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Fair pay in eastern Europe – The continuing challenge of poverty wages*

Abstract

Economic growth has been steady across eastern Europe in recent times. Nevertheless, this is not being shared equitably with the workers that create that wealth. The lack of a living wage, the decline of collective bargaining and the violation and erosion of workers' rights, alongside the failure of governments to regulate the economy effectively, are each, in turn, creating despair and anger, and holding back further growth. Social protections for those not in work are woefully inadequate and leave many workers unprotected. Furthermore, countries in the region that have already acceded to the EU still demonstrate substantial disparities on these issues with the old EU member states, threatening the objective of upwards social convergence across the EU. Observing these injustices, this article calls for a fresh approach across eastern Europe which sees the economic and social benefits of various forms of social protection allowed to play their role in reducing poverty and wage inequalities. Consequently, ten countries from across the region have joined together to campaign under a single 'Fair Pay' banner.

Keywords: *pay, minimum wage, collective bargaining, labour market regulation, wage inequalities, trade unions*

Introduction

We have a global wage crisis and inequalities have reached historic levels. Millions of people are struggling to get by and poverty wages can be found right on the edge of Europe.

Globally, 84 per cent of people report that the minimum wage is not enough to live on, while more than seventy per cent have little or no social protection. Fifty five per cent of the global population – four billion people – are not covered by any social protection benefit, while less than one-third of the world enjoys a comprehensive level of protection. Freedom of association and collective bargaining, which are central to shared prosperity, are under attack.

A decline in the share of national income taken by wages – the proportion of GDP accounted for by the wages paid to workers – in comparison with rising pro-

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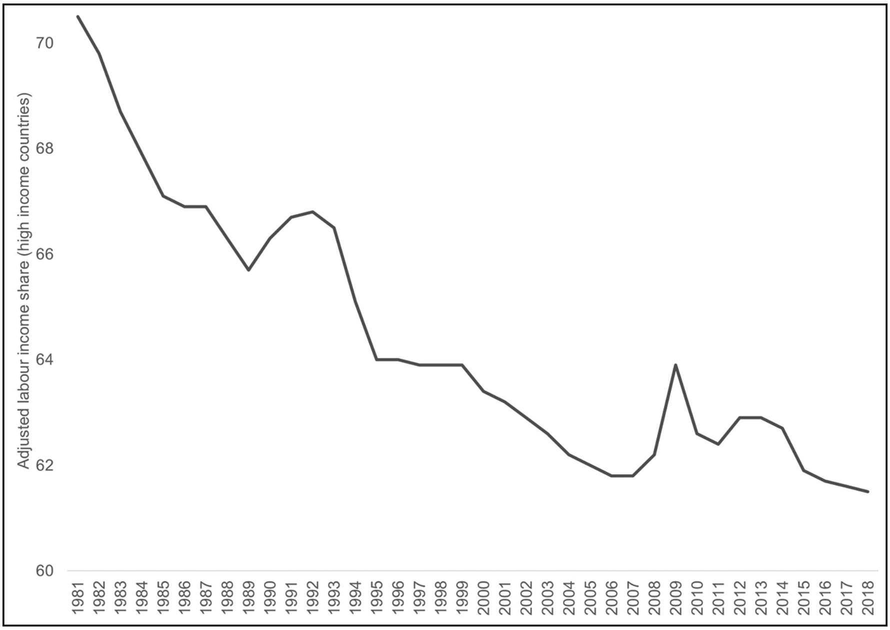
ductivity in the most recent decades has meant that economic growth is being shared less and less equally with workers through their wages. The world is three times richer than just over thirty years ago but more people go to bed hungry than global leaders claim to have lifted out of poverty.

Figure 1 – The decline in labour income share as % of GDP in high income countries



Source: ITUC, based on ILO and European Commission (AMECO data).

These trends are creating despair and anger, hampering aggregate demand, paralysing domestic markets and holding back sustainable global growth. Minimum wages are too low for a decent life, representing only a fraction of the estimated cost of living for a family. Workers are struggling to survive, and minimum wages across eastern Europe are not living wages.

Minimum living wage mechanisms and strengthening collective bargaining are essential tools to remedy this. The legislation promised by the new European Commission leadership, if it sets a floor for a living wage, can provide hope.

