

Employment, wages and competitiveness in the Central European New Member States

Gábor Pellényi

ICEG European Center

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ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Main issues

- Labour is a comparative advantage of the Central European NMS vis-a-vis EU-15.
- On the other hand, economic growth has not been accompanied by significant employment growth in these countries.

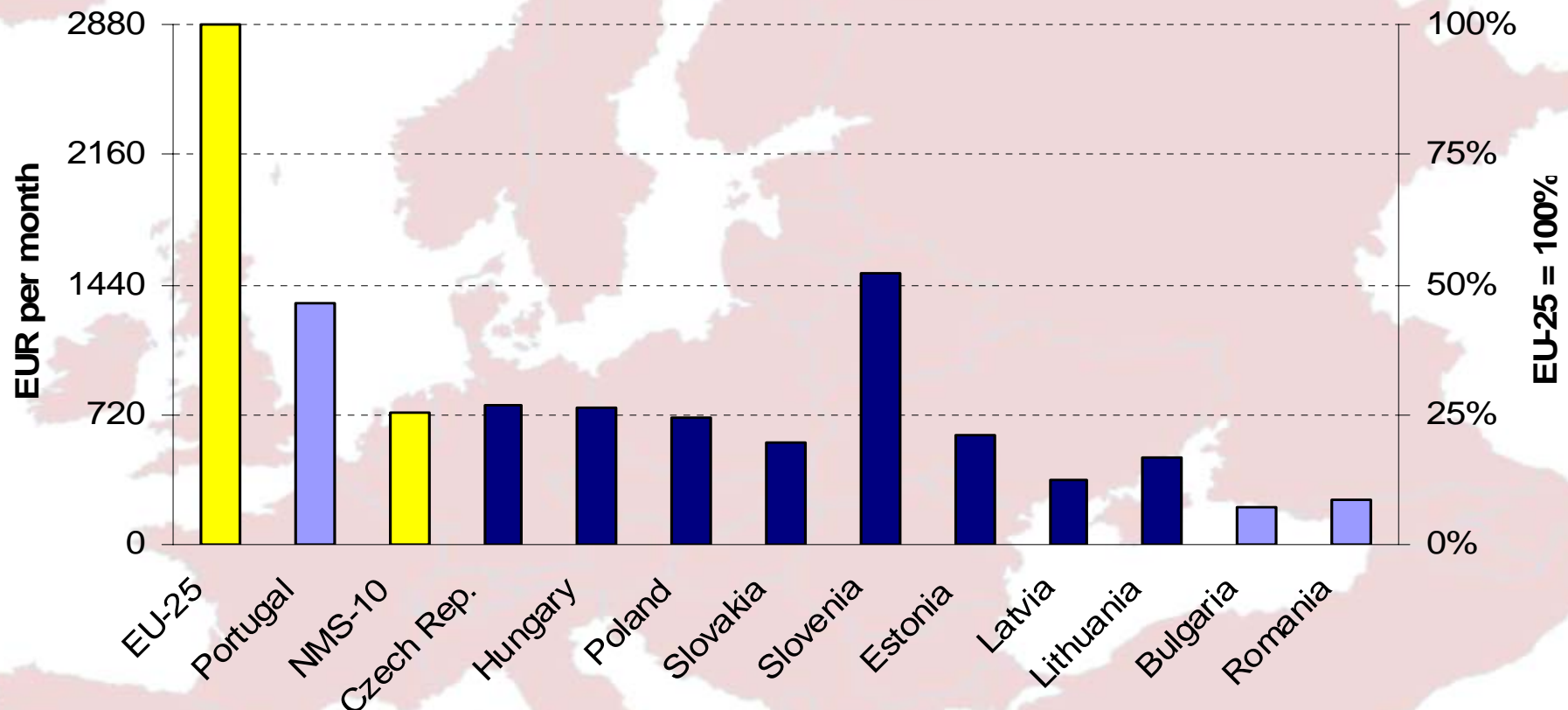
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Relatively low labour cost in the NMS

(Total labour cost in the business sector in 2003; source: Eurostat)



