

Angela Pfister

Economic Expert

Austrian Trade Union Federation (ÖGB)



## Migration: A Win-Win Situation?

### 1 Challenges in Central and Eastern European countries of the EU

Central and Eastern Europe has a globally unique role due to decades of emigration to predominantly Western Europe. The population in Central and Eastern European countries (CEECs) stagnated or fell (e.g. in Bulgaria and Romania dramatically). Latest EU population projections show that this is likely to continue in the coming decades (see table 1). Emigration from countries such as Bulgaria and Romania is expected to continue and is likely to increase, especially among younger age groups. One consequence of the continuing emigration will be a shrinking and aging population in the EU-CEECs, with few exceptions such as Slovenia and Czech Republic. At the same time, several EU-CEECs have become host countries for migrants, especially from Ukraine and other countries in the East. In contrast to the demographic development in many EU-CEECs, the population is increasing in Western EU countries, such as in

Table 1

#### Demographic trends in the EU

	Population 2015	Projected population 2050
	million	
Austria	8.6	10.5
Bulgaria	7.2	5.4
Croatia	4.2	3.3
Czech Republic	10.5	11.1
EU-28	506.3	539.8
Hungary	9.9	8.6
Romania	19.9	16.2
Slovakia	5.4	4.7
Slovenia	2.1	2.0

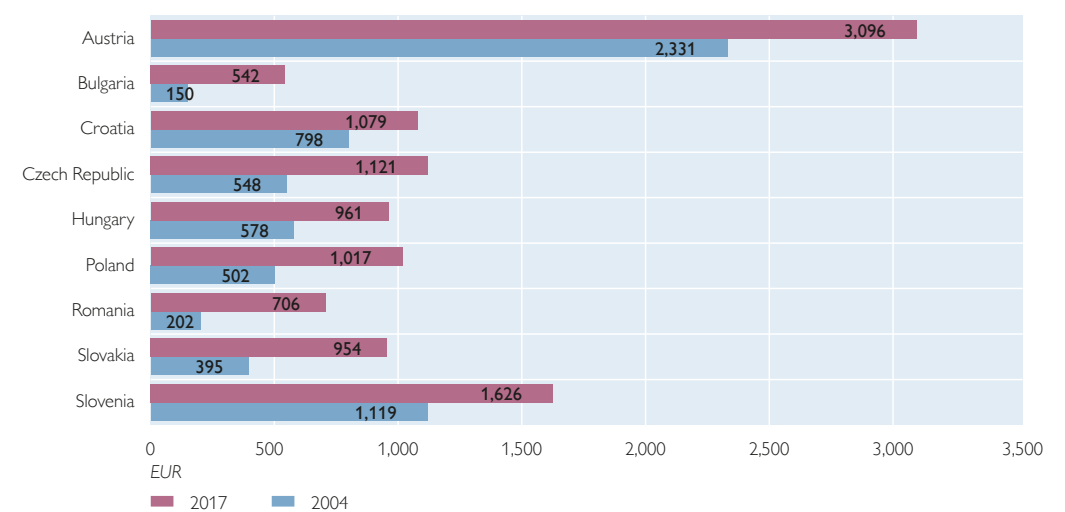
Source: IASA - International Institute for Applied Systems Analysis.

Austria, where the population could increase to over 10 million by 2050.

One of the driving factors for migration is still the large wage gap between Western and Eastern European countries. In general, the EU-CEECs are catching up but the wage gap is still huge which can be seen by comparing wages in the EU-CEECs to Austria in 2004 and 2017 (see chart 1). Considering holiday and Christmas allowances, Austrian workers earn approximately

Chart 1

#### Monthly average wages in Austria and EU-CEECs 2004 and 2017



Source: WIFO Economic Data Service.

Note: Christmas and holiday allowances are included.

three times as much as workers in EU-CEECs. The exception is Slovenia where wages already account for more than 50% of Austrian wages. In Austria, workers from Bulgaria and Romania can earn four to five times more than at home.

