK
CAN	AUT	JAP
CZE	GER	FLA (BEL)
OECD	EST	OECD
DEN	OECD	CZE
KOR	AUSL	AUT
UK	CAN	USA
GER	KOR	KOR
USA	UK	EST
AUT	POL	SLK
POL	FRA	IRE
IRE	IRE	POL
FRA	CYP	
CYP	USA	
ESP	ITA	
ITA	ESP	

Productivity and wages



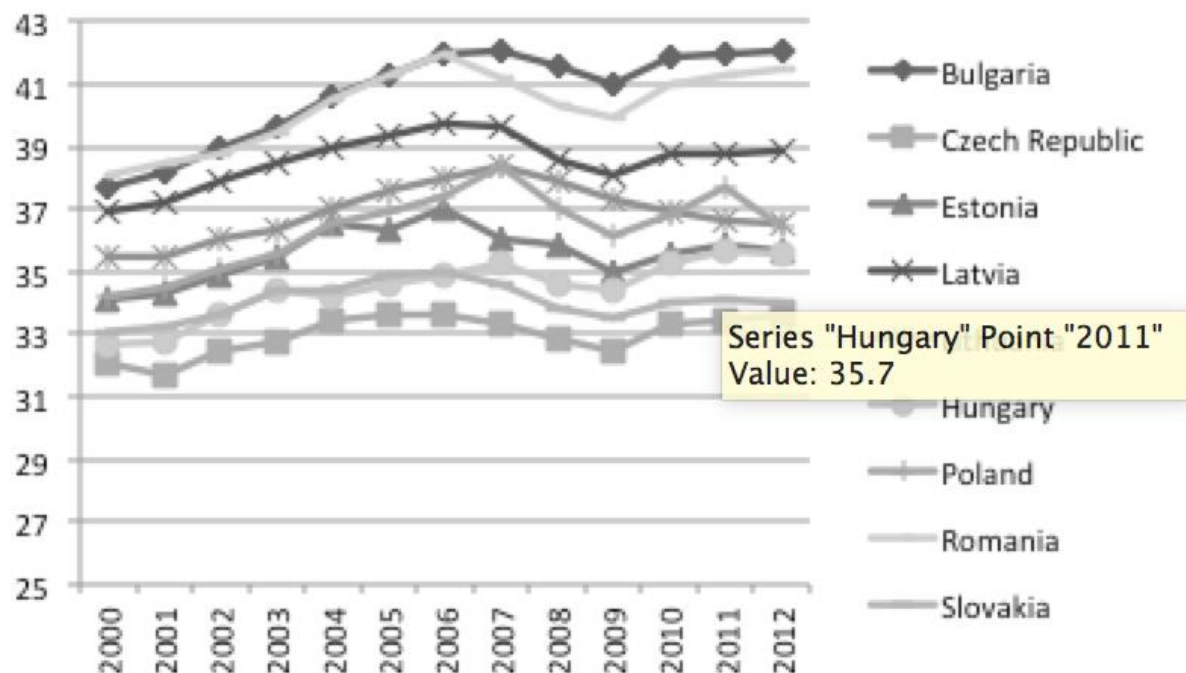
What determines average wages?

Minimum wages influence average productivity:

- CEE FDI dependent competition state (Nölke and Vliegenhart) minimum wage: €2-3 Below the living wage: social dumping.
- Northwestern European minimum wages and wage floors: €8.5-15

CEE pulls low value added on itself

Productivity is also diverging!



7. Graph – The productivity gap between CEE economies and Western European economies, euro per hour worked (Source: own calculations based on Eurostat code [\[nama_aux_lp\]](#))