While globalisation has created global growth, this growth – as seen in eastern Europe – is not inclusive and massive inequality is now a recognised economic as well as a social risk.

Furthermore, the social contract has been torn apart.

Governments have failed to regulate the labour market and too many of them, cowered by big business and believing in a right-wing ideology, have directly attacked, or allowed attacks, on human rights, labour rights, wages and the social security of their own people.

It is not surprising that a loss of trust in institutions, including in democracy itself, continues to grow. Too many people have not seen dividends from democracy, while associated insecurity and despair is fuelling an age of anger.

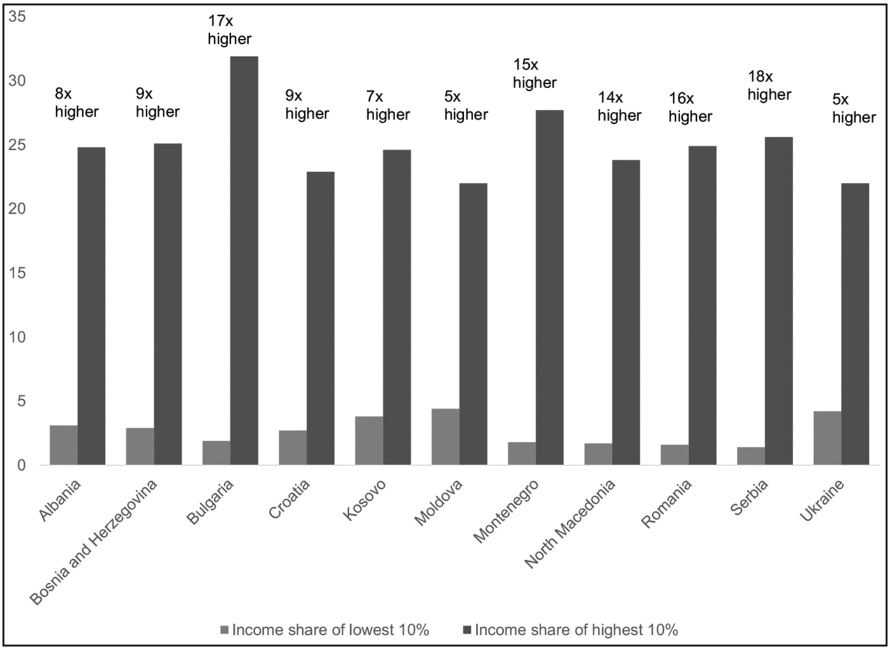
In eastern Europe, the scars of the Cold War, authoritarian leaders, state oppression and military conflict are all too recent. People need hope; and this begins with decent work and a minimum wage on which they can live.

Economic growth in eastern Europe – A blueprint for inequality

Eastern Europe has experienced relatively steady economic growth in the most recent decades. According to the World Bank's DataBank, Gross Domestic Product (GDP) in the region had, by 2017, nearly quadrupled in the period since 2000, from \$570bn to nearly \$2tr. Romania and Bulgaria are growing faster than the European Union average, with latest annual GDP growth rates at 4.4 per cent and 3.1 per cent, respectively, compared to the EU average of 2 per cent. In the western Balkans, the growth for 2018-2020 is forecast at an average rate of 3.5 per cent (World Bank 2018).

It is clear that the economic growth being experienced across the region is not being shared equitably among the region's people and neither has it adequately translated into decent work opportunities or improved living conditions. The United Nations Development Programme office for Europe and Central Asia has stressed that the lack of inclusive economic growth in the region has meant that income and job insecurity continue to affect large sections of the population and that this is hitting sustainable development targets (UNDP Europe and Central Asia nd). Instead, economic growth has largely benefited those who are already well-off: income inequality has grown substantially among most countries in the region in the last two decades (UNDP 2015). The share of income among the top ten per cent is over ten times higher than that of the lowest ten per cent in many eastern European countries, including Bulgaria, Montenegro, North Macedonia, Romania and Serbia, and close to that in several others (see Figure 2).

Figure 2 – Share of income (%) held by the lowest 10% versus the highest 10% (selected European countries)



Source: ITUC analysis based on World Bank Development Indicators.

