

Wages and productivity in eastern and central Europe

Martin Myant
ETUI, Brussels

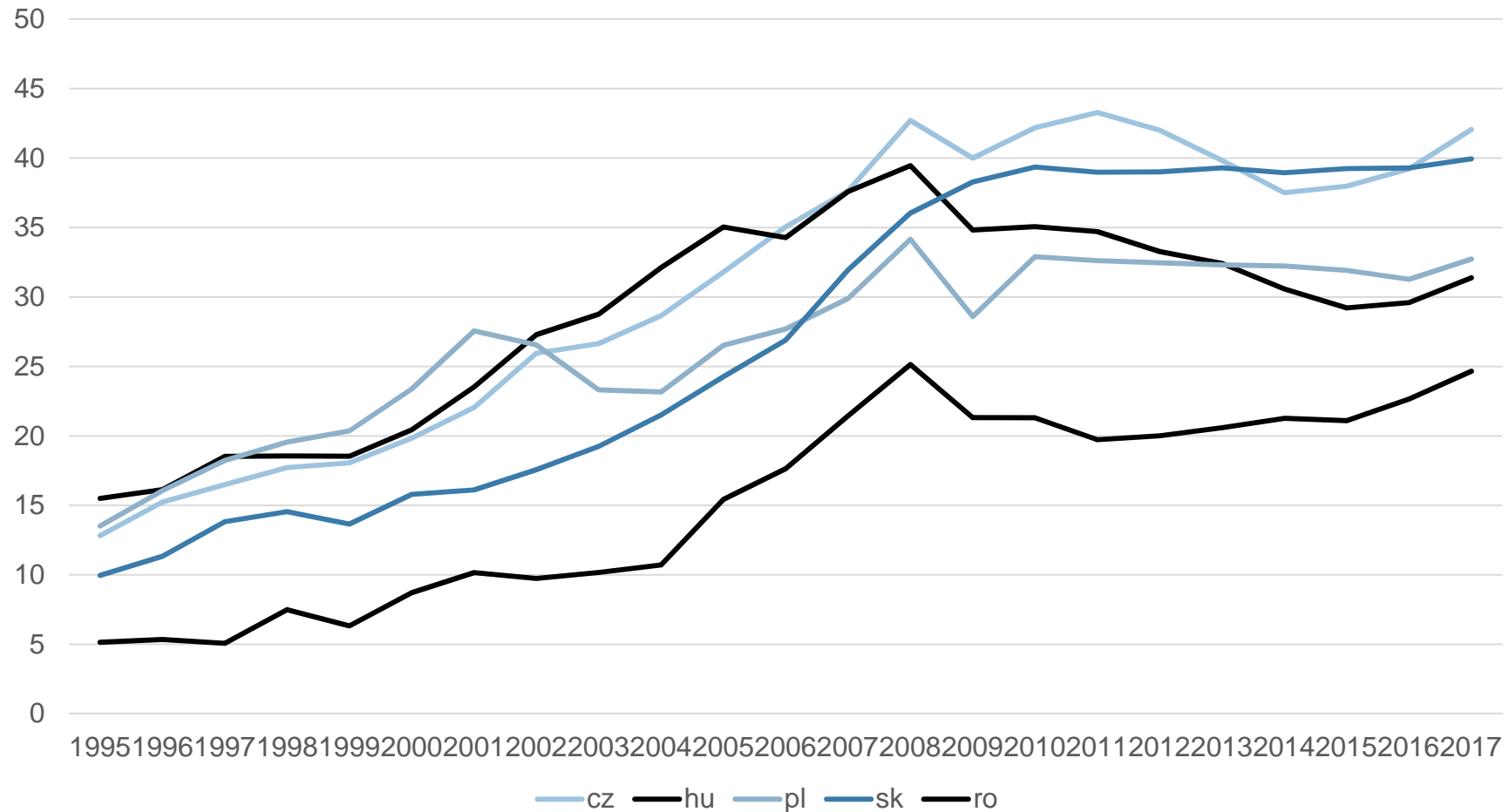
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Summarise the argument