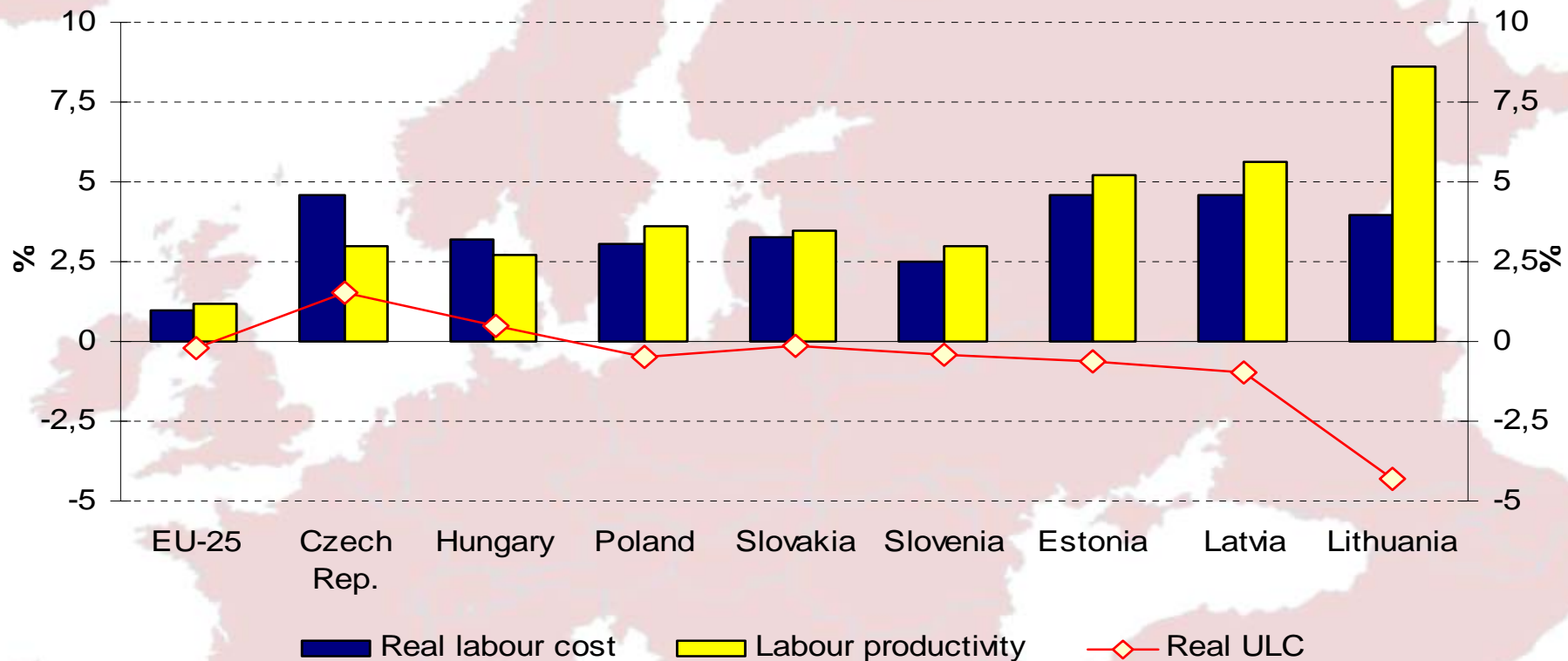
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Contained ULC dynamics

(average annual growth 2000-2005; source: AMECO)



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Long-run wage convergence

Key determinants:

- Productivity growth
(upper bound)
- Tightness of labour market
(excess labour supply, some bottlenecks)
- Economic policy
(minimum wages, public sector wages)