Step Two: The Division of Value Added

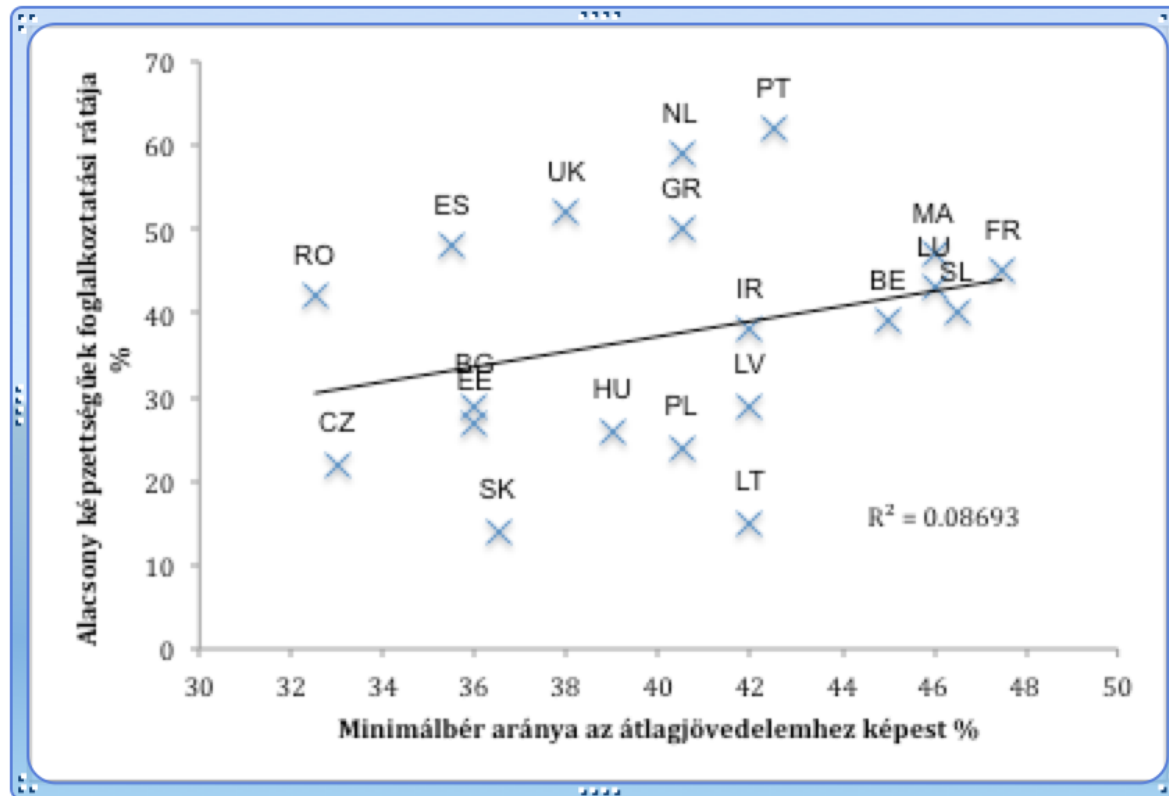


	Countries with high (above 80%) collective coverage	Countries with low collective coverage (around 30%)	Eastern European OECD member states
Share of wages in GDP 2012	67%	59%	57%



Table 2 – The wage share of GDP in the case of strong and weak trade union powers, 2012 (Source: Amsterdam Labour Institute and OECD)

