László **Andor**

HUNGARY @LASZLOANDOREU

László Andor is Head of Department of Economic Policy at Corvinus University of Budapest and Senior Fellow at the Foundation for European Progressive Studies (FEPS) in Brussels. He was the EU Commissioner for Employment, Social Affairs and Inclusion in the Barroso II Commission over the period 2010-14. Prior to this, he was a Member of the Board of Directors of the EBRD in London. Since 2015, he has been lecturing at Hertie School of Governance (Berlin), ULB (Brussels) and Sciences Po (Paris) and is an active member of a number of international think tanks (IZA, EPC, RAND Europe, Friends of Europe). He has been awarded the titles of Doctor Honoris Causa, at Sofia University of National and World Economy, and the Legion of Honour, by the French President in 2014.

The year 2019 marks the 15th anniversary of the EU's Eastward enlargement, which incorporated the Visegrad Four, the Baltic Three and Slovenia into the European Union. But it also marks the 30th anniversary of the fall of the Berlin Wall and the great political transformation that opened the way to German but also all-European re-unification. Since the transitional recession of the early 1990s, the region's strong growth potential has been consolidated by EU membership. However, the EU accession of East-Central European countries resulted in an imbalanced Single Market. The 2004 enlargement was different from previous ones in that the income disparity between new and old Member States was much more significant. Hence, the positions and strategies of Eastern members have to be scrutinised from the point of view of economic as well as social sustainability.

Imbalanced Single Market: large labour outflows

Eastern enlargements practically doubled the volume of cross border labour movement within the EU. According to estimates, around five per cent of the Polish labour force now resides in other EU member states, while this number for Romania and Lithuania is above 10 per cent. Given the fact that young people are over-represented among these Eastern EU-migrants, these labour outflows tend to generate and sustain population decline, especially in regions with lower than average fertility and higher than average mortality.

At the same time, personal remittances paid by expatriates to their home countries have reached significant magnitudes - beyond 3% of GDP in Romania, Bulgaria and Lithuania. In the short term, these inflows are important for the prosperity and for the balance of payments of the home countries. However, in the longer term, it is questionable whether remittances can remain high enough to offset the negative consequences of labour emigration on the dependency ratio in East-Central European countries. If labour mobility is at all a threat to social security systems, it is mainly in the sending countries.

Fortunately, mobile workers sometimes also return home. Returning workers bring with them valuable new skills and experiences that benefit the economies of their home countries. The example of Poland in the 2011-2012 period shows that returning workers can contribute to a country's above-average growth performance. Generally, most people entering East-Central European Member States are actually returning nationals.

Although the destination countries in Western Europe benefit a great deal from mobile East-Central European workers in economic terms, these countries are also witnessing a kind of 'welfare chauvinism', turning public opinion against EU migrants. Some people find it hard to accept that the EU's enlargement to the east has brought with it not only countries and markets but also people, and these people have the same rights. In fact, the 2004 and 2007 enlargements brought more instead of less welfare to the receiving countries: a higher proportion of mobile citizens from East-Central Europe are of working age, in good health, and more often employed, compared with nationals of the destination countries, and so they are actually net contributors to their social security systems.

The real risks of labour mobility from east to west are not in the recipient countries but in the countries of origin. A large percentage of workers who migrate from East-Central Europe to the West are overqualified for the jobs they find. In 2012, this was the case for about half of East-Central European migrants who had completed higher education. This rate of over-qualification is more than twice as high than for the nationals of receiving countries. In certain sectors of employment, particularly health care, we can speak of a 'brain drain', which leads to serious problems in the highly-skilled workers' countries of origin.

East to West labour mobility is likely to continue as long as income disparities between Member States persist. However, this should not be seen as an automatic link that is independent of all other factors. For example, despite the large income disparity between the Czech Republic and its neighbour Germany, relatively few Czechs migrate there. This is partly due to the fact that the at-risk-of-poverty rate in the Czech Republic (10%) is actually lower than in Germany (16%).

Upholding the right to free movement and ensuring equal treatment for mobile workers remains a pivotal issue. But a key question in this context today is how the peripheral regions (mainly the eastern ones) can rebuild human capital, which is being lost through constant migration towards the West and disinvestment from health and education sectors. Moreover, the EU must also remain active in addressing the situation of Roma and promoting integration, which is arguably Europe's biggest social challenge today.

East-West imbalances and the social question

With GDP growth rates twice as high as in older Member States, Eastern economic convergence is a fact. However, this seems to be happening simultaneously with some divergence regarding political values and social models. Those who believe that all problems in the East will be slowly resolved by experiencing higher than average GDP growth need to look beyond the GDP growth figures and see gaps in health conditions, life expectancy and in particular the extraordinary population decline being experienced in Eastern Member States and their Eastern most regions in particular.

East-Central European wage dynamics are particularly important and deserve our attention. Wages are not only low here compared to Western Europe but, as demonstrated by a number of variables, also tend to be lower than what the economic potential of these countries would allow for (Galgóczi 2017). After the initial and turbulent phase of the transformation process, wages in all CEE economies started to grow dynamically from the mid-1990s up until the 2009 recession. In the wake of the crisis, however, wage convergence either experienced a sudden halt or slowed down substantially.

Beyond wages, the more general state of social security and social protection have had an influence on East-West relations in the EU. In certain periods (e.g. 2011-2013), certain segments of Western media and politics were obsessed with poorer migrants from the East, and their access to social benefits in receiving countries. And the purpose of that discourse was not so much to develop a common strategy to improve the well-being of those citizens, but to exclude them somehow from the richer countries and the welfare systems of those in particular.

The never-ending debate on social dumping maintains the feeling in the East, and especially in the Visegrad countries, that the West does not want to see economic competition from the East. Arbitrary rules in areas such as service mobility are introduced in order to push back Eastern companies in the very few sectors where there might be competitive e.g. construction and road transport.

