

Labour Market Trends in Visegrád Countries: Implications for Austria

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Summary

Economic developments in the four Visegrád countries – the Czech Republic, Hungary, Poland and Slovakia – will be viewed against the background of secular trends of population ageing and, in some cases, outright population decline. Under plausible assumptions, these trends will persist over the next few decades, as low birth rates and rising mortality rates – reinforced by outward net migration in the case of Poland – will result in the working-age populations shrinking further. So far, the economic effects of the reduced labour supply in the Visegrád countries have been largely positive: it has been a major factor behind the dramatic decline in unemployment over the past few years. However, growing labour shortages – unless offset by increased automation – might become a constraint on the economic growth of the Visegrád countries in the near future.

It was only after a considerable time lag that the decline in labour supply started to translate into an improvement in the bargaining power of workers and a corresponding sustained real wage growth. Until about 2013, these were largely offset by institutional factors, namely labour market liberalisation and fiscal austerity measures implemented in the aftermath of the global financial crisis, resulting in the stagnation of real wages over a protracted period of time. It was not until 2013 that real wage growth in the Visegrád countries finally gained momentum, crucially helped by a profound turnaround in economic policies under the newly formed ‘populist’ governments which revoked some of the liberal economic reforms initiated by their predecessors (especially in Hungary and Poland). The marked growth in real wages observed over the past few years has hardly eroded the competitiveness of the Visegrád countries’ economies which all possess a strong export sector and continue recording solid trade surpluses. At the same time, it has been the main factor behind the growth of private consumption – and ultimately GDP growth.

The implications of these developments for Austria are likely to be two-fold. On the one hand, the above-average economic growth in the Visegrád countries is welcome news for Austria as it will offer more trade and investment opportunities for Austrian companies. The track record of increased economic cooperation with these countries so far has been, by and large, positive for Austria. On the other hand, the shrinking working-age population in the Visegrád countries and their ongoing catching-up, inter alia in terms of wages and social benefits, imply that labour migration flows from these countries to Austria, which has been sizeable up to now, will likely subside, aggravating the problem of labour and skills shortages in Austria.

Measures offsetting the rising labour and skill shortages in Austria could include, for instance, training programs and apprenticeships, supported by fiscal measures such as tax benefits and targeted subsidies. In the longer term, mitigating labour force shortages in Austria would require policies such as improving training in technical and craft occupations as well as subsidising investments in labour-saving technologies which could offset the effects of a shrinking working-age population on economic growth.

Keywords: demographic trends and forecasts, labour supply, wage and income policies

JEL classification: J11, J2, J31, J38

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Labour market trends in Visegrád countries: implications for Austria

DEMOGRAPHIC TRENDS AND FORECASTS¹

Labour market trends in the Visegrád countries – Czech Republic, Hungary, Poland and Slovakia – will be viewed against the background of population ageing and, in some cases, outright population decline. As demonstrated by Figure 1, the natural population growth in Hungary was strongly negative over the period 2008-2018, in Poland it switched to negative in 2012, while it was moving close to zero in the Czech Republic. In contrast, the natural population growth in Slovakia continued to be positive. Figure 1 also suggests that most Visegrád countries, except Poland, were net receivers of migrants, primarily because of the rising labour shortages (wiiw, 2016). Since 2016, Poland has also recorded positive net migration, with most immigrants coming from Ukraine. The Czech Republic has attracted migrants primarily from Slovakia and Ukraine, and Hungary from Slovakia and Romania, with most immigrants from these countries representing the Hungarian-speaking ethnic minority.²

These recent patterns of mobility contrast with the earlier patterns observed after the EU enlargement, when the region (with the exception of the Czech Republic) experienced considerable outward migration, mostly to Western Europe. Upon accession of the Visegrád countries to the EU in 2004, several Western countries – first of all the UK – immediately granted full labour market access to their citizens (e.g. Austria only granted such access in 2011). Net migration from the Visegrád countries to the EU15 over the period 2005-2015 is estimated at above 2.2 million people, 74% of which was accounted for by Polish citizens (UN Statistics, 2017).³ Besides, emigration has had a dampening effect on the natural population growth, as the departure of the youngest and most productive age group depressed the birth rates in the sending countries.

The ageing of the population in the Visegrád countries has been accompanied by a continuous decline in the size of the working-age population, that is, the number of people aged between 15 and 64 (Figure 2). Over the past decade, the working-age population shrank by between 3.2% in Slovakia and 6.2% in the Czech Republic (for comparison, in Austria it *grew* by 5.3% over the same period). Eurostat projections suggest that the trend of declining working-age populations in the Visegrád countries is likely to persist over the next decades. At the heart of this will be negative natural population growth. On the one hand, birth rates are projected to decline slightly (from already rather low levels) and stay somewhat below the levels observed in Western Europe. On the other hand, and even more importantly, mortality

¹ This section was drafted jointly with Isilda Mara, wiiw.

