Canadian Journal of European and Russian Studies, 13 (2) 2019: 20-38
ISSN 2562-8429

CJERS Canadian Journal of European and Russian Studies
Revue canadienne d'études européennes et russes

Economic and Social Balance of 15 Years of Eastern Enlargement

Béla Galgóczi[1]
European Union Trade Institute

Abstract

The Eastern EU enlargement (2004, 2007, 2013) is still one of the success stories of the EU (and unprecedented in the world), but at the same time it is controversial and is perceived as controversial. One of the core problems has been its unbalanced character: the whole process had a clear `Single Market` focus and the values of a `Social Europe` were of secondary importance. Based on a neofunctionalist approach the paper discusses the integration of the new member states from the point of view of economic and income convergence. Along with a literature review, data on wages, productivity and output will be analysed to demonstrate that upward convergence of the poorer new member states towards the EU average had been stalled in wake of the 2009 crisis. The resulting cleavages put the core hypothesis of the neofunctionalist approach - that EU integration has a `direction` in terms of an upwards convergence - into question.

[1] Béla Galgóczi is a Senior Researcher at the European Union Trade Institute.

Introduction

The European Union (EU) is a historically unique supranational entity. It has a single market (free movement of goods, capital, services and people) with EU level institutions and legislation founded on a set of common values but essentially still based on the national sovereignty of its member states. Labour markets, social policies, and wage-setting are all within national competence. Heterogeneity has always been a characteristic feature of the EU, but since its Eastern enlargement from 2004 on, this has grown enormously. Income gaps, mostly between the East and the West, are up to a ratio of one to ten. Although it is true for the whole EU that the welfare state there is more pronounced than in the rest of the world, regional and country differences are huge, and different models co-exist.

This paper attempts to draw a balance of fifteen years of Eastern enlargement based on aggregate social and economic outcomes in the region. While economic matters have played an important role in assessing outcomes, they are only a part of the picture; this paper does not discuss political economy developments, governance structures, or varieties of capitalism issues. After laying out some theoretical considerations, section 1 discusses economic convergence and its importance in EU integration. Section 2 addresses wage convergence and demonstrates how it has lost momentum in the wake of the crisis and falls short of initial expectations. Section 3 examines the background and the main drivers of wage increases, including the role of minimum wage policy, foreign direct investment and labour mobility. Section 4 draws a balance of the fifteen years of Eastern enlargement.

Economic convergence and the Single Market driven integration

Theoretical considerations

When considering European integration, this article builds on the neofunctionalist approach (Schmitter 2005), which conceptualizes the state as an arena in which societal actors operate to realize their interests.

Neofunctionalism sees international cooperation as a response to scale economies in the provision of public goods. Whereas functionalists argue that the only feasible way to bypass state sovereignty is by transferring specific state functions to specialized international agencies, neofunctionalists emphasize the potential for deeper and broader governance at the regional level. Their key interest is the direction of regional integration, not its outcome. Neofunctionalists identify a series of mutually reinforcing processes that lead to further integration. Although crises may delay integration, the guiding assumption is that, over time, policy spillover and supranational activism will produce an upward trend. The term European integration itself reflects the neofunctionalist premise of having a process that has a direction. From this perspective, the causal path is characterized by path dependence.

Postfunctionalism roots the response to the Eurocrisis in domestic politics, and in particular, in the rise of nationalist opposition to European integration that petrified governments even as the economic costs of inactivity rose (Hooghe and Marks 2018). The result was a spiral of crisis and inadequate response.

In line with König and Ohr (2012), this article argues that economic and political integration are complementary, offering a sharp distinction between shallow and deep integration, with the latter combining economic and political integration. It also builds on theoretical work on the socio-economic heterogeneity of the EU (Höpner and Schäfer 2008), but it goes beyond the

mere recognition of this by regarding it as a core–periphery cleavage with profound implications for the political and economic relations between Member States. Although studies of core–periphery relations have always been a part of European integration studies (Bachtler et al. 2014), the usual perspective has focused on convergence rather than divergence as a cleavage or divide. The analysis that follows will show that the earlier convergence dynamic between poorer and richer Member States of the EU that was characteristic up the crisis has been stalled with consequences for the development perspectives of the periphery.

Asymmetrical integration

It is important to bear in mind that the de facto economic integration (free trade, free capital movements) of the Central-Eastern Europe (CEE) region took place right after its opening up during the early 1990s. The accession of CEE countries to the EU (eight central-eastern European countries[2] in 2004, Romania and Bulgaria in 2007, Croatia in 2013) can be seen as a political-institutional act that completed this process by drawing these countries under the EU legislative framework. Freedom of services was extended to the CEE region at the time of the accession, while free labour mobility has been granted in a gradual process (completed in 2011 for the 2004 accession countries, and in 2014 for 2007 entrants, with restrictions still applying for Croatia until 2020). This early opening up of the markets for vulnerable transformation economies that were under the double shock of losing their former markets in the east and the widescale restructuring of their economies with applied neoliberal policy reforms has been identified as an original sin in causing unnecessary transformation pain (Mencinger 2013). Several analysts also argue that the very idea of the European Social Model has always taken a back seat in the process of European integration (Streeck 2000; Scharpf 2002; Martin and Ross 2004). Accordingly, the single market project has always been at the core of integration – backed by hard law and its flagship project the EMU, albeit on the basis of an incomplete architecture, as learned during the crisis; the social dimension has always been based on declarations, wish lists, and soft targets like those set out in the EU 2020 Strategy.

The historical founding principle of the EU concentrated on peace, but it was the prospect of upwards income convergence that embodied the European dream for millions of people. This is especially true for CEE citizens whose, incomes were a fraction of those in the luckier Western part of the continent. The perspective of income convergence – between poorer and richer member states and among the poorer and richer regions within states – has been an underlying feature of European integration from the outset. In this respect, a look at fifty years of EU history up the 2008-09 crisis provides confirmation of the project's unprecedented success. As a World Bank (2012:57) report states, "The European convergence in consumption levels in the last four decades is unmatched. Except for East Asia, the rest of the world has seen little or no convergence." Indeed, by the early 1990s, the incomes of more than one hundred million people in the poor southern regions of Europe (Greece, southern Italy, Portugal, and Spain) had increased, moving closer to those of the more prosperous areas of Europe. Similarly, between the late 1990s and the mid-2000s, the income levels of one hundred million people in Central and Eastern Europe were dynamically converging towards levels in the richer parts of the continent. The ambition of upward convergence seemed to function for several decades.

However, the year 2008, with the onset of the financial crisis, marked a halt in these processes of convergence and catching up on the part of the less prosperous countries and regions, raising questions about the sustainability of the progress achieved in earlier phases of European integration. As Europe's flagship project, the single currency, has had difficulty responding to

[2] Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia

the external shock imposed by the financial crisis, and with adjustment therapy forcing some member states into a diverging downward spiral, this essential and fundamental mission seems to be at risk. The applied strategy of asymmetrical and downward adjustment, in which mostly peripheral, lower-income countries were affected, resulted in a persistently growing gap between surplus and deficit countries that manifests itself in a diverging Europe.