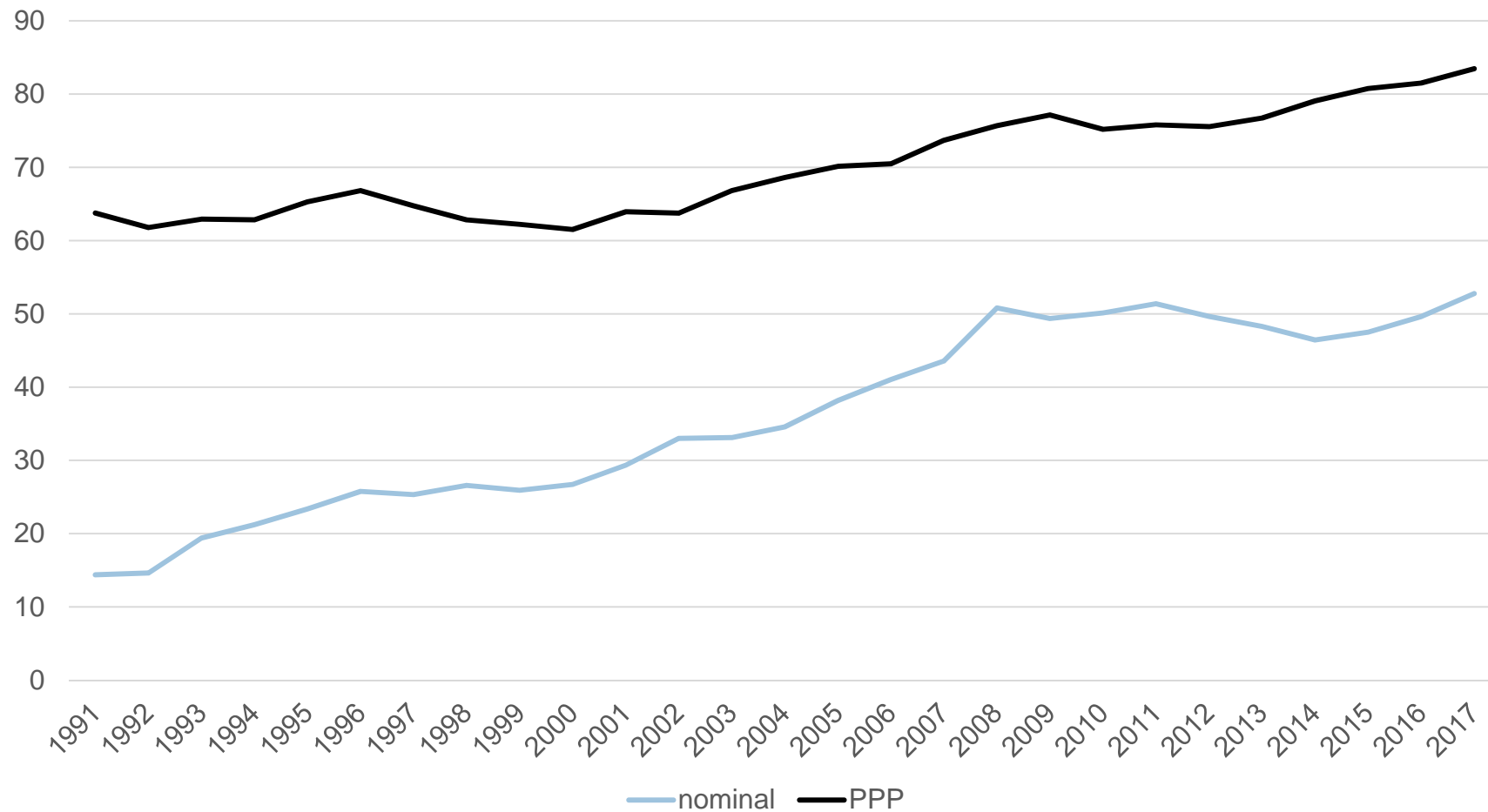
how big is the gap in wages and productivity,
narrowed by FDI, but only so far,
strategy (implicit) of low wages to attract FDI, harder
to raise economy to higher level,
dependent on technology, innovation from outside,
dependent on what MNCs decide to put there,

higher wages would help, but other policies too,
look at cz, hu, pl, sk plus ro, similar strategy.