Note: Latest data available:. Bosnia and Herzegovina (2011); Montenegro (2015; Albania, Bulgaria, Croatia, Kosovo, North Macedonia, Romania, Serbia (2017); Moldova, Ukraine (2018).

Low wages and a lack of decent work opportunities have strongly contributed to income inequality in the region. High levels of unemployment, economic inactivity and poverty, moreover, remain serious challenges.

These trends are not only an affront to social justice, but they are also a risk to social and political stability as well as sustainable economic development. Low wages and high poverty rates have contributed to deficits in aggregate demand and this is constraining further growth (IMF 2015). High levels of income inequality also carry significant risks, including low social mobility, under-utilisation of human capital, reduced social cohesion and eroded trust in institutions (World Bank 2016; Dabla-Norris *et al*. 2015; Wilkinson and Pickett 2009).

Working conditions in eastern Europe are, moreover, dramatically poorer than those in central and western Europe. Such divergences exist even for those countries already within the European Union, despite the EU single market entailing the free flow of goods and capital across the Union, along with freedom of movement between EU member states. Wages in Croatia, for instance, represent only 36 per cent of the average level within the so-called 'old' EU states (EU-15) while in Bulgaria they represent just 17 per cent. These divergences are disproportionally large compared to the differences in productivity or the cost of living between countries, and they threaten the EU's objective of upward social convergence. Major differences in wages and working conditions are also persistently acute for those eastern European countries that are not yet members of the EU, despite the context of unprecedented levels of trade with the EU and visa liberalisation for western Balkans countries. Average wages in Serbia, North Macedonia and Bosnia and Herzegovina represent around one-quarter of average wages in the EU-15 – and in Albania they represent just 12 per cent (Paunović and Kosanović 2019).

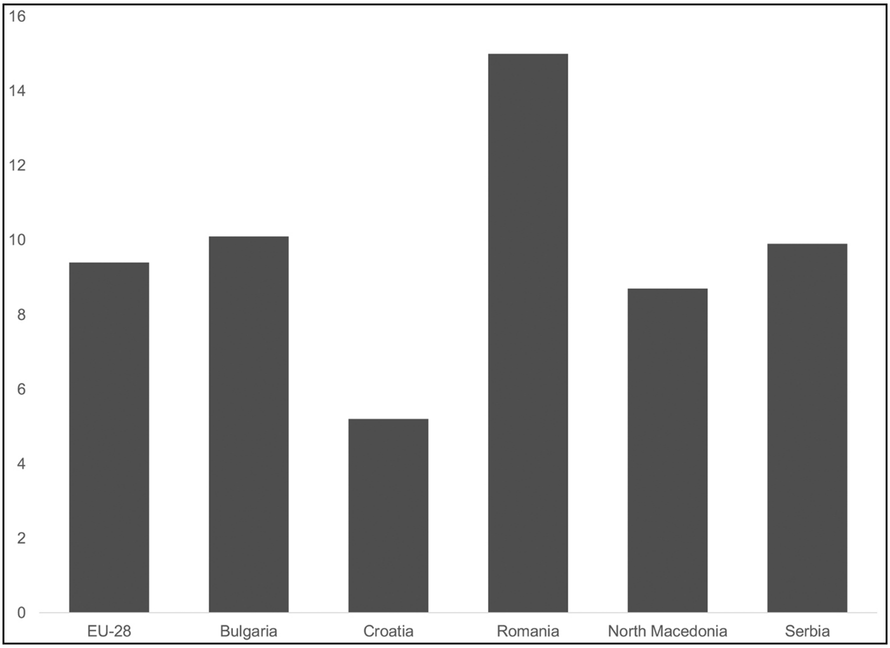
It is therefore not surprising that poor working and living conditions in the region are leading many people within the region to emigrate in order to seek better opportunities. These trends are having major consequences in terms of labour shortages and the sustainability of public finances. Over one-third of the nationals of western Balkan regions now live abroad (ILO 2017a). The IMF has projected that, given current trends, such emigration is expected to continue and labour supply will decline significantly (IMF 2019). Bulgaria, for instance, is expected to lose more than one-fifth of its population by 2050 (IMF 2019). As mass emigration includes many high-skilled workers and educated young people, skills depletion is a major concern (IIASA 2016). Moldova, for instance, is experiencing major skill shortages in key sectors, including health. The country lost seven per cent of its intermediate medical staff and six per cent of its nurses between 2011-2016 alone, and currently over one-quarter of its medical staff is above retirement age (Liller 2018). Meanwhile, a recent poll by the European Council on Foreign Relations (ECFR) shows that citizens from eastern European countries worry more about the consequences of massive emigration than immigration (ECFR 2019).