Divergence and convergence in the wake of the crisis

Paradoxically, it was less the effect of the acute crisis in 2009 and 2010 that marked a turning point, and more the applied austerity policy in the EU and the macroeconomic surveillance mechanism within the European Semester that put wages under pressure. According to these policy recommendations (that appear as hard constraints for national policy makers), wage increases in the past were not sustainable, and CEE, similarly to the southern periphery of the Eurozone, had lost its competitiveness. Thus, a downward wage correction was on the agenda. In the case of countries where financial help through an IMF-EU bailout had been provided (in the CEE region in Latvia, Hungary and Romania), wage cuts were often among the conditions of providing stand-by credit facility. In other countries, the pressure appeared in a more indirect way, but most of them were subject to wage corrections, as well.

Between 2008 and 2016, convergence in terms of GDP per capita lost momentum, convergence in nominal wages came to a standstill, overall growth rates were far behind pre-crisis rates, investments collapsed, and inward foreign direct investment (FDI) flows slowed down. Data on per capita GDP are shown in Table 1, following the years before and then after the 2008 crisis. Individual countries show different levels of performance, as in 2018, most CEEs had GDP per capita between 65 percent and 75 percent of EU15 levels (at purchasing power parity, PPS), up from 35-45 percent for the same countries in 1997, and also up from 50 to 65 percent in 2007. The Czech Republic and Slovenia are above this middle range, with 83.7 percent and 81 percent in 2018, respectively, while Bulgaria and Romania are behind (46.6 percent and 59.7 percent in 2018, respectively).

Although upward convergence has lost some momentum since the crisis, the catching-up process between 2008 and 2018 is still apparent. Most dynamic convergence was shown by the Baltic states and Slovakia, while Slovenia and the Czech Republic were slower, and Hungary and Croatia were sliding back within the group. Romania and Bulgaria showed significant improvements but are still the two poorest member states in the EU.

Table 1: Gross domestic product at current prices per head of population (%), PPS, EU15=100

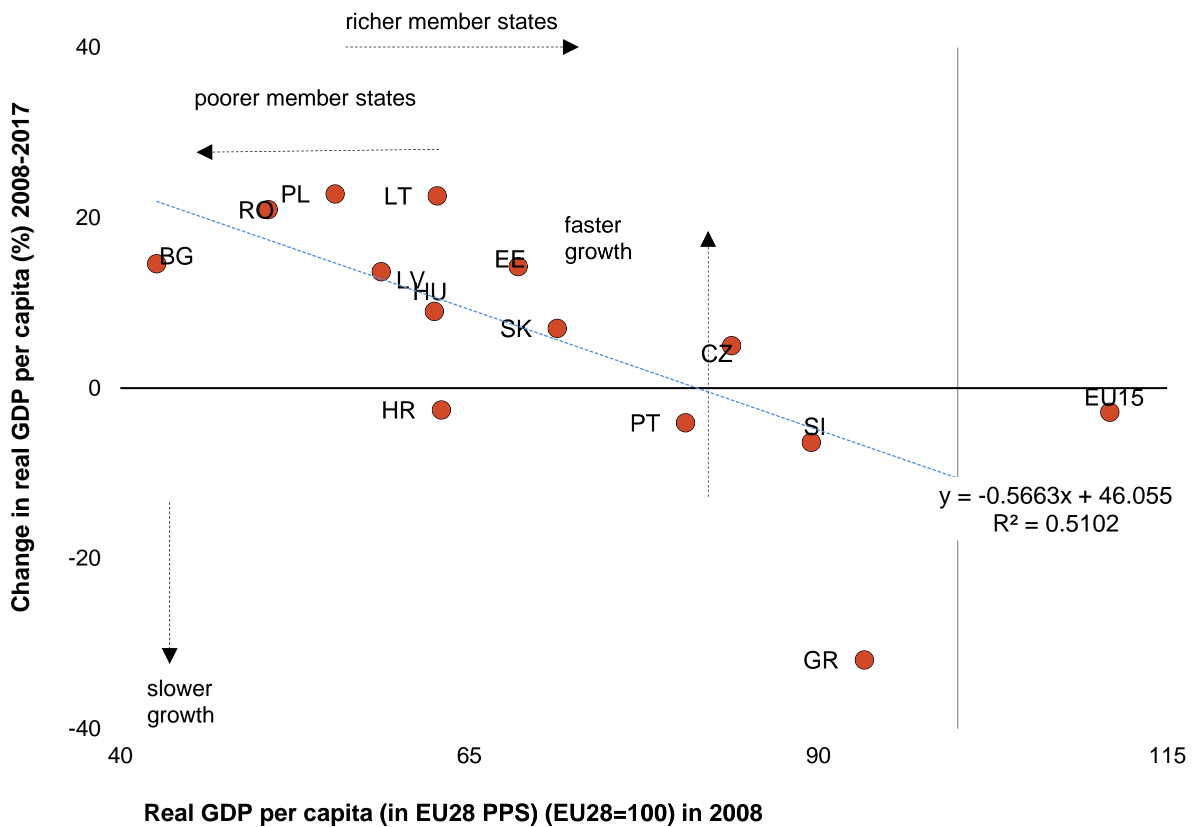
	1997	**2008**	**2016**	**2018**
Czech Republic	64.7	75.6	81.2	83.7
Hungary	43.1	56.3	63.6	65.1
Croatia	44.2	56.8	56.3	58.3
Poland	39.6	50	64.1	66.9
Slovakia	44.3	64.4	72.6	72.4
Bulgaria	25	39.2	44.5	46.6
Estonia	34.4	61.9	69.1	74.6
Latvia	28.5	53.1	60.2	64.4
Lithuania	31.1	56.7	70.5	74.7
Romania	24.7	44.5	54.5	59.7
Slovenia	67.2	80.9	77	81.0

Data Source: AMECO (2019), http://ec.europa.eu/economy_finance/ameco/user/serie/ResultSerie.cfm

After a setback in the wake of the crisis, economic convergence (in GDP per capita terms) continues and the overall balance of the last 20 years is positive. Figure 1 illustrates economic convergence in a dynamic perspective for the period 2008-2017 for poorer member states, including all CEE countries, Greece, and Portugal by putting per capita GDP (as share of EU28 average) in correlation with growth performance (change in real GDP between 2008-2017). Indeed, there is a negative correlation between 2008 income levels of the countries and their growth performance during the period 2008-2017, illustrating that poorer countries tended to grow faster than richer ones. At the same time, Croatia, Portugal, Slovenia, and Greece had negative growth in this period and were falling behind, while Bulgaria and Hungary were below the convergence trendline.