Wages, % German level



Czech GDP/EU15



Catching up?

Narrows to 2008, stagnates, some revival,
much lower wages, apparently similarly lower
productivity, similar for GDP in nominal terms.

PPP, never so big a gap, maybe still narrowing from
2008, not comparable over time,

gap between PPP and nominal, key to MNC
strategies,

much higher productivity in real terms (PPP, if
believed) than implied by nominal comparison.

How MNCs came

1990s, privatisation into domestic ownership failed, only MNCs competitive in modern manufacturing (technology, finance, strategy, networks), hence dependence on FDI (least for pl), exceptional in Eu. Especially exports (sk 75%). Absolute dominance in some branches, inflow important for balance of payments, but lower from 2008, danger; passed peak of cycle? net benefits reversed?

Net FDI as % of GDP

	Peak year	value	1995- 2008	2009- 2016
Cz	2005	10.1	5.5	1.4
Hu	1995	10.3	4.6	1.9
Pl	2000	5.4	3.2	1.7
Sk	2002	11.7	4.1	0.5
Ro	2006	8.5	4.2	2.0

Foreign share in value added 2014

	manuf	Computers, etc	Motor vehicles
Czechia	59.2	73.8	92.3
Hungary	69.9	92.7	94.8
Poland	44.0	45.6	85.4
Slovakia	68.5	88.5	96.2
Romania	58.0	74.0	93.0
Germany	23.1	32.8	13.7

MNC strategies 1

Come for low wages + other conditions (labour force, infrastructure, financial incentives, proximity), but how do they take advantage of cheap labour?