The need for a pay rise in eastern Europe

For many workers, having a job is unfortunately not a means out of poverty, let alone a guarantee for a decent livelihood. In work-poverty remains a major challenge in the region – one in six workers lives below the poverty line in Bulgaria and Serbia – increasing to around one in four in Romania and North Macedonia (see Figure 3).

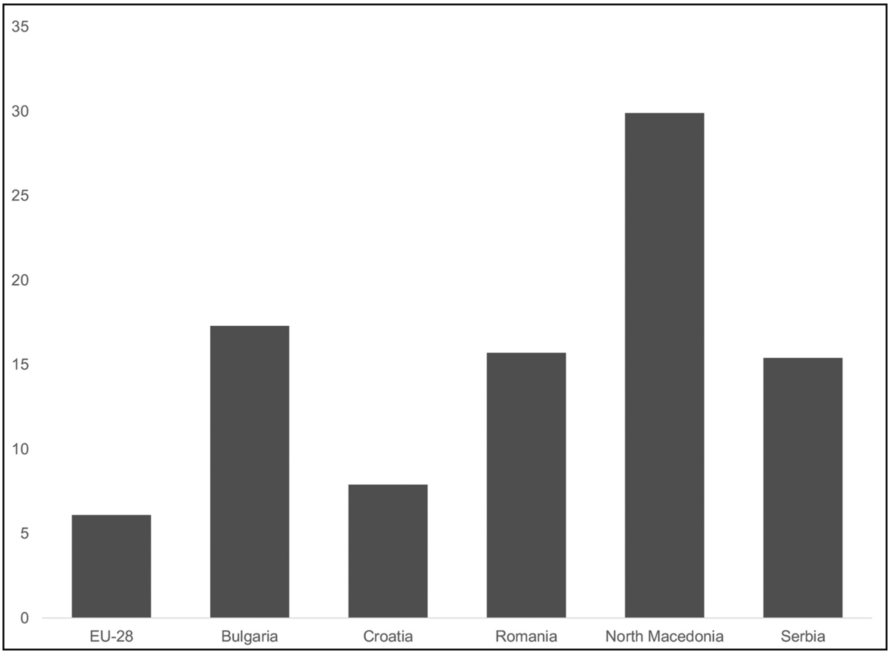
Furthermore, nearly one in three workers in North Macedonia, and more than one in six in Bulgaria, Romania and Serbia, are classed as being 'severely materially deprived' (see Figure 4). This means their living conditions are severely constrained by a lack of resources under which they cannot afford four or more of the following nine items: to pay rent or utility bills; keep their home adequately warm; face unexpected expenses; eat meat, fish or a protein equivalent every second day; take a one week holiday away from home; a car; a washing machine; a colour TV; a telephone.

Figure 3 – Share of workers at risk of poverty or social exclusion (per cent)



Source: Eurostat; In-work at-risk-of-poverty rate (%). Code: tespm010. All data for 2018.

