Ágota Scharle: Job quality in post-socialist accession countries[1]

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The eight post-socialist accession (A8) countries went through a systemic change in the early 1990s, with profund effects on their labour markets. The evolution of wages and employment in the A8 are likely to differ from the EU15 for at least three reasons: the compressed wage structure of the pre-transition era, the transitional shock, and the policy response to the shock. Questioning the possible interpretation of the transition to a market economy as simply a case of exceptionally rapid technological and organisational change, we argue that other factors played and important role and that this has implications for the evaluation of the jobs distribution as well. In this chapter we focus mostly on labour market policies, showing that these may explain some of the difference in jobs distribution between the A8 and the EU15, and also within the A8.

Wage dispersion was bound to rise during the systemic transition for several reasons. The loss of former trade partners and price liberalisation accelerated industrial restructuring, but there were some other forces at play. The egalitarian wage grid of central planning was dismantled and unions were weak in most accession countries, which led to relatively flexible wage setting practices. This allowed the previously distorted wage distribution to adjust relatively fast to productivity levels and changes in demand. The few studies documenting wage developments in the early years of transition all find large shifts in relative wages between 1989 and 1994 (Rukowsky 1996, Kertesi and Köllő 2000 and Newell 2001). The relative importance of the factors behind are difficult to trace due to the complexity of the transitional process and the lack of reliable microdata. However, several studies found that returns to schooling increased fast and accounted for a large part of rising wage dispersion in most transition economies.[2]

This chapter focuses on changes in the jobs distribution induced by sectoral shifts in employment. During the transition such shifts may be caused by industrial restructuring and also by recovery from the transitional shock. By definition these shifts do not reflect wage dispersion *within* occupations induced by rising returns to schooling or improved productivity. It is important to note therefore that the focus is not on explaining wage dispersion during the transition, but on understanding why the wage distribution of accession countries may have evolved differently from old EU member states.

Post socialist countries in Europe all opened their markets to the outside world and dismantled (or lost) their Soviet trade relations during the systemic transition in the early 1990s. By 1995, post socialist Eastern Europe, though poorer, was roughly at the same stage of industrial development as Southern Europe. The share of agriculture in employment ranged between 7% in the Czech Republic to 23 % in Poland compared to 7% in Italy and 20 % in Greece. Services were somewhat lagging behind, ranging between 45 % in Poland to 59 % in Hungary compared to their 56-60% share in Southern Europe. Employment shifted from agriculture and industry to services in all post socialist countries and followed roughly the same path as in Greece during the past 15-20 years.

[1] Helpful comments by Enrique Fernandez Macias on earlier versions of this chapter as well as generous help with producing some figures are gratefully acknowledged.
[2] See especially Newell and Reilly 1999 and Kertesi and Köllő 2000.

Further, the impact of the information revolution was either relatively modest (in Latvia and Lithuania), or was accompanied by increased access to markets in advanced European economies. Foreign direct investment attracted by relatively cheap skilled labour also helped to preserve or even create new jobs in routine industrial production (Radošević et al 2003, also see figures 7, 9, and 10 below).

Based on the above, one would expect the eight accession (A8) countries to exhibit some signs of polarisation but generally follow a pattern of employment expansion similar to Greece, Portugal or Spain, where a modest upgrading of job quality was observed between 1995 and 2007 (see chapter 3). However, we find that to apply only to the Czech Republic, while the other A8 countries either exhibit considerable polarisation (the Visegrad group) or a mixed pattern (the Baltic states).

This chapter reviews some of the factors that may help explain why the jobs distribution would vary within the A8 and why it should differ from Southern Europe in the past 15 years. In particular, we seek an explanation for two questions: (1) the large losses at the bottom combined with gains in the middle of the jobs distribution in Latvia and Lithuania (2) the polarisation of the jobs distribution in the other A8, except for the Czech Republic. The first two sections give a brief account of the nature and size of the transitional shock and its evolution in time. The next three sections describe the policies that may have affected the jobs distribution: the initial choice of unemployment benefits and job subsidies in response to the transitional shock, minimum wage levels, income taxation, and measures to encourage self-employment. The sixth section describes how differences in the above factors may have contributed to the varied evolution of the jobs structure in accession countries. The last section offers some tentative conclusions.

1. The transitional recession

Political changes in Central and East European countries were followed by dramatic changes in their economies over the 1990s. Output fell by 15-25 per cent and there were large shifts in the ownership structure, in the sectoral composition of GDP, and in firm size distribution. Much of the discussion of the transition process has centred on the causes of the dramatic decline in output and on the depth of economic and institutional adjustment. The early explanations focused on the loss of trade relations (demand) or the disruption in price structures and hardening budget constraints (supply), or the combination of the two. More recent analyses have examined the role of government policies in anticipation of the recession, showing how the timing of privatisation and the mix of social and employment policies may lead to very different labour market outcomes.