The gap between EU-CEECs and western EU countries is also proven by the development of GDP per capita and hourly wages (see chart 2 and 3). Both are significantly lower in EU-CEECs

than in Austria. Apart from Romania and Bulgaria, wages increased by more than 10% between 2009 and 2016, which corresponds to a wage growth of less than 2 % per year (Astrov et al., 2018). The European Trade Union Confederation (ETUC) shows that the wage convergence between Eastern and Western Europe in the EU has even stopped since 2008. After some years of catching-up the crisis has reverted

this trend (ETUC, 2017). ETUC points out that wage gaps persist between Central European and peripheral countries even though productivity rates and cost of living get closer because of the single market and the effects the single currency spreads all over the EU.

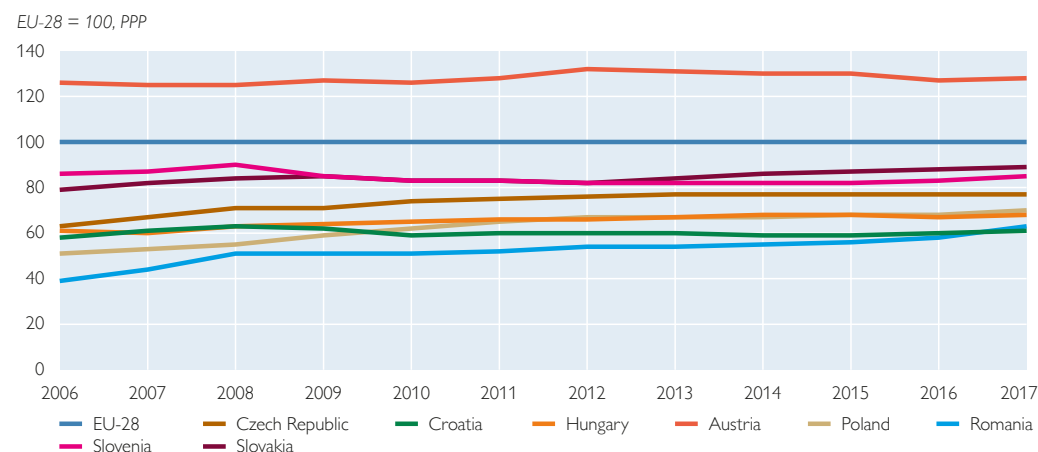
Austria's social policy is characterized by a diverse and coordinated network of social benefits. This well-developed network has proven particularly successful in overcoming the still noticeable effects of the economic and financial crisis 2008. In contrast to Austria and especially to the Nordic countries the welfare state and social security systems are poorly developed in EU-CEECs (Astrov et al., 2018). The maximum duration of unemployment benefits in EU-CEECs is considerably shorter than in Austria and unemployment benefits and other state subsidies are much lower or non-existent. For example, after 13 months of unemployment only in Austria and in Croatia unemployment benefits are paid (see table 2). Therefore unemployed people

are urged to take up employment, no matter what the conditions are (e.g. low paid jobs that are very inadequate for livelihoods). Current welfare schemes are failing to tackle poverty and inequalities.

A look at the institutional framework of labor markets in CEECs shows that collective agreement mechanisms in those countries are much weaker than in Austria or in other EU Member States (see table 3). Furthermore, in the course of the economic crisis in some of these countries steps have been taken towards further restrictions of collective bargaining at national and sectoral level. This is especially true for Romania and Slovenia. According to Astrov et al. (2018), the weakening of the bargaining power of workers has led to a less dynamic wage development. Overall, the important macro-economic stabilization functions of labor market institutions are lacking in view of specific problems of emigration, productivity growth, (over)aging

Chart 2

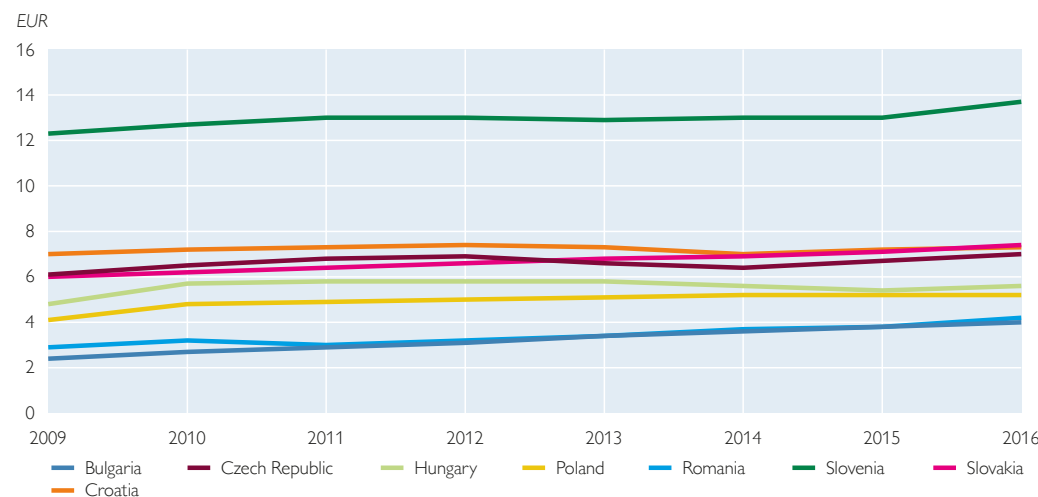
### GDP per capita in Austria and EU-CEECs 2006–2017