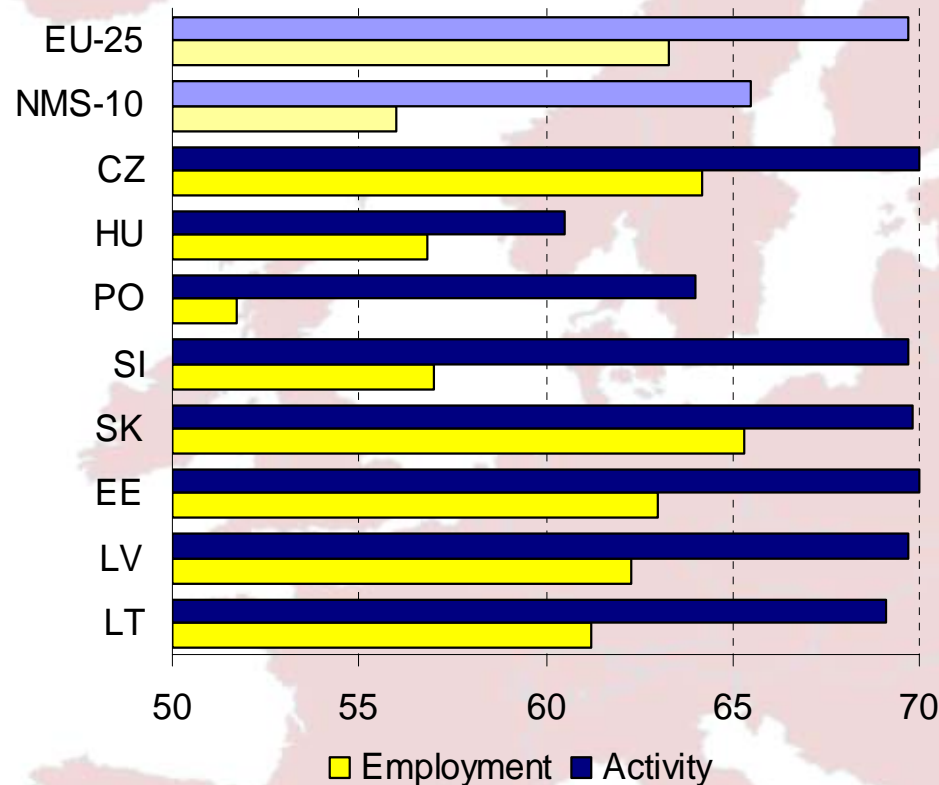
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Various employment performance

(% among 15-64 years old in 2004; source: Eurostat)



Issues:

- Low activity of youth (CZE, HUN, POL, SVK, EE, LT, LV)
- Low activity of elderly (HUN, POL, SLO, SVK)
- Long term unemployment (POL, SVK)

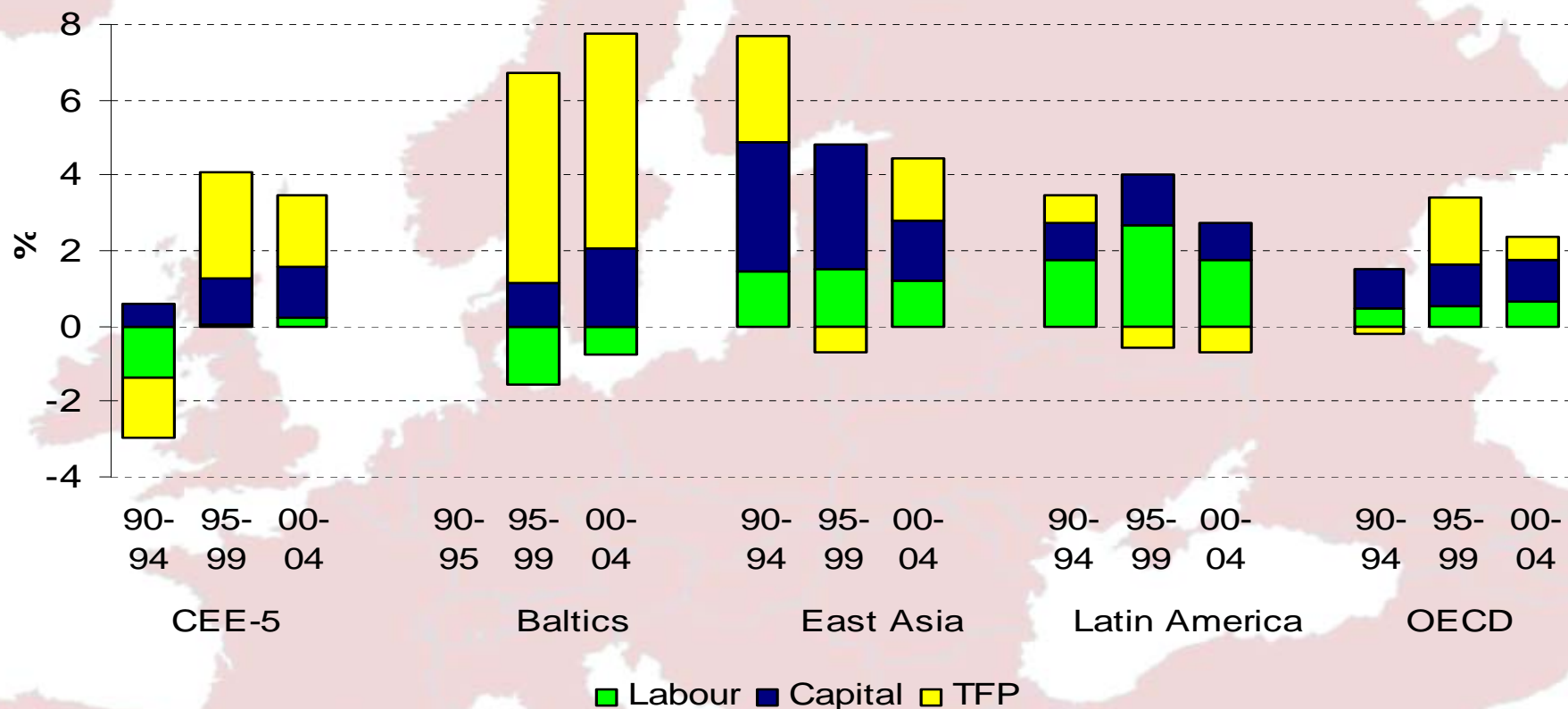
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Low labour contribution to growth