Minimum wage and employment

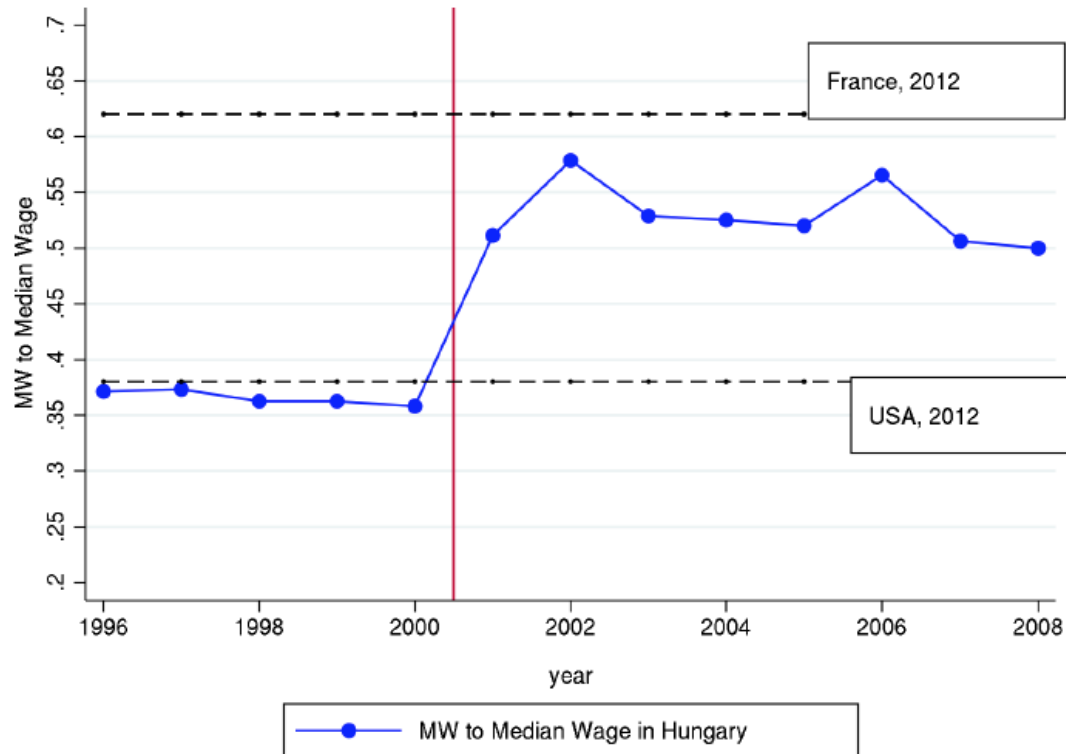


Ábra 4. - Minimálbér az átlagjövedelem arányában (earn_mw_avgr2) illetve az alacsony képzettségűek foglalkoztatottsága, 2010 (Eurostat)

Massive wage increase Hungary 2001-2002

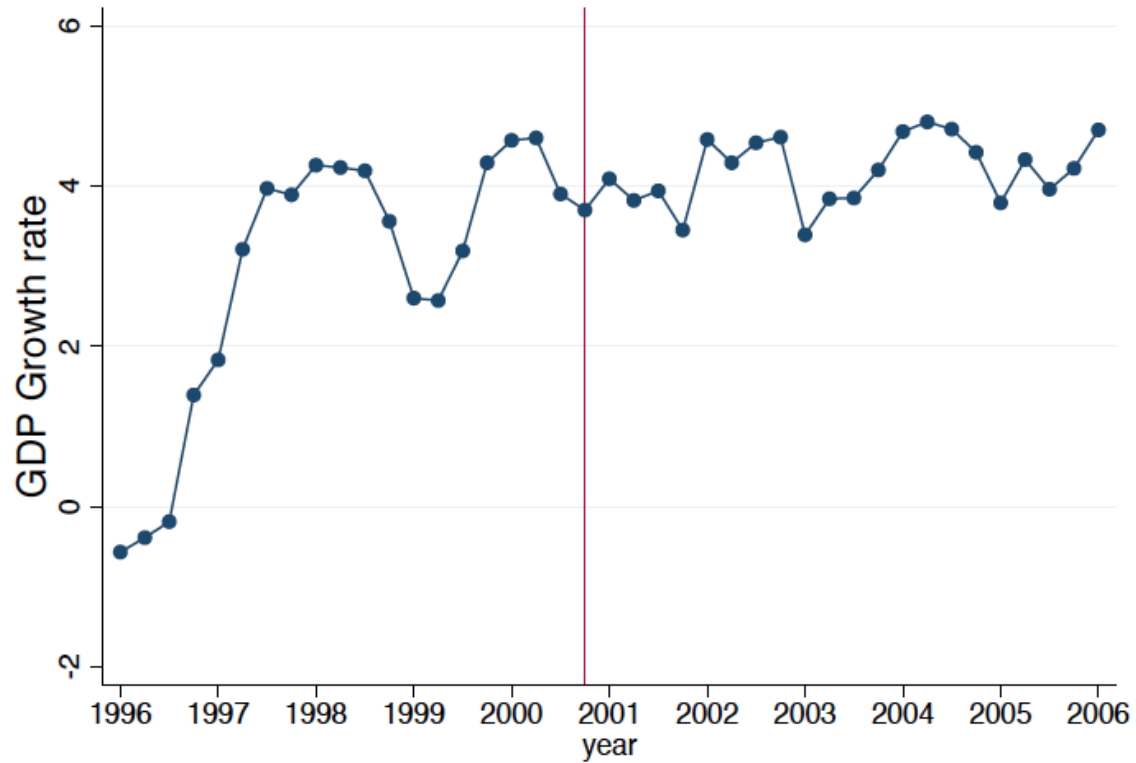
(Lindner 2015)