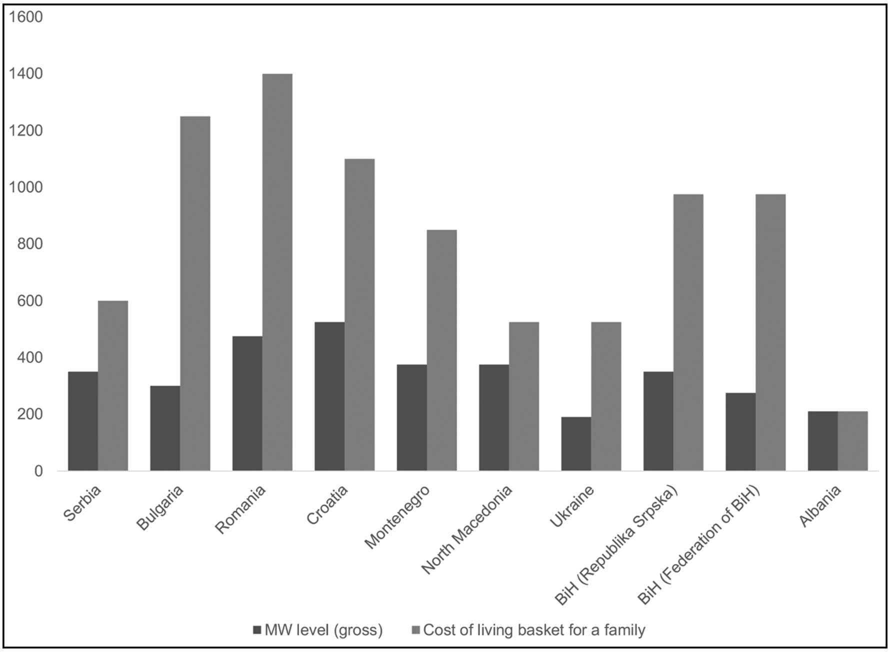
Figure 4 – Share of workers aged 18-64 who are materially deprived (per cent)



Source: Eurostat; People aged 18-64 who are severely materially deprived. Code: t2020_53. All data for 2018.

While all countries in the region have statutory minimum wages, they tend to be extremely low and inadequate in terms of affording workers and their families a decent life. In nearly all cases, statutory minimum wage levels tend to be set below national poverty lines for a household, let alone the average cost of living basket for a family (see Figure 5). In Bulgaria, for instance, the gross minimum wage represents less than one-quarter of the cost of living basket for an average family – and, after taxes and social security contributions, it is worth only 17 per cent. In Serbia, the minimum wage after taxes and social security contributions amounts to only 46 per cent of an average consumer basket.

Figure 5 – Gross monthly minimum wages vs. cost of living basket for an average family (€)



Source: ITUC calculations based on information provided by national trade union centres (2018).

Note: Cost of living baskets are estimated for an average-sized family. In Albania, it is for 3.2 people, in Serbia it is for 3 people, and in Croatia 2.7 people – while in all other countries it is for 4 people. The cost of living basket for Ukraine was converted for an individual to a household of four using the OECD equivalency scale.

The problem of low statutory minimum wages in some countries is further exacerbated by irregular updates of the amount so as to take into account inflation and the cost of essential goods This leads to a further depreciation in their value over time. While some countries provide for minimum wage consultations and adjustments on an annual basis, such as in Bosnia and Herzegovina, Kosovo, Serbia and Ukraine, there is no fixed period for minimum wage adjustments foreseen in the legislation for Albania, Croatia and Romania. In Montenegro, while the minimum wage is supposed to be reviewed by the Social Council every six months, there was no adjustment to the minimum wage level between 2013 and 2019 – leading to a loss in value of around eight per cent during this period.

In addition to low statutory minimum wages, workers' possibilities to organise and collectively bargain for fair wages above the minimum wage level are also being compromised in many countries in the region. There is no doubt that trade union rights have been under attack. The ITUC 2019 Global Rights Index shows that trade union rights have been systematically or regularly violated in Romania, Bulgaria, Albania, North Macedonia and Serbia (rating 3 and 4) and that no guarantee of trade union rights can be assured in Ukraine (rating 5) (ITUC 2019).

Low wages in the formal economy are also linked to workers receiving top-ups in cash from their employers taking them to the minimum wage level, while other workers seek to complement low wages received in the formal economy with informal activities elsewhere (ILO 2017a). These practices have negative implications both for public finances as well as for the adequacy of social protection benefits for many workers later on in life.

Wage theft affects many workers in the region: arrears in wage payments and non-compliance in paying minimum wages are a regular occurrence in some countries. In Ukraine, for instance, the State Statistics Service has estimated that unpaid wages reached three billion UAH by March 2018 (€115m), with economically active enterprises being responsible for about one-half. Delayed wages and under-payments are further exacerbated by labour inspectorates who are often poorly resourced in terms of the frequency with which they can conduct inspections while their inspectors often have restricted powers of enforcement (ILO 2017a).