(average contribution to annual GDP growth; source: IMF)



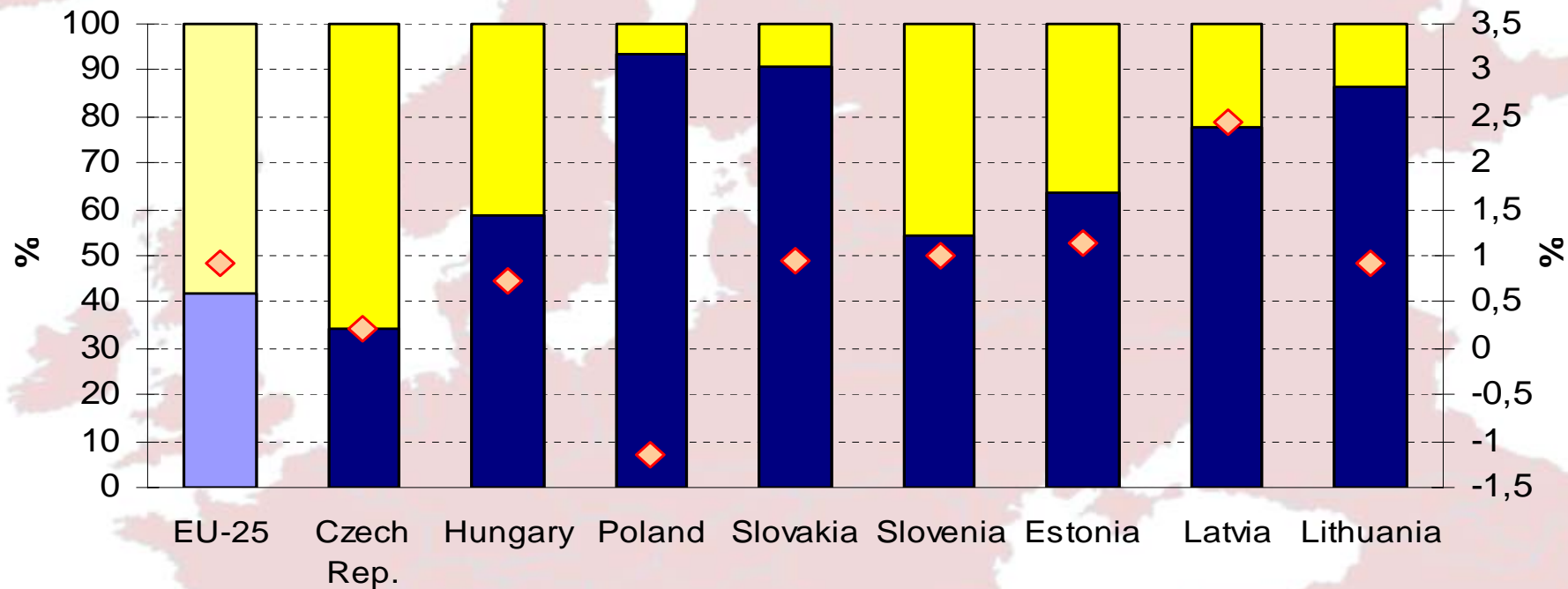
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Sources of employment growth