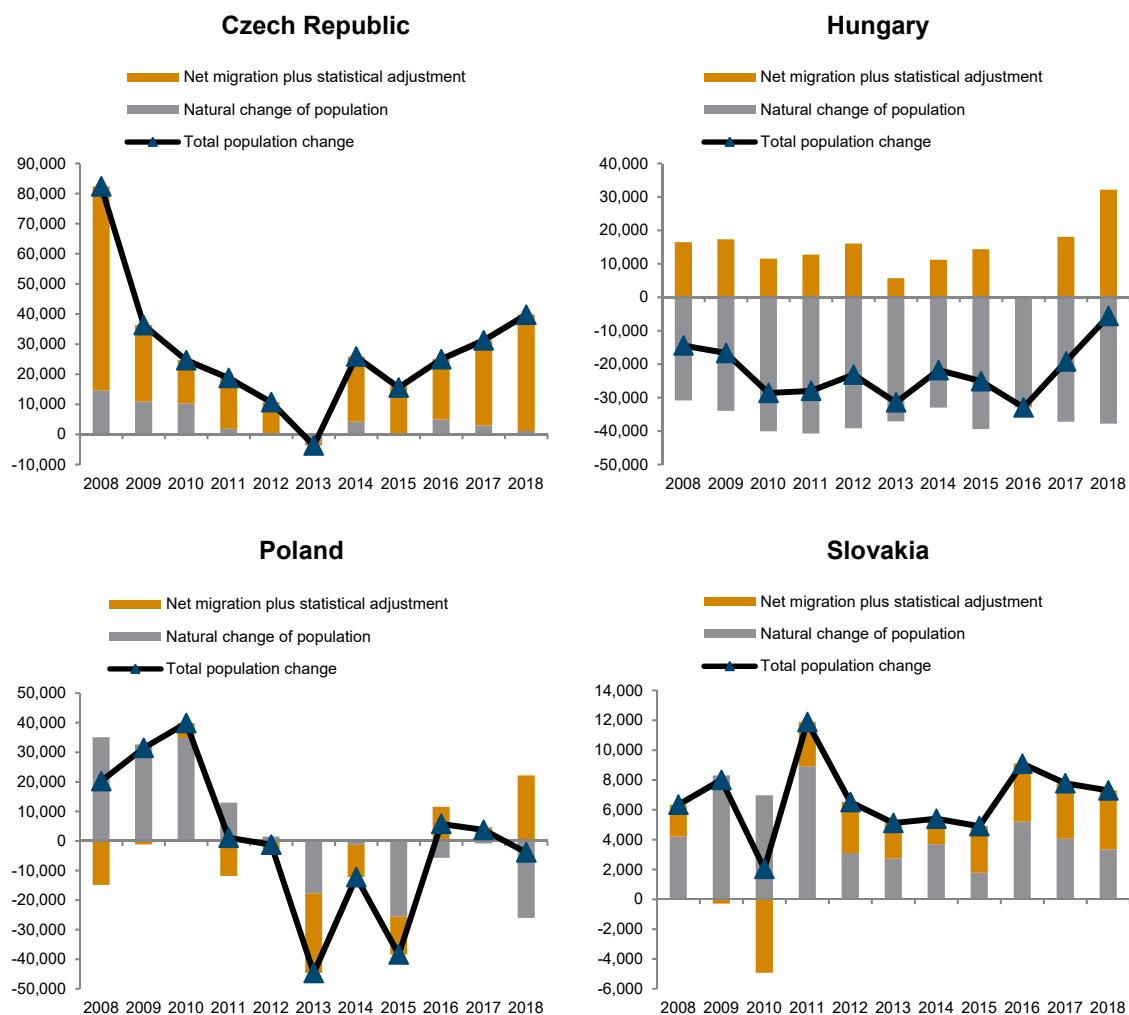
² The true extent of migration flows – and particularly outward migration – is however difficult to capture, as many people who leave do not necessarily bother to un-register in the home country, while population censuses are rare (the next census is due in two years). Also Eurostat highlights that “*net migration may cover, besides the difference between inward and outward migration, other changes observed in the population figures between 1 January in two consecutive years which cannot be attributed to births, deaths, immigration and emigration*”. Therefore, the data on net migration presented in Figure 1 are to be treated with caution.

³ Trends in International Migrant Stock: The 2017 Revision (United Nations database, POP/DB/MIG/Stock/Rev.2017), <http://www.un.org/en/development/desa/population/migration/data/estimates2/estimates17.shtml>

rates in the Visegrád countries are substantially higher than in Western Europe and are projected to go up further, by some 30% on average by 2040. The latter will be entirely due to population ageing – and this despite the projected declines in mortality rates for *individual* age cohorts thanks to e.g. improvements in health care systems and healthier lifestyles (IMF, 2019).

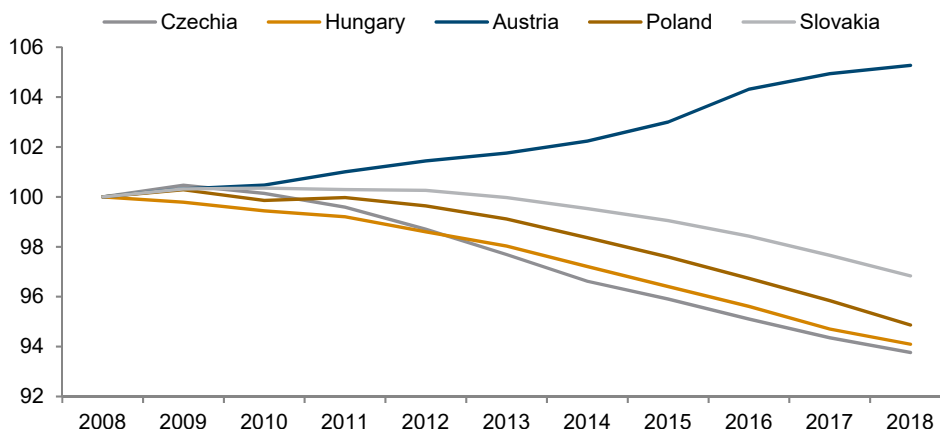
Poland in particular will experience a rapid decline in the working-age population by an estimated 16.5% between 2015 and 2040 (Figure 3). The breakdown by age groups 15-29, 30-44 and 45-65 indicates that the first two groups are likely to shrink markedly while the third group is expected to increase. Similar trends are expected for other Visegrád countries, but the decline will be less marked than in Poland: 12-13% in Hungary and Slovakia and 9% in the Czech Republic. In the Czech Republic, the first age group of 15-29 years will remain broadly stable, while the age group of 30-44 years will decrease dramatically and the age group of 45-65 years will grow. These trends suggest that it is the younger working-age population above all which will decline. This, in turn, implies that the working-age population of Visegrád countries will not only be shrinking, but also ageing.

Figure 1 / Natural population growth and net migration, 2008-2018



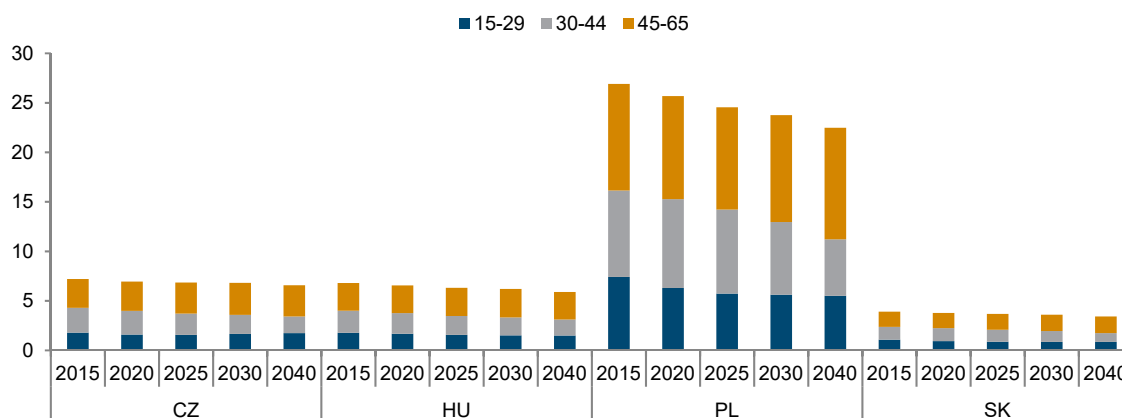
Source: Eurostat.