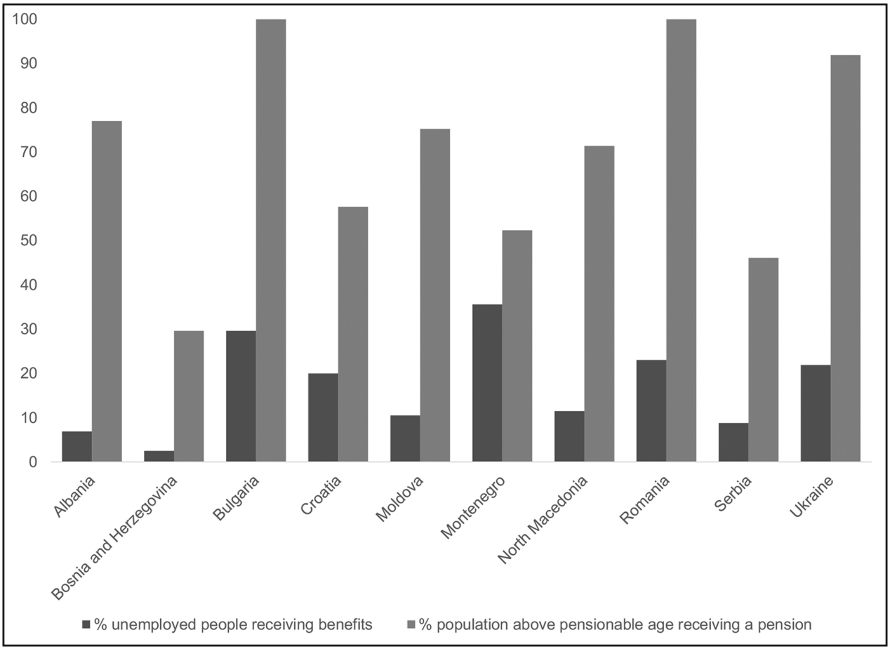
Dismally low wages constrain household consumption which, in turn, reduces aggregate demand, particularly when wages are stagnating in many economies at the same time (ILO 2016). This acts to compromise job creation and productivity, with a nock-on effect in terms of limiting the possibilities for further economic growth. Low wages can also contribute to excessive household debt that has its own impact on macroeconomic stability, as evidenced by the recent economic and financial crisis (Alter *et al*. 2018).

Addressing inadequate social protection

In addition to low wages, social protection systems in the region remain woefully inadequate and leave many workers unprotected. While social security and social protection floors exist in most countries, major coverage gaps remain (see Figure 6). In Bosnia and Herzegovina, and in Serbia, less than one-half of the elderly receive any sort of pension and the figure is barely much more than that in Montenegro. Support for people out of work is also extremely limited, with unemployment benefits covering less than one in eight unemployed people in Albania, Bosnia and Herzegovina, Moldova, North Macedonia and Serbia.

In addition to the very limited coverage, the ILO has also reported that very low benefit levels compromise the adequacy of social protection and its ability to prevent and reduce poverty (ILO 2017b).