ISSN 2562-8429

Figure 1: Convergence (catching-up process) in real GDP per capita: poorer member states compared to the EU28 average, 2008-2017



Source: ETUI (2019) based on Eurostat

Convergence in wages behind economic convergence

Theoretical considerations

Standard microeconomic theory applies a clear relationship between productivity, wages, and labour demand, where wages correspond to the marginal productivity of labour in the context of the profit-maximising behaviour of firms (Borjas 2010). At the microeconomic level, the theory also implies that labour demand would increase if productivity per unit of labour input increased (at given wages), just as a further extension of production would increase firms' profits. This microeconomic mechanism is commonly put forward as the underlying justification for a wage–setting rule, to the effect that restraining wage increases below the rate of productivity growth will increase employment levels. Profit maximisation applies to private sector enterprises only, and to apply this pattern to the macroeconomic level has several limitations and controversies, as will be shown.

Even if this argumentation sounds plausible in the short term, given the links between wage moderation and employment growth when productivity is growing at the microeconomic level, the medium- and long-run effectiveness of such policies is much less clear.

Undoubtedly, there is a strong relationship between the growth of productivity and the growth of wages in a national economy, but this is not a mechanical one, as standard economic theory suggests, and as international financial institutions and the European Commission mostly apply

in their policies. This paper argues that a more complex view is needed, addressing the following issues: what comes first, productivity or wages? Changes and developments certainly matter, but the level (of productivity and wages) is also important. Additionally, should wages and productivity be examined at the national or sectoral level of the economy, in regard to tradeable and non-tradeable sectors? Specificities of transformation economies also need to be taken into account.

An alternative approach on the link between wages and productivity is presented by the concept of 'efficiency wages' (Shapiro and Stiglitz 1984). Under most efficiency wage models, the link between wages and productivity is no longer straightforward, even in the short run. Efficiency wage models reject the premise that wages are aligned to the marginal productivity of workers under perfect competition. In contrast, these models argue that paying higher-than-market wages can be a rational choice for firms, e.g., in order to increase the work effort of employees. In this sense, efficiency wage models imply a kind of 'reverse causality': rather than wages being set according to productivity, they have to be set at a particular level in order to achieve a specific level of productivity (Shapiro and Stiglitz 1984). In terms of catching up transformation economies, 'efficiency wages' can have a role in breaking out from the low wage trap.

Development of relative wage levels to EU15

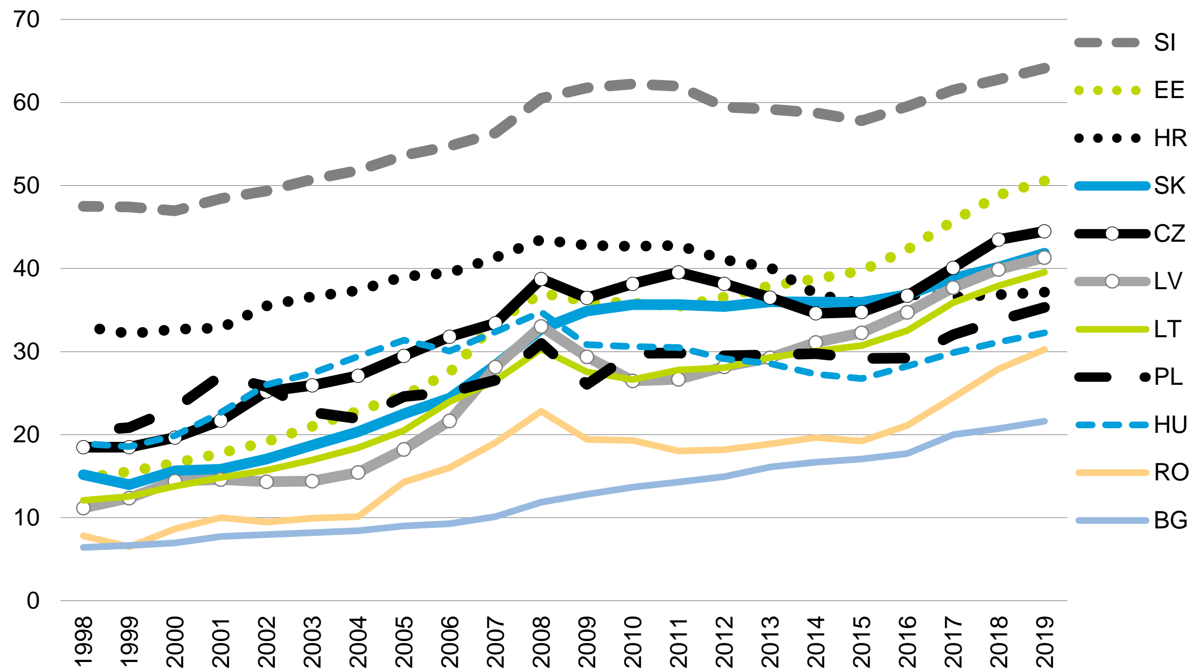
From the 2004 'Big Bang' EU enlargement up to the 2009 crisis, it has been taken for granted that wage convergence for poorer new member states to the high-income core of the EU is only a matter of time. Even if foreign investors saw the relatively low wages (and labour costs) in CEE as a comparative advantage and used this often as a threat to squeeze out wage concessions from workers in their western European home countries, wages in CEE were moving upwards. Wage convergence had been indeed dynamic, and by the mid-2000s, CEE policy makers were starting to think about a future beyond a low wage-based economic model. Then came the crisis, and the trend of upward wage convergence took a sudden end. EU crisis management policies had a major role in reinforcing the low wage-based competitiveness model in the region, causing new cleavages in Europe.

With a long period of stagnation after the crisis, wage convergence was stuck for several years, and while a new dynamism started in 2016, it came too late and was not enough to compensate for the losses (Figure 2). Hungary and Croatia saw their relative wage levels sliding back from their peak in 2008, while Slovenia had stagnating wage levels. A trend break in wage convergence is visible for all CEE countries.

Still, when taking two decades of wage convergence into account (expressed in nominal EUR terms for each CEE country as a percent of the EU15 average), the overall catch-up of wages was substantial, as in 1998, wage levels at this measure ranged from 6.4 percent (Bulgaria) to 47.5 percent (Slovenia), whereas in 2019, the range was between 21.6 percent (Bulgaria) and 64.1 percent (Slovenia).