Figure 2 / Working-age population (15-64), 2008=100



Source: Eurostat.

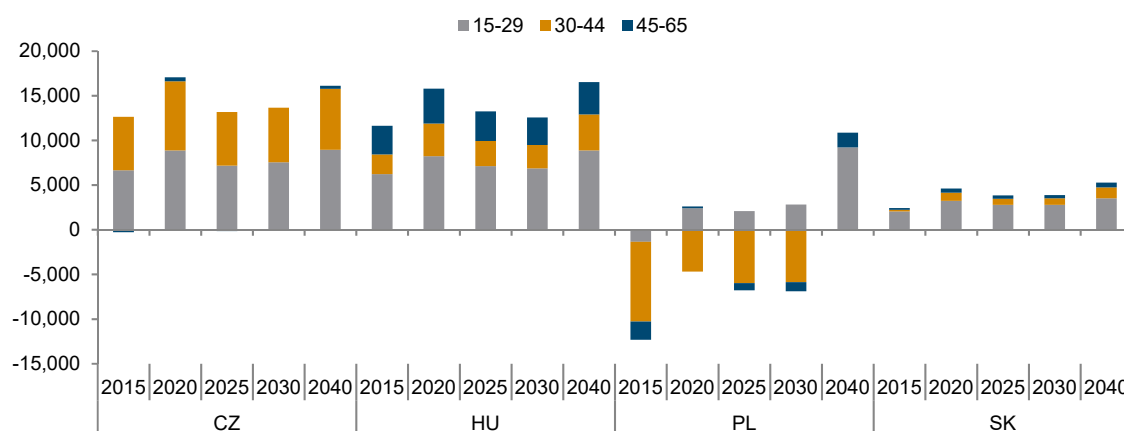
Figure 3 / Projections of working-age population by age group, 2015-2040, in million



Source: Eurostat, baseline projections.

The negative natural population growth in most Visegrád countries is expected to be only partly offset by positive net migration.⁴ The net inflows of migrants into the Czech Republic and Hungary, for instance, are projected at some 10,000-15,000 per year, and up to 5,000 in Slovakia (Figure 4), primarily driven by the 15-29 years age group. In contrast, net migration in Poland is not expected to become positive until 2040 (especially in the 30-44 years age group) which will re-inforce the negative natural population growth. This partly explains why Poland is projected to register a bigger decline in the working-age population than the other Visegrád countries.

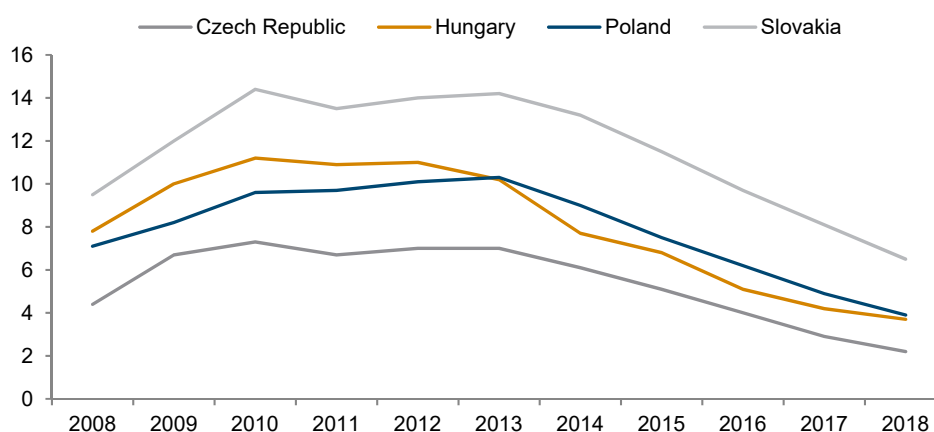
⁴ International migration is the component of population change which is most difficult to predict. The underlying assumption behind these projections is stability of recent migration levels, abstracting from refugee flows and adjusted for migration policies in each country.

Figure 4 / Projections of annual net migration by age group, 2015-2040

Source: Eurostat, baseline projections.

LABOUR MARKET DEVELOPMENTS

The secular decline in the working-age population of Visegrád countries has only been partly offset by rising employment rates and longer working hours, resulting in a progressively shrinking labour supply. At the same time, the demand for labour has gone up markedly in the wake of the economic upswing, particularly since 2016. The outcome of a shrinking labour supply and a rising labour demand has created a marked improvement in the labour market situation over the past few years.

Figure 5 / Unemployment rate (LFS) in %, annual average

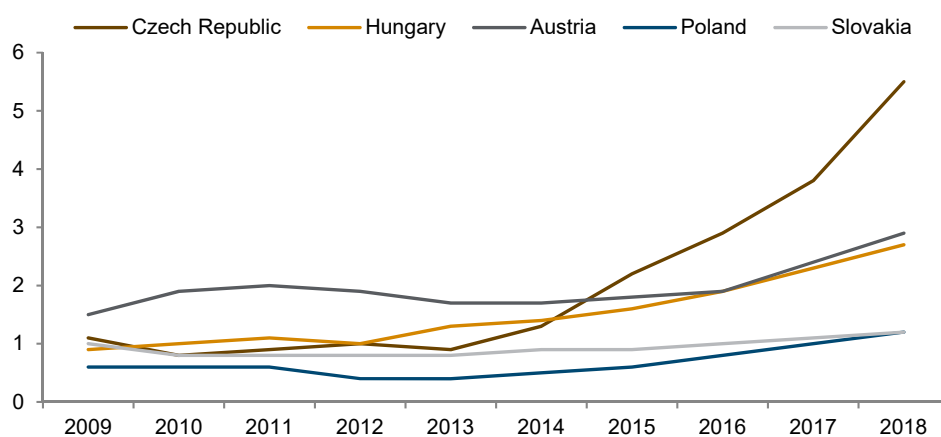
Source: wiiw Annual database.