Figure 6 – Social protection coverage

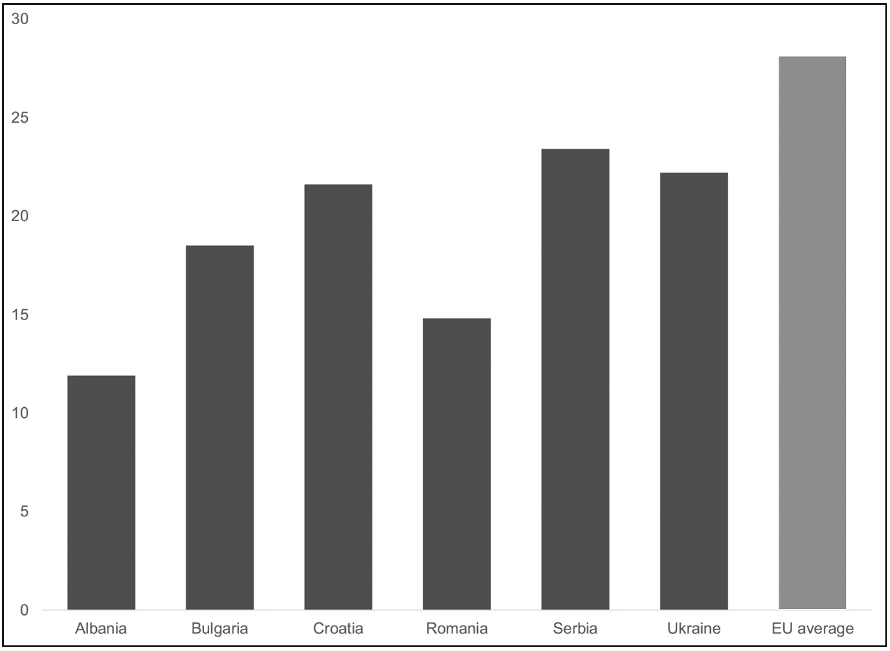


Source: ITUC analysis based on data from the ILO *World Social Protection Report, 2017-2019*, Table B.3. Data for latest available year, or for 2015 expenditures.

The low coverage and adequacy of social protection systems is largely driven by social spending remaining insufficient to meet demand. All countries in the region spend considerably less on social protection, in proportion to GDP, than the EU average. Albania and Romania, for instance, spend less than one-half what the average country in the EU spends on their social protection systems in terms of GDP, despite the rates of unemployment and poverty being substantially higher in both.

Recent reforms in many countries have been undertaken with the aim of further reducing social spending, risking further reductions in the adequacy of, and access to, social protection. In Montenegro, the pension age has been increased and the average replacement rate, which used to amount to 85 per cent of average earnings, has been reduced to below 60 per cent (Prekic 2015). In Croatia, the pension age has similarly been substantially increased, while the financial penalty for retiring early has also been raised sharply despite life expectancy remaining among the lowest in the European Union (ETUI 2017). In Romania, recent reforms to reduce employer social security contributions by shifting the vast majority to workers themselves is leading to a substantial loss of revenue for social protection agencies and has led to prospects of a reduction in workers' net wages by over twenty per cent (Investopress 2017).

Figure 7 – Social protection expenditure (per cent of GDP)



Source: ITUC analysis on the basis of the ILO *World Social Protection Report, 2017-2019*, Eurostat and OECD database. Latest data available: OECD (2018); EU-28 (2016).

Note: No data available for Bosnia and Herzegovina, Kosovo, Montenegro and North Macedonia.

Governments tend to cite a lack of resources in refusing to expand social protection coverage considerably, while many in eastern Europe have cited demographic pressures as an additional reason for not doing so. However, estimates show that the cost of extending social protection in order to provide a guaranteed minimum level of protection for everyone would be far from unaffordable (ILO 2017c; Friedrich-Ebert-Stiftung 2017). There are, moreover, numerous means at governments' disposal to raise revenue and create fiscal space, including: reallocating public expenditures; leveraging progressive taxation; tackling tax evasion and illicit financial flows; ensuring that employers pay their fair share of social security contributions; supporting the transition to the formal economy; and addressing barriers to the labour market of women, young people and other under-represented groups (ITUC 2018a; Ortiz *et al*. 2017).

Overall, inadequate social protection is having negative social and economic consequences. Under-developed social protection systems in the region have been reported to contribute to greater poverty and inequality, and these are driving people further into informal work (ILO 2017a). Inadequate social protection is also further dampening aggregate demand, placing an impediment in the way of sustainable economic growth.