looked at labour's share (personnel costs in value added) (Eurostat),

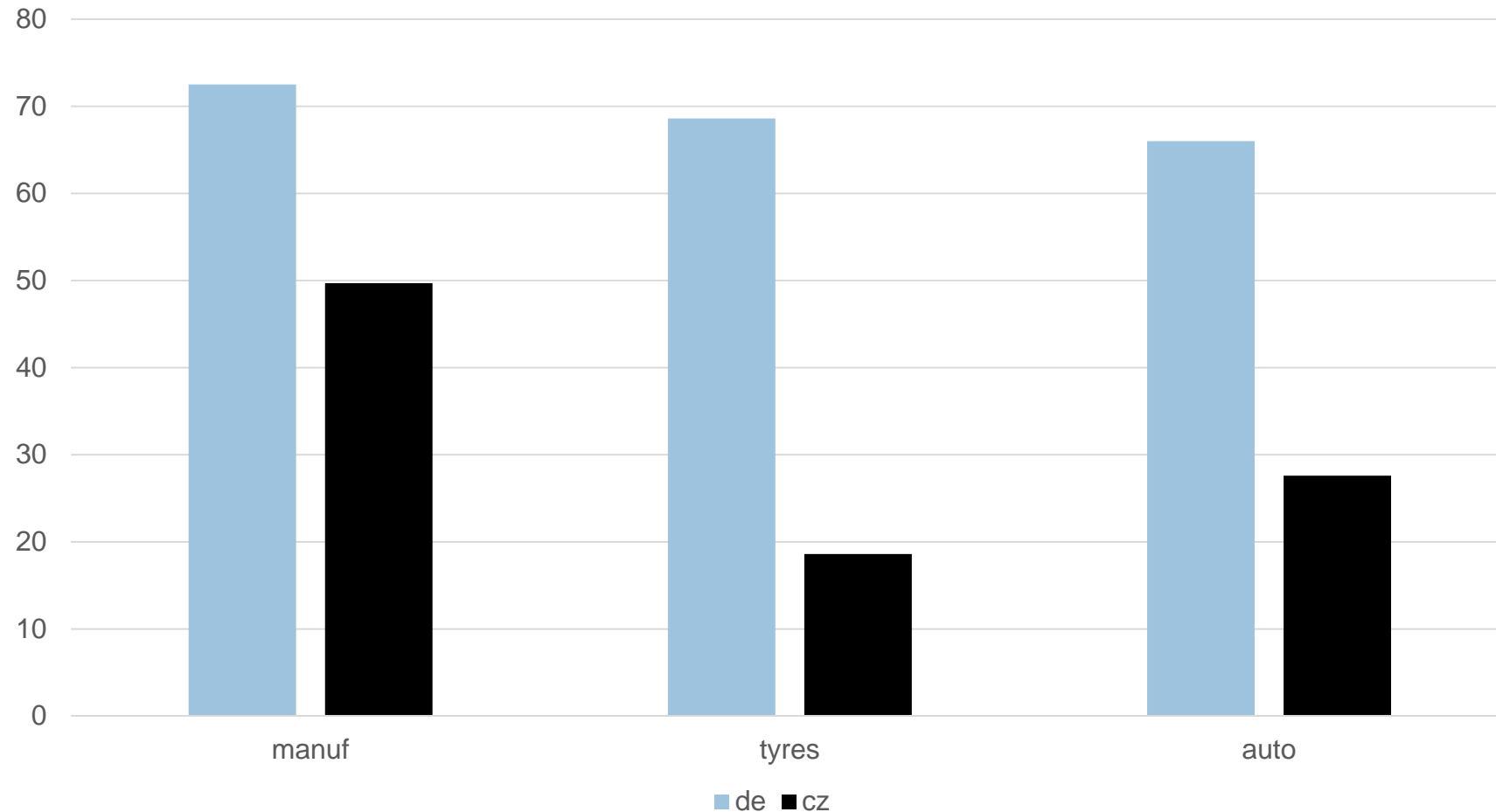
looked at what they export. Foreign trade data, volume + value by detailed product (UN comtrade), price per kilogram, measure of relative quality,

Cz, 1960s, kg price of exported cars, 60% of EEC, because... will it be better now?

MNC strategies 2, options

1. Outsource simpler parts/processes, less skilled labour: could be higher profit, could be lower price,
 2. Cheaper part of range, older/obsolete, profitable thanks to cheaper labour: higher profit & lower price,
 3. Supplement home activities, same products /processes: should be same price & higher profit,
 4. Transfer whole activity: almost always peripheral, small contribution to total activities,
- follow with three examples.

