



Central Eastern Europe: Jobless growth?

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- ◀ **1. Different macroeconomic framework in NMS-s compared with steady, slow growing EMU countries**
- ◀ **1.1. Higher dynamism of CEE with cca. 10% nominal growth rates..**
- ◀ **1.2. Fast and uneven productivity growth > Balassa Samuelson effect > large gap in productivity growth between tradeable and non-tradeable sectors of the economy >**
- ◀ **Push effect on wages from tradeable to non-tradeable sector + Distorted price and cost structures, wages below potential levels > adjustments still underway**
- ◀ **High wage growth**
- ◀ **Appreciating currencies**
- ◀ **Result: higher inflationary potential**

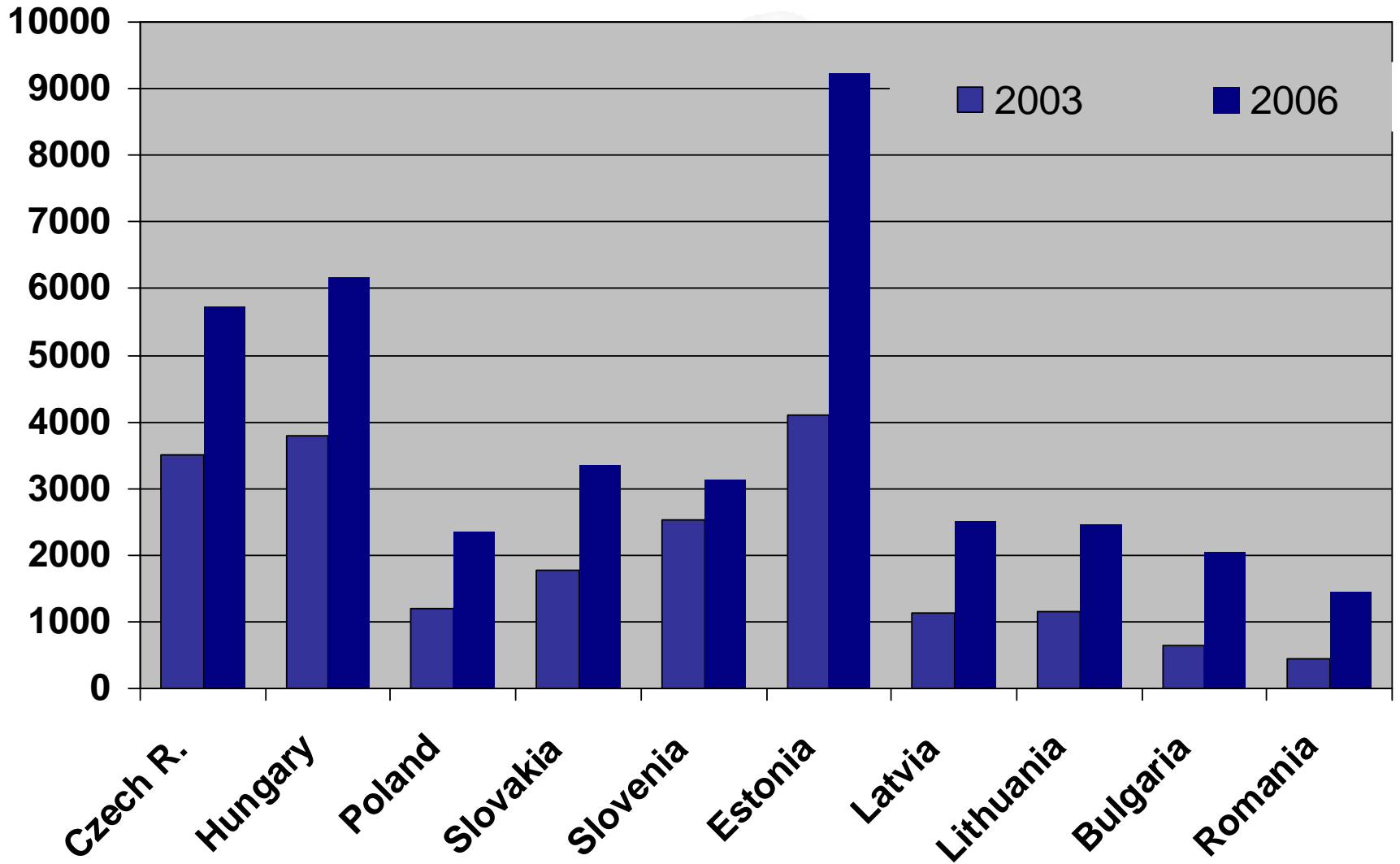


- ◀ Real convergence dynamically proceeding: 1995 vs 2005 in % of Eurozone country average (PPP)
- ◀ Interesting cases:
 - ◀ CZ: 63,6 – 67,3
 - ◀ EE: 29,8 – 49,7
 - ◀ SL: 64,0 – 77,1
 - ◀ SK: 42,0 – 52,1