The economic case for minimum wages and social protection

Ensuring statutory minimum living wages and extending social protection within eastern Europe would have significant social and economic benefits. Raising the statutory minimum wage has been shown to be effective in reducing poverty, as well as wage inequalities by pushing up wages at the bottom of the distribution (ILO 2016). Employers and some governments have – quite wrongly – argued that raising the minimum wage compromises companies' abilities to operate and reduce jobs, but the vast majority of the literature shows that this is not the case (ILO nd; Kuddo *et al*. 2015). Empirical evidence across other regions of the world – such as Indonesia, Brazil, South Africa and India – has shown that increasing the minimum wage can boost aggregate demand, job creation and employment levels and overall economic growth (OECD 2016; Kuddo *et al*. 2015; ITUC 2018b). Additionally, the International Labour Organization highlighted in 2017 that:

> Recent evidence shows that when minimum wages are set at an adequate level and adjusted regularly to reflect the cost of living and economic factors, they can raise the wages of low-paid workers – many of whom are women – without significantly negative effects in jobs. (ILO 2017a: para 110, p. 29)

Research also shows that minimum wage increases have not affected competitiveness and that there are other, more critical factors which affect this factor such as: skill supply; the rule of law; the stability of industrial relations; the availability and use of technology and infrastructure; logistics; and trade rules (OECD 2008; Hallward-Driemeier and Nayyar 2017). Numerous studies have also highlighted the positive effects of minimum wages in terms of improved skills, reduced turnover, higher organisational efficiency and higher productivity (Ontario Ministry of Labour, Training and Skills Development 2014; OECD 2016; ILO 2016).

Likewise, adequate, well-designed social protection systems have been shown to be extremely effective in preventing and reducing poverty and inequality, fostering skills development and employability, providing crucial automatic stabilisers, reducing informality and supporting overall economic growth and development (ILO 2002, 2014, 2017b; European Commission 2013).

Conclusions

The result of this analysis has been that trade unions from ten countries – Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Montenegro, North Macedonia, Romania, Serbia and Ukraine – have joined together to campaign for increases to the minimum wage and social protection under the banner 'Fair Pay in Eastern Europe: to eat, to live, to stay'.

Regional co-ordination on wages is necessary. If governments support and promote minimum wage increases across the region, competition can no longer be argued to be a barrier. Moreover, given increasing economic integration across Europe, co-ordination between European countries on wages can help to stem the massive emigration of young people from eastern Europe and counter the resulting skills depletion in these countries.

The European Union must be supportive of these objectives for fair pay, social protection and workers' rights, and promote their achievement in order to guarantee decent livelihoods for its citizens, promote upwards social convergence in Europe and continue the fight against social dumping. Furthermore, it has to acknowledge that poverty wages and poor working conditions threaten plans for further integration as well as upwards social convergence.

Accordingly, the European Union must adapt its policies and instruments and take ambitious action to ensure that its member states in the region (Bulgaria, Croatia and Romania) achieve decent statutory minimum wages and effectively promote and strengthen collective bargaining, including in the context of the new initiative announced by the European Commission on fair minimum wages. For those states outside the European Union (Albania, Bosnia and Herzegovina, North Macedonia, Moldova, Montenegro, Serbia and Ukraine), it must equally ensure that fair wages and decent work are properly considered within its trade and association agreements, as well as within enlargement processes. In this respect, the European Pillar of Social Rights must be seen as a necessary element of accession or association.

With these perspectives in mind, trade unions across eastern Europe are calling on governments to:

1. set statutory minimum wage floors that would allow workers and their families to live in dignity, combined with adequate comprehensive social protection systems. Such measures would support formal work, enhance productivity and job creation, boost employment, counter massive emigration and skills depletion, and support inclusive economic development
2. ensure minimum wages are evidence-based, taking into consideration the cost of living. They should, moreover, be developed through transparent processes with the full involvement of the social partners, as well as be regularly updated in order to take into account inflation and changes in living costs
3. address wage arrears and enforce minimum wages through well-resourced labour inspectorates, as well as through issuing dissuasive penalties to enterprises for non-compliance in line with ILO Convention 131 (Minimum Wage Fixing Convention) which most countries in the region have ratified. Additionally, payment of wages should be a priority debt to be paid in insolvency situations in line with ILO Convention 95 (Protection of Wages Convention)
4. put in place adequate and comprehensive social protection systems in line with international labour standards, including ILO Convention 102 (Social Security) and Recommendation 202 (Social Protection Floors)
5. ensure and promote freedom of association and collective bargaining rights in order to achieve fair wages above the minimum wage level. Workers should have the right to organise, join trade unions and negotiate appropriate wages and compensation for their work with their employers.

It is time for fair pay in eastern Europe: to allow workers and their families to be able to eat, to live and to stay.

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