In several of the new Member States, the issue of finding a way out of poverty is linked to the situation of the Roma population. While there is also a sizeable Roma minority in some of the older Member States, such as Spain, Roma integration has really become an issue in the EU only since the 2004 enlargement. Not all Roma are poor, but in Romania, Bulgaria, Hungary, the Czech Republic and Slovakia, the Roma minority and the rest of the population are a world apart in terms of education, employment, health and housing. As a result of constant prejudice and the open racism that in many cases has political support, it is difficult to overcome this disparity and often even to determine its extent.

Other features also distinguish East-Central Europe from older EU Member States, such as working conditions. There are major differences between East and West with regard to the degree of organisation of employers and employees. According to the OECD, less than a fifth of wage and salary earners in Poland or the Czech Republic are actually members of trade unions – compared with a share of almost 70% in the Scandinavian Member States. This in turn means that in terms of economic policy there is a constant temptation to improve competitiveness at the expense of workers. Recent changes in Hungarian labour law provide examples that would not be acceptable in Western or especially Nordic countries. In the area of vocational education and innovation capacity, substantial progress has only been made in East-Central Europe in relation to individual foreign investments.

It can therefore be said that most of the newer Member States, irrespective of their varying speeds of convergence (in terms of GDP), have developed within the EU as an ‘inner periphery’. The region’s booming capital cities are exceptions, which only reinforce the challenge in terms of economic, social and territorial cohesion. Therefore, the EU has to make efforts to ensure that economic growth in the East is sustained and is coupled with convergence in terms of political and social policy standards. In the long run, this is the real solution to the problem of social dumping, which has been such a focus of legislative activity in the past decade. Hence the significance of the 2017 European Pillar of Social Rights and the Commission’s insistence that non-euro area countries should also participate.

Social investment imperative

For sustaining economic growth in East-Central Europe, but also for maintaining the growth potential in the region for the long run, a first necessary step would be for governments to rethink their role in the development of human capital and place greater emphasis on investing in it. As the coming decades must combine better living conditions for all with higher productivity growth, greater investment is necessary in education, health, and social inclusion, where the emphasis has up to now tended to be on cutbacks.

Greater social investment is not only a responsibility of the public sector; it is also in the best interest of companies. However, survey data confirm that businesses in East-Central Europe tend to attribute a lower priority to human capital issues than their Western European peers. This is especially true for businesses in Romania and Bulgaria. Poland also stands out: on the one hand, Polish businesses seem to be more optimistic about the availability of skilled, educated, competent and experienced human resources than their Western European counterparts. On the other hand, investment in human capital formation (apprenticeships, attracting talent, training, worker motivation) tend to be seen as a lower priority in Poland compared to the EU average. Such an attitude may be explained by the strength of the cohorts entering the Polish labour market in recent years, but cannot be sustained when the workforce begins to age and shrink as in the rest of Europe.

The great human capital challenge in East-Central Europe is also well illustrated by data on workers' participation in lifelong learning. With the exceptions of Slovenia and Estonia, East-Central Member States tend to have a far lower percentage of workers or unemployed people who participate in training and education compared to 'older' Member States. According to the Labour Force Survey, in Romania, Slovakia and Bulgaria the share is only around 5%.

The necessity to step up investment in human capital should be reflected by the way East-Central European countries make use of resources available from EU Structural and Investment Funds. The European Social Fund, for example, could play a much greater role than previously in helping to promote the employment of women, young professionals starting their career (by introducing the Youth Guarantee), Roma integration, labour market integration for people with disabilities and active ageing. It can also make a major contribution to improving the quality of education systems. The EU has established a rule for 2014-2020 that a certain minimum share of each country's allocation from the Structural Funds has to be dedicated to human capital investment through the European Social Fund. However, more effective financing of these programmes depends primarily on the political will in individual countries.

We have also seen that systemic corruption can lead to a situation where EU funds simply do not fulfill their original goal of improving competitiveness, developing infrastructure and investing in human capital or better governance. In some countries the situation is indeed grave: there are examples of state-level fraud being organized by political actors. That results in a waste of EU resources and inevitably undermines democracy, the public interest, and the rule of law.

Beyond the already functioning procedures of interruptions and suspensions, sanctions can play a stronger role in stamping out irregularities, abuse and systemic fraud. In order to reinforce Cohesion Policy from the point of view of effectiveness and integrity, one option for the EU is to take funds, or at least some of them, into its own hands and distribute them in the Member States according to their original goals. In other words, the Commission in cases of repeated abuse or systemic fraud should suspend shared management. Direct management solutions could be also introduced in a gradual and proportional manner. In addition, a third type of management method could also be envisaged: assisted management could be invented by planting EU experts in national agencies without completely sidelining them.

Conclusions

The last 15 years of economic development in East-Central Europe can be characterised by a more convincing convergence process than in the pre-EU phase. However, economic convergence in these countries has not always been coupled with social convergence, which may undermine the continuation of strong economic performance in the next 15 years. The EU has to pay attention to East-West imbalances and consider new strategies for cohesion and convergence. The major question for the next stage is whether the EU's Eastern region can continue to catch up without the internal socio-economic polarisation observed thus far, and how exactly the latter process could in fact be reversed.

If the 'new Member States' wish to create a new development path for themselves that has the qualities of being smart, sustainable and inclusive, and allows for convergence towards Western social models and not only the EU income average, they must promote stronger (and genuine) social dialogue and social investment. If Europe moves towards a more successful, globally competitive 'balance of interests' model of economy and society, this could bring significant benefits for East-Central

Europe. The question is whether the necessary social and political will exists and if East and West can work together in partnership for such a purpose.