Inward FDI stock per capita in NMS-5

in EUR, 2003-2006





Inward FDI stock per GDP in selected EU members, %

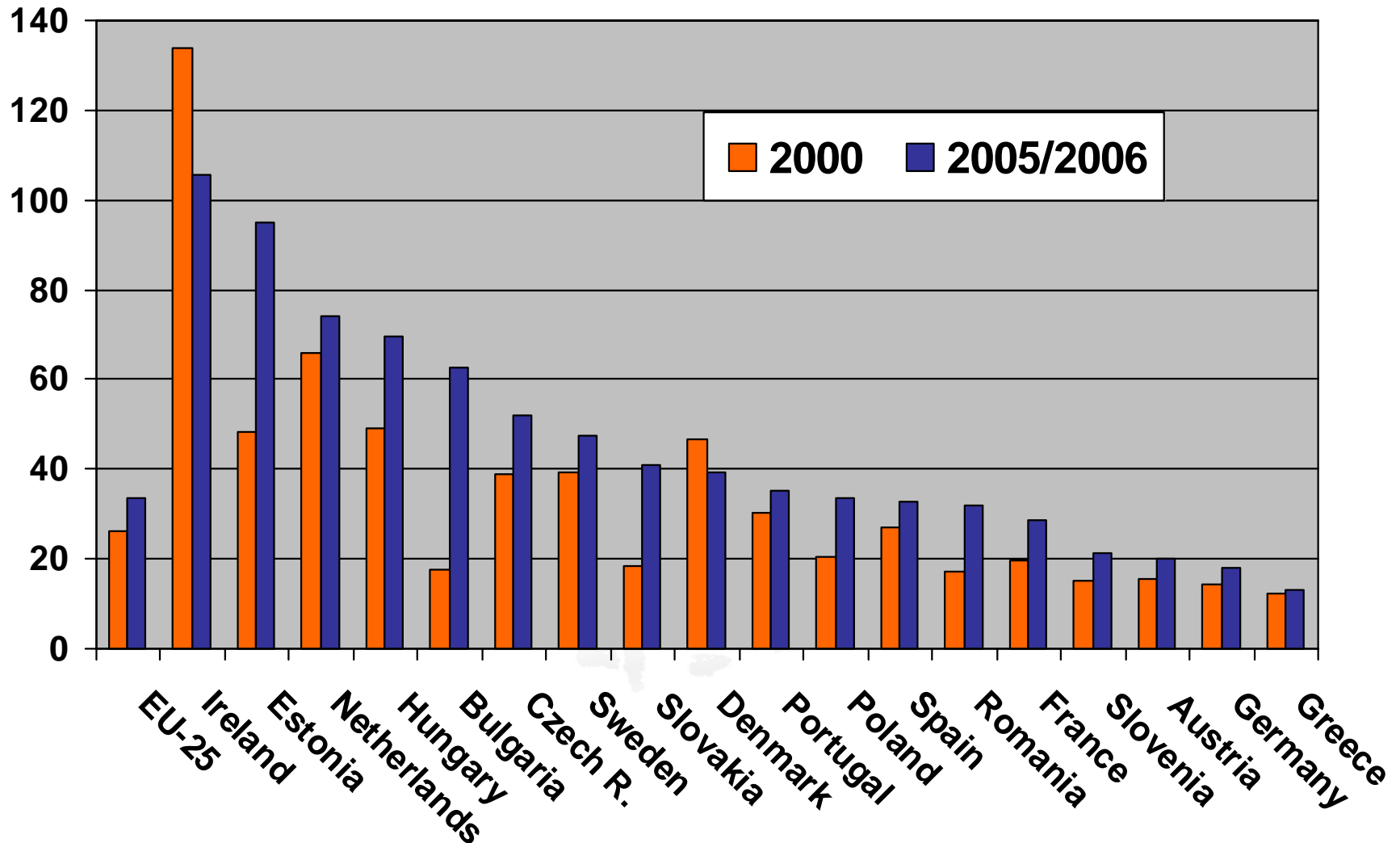