One manifestation of this improvement has been a dramatic decline in unemployment (Figure 5). It has been particularly impressive in the Czech Republic where the unemployment rate had plunged to 2.2% of the labour force by 2018, which corresponds practically to a full employment situation. In Poland and Hungary, the unemployment rate had been on a strong downward trend as well, and reached levels below 4% in 2018 (for comparison, in Austria it stood at 4.9%). It is only in Slovakia, where the

unemployment rate has been historically high in regional comparison, that it still exceeded 6%. This is mainly due to 'structural' reasons, in particular the still strong internal West-East divide: while the unemployment rate in the Bratislava region had fallen to 2%, in the Prešov region in the north-east of the country it stood at 10.4%.

The decline in unemployment has been accompanied by increasing job vacancy rates, especially for skilled workers and particularly in the Czech Republic (Figure 6), suggesting substantial unmet labour demand in some sectors. For instance, 76% of firms in Hungarian industry reported labour as a constraint on production in the first quarter of 2019 which is up from 20% five years ago while the level in Poland was 50%. The Manpower Talent Shortage Survey indicates a similar situation, with the share of employers reporting difficulties in filling jobs on the rise, reaching more than 50% in Poland, Slovakia and Hungary. Among the occupations where labour shortages tend to be the most acute are, for instance, service personnel (in Hungary) and professionals (in Poland) – Table 1.

Figure 6 / Job vacancy rate in %, annual average



Note: job vacancy rate is defined as the number of job vacancies in relation to the sum of job vacancies and employment.
Source: Eurostat.

Table 1 / Shortage of occupations as reported by Public Employment Services, 2017

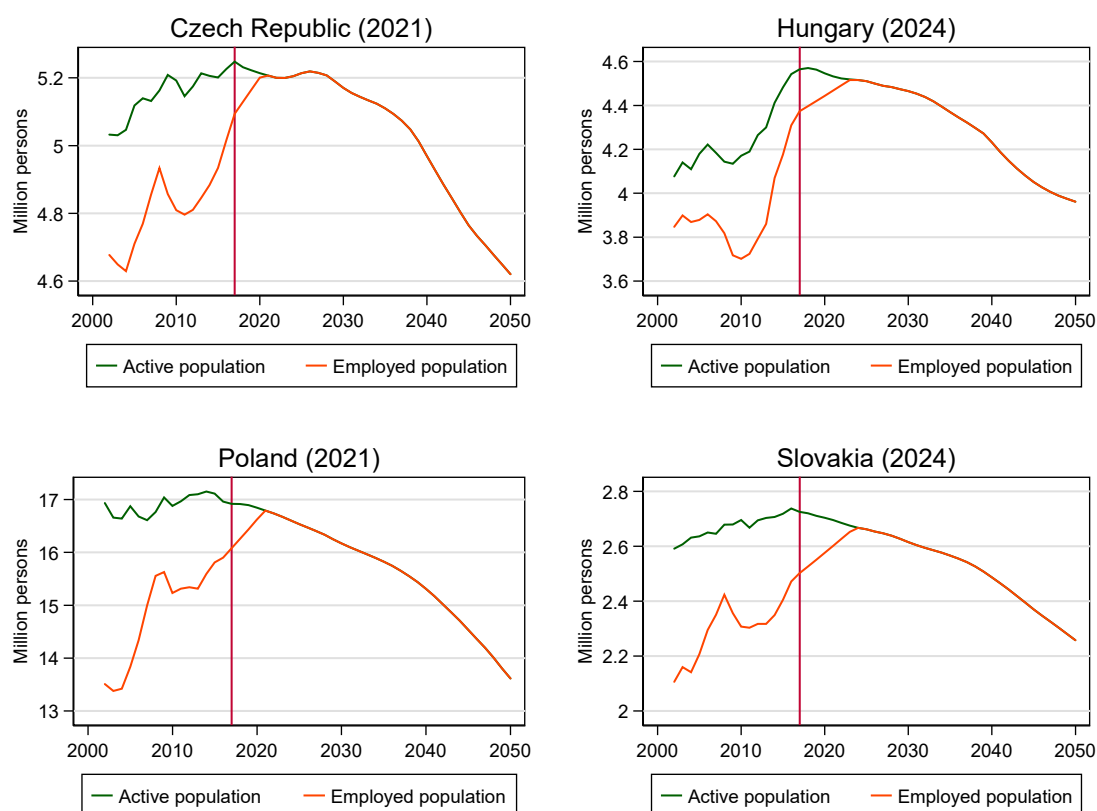
	Hungary	Poland	Slovakia	Austria
Professional	2	10	6	4
Technical	6	6	6	11
Clerical	6	2	2	1
Craft	8	2	5	12
Service	14	3	5	2
Plant	3	3	2	0
Elementary	12	4	0	0
Total	51	30	26	30

Notes: number of mentions (4-digit) in broad occupation (1-digit). Data for Czech Republic are not available.
Source: European Commission (2018).

These statistics suggest that labour shortages are already a reality in a number of economic sectors and professions in the Visegrád countries. It is fairly clear that with the current trends, the advent of a 'tipping

point', when the pool of spare labour force will be finally exhausted and become a constraint on further growth prospects *for the economy as a whole*, is only a matter of time. wiiw simulations (Stehrer and Leitner, 2019) suggest that, in the baseline scenario, such a tipping point may materialise in the very near future: in 2021 in the Czech Republic and Poland, and in 2024 in Hungary and Slovakia. For comparison, in Austria it is not expected before 2029, largely thanks to positive inward migration which will mitigate the effects of natural population decline on the size of the working-age population (Figure 7).

Figure 7 / 'Tipping point': baseline scenario



Note: The baseline scenario is based on certain assumptions with respect to the projected change in working-age population, activity rate, and projected growth in real GDP and labour productivity. For further details, see Stehrer and Leitner (2019).

Source: Stehrer and Leitner (2019).

IMPLICATIONS FOR ECONOMIC GROWTH

Paradoxically, deepening labour shortages in the Visegrád countries have had predominantly positive macro-economic effects, at least so far. First, they have improved the bargaining power of employees, resulting in strong real wage growth – the main pillar of growth in private consumption (wages are the most important source of household incomes in Visegrád countries). Second, they have had important second-round effects, as improved sales prospects encourage investments, often resulting in higher labour productivity and hence further wage increases. These feeds and loops have created a virtuous circle of positive supply and demand shocks, resulting in relatively high economic growth. This applies particularly to Hungary and Poland, which (along with Romania) have recorded the highest GDP growth

rates among EU Member States over the past two years (wiiw, 2019).⁵ In these circumstances, high growth may persist for a rather long period of time – not unlike in Western Europe in the 1950s-1960s (a period which is dubbed now as the ‘golden age of capitalism’).