Source: Eurostat.

Chart 3

### Average wage per hour in EU-CEECs 2009–2016



Source: wiiw, Vienna Institute for International Economic Studies.

Table 2

### Income from state aid for one-person households in relation to net income for average earners before job loss

	Unemployment assistance						Unemployment assistance, housing allowance & social assistance					
	Duration of unemployment											
	2 months		7 months		13 months		2 months		7 months		13 months	
	2008	2016	2008	2016	2008	2016	2008	2016	2008	2016	2008	2016
Austria	55	55	55	55	51	51	55	55	55	55	51	51
Bulgaria	47	77	47	77	6	0	47	77	47	77	15	10
Croatia	–	75	–	37	–	37	–	75	–	37	–	37
Czech Republic	50	65	0	0	0	0	53	72	30	37	30	37
Germany	60	59	60	59	26	17	60	59	60	59	44	30
Hungary	59	45	31	0	0	0	59	45	33	12	24	12
Poland	29	30	29	24	0	0	45	46	45	41	24	23
Romania	43	31	43	31	0	0	43	31	43	31	8	7
Slovakia	65	65	0	0	0	0	65	65	19	17	19	17
Slovenia	64	66	64	66	0	0	64	66	64	66	33	35

Source: wiiw, Vienna Institute for International Economic Studies.

Table 3

**Coverage rate of collective agreements**

	2000	2008	2013
Austria	98	98	98
Bulgaria	40	35	29
Croatia	–	60	53
Czech Republic	48	50	47
France	98	98	98
Germany	68	61	58
Great Britain	36	34	30
Greece	90	88	59
Hungary	37	37	23
Italy	80	80	80
Poland	25	16	15
Portugal	79	84	72
Romania	98	98	35
Slovakia	51	40	25
Slovenia	100	92	65
Spain	85	81	80

Source: wiiv, Vienna Institute for International Economic Studies.

of the population and the strong dependence on foreign demand. Cazes et al. (2017) describe the role of collective bargaining in free-market economies well. They reach the conclusion that collective bargaining can make labor markets function more efficiently by correcting market failures and leads to a better management of labor market challenges arising from globalization, technological change, and workforce ageing.

## 2 Open issues for EU-CEECs

First, emigration eased certainly the tensions in the labor market in CEECs where unemployment was high. However, emigration further aggravates the population decline. In the long run the lack of qualified workers might slow down economic development and might have a negative impact on investment. Second, not an insignificant part of the GDP of the EU-CEECs flows as profit to foreign investors which is not compensated by public spending. And finally, export industries are historically mainly upstream of Western European production. This could limit

an upgrade to higher added value activities (Astrov et al., 2018).

Therefore policy action should focus on a coordinated economic and social policy including:

- Actions to increase the supply of skilled labor possessing the skills required by employers (including policies directed towards retention of skilled workers in the country, return of young people who have completed their education abroad and as well as return of migrants already working abroad).
- Measures targeted at industry consisting of various tools and financed by various sources of funding, ranging from stimulating domestic and foreign investment to state funding and public-private partnerships. This is an important prerequisite for restructuring the economy towards new high-tech industries with high value added.
- Strengthening of social security systems which guarantee equal access to adequate social protection and to the full range of support measures (including adequate unemployment benefits) for a re-entry into the labor market, also including self-employed.
- Undertaking steady pro-wage policies supporting free and autonomous collective bargaining in a context of social dialogue.
- At European level a budgetary reform providing the EU with greater financial leeway.