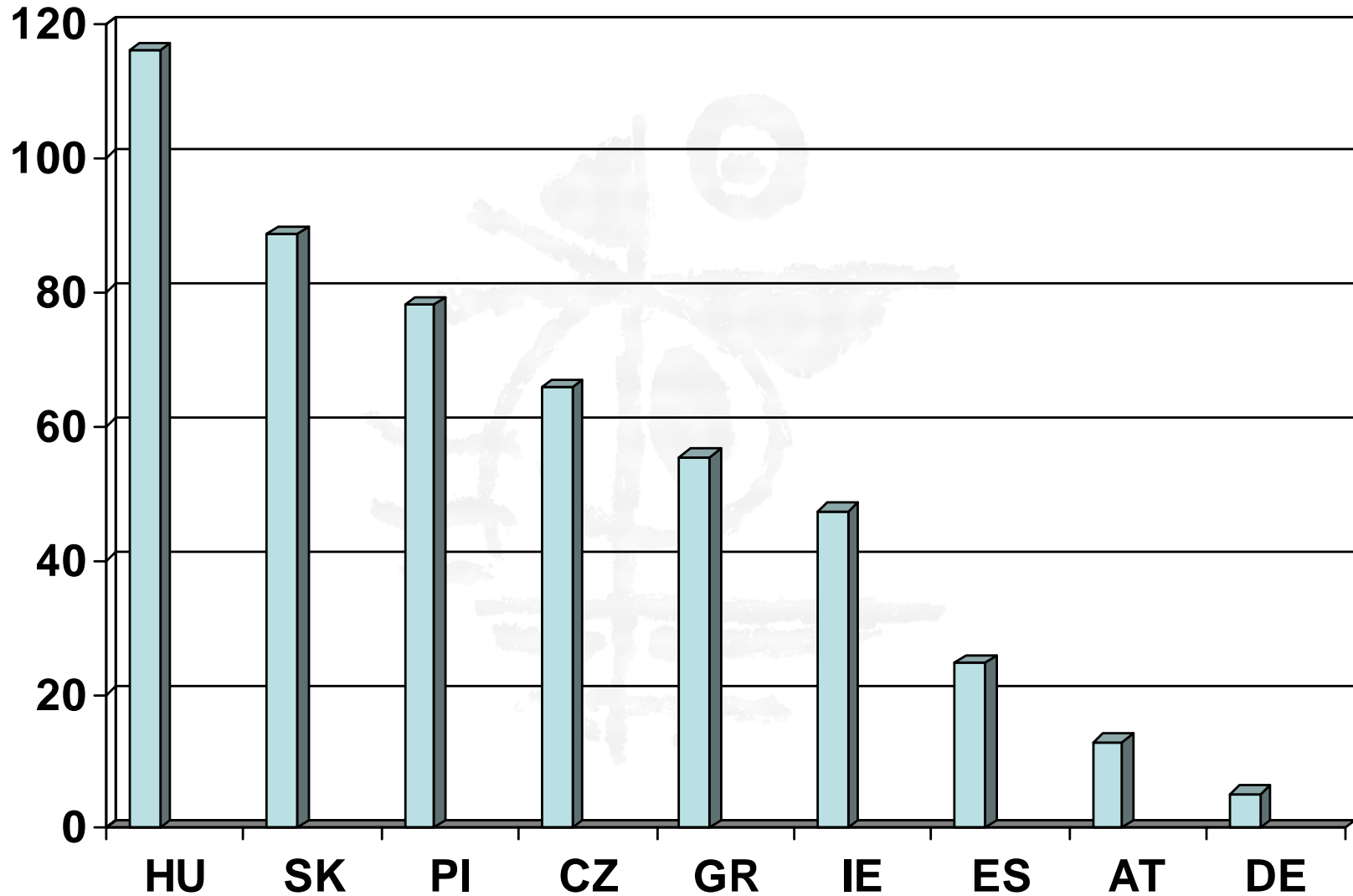