(employment growth between 2000-2004/5 excl. agriculture; source: Eurostat)



■ Share of government and other

■ Share of industry and services

◆ Employment growth (annual average, right scale)

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What hinders employment growth?

- Transition:
 - restructuring and early retirement
 - obsolescence of skills
- Inflexible labour markets
 - EPL and hiring/firing costs do not seem to matter
 - part-time and temporary employment does
- High taxation of labour
 - informal economy?

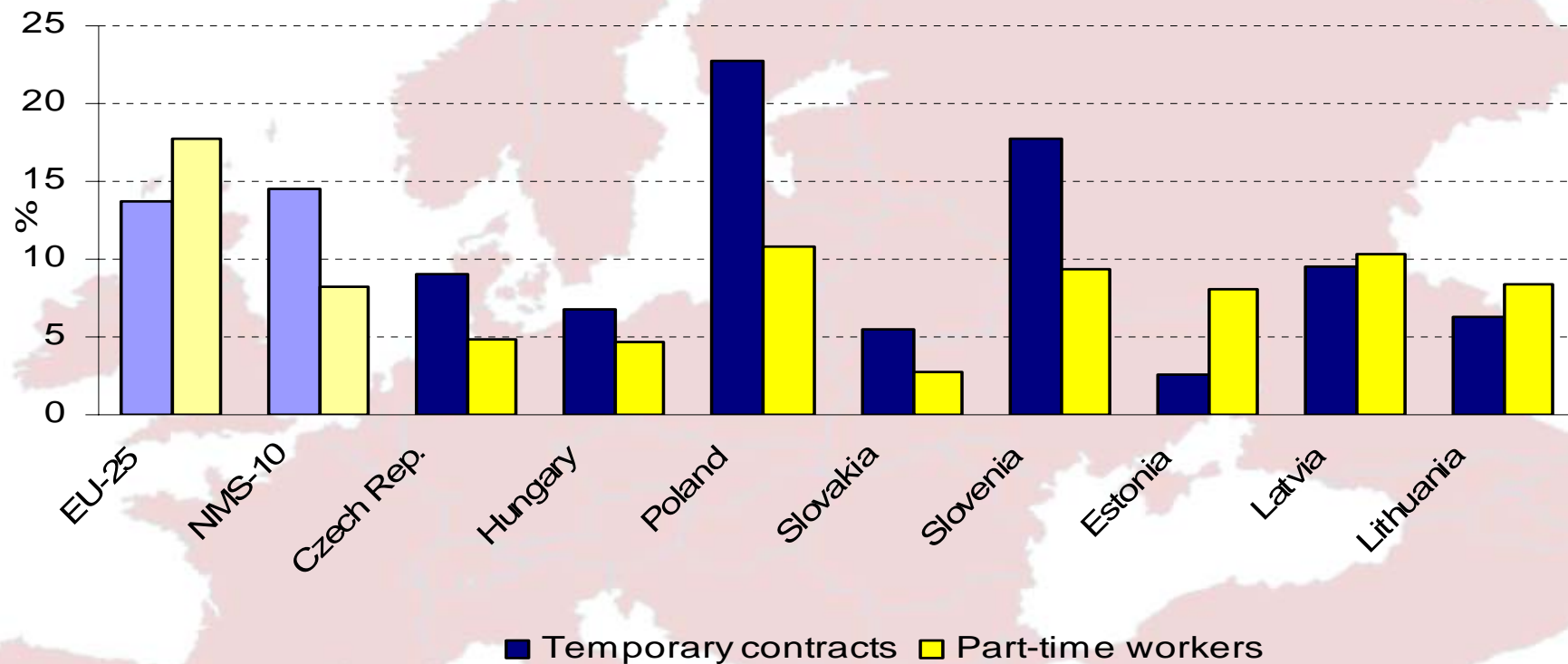
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Non-typical forms of employment