ISSN 2562-8429

Figure 2: Two decades of wage convergence of CEE new member states, 1998-2019, at nominal EUR terms in % of EU15 average



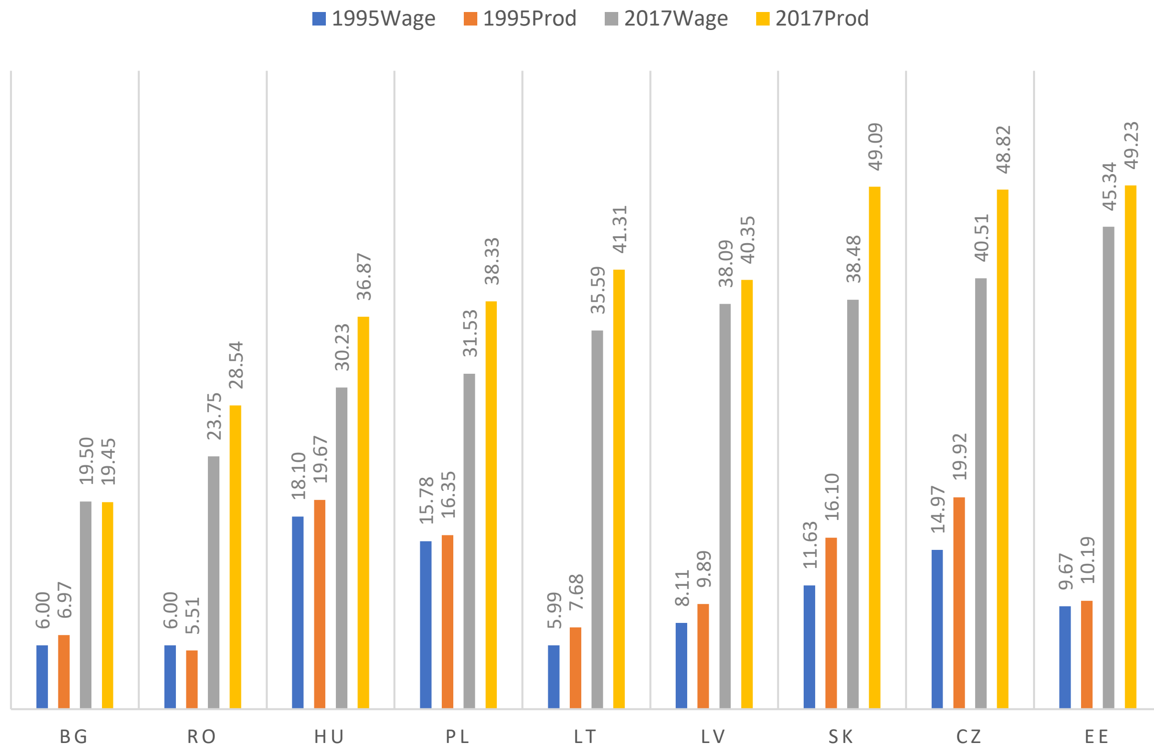
Data Source: AMECO (2019)

Wages lagging behind productivity

Wages in CEE were also lagging behind productivity and in terms of relative levels; wages were consequently more behind EU15 levels than were relative productivity levels, as Figure 3 shows. This was the case in 1995, as well as in 2017, for all countries of the region. While, for example, Slovakia in 2017 had 49 percent of the average productivity level of EU15 countries, its relative wage level was only 38 percent. This is an indication that wage levels in CEE are not only much behind Western European levels, but also behind what their own economic performance should have allowed.

ISSN 2562-8429

Figure 3: Wage and productivity levels in CEE in percent of EU15, at nominal EUR terms



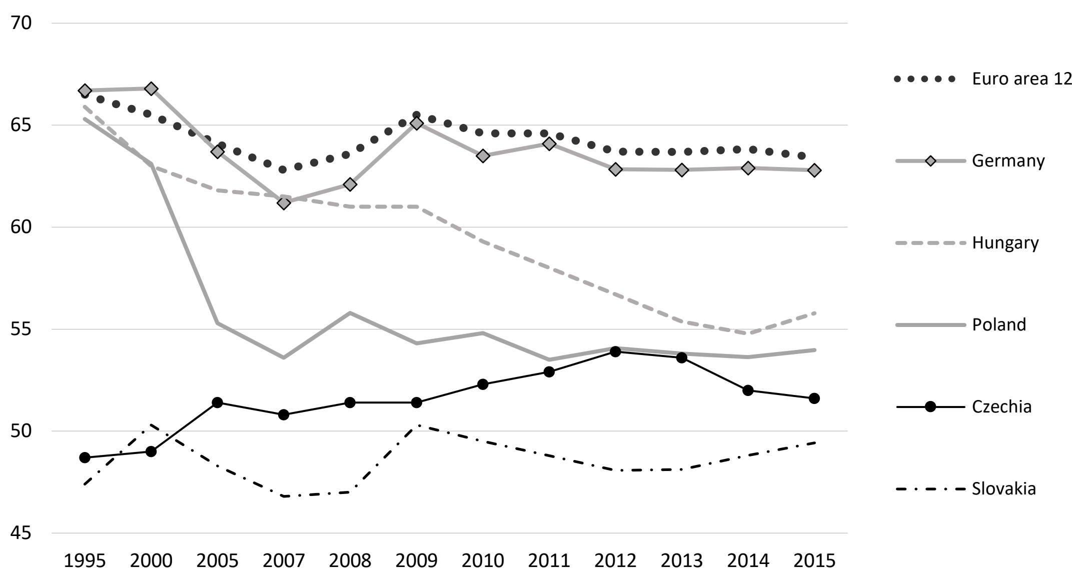
Source: Galgoczi (2017) based on AMECO data

In spite of a decade of dynamic catching up, wages in CEE are still comparably low. Even if we adopt the mainstream interpretation of wages and productivity at the national level, CEE wages appear to be lower than what productivity levels accordingly would suggest.

Wage shares

Wage shares in GDP are an important measure of how wealth created by an economy (in terms of GDP) is being distributed between labour and capital. In most countries in western Europe (euro area 12 [EA-12] countries), wage shares of GDP were falling during the last two decades. Although the trajectories of those shares in CEE countries gave a more mixed picture in spite of the longer-term downward trend, western European countries display clearly higher shares than CEE countries (Janssen 2015). The average wage share of CEE countries in 2015 was 7 percentage points lower than that of the EA-12 countries in western Europe. This is an indication that their wage levels are even lower than their economic development potential should allow. Figure 4 shows the development of wage shares in a longer perspective for a number of CEE countries. Poland saw the largest decrease of its wage share, from 65.8 percent in 1995 to 53.9 percent by 2015, followed by Hungary (from 65.9 percent to 55.7 percent). The Czech Republic and Slovakia had no significant changes over the past 20 years but had the lowest wage shares in the region, with 52 percent and 49 percent respectively, in 2015.

Figure 4. Development of the wage share in GDP (%) for CEE countries (1995-2015)



Source: Galgoczi (2017) based AMECO data

Main drivers of wage developments

Apart from Slovenia, CEE countries have the lowest trade union density and collective bargaining coverage rates in the EU, and further erosion takes place from year to year (Visser 2014). The weak role of collective bargaining in wage setting in CEE countries can also be demonstrated by a persistent positive wage drift between collectively-agreed-upon and actual wages in these countries (Delahaie et al. 2015). In the early 2000s up to the crisis, actual wage increases in CEE countries have tended to be higher than agreed wage increases settled through collective bargaining (Borbély and Neumann 2015). This is just the opposite of what has been the main phenomenon in western Europe, and in particular, in Germany: there, actual wage increases were regularly lower than what had been collectively agreed (negative wage drift due to opt-outs and low coverage). In CEE, however, actual wage increases were regularly overshooting collectively-agreed-upon wages in most of the period up to the crisis. This suggests that other factors beyond collective bargaining must have played a major role. Dynamic growth in the period before and after enlargement and up to the crisis has certainly created a favourable environment for wage increases in the region. Two main drivers were, however, particularly important in their direct or indirect effects: foreign direct investment (FDI) and cross border labour mobility to western Europe.