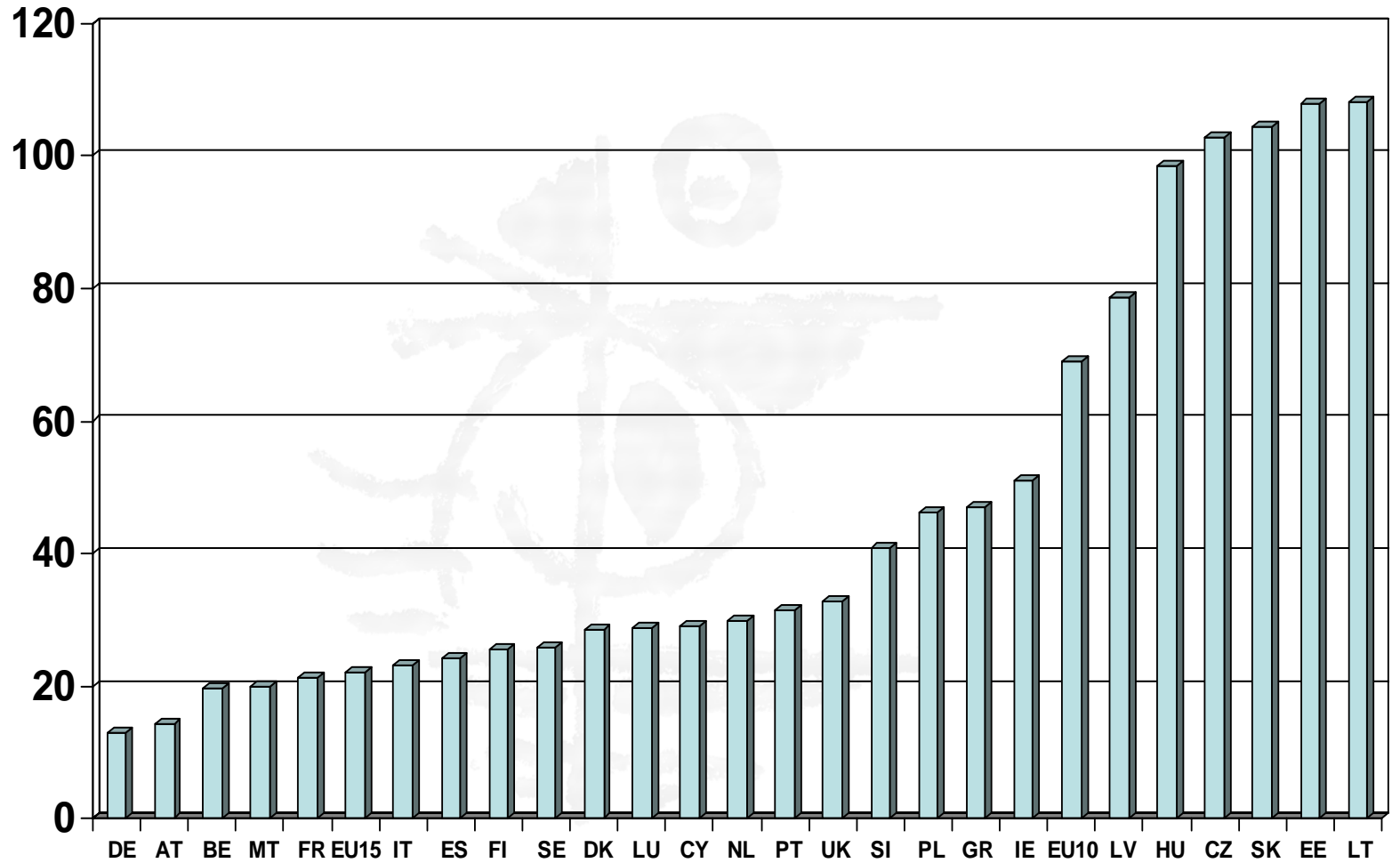
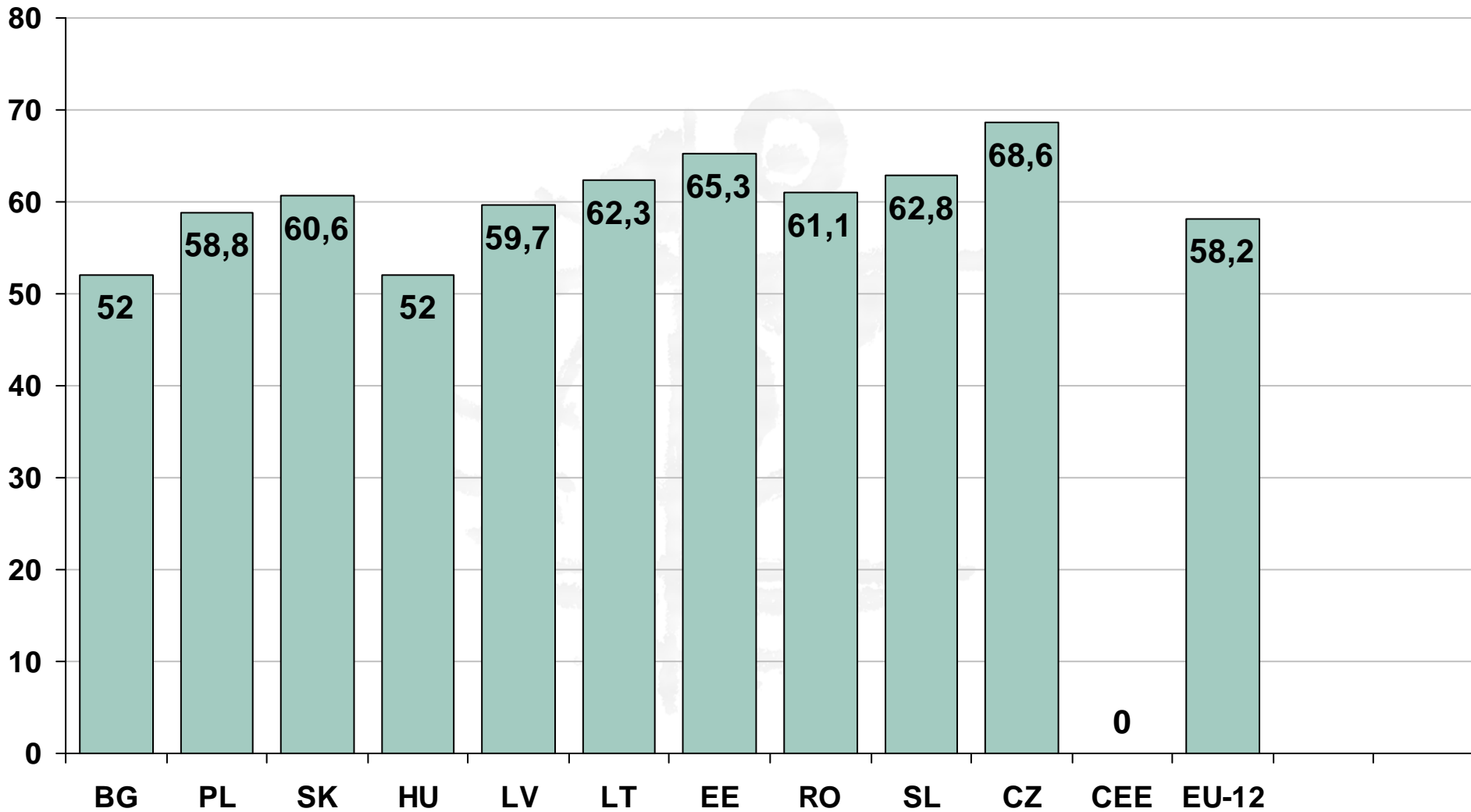