## 3 Challenges in the host countries

In general, macroeconomic developments have been comparatively favorable in terms of GDP growth and unemployment in Austria. While figures on growth are good and the unemployment rate is dropping, problems in the labor market remain. Still, record levels of unemployment and social dumping are major challenges in Austria. Fast

increasing labor supply has been the main reason for rising unemployment during the recent years. This strong increase in labor supply is due to different forms of migration apart from changes in early retirement regime.

The opening of the labor market and the associated free movement of people and services have led to a sharp rise in the number of workers from CEECs that started to work in Austria (Chaloupek 2016). Overall, employment has increased in Austria, but at the same time the number of domestic workers has decreased and unemployment has increased (see table 4).

The construction sector is particularly affected. The posting of workers from other EU Member States has so far increased significantly (Hofstadler et al., 2016). Wage and social dumping are widespread and causing severe problems. Results of the construction audits done by the Construction Worker Holiday and Severance Fund (CWHS; Bauarbeiter-Urlaubs- und Abfertigungskasse, BUAK) give a good overview regarding the compliance with payment regulations in Austria. During the first half-year of 2017 3075 construction sites were audited by CWHS inspectors. 3365 domestic companies and 12.371 workers of these companies were checked. 40 companies and 115 workers with suspected cases of underpayment were reported (which constitutes 1.2% of companies and 0.9% of workers). During the same period 816 posting companies and 3706 workers of these companies were audited. In 360 companies and for 1518 workers suspected cases of underpayment were reported (adding up to 44.1% of all companies and 41.0% of all workers).

In addition, macroeconomic implications of wage and social dumping must be considered. In Austria unemployment increased and income is lost. Tax and social security contribution losses alone

Table 4

**Development of employment 2008–2014**

	Austria		Vienna	
		%		%
employed nationals	-36,894	0.0	-21,327	0.0
employed foreigners	151,666	0.3	46,147	0.3
from EU Member States	145,873	0.8	43,100	0.9
of which				
Hungary	43,913	2.1	8,882	2.5
Slovakia	16,300	1.8	5,937	2.1
Slovenia	9,373	1.6	662,0	1.8
Romania	17,629	1.2	5,102	1.3
Bulgaria	4,282	1.6	2,329	1.7
Poland	15,294	1.0	8,280	1.0
Germany	16,616	0.2	5,546	0.4

Source: Main Association of Austrian Social Security Institutions.

amount to more than 2.5 billion euros (Schneider, 2014).

## 4 Open issues for host countries

Labor market regulations are crucial to avoid unfair competition. In Austria a new law against wage and social dumping would help to combat remuneration below collective agreement level. However, further improvements of Austrian laws and above all the directive concerning the posting of workers and the enforcement directive are urgent. Recent changes related to the directive on posting the workers are welcome but still do not solve the problems in Austria. The criticism from the population regarding cross-border mobility of workers is on the rise due to ongoing and systemic wage dumping. People expect the EU to finally develop instruments and implement measures for fair competition. As first steps, this requires immediately:

1. The enforcement of the principle of “equal pay for equal work on the same place of work” faces still some challenges which cannot be solved in the country of work performance. Posted workers are not registered with the social insurance

institution in the host country on the first day of their activity by the posting company. According to the posting directive posted workers remain in the social security system of their home country for 18 months which is a discrimination of affected posted worker and is leading to unfair competition. At least the higher wage while being posted, should be used to calculate the social security contribution.

2. Still further improvement in enforcement is needed, that is easier enforcement of penalties abroad, improved cooperation between foreign authorities and combating of bogus firms already in their country of origin.
3. The establishment of a mandatory minimum employment period before workers can be posted (e.g. three months) would be of significance.

This could reduce the widespread practice of employing workers in a Member State exclusively with the intention of posting them to another Member State.

And finally, there are several other open issues apart from labor market regulations to be addressed. Since the population in Austria will be sharply growing there will be an increasing demand for housing. The required infrastructure in growing areas – mainly Vienna and large cities – is in many cases not yet available. Decisions on infrastructure are outstanding (new homes and workplaces, mobility with future technology, energy and water supply, etc.). There is still no satisfactory solution to various budgetary issues e.g. setting a process of budgetary reform providing the EU with greater financial leeway or related to financial compensation (agricultural regions against urban areas).

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