At the same time, as indicated above, the supply-side constraints of labour shortages, while generally manageable so far, may become increasingly binding going forward, potentially putting a cap on further growth prospects. There are generally four avenues to look at for how this problem could be potentially averted:

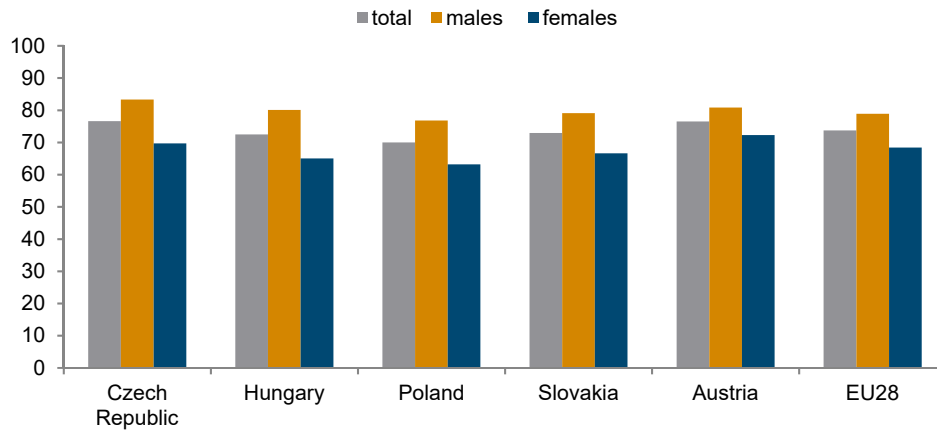
- › accept higher immigration,
- › encourage higher activity rates,
- › increase fertility, or
- › improve labour productivity.

Higher immigration. As mentioned above, labour shortages in the Visegrád countries have already been partly mitigated by allowing more migrants from eastern neighbouring countries, above all from Ukraine. The latter has gained momentum particularly since June 2017 when Ukraine signed a visa-free agreement with the Schengen countries of the EU. Although this agreement does not envisage the possibility to reside for more than 90 days or work per se, it has de facto facilitated access to the EU labour markets for Ukrainian citizens. On top of that, the Czech Republic, Poland and Slovakia have simplified procedures for short-term foreign workers, especially from Ukraine, in order to alleviate domestic labour shortages.⁶ Still, Ukrainian migrants are unlikely to provide a full solution to the problem of labour shortages in the medium and long terms, given that Ukraine is facing demographic decline of its own and is already exhibiting signs of labour shortages in selected occupations (such as in the IT sector). In another effort, Poland has adopted measures to promote return migration, including programs to maintain ties and facilitate communication of job opportunities with those remaining abroad, but the success of these measures has been very limited so far (IMF, 2019). At the same time, immigration from outside Europe, particularly from places such as the Middle East and Africa, is likely to remain a political ‘no-go’ in Visegrád countries for the foreseeable future.

Higher activity rates. Figure 8 suggests that activity rates in the Visegrád countries are indeed somewhat below the EU average – with the notable exception of the Czech Republic where it is about the same as in Austria. This suggests that there is some room for a higher labour force participation, especially in Poland, and especially in the case of Polish women, whose activity rate is very low at only 63%. However, higher labour force participation is only potentially feasible in the medium and long terms and would require better childcare provision as a minimum and may also be constrained by cultural factors such as the strong Catholic traditions in Poland.

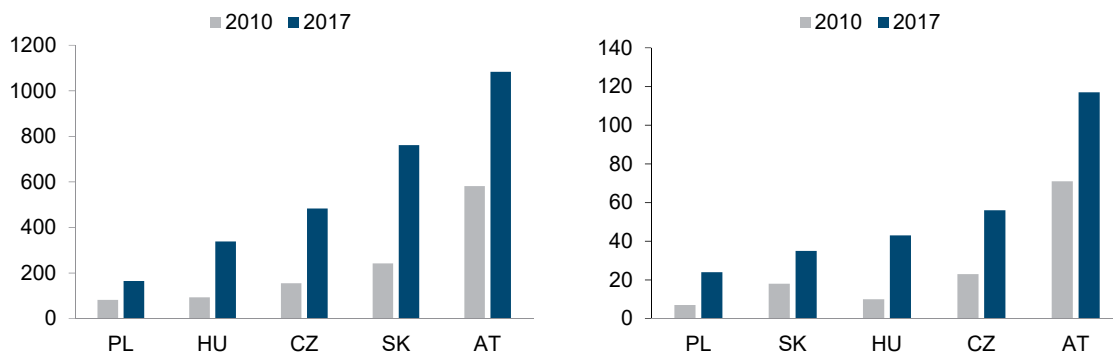
⁵ In Slovakia, and especially in the Czech Republic, economic growth is lower due to their more restrictive economic (especially fiscal) policies.

⁶ For instance, the number of Ukrainians resident in Poland was estimated at some 900,000 at the end of 2017 (Jaroszewicz, 2018).

Figure 8 / Activity rate in 1Q 2019, as % of working-age population (15-64 years)

Source: Eurostat.

Higher fertility rates. The current policies aimed at increasing the fertility rates in Visegrád countries are quite comprehensive and include childbirth grants, cash child benefits, tax deductions, housing allowances and social assistance (IMF, 2019). They are arguably the most pronounced in Hungary and include, among others, support for In Vitro Fertilisation (IVF) treatment and longer parental leave (Leitner et al., 2019). However, there is little evidence that these policies have been successful, and even if so, they will only have an impact on the labour supply in the longer term: it will take some 15-20 years until current new-borns become active in the labour market.

Figure 9 / Estimated number of multipurpose industrial robots per 10,000 persons employed in automotive industry (left) and in all other industries (right)

Source: International Federation of Robots.