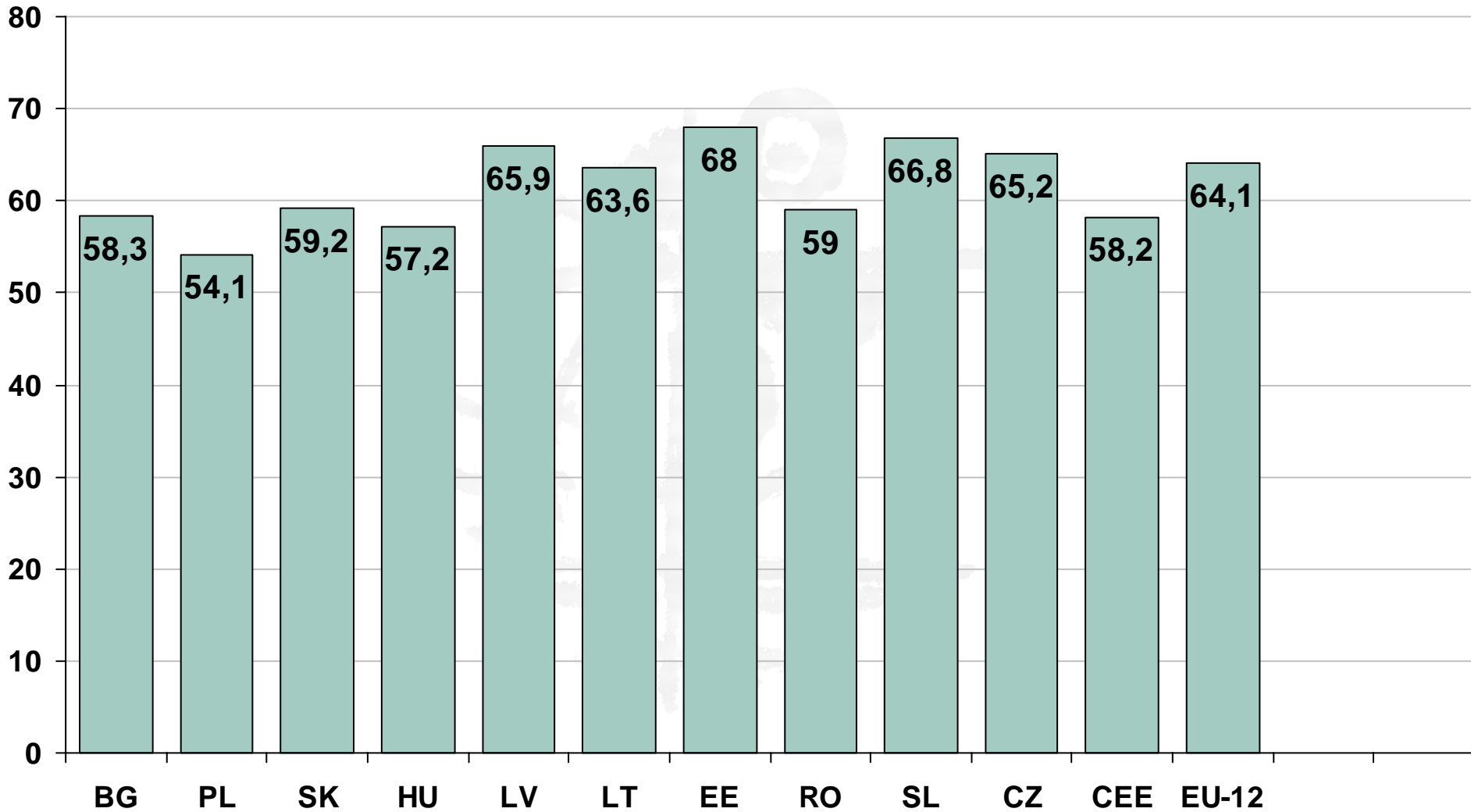
Fig. 2: Growth of export market shares in goods between 1995 and 2003 (%)