Foreign direct investments

FDI stock has made up a high share of the GDP of individual CEEs, characteristically between 60 and 80 percent. After a setback of FDI inflows to the region in the wake of the crisis, since 2015, FDI inflows picked up again and stabilised at a yearly 2.6 percent of GDP during 2016 and 2018 (Adarov et al. 2019). Foreign investment enterprises provide a major part of the exports in the region; they tend to have higher productivity and pay higher wages than the national or branch-level average. Foreign direct investments were an important driver of upwards wage dynamism, but this did not happen automatically. The primary effect of FDI is to increase productivity that would be also reflected in higher wages than the sectoral or regional average. The pressure on wages was kept on by foreign investors, as wage increases – even if dynamic – were kept below the rate of productivity increases.

It is a matter of bargaining regarding how much of the productivity gains can be translated into higher wages, and there are signs now that the bargaining climate is turning more favourable for labour. FDI relies strongly on skilled labour, and in recent years, the lack of its availability all over the region has become a major issue. The automobile manufacturing cluster that includes southern Poland, the Czech Republic, Slovakia, northern Hungary, and western Romania is facing increasing difficulty recruiting skilled workers and engineers. Mounting labour shortages were reported in Hungary, from a number of firms in the automobile sector, including Bosch, Audi, and Mercedes (Gergely 2016), and they started poaching workers from plants in neighbouring countries. In previous years, labour shortages were limited to engineers and skilled labour; recently, manual workers are more and more affected (Előd 2016). In early 2016, the trade union organisation at the Audi plant in Györ, northern Hungary, announced the first strike in 23 years, aimed at a significant general wage increase and improvements in working conditions (Reuters 2016). Cooperation between the trade unions of the German headquarters and the subsidiaries took on new momentum when IG Metall opened transnational partnership offices, one near the Audi plant in Györ (2014) and one near the Mercedes plant in Kecskemet (2016), to assist Hungarian organizations in the fight for higher wages and better working conditions (IG Metall 2017).

As far as FDI is concerned, the big wave of reorganising the division of labour in Europe post-enlargement has come to the end of its cycle. Mass privatization programmes have been completed, and, in a number of countries, re-nationalisation strategies are even emerging (Sass 2017). Profit repatriation by foreign investment enterprises has become a major concern in the region.

In the wake of the 2008-09 crisis, the role of FDI was subject to a critical rethinking with regard to the contribution of foreign investments to sustainable future growth, with a distinction being made between 'good' and 'bad' FDI. FDI focused on exploiting domestic markets (banking, retail, utilities) and possibly repatriating realised profits was seen as unwelcome (Hungary and Poland have introduced specific taxes for these sectors), while FDI aimed at strengthening export capacities in mainly the manufacturing sector (automotive and ICT), but also business services, was seen as most welcome and enjoyed further support.

One of the major concerns in the CEE region is the existence of a dual economy featuring highly productive (mainly FDI-driven) export-oriented activities, alongside mostly domestically owned and domestic market-oriented sectors with low productivity. This productivity gap is a hurdle for future development and for catching up with developed economies. The productivity divide between sectors within CEE economies is often greater that the productivity gap with Germany in the same sector. In Hungary, for example, productivity in motor vehicle manufacturing in 2015 was more than four times higher than in retail services, while German productivity in vehicle production was 'only' 2.4 times higher.

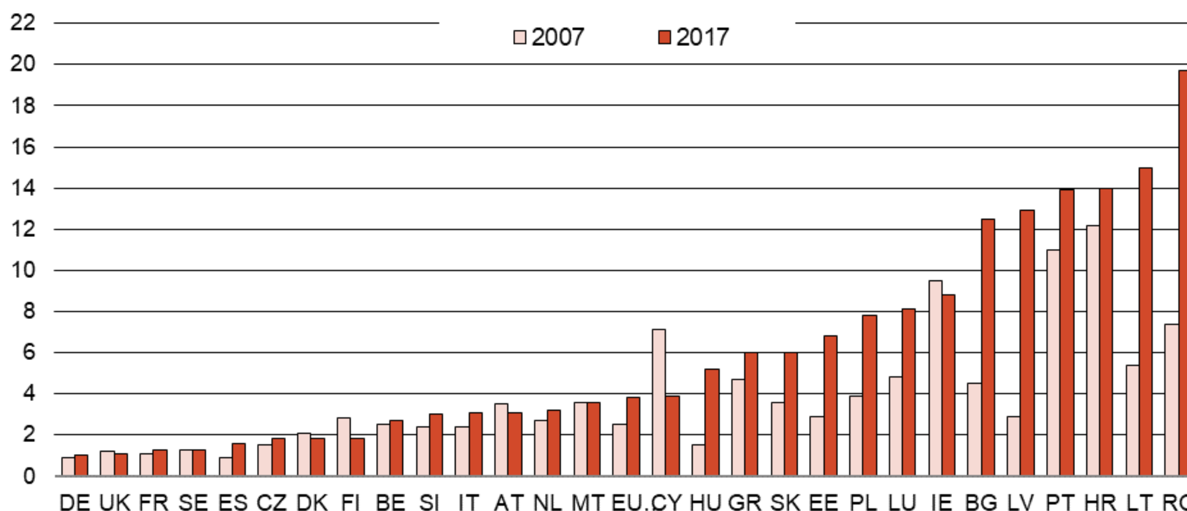
The economic model where the 'comparative advantage' of the region was based on low production costs (and thus wages) is no foundation for long-term development. The case of the automotive industry also demonstrates that the mostly low value-added subcontracting role played by the region in global value chains (GVCs) has reached its limits (Pavlinek et al. 2017:31). In Pavlinek`s words, this model offers the perspective of "truncated development". With lower levels of FDI, and with their limited and subordinated position in existing GVCs, CEE Member States need to embark on a more balanced 'high road' development model.

ISSN 2562-8429

Freedom of movement within the EU

A second factor that had an impact on wage growth in CEE was outward labour mobility within the EU. Higher wage levels in the West were among the most important pull factors in labour mobility from the CEE region. Figure 5 shows the share of working age population for EU Member States living in another Member State. Apart from the Czech Republic and Slovenia, all CEE countries are affected. For Romania, the nearly 20 percent loss of its working population is a huge drain of human resources. Large-scale outward migration from certain countries (particularly from Poland, Romania and the Baltic states) has resulted in labour market bottlenecks in certain sectors; in particular, teachers, doctors, nurses, and bus drivers were often hard to recruit in these countries.