Higher labour productivity via increased investments. This is likely to be the most promising avenue and has also been confirmed by the historical experience of other countries facing a full-employment situation (again, the 'golden age of capitalism' comes to mind in this respect). Signs of this are already visible in the Visegrád countries with (especially large and foreign-owned) firms reacting to labour shortages and strongly rising wages by increasing automation and robotisation (Bykova, 2019). The degree of robotisation in the industrial sector of the Visegrád countries has risen sharply since 2010 (Figure 9, right panel): in Hungary by 4.3 times, in Poland by 3.4 times, in the Czech Republic by 2.4

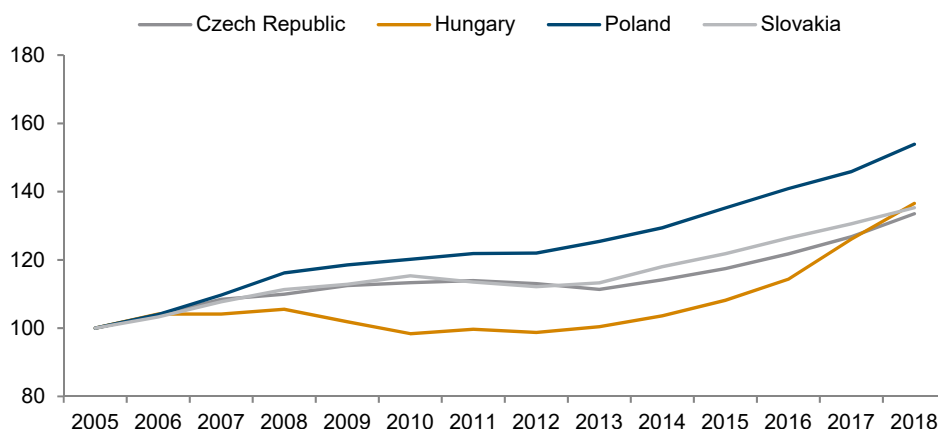
times and in Slovakia by 2 times. However, it has to be mentioned that this increase started from a very low level and was largely confined to large, foreign-owned firms. However, the degree of robotisation of these countries is still relatively low in international terms: even in the Czech Republic, which is the most advanced in this respect, it stands at half the Austrian level. These discrepancies also largely apply to the automotive industry which is of particular importance for the Visegrád countries (Figure 9, left panel).

WAGE DEVELOPMENTS: ROLE OF SOCIAL AND LABOUR MARKET POLICIES

Post-crisis labour market liberalisation and fiscal austerity

Against the background of the shrinking labour supply in the Visegrád countries, which has already existed for some time, it may come as a surprise that it was not until about 2013 that wages finally started to pick up (Figure 10). Until about 2013, real wage growth was generally rather restrained and almost one percentage point per year on average lower than growth in real GDP, resulting in a downward trend in the wage share. Econometric estimations suggest that the transmission mechanism underlying the so-called 'Phillips curve', which represents a negative correlation between unemployment and wage growth, was missing in most Visegrád countries (with the exception of the Czech Republic, and in contrast to Austria) throughout that period: the improvement in labour market conditions did *not* lead to higher wage settlements on average (Astrov et al., 2018).⁷

Figure 10 / Real gross average monthly wage, 2005=100



Source: wiiw Annual database.

This can be largely attributed to the social and labour market policies pursued in Visegrád countries during the first post-crisis years. The general policy response was liberalisation and flexibilisation of labour markets whereby labour market institutions were generally transferred from the national and sectoral levels to the firm level. In this way, collective bargaining mechanisms – which were already

⁷ Instead, the causality typically ran in the opposite direction: higher wage settlements were somewhat of a drag on the decline in unemployment, probably due to redundancies in response to higher wage costs. Without this latter effect, the improvement in labour market conditions in the Visegrád countries would have been even more impressive than it actually has been.

weaker than in Western, and even Southern Europe, at the onset of the crisis – were further weakened. By 2013, the degree of coverage by collective bargaining agreements declined to 25% in Slovakia, 23% in Hungary and 15% in Poland (Table 2). In the Visegrád region, the Czech Republic stands as the only country where the wage-setting mechanisms remained largely intact and relatively centralised. Still, even here the degree of employees' coverage by collective bargaining agreements (47%) is much lower than in most Western EU Member States, let alone in Austria (where it is close to 100%).

Table 2 / Coverage by collective bargaining agreements, in %

	2000	2008	2013
Poland	25	16	15
Slovakia	51	40	25
Czech Republic	48	50	47
Hungary	37	37	23
Austria	98	98	98
Germany	68	61	58
France	98	98	98
United Kingdom	36	34	30
Greece	90	88	59
Italy	80	80	80
Portugal	79	84	72
Spain	85	81	80

Note: In some countries, due to lack of data availability for the year indicated, data for the nearest year was used instead.
Source: Visser (2016).

Since falling coverage by collective bargaining agreements usually weakens the bargaining power of trade unions, it is hardly surprising that the degree of trade unionisation went down during this time as well. For instance, trade union density in Hungary, Slovakia and the Czech Republic fell by more than 15 percentage points between 2000 and 2013 (Table 3). In addition, the low level of organisation of employers (generally below 40% in these countries) has made it difficult for trade unions to find representative partners for collective agreements, making a general declaration of validity of the agreements reached for entire sectors less likely. These policies were accompanied by the proliferation of irregular forms of employment (particularly in Poland), resulting in a massive rise in the number of employees without protection of the labour laws and access to social insurance. All in all, these reforms reduced the bargaining power of employees and made wages subject to greater fluctuations between supply and demand than, for instance, in Austria, resulting in growing spreads of wages across sectors and skill levels.

Table 3 / Trade unions' membership, as % of employees

	2000	2008	2013
Poland	18	16	13
Slovakia	32	17	13
Czech Republic	27	17	12
Hungary	28	15	11
Austria	37	29	27

Note: In some countries, due to lack of data availability for the year indicated, data for the nearest year was used instead.
Source: Visser (2016).

These effects were amplified by fiscal austerity, pursued to a large extent in response to the cyclical decline in tax revenues in the wake of the crisis. Apart from reductions in public investments and hikes in indirect taxation, the austerity packages adopted in the Visegrád countries typically included a freeze of public sector wages, pensions and social benefits. Some countries introduced a temporary minimum wage freeze, which lasted a particularly long time in the Czech Republic: from 2007 till 2012. In addition, there has been a considerable reduction in the size and duration of unemployment benefits, combined with the obligation to take up work in municipal projects in the case of Hungary. This contributed to a reduction in unemployment, but at the same time, created a 'second' labour market that effectively reduced the reservation wage, especially of the low-educated labour force, by providing incentives to accept jobs even under unfavourable working conditions (Astrov et al., 2018). All in all, and in combination with the labour market reforms, fiscal austerity had a dampening effect on wages in the Visegrád countries which counteracted the positive effect of improvements in the labour markets resulting from demographic trends.