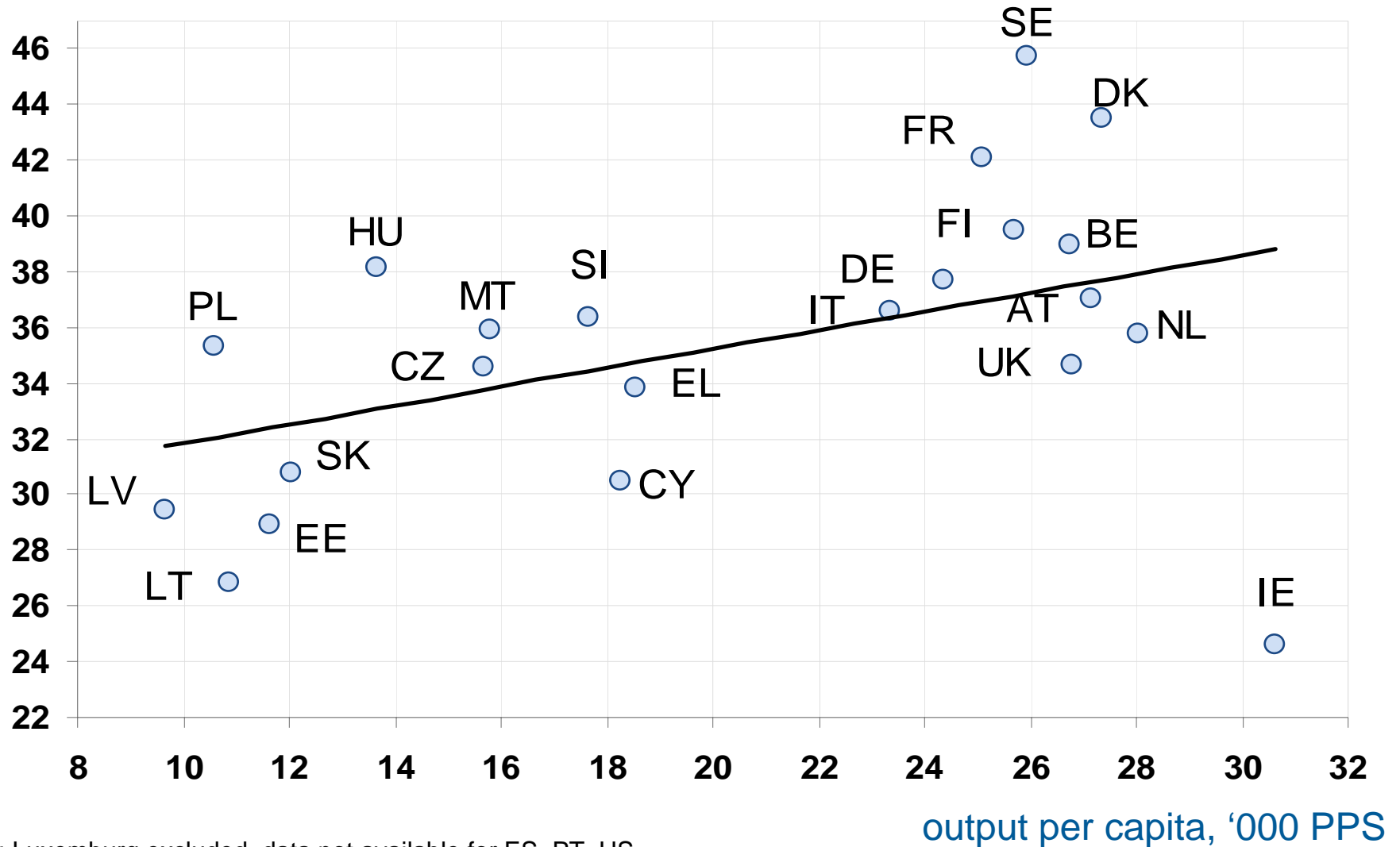


Change in nominal yearly compensation per employee in Euro, 1999-2006 (%)









Note: Luxemburg excluded, data not available for ES, PT, US

Source: AMECO (2005)



Social Risk Indicators: Absolute Values

	Risks Derived from the Labour Market Long-Term Unemployment Rate (2003)	Unemployment Rate (2002)	Risks Derived from Ageing Old Age Dependency Ratio % (2001)	Risks Derived from Insufficient Income Support At Risk of Poverty Rate After Social Transfers (2001-2003) (1)
BG	8,9	17,8	24	13
Cyp	1,1	3,9	17,3	16
CZ	3,8	7,3	19,8	8
EE	4,6	9,5	22,7	18
HU	2,4	5,6	21,4	10
LV	4,3	12,6	22,6	16
LT	6,1	13,5	20,2	17
MT	3,5	7,7	18,1	15
PL	10,7	19,8	17,8	17
RO	4,1	7,5	19,6	18
SK	11,1	18,7	16,5	21
SL	3,4	6,1	20,2	10

Source: Eurostat

Employment rates low, but growing...