Figure 5: EU citizens of working age (20-64) living in another member state by country of citizenship (in % of home country population of the age group)



Data Source: Eurostat, 2018 (lfst_lmbpcita demo_pjangroup)

A study (Holland et al. 2011) found that, between 2004 and 2009, emigration led to an increase in wages by 0.44 percent in the Czech Republic, 0.68 percent in Hungary, and 2.73 percent in Poland.

A consequence was that wages in these sectors got a further boost, by means also of government-initiated public sector wage increases. From time to time, governments made unilateral increases of public sector wages with an attempt to balance the effects of labour market tensions in the case of specific professions that arose mainly due to these two drivers.

For instance, in 2002, the then-governing socialist administration in Hungary announced a rise in the wages of teachers and nurses in the public sector by 50 percent. (This was an election promise with the argument to compensate public service workers for low wage growth in the past, but with a view to tackling emerging labour market tensions.) A similar increase had been made in 2012, when austerity measures of the previous years were partially rolled back, with the declared objective of slowing down the outward migration of health professionals from Hungary, linked to a commitment of not moving for work abroad for five years.

In Poland, a law was passed in 2006 to guarantee doctors' wage levels providing a 40% increase in pay for hospital doctors in order to tackle personnel shortages due to emigration (Holt 2010). Meanwhile, hospital doctors in the Czech Republic agreed to a wage settlement after a long and bitter battle in which nearly a quarter of the country's 16,000 doctors threatened to quit and leave the country unless they received pay raises. The settlement was approved by the

ISSN 2562-8429

government in February 2011, after which doctors who had tendered resignations, which were due to be effective from March 1, 2011, withdrew them. Under the settlement, doctors saw their pay rise by around 33 percent (Stafford 2011).

In the Baltic states, several rounds of double-digit wage increases took place, mostly for doctors, nurses, and teachers. Trade unions in this period saw more opportunity for bargaining for higher wages. At the same time, wages in certain public sector professions were also raised by the state, in order to offer mobile workers who left the country to work in another member state an incentive to return. Beyond anecdotal evidence, a number of studies also confirmed the positive effect of outward migration in certain professional groups.

Dustmann et al. (2015) identified a positive wage effect of emigration for Poland, showing that, between 1997 and 2007, wage increases were highest in the skills categories of workers that were overrepresented in the emigration flows. An IZA working paper (Zaiceva 2014) also found that outmigration has increased the wages of stayers, especially for employment categories where labour had become relatively scarce. According to an IMF working paper (Atoyan et al. 2016), countries that have experienced significant outflows of skilled workers (e.g., the Baltic states, Romania, and Bulgaria) have also seen greater upward pressures on domestic wages. The authors estimated the contribution of skilled emigration to nominal wage growth to be up to 10 percent during the period of 1995-2012. The study found that low substitutability between skilled emigrants and natives in the sending countries and higher reservation wages associated with remittances have contributed most to this outcome.[3] In addition, increasing opportunities to work abroad may have strengthened workers' bargaining power in the labour market in the short term.

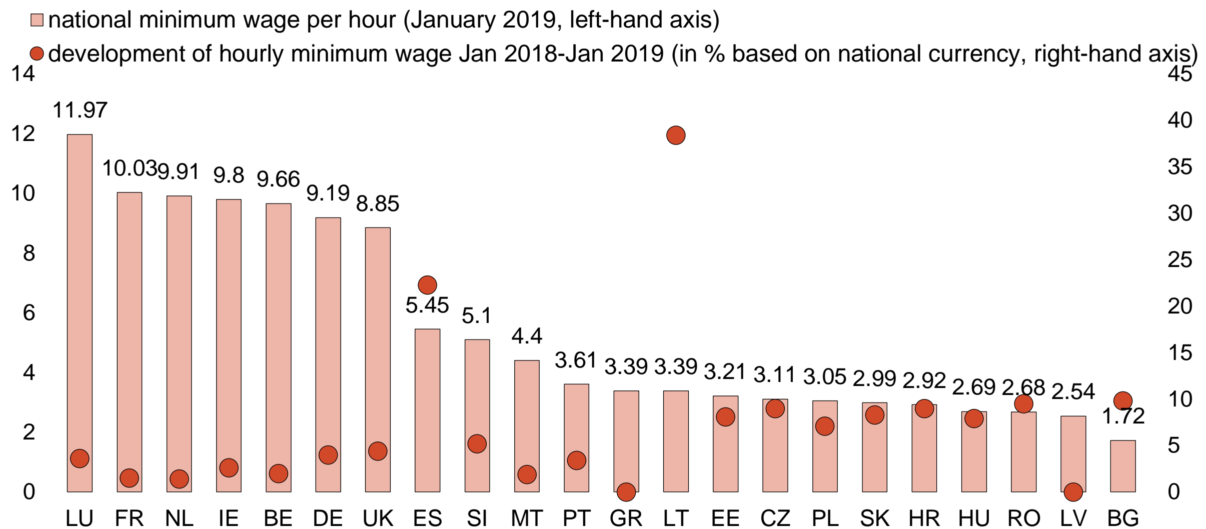
Minimum wage increases

In lack of proper collective bargaining coverage, it was often minimum wage policy that gave an impetus to wage increases throughout the entire wage scale. In 2017, the share of minimum wages in percent of the average wage ranged from 37.1 percent in the Czech Republic to 47.4 percent in Poland, while in Slovakia, Romania, and Hungary, it made up 39.3 percent, 44.6 percent, and 45.9 percent, respectively. In 2018, minimum wages increased by seven percent in Poland, eight percent in Slovakia and Hungary, and 9.4 percent in the Czech Republic and Romania. In January 2019, the monthly national gross minimum wage was 520 euros in Poland, the Czech Republic, and Slovakia, 464 euros in Hungary, and 445 euros in Romania.

Figure 6 shows hourly minimum wages expressed in euros for EU Member States. CEE minimum wages are still a fraction of those in the core of western Europe, with minimum wages in Luxembourg being almost seven times higher than in Bulgaria. Apart from Latvia and Lithuania, minimum wage increases in 2019 (on the basis of 2018) were close to 10 percent.

[3] Reservation wages are the lowest wage rate at which a worker would be willing to accept a particular type of job. Remittances received by family members tend to push up the wage expectation of these persons and thus the lowest acceptable wage when taking up a job (remittances are thus seen as having a negative effect on the labour supply).