With hindsight, these reforms are viewed very critically. From the point of view of macroeconomic management, the wisdom of supply-side reforms to address the shortage of aggregate demand (the cause of the crisis) is at best questionable. By and large, the reforms failed to create jobs or reduce labour market segmentation. Moreover, the only tangible result was increased labour market insecurity (Piasna and Myant, 2017; Theodoropoulou, 2018). From the fiscal point of view, austerity could be arguably justified in Hungary where fiscal imbalances and high public debt had been the source of recurrent instability even prior to the global financial crisis. However, it was entirely out-of-place in the other Visegrád countries where fiscal sustainability had never been seriously endangered. The Czech Republic offers a particularly egregious example as economic stagnation was prolonged by self-inflicted fiscal austerity – despite a low public debt level.

Not only did the policies of labour market liberalisation and fiscal austerity hamper the growth of wages and incomes, and ultimately economic growth, but there is also now general consensus that they laid the foundations for public dissatisfaction with the incumbent governments and resulted in the rise of populist parties – mostly, but not exclusively, from the far-right wing of political spectrum. This applies to Hungary and Poland in particular (Tooze, 2018; Lissowska, 2017) whereas the populist backlash has been less pronounced in the Czech Republic and Slovakia (but is still present). The new governments brought about, among other things, a marked change in economic policy-making.

'Populist' turnaround

The populist turnaround in Visegrád countries started around 2013 on average but with important cross-country differences with respect to its timing. In Hungary, the right-wing FIDESZ party of prime-minister Viktor Orbán already came to power back in 2010 and has been moving even more to the right ever since – arguably beyond the far-right Jobbik party on a range of policy issues, most notably on migration. In Slovakia, the left-wing SMER has controlled the government since 2012, after an earlier power change in 2010. In the Czech Republic, the centrist ANO party came into power (first as junior partners) at the turn of 2013/2014. In Poland, the far-right Right and Justice (PiS) party came to power in 2015 (for the second time, after a brief term in office back in 2005-2007).

Partly, these cross-country differences can be explained by the specific evolution of economic crises in the individual countries. In Hungary, a self-inflicted economic crisis had already started to evolve in 2007 – well before the outbreak of the global financial crisis. The fiscal austerity measures and labour market liberalisation only aggravated the social hardships in this country. At the other extreme, Poland was the only country in the region which managed to avoid recession during the global financial crisis. This was thanks to a combination of several factors, such as a relatively low dependence on exports, timely currency depreciation, which ensured external competitiveness, and the early adoption of expansionary fiscal policy in 2006-2007. These factors prolonged the political life of the centre-right Civic Platform government under prime-minister Donald Tusk, even if ultimately they failed to prevent a populist turnaround in Poland.

The overall policy mixes of the new governments, especially in Hungary and increasingly in Poland too, have been rather controversial. In some cases it involved a partial dismantling of constitutional checks and balances, including the independence of the media and the judiciary system. However, their economic policies have been rather successful. They shared one important feature: they partly revoked the policies of fiscal austerity and labour market liberalisation and put an emphasis on social spending. Poland, for instance, introduced a system of generous child benefits (the so-called '500+' Programme), lowered the retirement age and made pharmaceuticals for seniors free of charge. Slovakia overhauled its liberal labour code (adopted in 2011), which increased the protection of permanent employment contracts closer to 2010 levels, and introduced a set of social packages targeting public transportation, heating, medication, increases of kindergarten and school capacities and higher child benefits. In Hungary, the socially-oriented measures have been particularly wide-ranging, albeit at times controversial and inconsistent, such as the so-called 'slave law' which was enacted in 2018 and enables employers to raise the threshold of overtime hours from 250 to 400 per year. Hungary, Poland and Slovakia have also partially reversed the earlier privatisation of pension systems by abolishing the 'second pillar' (Naczik and Domonkos, 2016). Although the motivation behind this move was primarily fiscal, it has also had a favourable effect with respect to pension security.

Another policy avenue taken by the new governments, especially starting from 2014, has been the hikes in the official minimum wages which historically used to be lower as a percentage of the average wage than in Western Europe.⁸ According to IMF estimates, a 1% hike in the minimum wage in the EU-CEE region translated to an increase in the average wage of 0.15% on average over the following two years (IMF, 2016). This was accompanied by an above-average increase and compression of wages in the low-wage segment, with strong positive repercussions on the growth of private consumption (due to the high propensity of low-wage earners to spend).

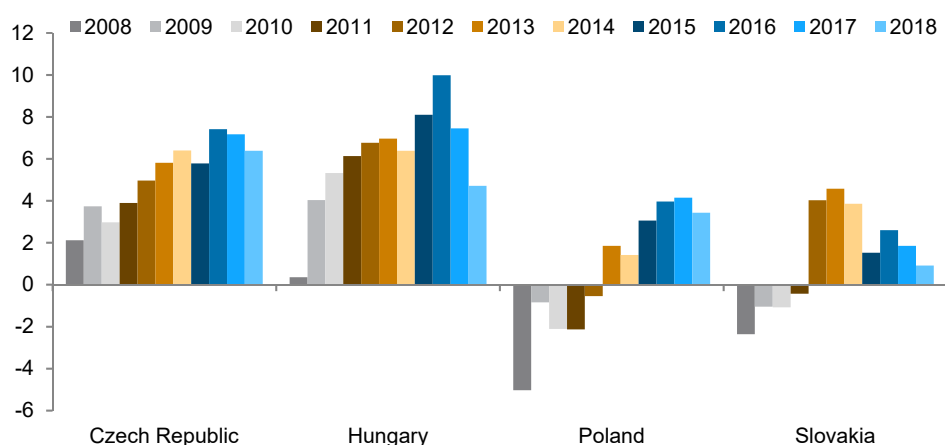
Taken together and coupled with the shrinking labour supply, these policies proved instrumental in boosting the growth of real wages starting from around 2013 (Figure 10 above). As noted above, this has had mostly positive economic effects so far, first of all thanks to strongly growing private consumption. At the same time, (nominal) wage growth has generally been exceeding the growth of labour productivity, resulting in rising (nominal) unit labour costs and some erosion of external competitiveness – albeit starting from a strong initial position. Despite recent deterioration, the Visegrád

⁸ Unlike Austria, all Visegrád countries have an official minimum wage, which ranges between 36% of the average wage in the Czech Republic and 46% in Poland (Astrov et al., 2018).

countries are still recording solid trade surpluses (Figure 11), so that their external competitiveness is not a cause for concern – at least not yet.⁹

The strong competitive position of Visegrád countries is partly due to the fact that, despite the recent strong increases, their wage levels are still rather low on average and much lower than, for instance, in neighbouring Austria. At purchasing power parities (that is, adjusted for the difference in the price levels), they stand at 63.7% of the Austrian level in Poland, 61.6% in the Czech Republic, 57.4% in Hungary and 50.9% in Slovakia. At exchange rates, the gap with Austria is even greater, suggesting that there is still considerable convergence potential.