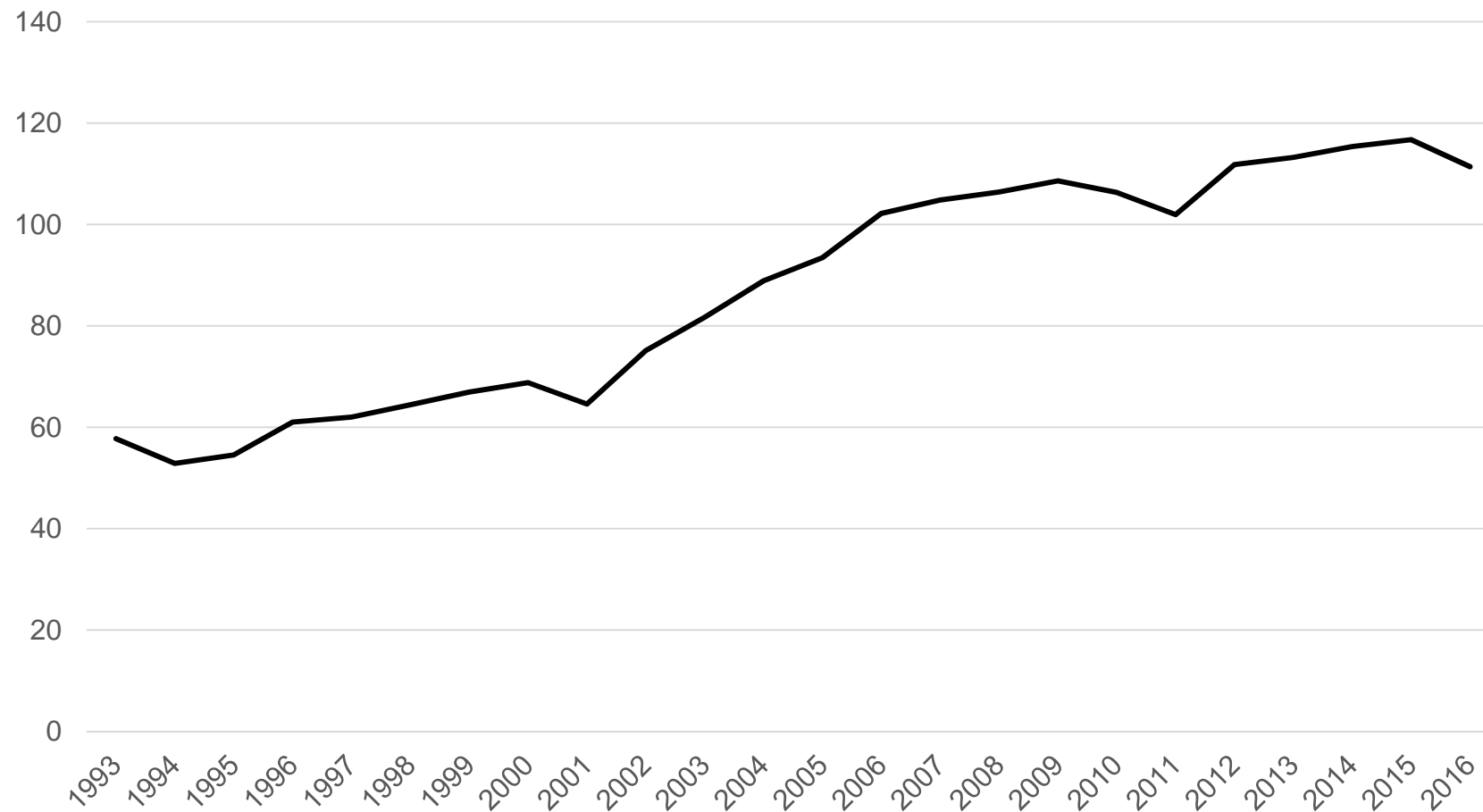
Share of personnel costs



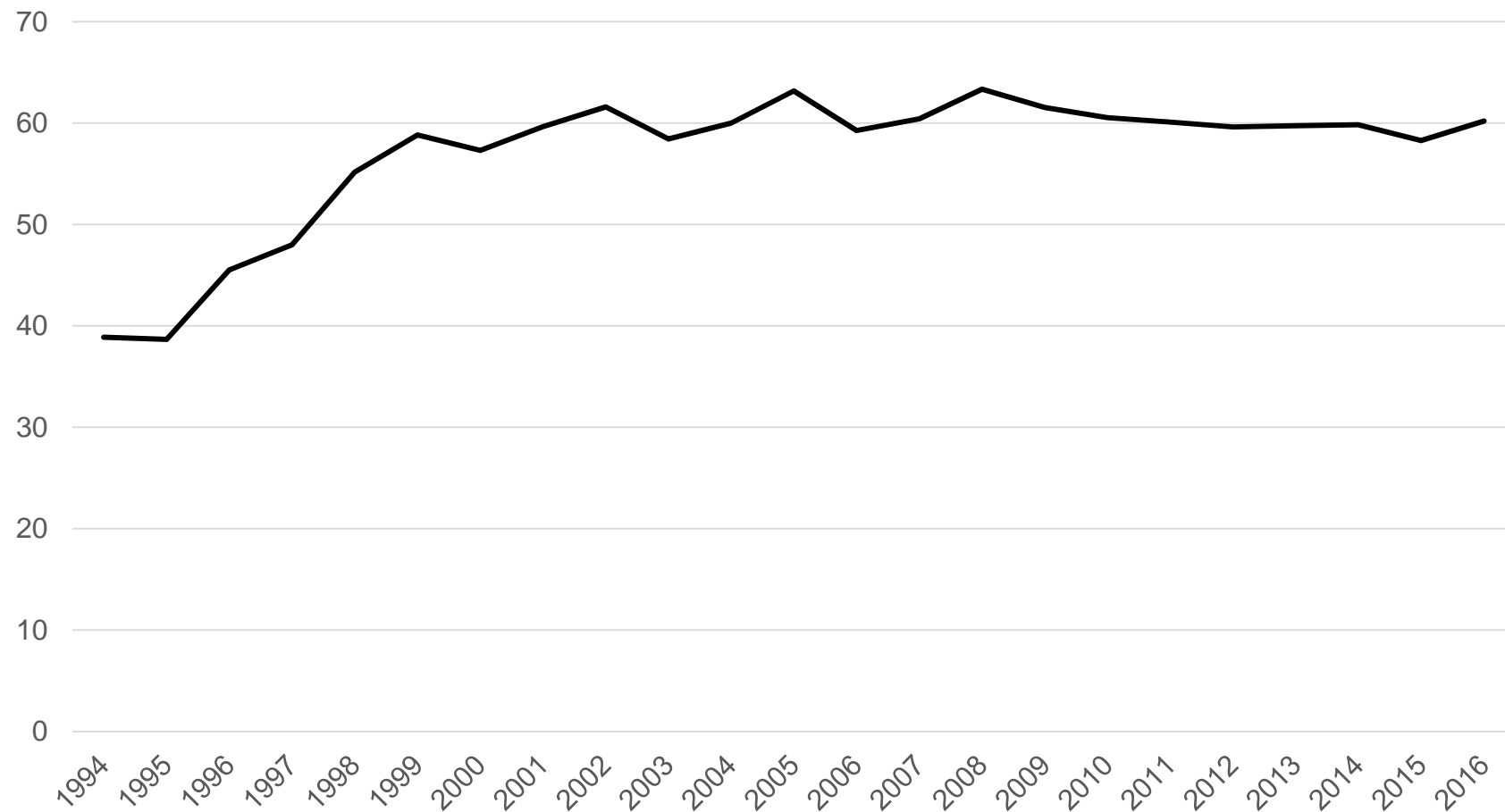
Car tyres

Came by privatisation and greenfield investment, now exports; de 0.3%, cz 0.8%, ro 1.8%, not much innovation, but specific equipment, most modern used, kg prices catch up quickly for cz, hu, sk, case of (3), supplement, benefits in profits, confirmed in Continental accounts, additional capacity, higher profit, stronger bargaining position.

Kg price, tyres, cz/de



Kg price, cars, cz/de



Passenger cars

11%+ exports cz, de, almost 20% sk. Means de volume much bigger than all the others, and only marginal catching up. Not (3), not (4), but (2)

Smaller, cheaper cars, lower kg price, not obsolete, innovating and using best technology, but cheaper, also cheaper within same product type, why? (wages 5-10% of production value), so cheaper product goes where wages are lowest, why not move all? committed, investment, employees, R&D base, political costs.

Conclude

MNCs brought growth, but never transfer the best,

1. Low wage strategy, keep wages in line with measured productivity (EU advice), but prod lower because wages are low, same products/processes (cars, wiring, many more),

2. Raise wages; scope from profits, from PPP measure: but MNCs have bargaining power and activities may move, eventually,

3. Active policies to create environment for R&D, innovation; need to attract most qualified...