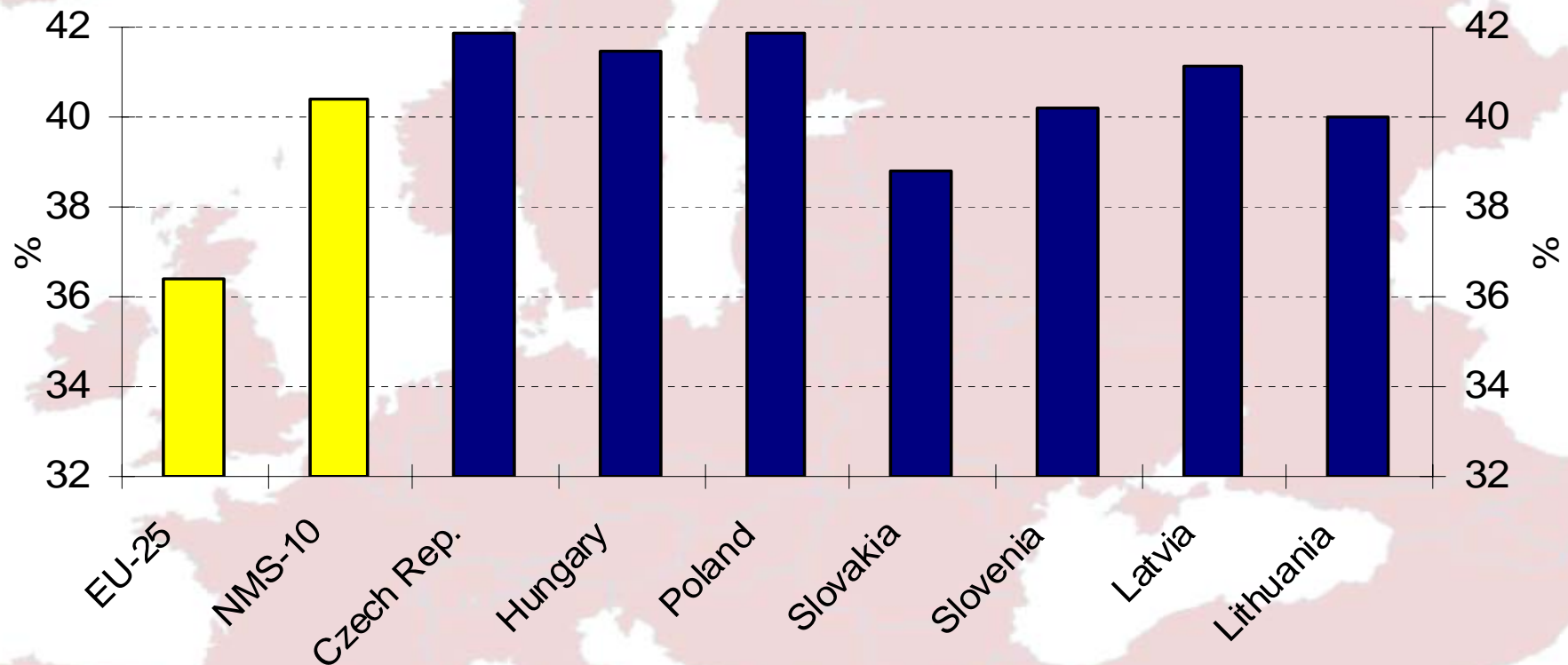
(percentage of employees in 2004; source: Eurostat)



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High tax wedge on labour

(single w/o children, 67% of average wage in 2004; source: Eurostat)



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Conclusions

- Cost advantage of Central European NMS over EU-15
- Low employment / high unemployment is a problem
- Potential policy measures:
 - education
 - more flexible labour markets
 - reduction of tax wedge

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Thank You!

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