Figure 1.1: Minimum wage in Hungary



GDP

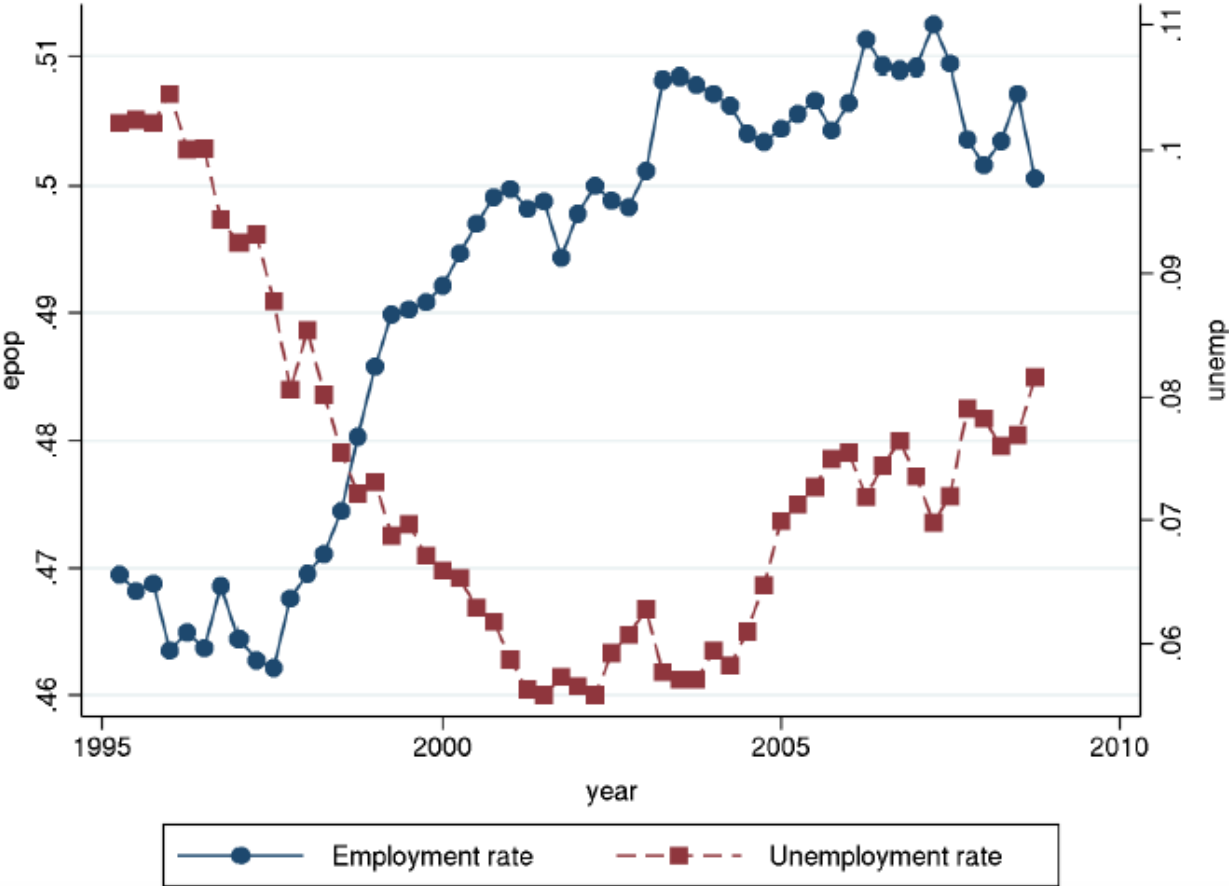
(Lindner 2015)



(a) GDP growth

Employment and Unemployment

(Lindner 2015)



Solution

- Rehn-Meidner model
- Industry wide wage negotiations and wage floors
- Ghent model for strong trade unions

Thank you!

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