Figure 11 / Trade balance (in goods and services), as % of GDP



Source: wiiw Annual database.

IMPLICATIONS FOR AUSTRIA¹⁰

The implications for Austria of the current economic and labour market trends in the Visegrád countries can be summarised as follows.

The Visegrád countries are already important trade and investment partners for Austria and this importance will likely grow further because of their above-average economic growth. In 2018, the Visegrád countries accounted for 12.5% of total Austrian goods exports and 8.4% of exports of services (Table 4). Their importance can be seen in the fact that Austria's global export market share in terms of value added went up between 2004 and 2014 which was to a large extent thanks to an expansion of regional production networks that allowed cutting the costs of export production (wiiw, 2018).

In addition, the Visegrád countries accounted for 15.2% of the stocks of Austrian FDI abroad and 20.5% of FDI profits in 2018, implying above-average profitability of investments compared to other regions. The Czech Republic, in particular, sticks out among other countries of the region in terms of both FDI stocks, and even more especially, profitability. In contrast, the attractiveness of Hungary for investments

⁹ The current accounts of Visegrád countries, with the exception of Slovakia, are largely balanced. They are worse than the trade balances mostly because of the high outflow of FDI-related profits.

¹⁰ This section was drafted jointly with Hermine Vidovic, wiiw.

has suffered, particularly on account of the losses incurred by Austrian banks in this country (e.g. due to mandatory loan conversion and special levies imposed on foreign banks and other actions) and to a large extent explains the decline of the share of the Visegrád region in overall Austrian FDI stocks over the past years. Still, the region accounts for 40% of total cross-border claims of Austrian banks, with 23% represented by the Czech Republic (wiiw, 2019).

Table 4 / Austria's relations with Visegrád countries (V4), 2018

Austrian...	CZ	HU	PL	SK	V4 share in % of total	V4 in absolute numbers
Goods exports	3.7	3.4	3.2	2.1	12.5	18.7 bn EUR
Goods imports	4.3	2.7	2.7	2.2	11.9	18.6 bn EUR
Services exports	2.5	2.6	1.7	1.5	8.4	5.3 bn EUR
Services imports	2.6	3.3	3.0	2.8	11.8	6.2 bn EUR
FDI stocks	6.6	2.9	2.9	2.9	15.2	30.3 bn EUR
FDI incomes	12.9	0.1	3.4	5.1	20.5	2.5 bn EUR
Population	0.2	0.9	0.7	0.5	2.3	201700
Employment	0.4	2.5	1.1	0.9	5.0	185700
Foreign students	0.2	0.9	0.5	0.4	2.0	7200

Source: wiiw (2019).

At the same time, the labour migration flows from the Visegrád countries to Austria (currently still growing) are likely to subside in the coming years. On the one hand, further declines in working-age populations suggest that the pool of potential migrants from these countries – the ‘push’ factor of migration – will diminish over time. On the other hand, high wage growth in these countries and their rather generous social policies (especially in Hungary and Poland) will lead to a gradual reduction of the gap between these countries and Austria in terms of living standards and the level of social protection (such as health care, education or childcare provision). Thus, important ‘pull’ factors of migration from the Visegrád countries to Austria will gradually subside as well. Although the gaps in both wage levels and the extent of the welfare state will likely remain sizeable for the foreseeable future, they may not be high enough to justify moving to another country, which is typically associated with non-negligible economic (and other) costs including learning a foreign language and adjusting to a new culture. This does not however apply to commuters, especially people living in the regions of Slovakia and Hungary bordering Austria. The latter will likely continue working in Vienna, Lower Austria and Burgenland, benefitting from the higher wages in Austria and the lower costs of living in their home countries.

The expected decline in the inflow of mobile workers from the Visegrád countries will likely aggravate labour and skills shortages in Austria. This applies in particular to sectors and occupations where domestic labour supply is traditionally scarce and which therefore rely heavily on a foreign labour force: hotels, gastronomy, nurses in hospitals and elderly care, etc. Since these jobs can hardly be automated (for technological reasons), mitigating them will most likely require increased recruitment of third country nationals, such as from the Western Balkans, Ukraine or potentially other world regions. For instance, easing access to Austria's labour market following Germany's ‘West Balkan regulation’ or for seasonal work might help attract more workers from these regions. Speeding up asylum procedures and supporting the labour market integration of recognised refugees, as well as offering the possibility for young asylum seekers to start an apprenticeship in a labour-short occupation (a measure which was in force until 2018) could also be potentially helpful to this end.

Measures offsetting rising labour and skill shortages in Austria could also include, for instance, training (up-skilling and re-skilling) and apprenticeships, the number of which has been on a steady decline over recent years. This applies in particular to technical and craft occupations where labour shortages tend to be particularly pronounced (see Table 1 above). To this end, fiscal measures such as tax benefits or targeted subsidies for training programmes could be instrumental and could provide incentives to undertake such jobs. In the longer term, mitigating labour force shortages in Austria will most likely require policies such as better training in technical and craft occupations, supported by a provision of scholarships (not least for women). Another promising avenue could be subsidising investments into labour-saving technologies which could offset the effects of a shrinking working-age population on economic growth to some extent.

Less immigration from Visegrád countries may weaken the ‘crowding-out’ of less qualified Austrians and earlier immigrants to some extent (such as those from ex-Yugoslavia), potentially resulting in more job opportunities and/or higher wages in the low-wage segment. Empirical studies suggest that, indeed, such a ‘crowding-out’ effect could be observed in the past, especially in the three easternmost provinces, Vienna, Burgenland and Lower Austria, at the time when the labour market restrictions for the citizens of Visegrád countries were lifted in 2011 (Schiman, 2018; Schweighofer, 2017). However, this effect is generally of a short-term nature and its magnitude strongly depends on the overall state of the economy. In the longer term, and especially in times of robust labour demand, the increase in domestic employment and labour immigration tend to go hand in hand and complement, rather than substitute, each other (Schweighofer, 2014).

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