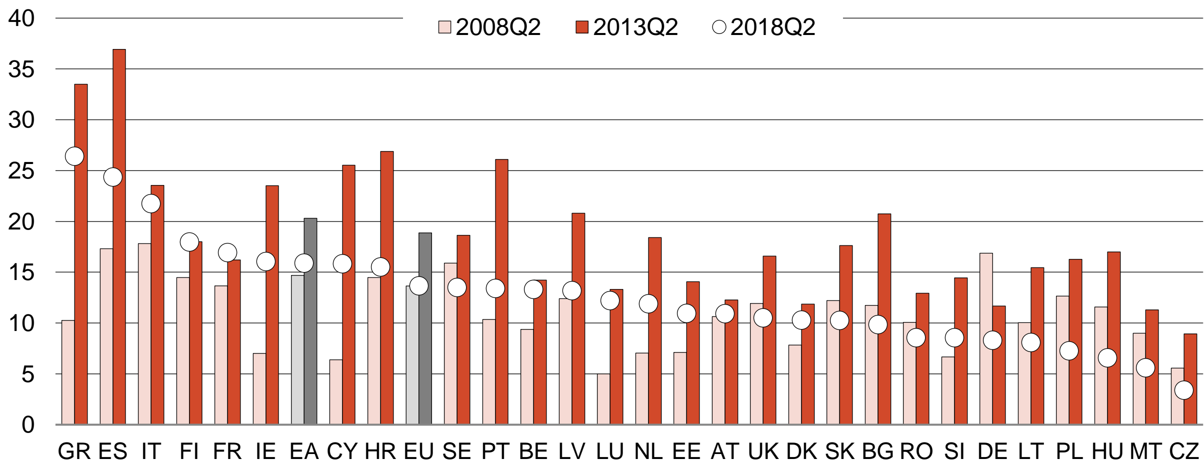
Figure 6: National minimum wage per hour (January 2019, in euros)



Source: ETUI (2019) based on WSI database

It can be also expected that tighter labour markets would lead to pressure for more wage increases. Underemployment rates are historically low, as Figure 7 shows. Labour market slack in the Czech Republic and Hungary, in 2018, with 3.4 percent and 6.5 percent respectively, was even lower than before the crisis. Given the continuing scarcity of skilled labour, foreign investment enterprises embedded in clusters with wide-spun supplier networks in the region will be less resistant to paying higher wages, and their threat potential to move farther or back to their home country will be rather limited.

Figure 7: Labour market slack in the EU Member States (percentage of extended labour force aged 15–74), 2008Q2, 2013Q2 and 2018Q2



Source: ETUI (2019) based on Eurostat, LFS

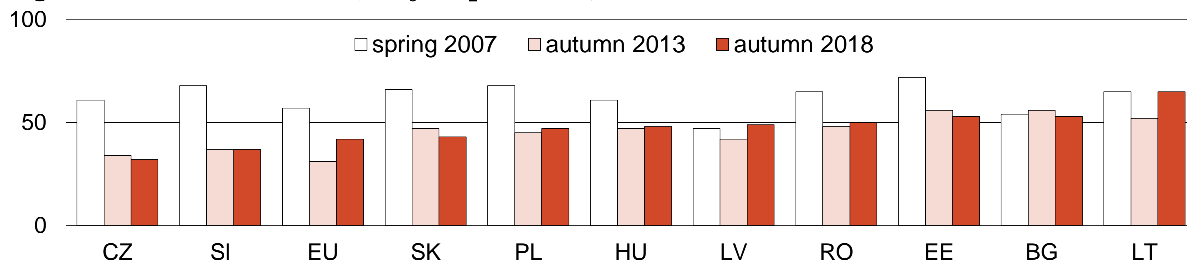
Drawing a balance of 15 years of EU accession

According to Eurobarometer surveys of the last decade (Figure 8), trust in the European Union has decreased in most of the CEE countries since enlargement (with the exception of Latvia and Lithuania, where trust in the EU in 2018 was at the same level as in 2007). Apart from the

ISSN 2562-8429

Czech Republic and Slovenia, by the end of 2018, trust in the EU in the CEE region was, however, still at a higher level than the EU average.

Figure 8: Trust in the EU (% of respondents)



Data Source: European Commission (2018)

Economic and wage convergence is of paramount economic and political importance for all of the CEE countries. Disenchantment with slower-than-expected catching-up with the core EU countries can be seen all over the region and can be regarded as one of the factors behind the erosion of trust in the EU.

Stalled wage convergence between the East and the West also undermines social cohesion in the entire EU. With free flow of capital, services and people, this creates adverse effects both in the East and the West – such as `brain drain` from the East, undermining the human resource potential of those countries, while CEE workers in the West may be seen as a threat to wage levels there. The lack of a credible convergence perspective for the poorer Member States to richer ones, and of the lack of prospects for a better future for the lower income groups within both richer and poorer Member States, may pose a threat to the future of the EU.

Summing up, while the eastern EU enlargement is still one of the success stories of the EU (and unprecedented in the world), it is still controversial. The biggest problem is the unbalanced character of European integration. Although CEE Member States have profited and made significant progress, due to stalled convergence in the wake of the 2008-09 financial crisis and due to a lack of a clear development perspective, the benefits of EU membership are often questioned.

REFERENCES

Adarov, A., M. Ghodsi, G. Hunya, and O. Pindyuk. 2019. "Foreign Investments Mostly Robust Despite Global Downturn; Shift into Services." *FDI in Central, East and Southeast Europe*, wiiw FDI Report No. 2019-06, https://wiiw.ac.at/wiiw-fdi-reports-ps-11.html (accessed July 31, 2019).

Atoyan et al. 2016. "Emigration and its economic impact on Eastern Europe." IMF Staff Discussion Note SDN/16/07, Washington D.C., International Monetary Fund.

Bachtler, J., C. Mendez, and F. Wishlade, eds. 2014. EU Cohesion Policy and European Integration: The Dynamics of EU Budget and Regional Policy Reform. Aldershot: Ashgate.

Borbély S. and L. Neumann 2015. Similarities and diversity in the development of wages and collective bargaining in central and eastern European countries: a comparison of Hungary, Slovakia and the Czech Republic, in Van Gyes G. and Schulten T. (eds.) Wage bargaining under the new European Economic Governance, Brussels, ETUI. http://www.etui.org/Publications2/Books/Wage-bargaining-under-the-new-European-Economic-Governance (accessed July 31, 2019).

Borjas G. 2010. Labour economics. 5th ed., Boston: McGraw Hill.

Delahaie N., S. Vandekerckhove and C. Vincent 2015. Wages and collective bargaining systems in Europe during the crisis, in Van Gyes G. and T. Shulten (eds.) Wage bargaining under the new European Economic Governance, Brussels, ETUI. http://www.etui.org/Publications2/Books/Wage-bargaining-under-the-new-European-Economic-Governance (accessed, July 31, 2019)

Dustmann C., T. Frattini and A. Rosso A. 2015. The effect of emigration from Poland on Polish wages, Scandinavian Journal of Economics, 117 (2), 522–564. http://www.ucl.ac.uk/~uctpb21/Cpapers/EffectEmigrationFromPoland.pdf (accessed July 31, 2019).

Előd F. 2016. Az Audi-sztrájk csak a kezdet, felzúdulás jöhet az autóiparban [The Audi strike is just the start, in Hungarian], Index, 23 March 2016. http://index.hu/gazdasag/2016/03/23/audi_sztrajk_autoipar_munkaerohiany/ (accessed July 31, 2019).

ETUI 2019. Benchmarking Working Europe 2019, ETUI, Brussels. https://www.etui.org/Publications2/Books/Benchmarking-Working-Europe-2019 (accessed July 31, 2019).