- ◀ Employment rates at full time equivalent comparison less far from EU-15, as the share of part-time work is very low in NMS
- ◀ BG, HU, SL, Baltic states growing employment rates
- ◀ CZ, RO falling employment rate, but high level
- ◀ SK medium level, stagnating
- ◀ PL: problem case – low and sinking employment rate (unemployment decrease due to migration /as in LT/)
- ◀ Much of the growth is due to productivity development, job creation is relatively low, but still happening
- ◀ Productivity growth is mostly triggered by FDI
- ◀ Quality of FDI matters!!!!
- ◀ Low employment rates, high unemployment rates > ALMP spending > more LMP spending needed



The differences of employment rates between NMS and EU-15 are not as big, as they seem

Jobless growth is not verifiable on absolute terms, but indeed on relative terms – much of the growth is due to productivity improvement and mostly due to FDI

There is a severe structural mismatch of the LM

ALMP – low spending and low efficiency, lack of mobility, problems with vocational training

It is not true that LM in general are inflexible and more LM flexibility would be the cure (same debate, as in EU-15)

The flexibilisation and deregulation agenda has failed, even the OECD revised it



The flexicurity debate is relevant for the NMS also..

BUT: the question is what the `elusive` security offered in exchange for greater flexibility – means in practice

Who pays the price of adaptability, LLL, more frequent labour market transitions

Employers, employees and the state should equally take up the costs of `change` - not just employees..

Specificity of NMS: high level of `irregular flexibility` - undeclared work, envelope wages, excessive overtime, often unpaid, high share of temporary agency work, but very low part-time share

Simple flexibilisation does not help, `flexicurity` is not a general medicine..



- ◀ **The general concerns are:**
- ◀ **SGP criteria in their present (rigid) form do not fit with the NMS-s**
- ◀ **Due to different macroeconomic framework conditions**
- ◀ **NMS-s would have a higher equilibrium inflation rate – as a result of the BS effect, the distorted price and cost levels, and the productivity reserve..**
- ◀ **Moreover due to low debt rates and higher growth (in nominal terms up to 10%) – higher than 3% deficit rates were theoretically sustainable – the 3% deficit ratio was designed for other framework conditions (Belgium, Italy)**
- ◀ **Fiscal sustainability is crucial, but should not be fetisized..(neither Ireland, nor Portugal are matching examples..)**
- ◀ **If non-fitting criteria are applied in a forced way they have a downside effect – price stability at fixed exchange rate is a burden and would not be sustainable**



- ◀ **If the present SGP criteria are rigidly applied, sacrifices in growth, employment, real convergence, wage convergence, with knowledge based economy targets might be unavoidable**
- ◀ **This would cause substantial welfare sacrifices, given the ‘welfare deficit’ already there, aggravated by low employment rates in most countries, high unemployment rates in several countries (special risks: PI, SK where both of these are present) –**
- ◀ **Would ‘Maasricht’ become a means to maintain social dumping?**
- ◀ **Would hamper strategies for breaking out of the low wage profile (Hungary started this and has got under constraints, for Slovakia and some of the Baltic states it might be a major ambition in the future..)**
- ◀ **Lisbon goals, convergence would need higher public investments**

Fast track EMU accession with the non-fitting criteria not beneficial for employment growth



In case of transformation economies there is a clash between EU objectives:

SGP – Lisbon agenda – European Social Model (EES, NAPE-s)

A forced fulfilment of Maastricht goes to the detriment of the two other objectives and might hamper real convergence

A revision of the Stability of Growth Pact is unlikely, although several European think tanks propose to implement a `Balassa-Samuelson rebate` for CEE at the inflation criterion.

Each country needs a proper societal debate on its central national priorities and needs to embark on an optimal EMU accession agenda accordingly.