European Commission 2018. Standard Eurobarometer 90 – Annex, November 2018, Brussels, European Commission.

Galgoczi, B. 2017. Why Central and Eastern Europe needs a pay-rise?, working paper, ETUI, Brussels. https://www.etui.org/Publications2/Working-Papers/Why-central-and-eastern-Europe-needs-a-pay-rise (accessed July 31, 2019).

ISSN 2562-8429

Gergely K. 2016. Fordulat a magyar autóiparban - ebből nagy harc lehet [Labour shortages in the Hungarian automobile sector, in Hungarian], Napi, 16 March 2016. http://www.napi.hu/magyar_vallalatok/fordulat_a_magyar_autoiparban_ebbol_nagy_harc_lehet.611531.html (accessed July 31, 2019).

Holland D., T. Fic , A. Rincon-Aznar , L. Stoke and P. Paluchowski 2011. Labour mobility within the EU: the impact of enlargement and the functioning of the transitional arrangements, Final Report, Study for the DG Employment, Social Affairs and Inclusion, European Commission, London, National Institute of Economic and Social Research.

Holt E. 2010. Doctors in Eastern Europe prepare to walk out over pay, Lancet, 376 (9737), 221-222. http://thelancet.com/pdfs/journals/lancet/PIIS0140-6736(10)61128-2.pdf (accessed July 31, 2019).

Hooghe, L. and G. Marks 2018. 'Cleavage theory and Europe's crises: Lipset, Rokkan and the transnational cleavage', *Journal of European Public Policy* 25(1): 109–135.

Höpner, M. and A. Schäfer 2008., 'Grundzüge einer politisch-önonomischen Perspektive auf die europäische Integration', in Höpner, Martin and Schäfer, Armin (eds), Politische Ökonomie der europäischen Integration. Frankfurt a. M.: Campus, 11–44.

IG Metall 2017. IG Metall baut Kooperation mit ungarischer Metallgewerkschaft VASAS aus, Pressemitteilung 06/2017, 28 February 2017. https://www.igmetall.de/06-2017-24928.htm (accessed July 31, 2019).

König, J. and R. Ohr 2012. "The European Union: A Heterogeneous Community? Implications of an Index Measuring European Integration," Universität Göttingen, mimeo.

Janssen R. 2015. Structural reforms and wages: Commission winter forecasts deliver contradictory policy messages, Social Europe, 12 February 2015. https://www.socialeurope.eu/2015/02/structural-reforms/ (accessed July 31, 2019).

Mencinger J. 2013. From the collapse of socialism to the crisis of capitalism: Experiences of Central and Eastern European countries, Ljetopis socijalnog rada 2013., 20 (1) 7-30, University of Ljubljana.

Martin, A. and G. Ross 2004. 'Introduction: EMU and the European Social Model', in: Martin A. and G Ross (eds.), *Euros and Europeans. Monetary Integration and the European Social Model.* Cambridge: Cambridge University Press, 2004, pp. 1-19.

Pavlínek, P., R. Aláez-Aller, C. Gil-Canaleta and M. Ullibarri-Arce 2017.: Foreign Direct Investment and the development of the automotive industry in Eastern and Southern Europe, ETUI working paper, https://www.etui.org/fr/Publications2/Working-Papers/Foreign-Direct-Investment-and-the-development-of-the-automotive-industry-in-Eastern-and-Southern-Europe (accessed July 31, 2019).

Reuters 2016. Strike threat at Audi flags risks for Hungarian growth sector, 30 March 2016. http://uk.reuters.com/article/uk-audi-hungary-strike-idUKKCN0WW15G (accessed July 31, 2019).

Scharpf, F. 2002. 'The European Social Model: Coping with the Challenges of Diversity', *Journal of Common Market Studies*, 40(4): 645-670.

Shapiro C. and J. Stiglitz 1984. Equilibrium unemployment as a worker discipline device, American Economic Review, 74 (3), 433-444.Streeck, Wolfgang (2000) 'Competitive Solidarity: Rethinking the 'European Social Model', In: Karl Hinrichs, Claus Offe, Herbert Kitschelt, Helmut Wiesenthal (eds): *Kontingenz und Krise*, Campus, Frankfurt, New York,pp. 245-62.

Sass, M. 2017. Is a live dog better than a dead lion? Seeking alternative growth engines for Visegrad countries, In: Galgóczi, Béla; Drahokoupil, Jan (eds.). Condemned to be left behind? Can Central and Eastern Europe emerge from its low-wage model?, Brussels: ETUI, 47-81.

Schmitter, P.C. 2005. 'Ernst B. Haas and the legacy of neofunctionalism', *Journal of European Public Policy* 12(2): 255–272.

Stafford N. 2011. Czech doctors win wage increases after three year campaign, BMJ, 342. Doi: https://doi.org/10.1136/bmj.d1371 (accessed July 31, 2019).

Streeck, W. 2000. 'Competitive Solidarity: Rethinking the 'European Social Model', In: Karl Hinrichs, Claus Offe, Herbert Kitschelt, Helmut Wiesenthal (eds): Kontingenz und Krise, Campus, Frankfurt, New York,pp. 245-62.

Zaiceva A. 2014. Post-enlargement emigration and new EU members' labor markets, IZA World of Labor 2014: 40. http://wol.iza.org/articles/post-enlargement-emigration-and-new-EU-members-labor-markets/long (accessed July 31, 2019).

Visser J. 2014. ICTWSS Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts, version 4, Amsterdam Institute for Advanced Labour Studies.

World Bank 2012. EU11 *Regular Economic report: Coping with External Headwinds*. Zagreb: World Bank Office.

Published by the Centre for European Studies at Carleton University, Ottawa, Canada

Available online at: https://ojs.library.carleton.ca/index.php/CJERS/index

The Canadian Journal of European and Russian Studies (CJERS – formerly Review of European and Russian Affairs) is an open-access electronic academic peer-reviewed journal: articles are subject to double-blind peer-review. Topics relate to the European Union, its Member States, the former Soviet Union, and Central and Eastern Europe. The journal is published by the Centre for European Studies, an associated unit of the Institute of European, Russian and Eurasian Studies at Carleton University.

CJERS aims to provide an accessible forum for the promotion and dissemination of high quality research and scholarship.

Contact:

Carleton University
The Centre for European Studies
1103 Dunton Tower
1125 Colonel By Drive
Ottawa, ON K1S 5B6
Canada

Tel: +01 613 520-2600 ext. 3117; E-mail: CJERS@carleton.ca

Creative Commons License

https://creativecommons.org/licenses/by-nc-nd/4.0/

This Working Paper is licensed under a Creative Commons Attribution-Non-Commercial-

No Derivs 4.0 Unported License (CC BY-NC-ND 4.0).

Articles appearing in this publication may be freely quoted and reproduced, provided the source is acknowledged. No use of this publication may be made for resale or other commercial purposes.

ISSN: 2562-8429

© 2019 The Author(s)