The fall in output was smaller, and recovery started earlier in the Visegrad countries and in Slovenia. In the gloomiest three years between 1990 and 1993, the cumulative fall in real GDP amounted to 18 per cent in Hungary and in Slovenia, i.e. slightly more than in the Czech Republic (15 %) and in Poland (16 %). Other countries in the region suffered larger declines of 22-25 per cent.[3]

In the Baltic states the Russian crisis in 1998 caused a second shock-wave that disrupted trade relations and with it, the recovery of their economies. Lithaunia and Latvia

[3] Data from EBRD Transition update 2000: Table 1, page 4.

were hit harder than Estonia as their initial share of export to Russia were relatively higher.[4] The nature of the disruption was rather similar to the initial demand shock of 1989-1990 following the break-up of the soviet block and the dismantling of 'comecon' trade agreements. Employment declined in the sectors that were most affected by the Russian crisis: especially in fishing, agriculture, manufacturing and construction. The economy adjusted relatively fast, partly with the help of increased FDI inflows: trade was redirected towards the West and productivity levels increased. As a result however, demand for low productivity blue-collar workers sharply declined (Varblane et al 2003).

In the neo-classical interpretation of Bofinger (1994), firms switched from maximising output (and over-employing labour) rather than profits, which led to a gradual shedding of labour and an immediate reduction of output.[5] In a Keynesian approach, Bhaduri and Laski (1994) claim that the main cause was the squeeze on demand through tight monetary and fiscal policy and a restraint on wages. Blanchard, Froot et al. (1994) conclude that macro-stabilisation, the collapse of CMEA[6] trade and mismeasurement of GDP were the main causes of output decline, suggesting that demand contraction rather than supply disruptions was the ultimate cause. Later studies tend to put more emphasis on the impact of institutional disruption. Jackman (1995) points to the end of planning as a mechanism for resource allocation while the institutional arrangements (exchange, distribution, finance) for a market economy are not yet fully in place. Blanchard, Commander et al. (1995) suggest disruptions in supply caused by shifts in relative costs and relative demand played an increasingly important role after the initial demand shock.[7] In a similar vein, Kornai (1993) enlists five causes: the shift from a sellers' to a buyers' market, the transformation of the real structure of the economy (induced partly by the removal of price subsidies), the disturbances in the co-ordination mechanisms, the macro consequences of the tightening of financial discipline, and the backwardness of the financial system. Gomulka (1998) even claims that the only effect of macroeconomic policy was to hasten or delay the fall in output and the start of recovery.

The transition entailed a drastic fall of up to 30% points in the level of employment in all accession countries, though the decline was much larger in the three countries that chose fast privatisation (Estonia, Hungary and Latvia). Socialist economies had achieved close to full employment across all levels of education and, as figure 1 below shows, this has not been regained since. There was a corresponding rise in wage and income inequalities, with considerable variation across countries, as documented by e.g. Fleming and Micklewright (2000) or Forster et al (2005).

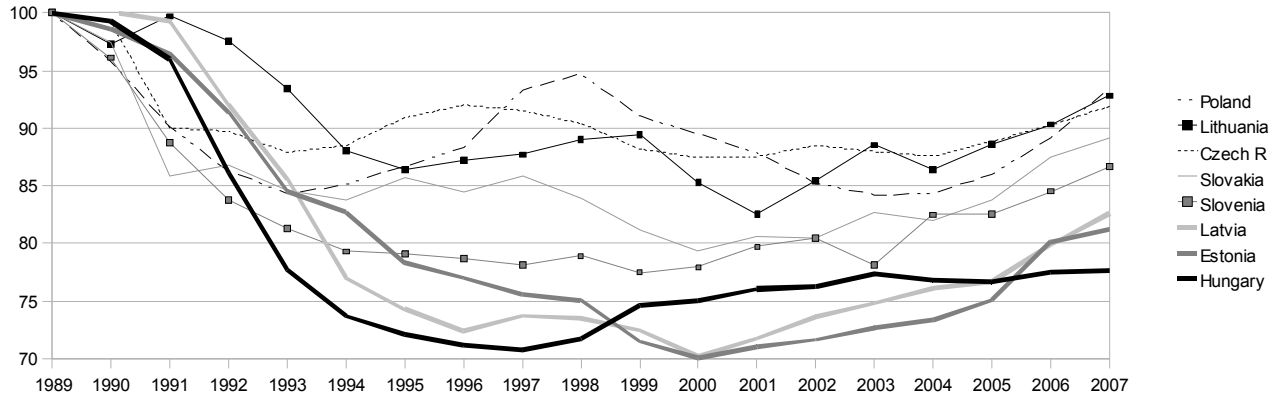
[4] From 1996 to 1998, exports to Russia dropped from 16 to 13 % in Estonia, compared to 23 to 12 % in Latvia and 24 to 17 in Lithuania (Table 5 in Dezséri 2001).

[5] Pre-transition levels of productivity were indeed very low. Kornai (1992) reports that East German levels of productivity in mining and energy were around 40-46 per cent of West German levels. The energy intensity of output in 1979 was twice or three times higher in European planned economies than in Western Europe (Kornai 1992: pp 293-4).

[6] The Comecon Council for Mutual Economic Assistance, abbreviated as CMEA or Comecon, was founded in 1949 to co-ordinate economic development among Soviet-oriented economies including among others Hungary, the former Soviet Union, the former Czechoslovakia, Poland, and Romania. It was disbanded in 1991.

[7] Blanchard (1997) develops a two-phase transition model to explain how and why restructuring happens in the second phase following the initial shock. This turns out to be largely dependent on the amount of unemployment in the initial phase.

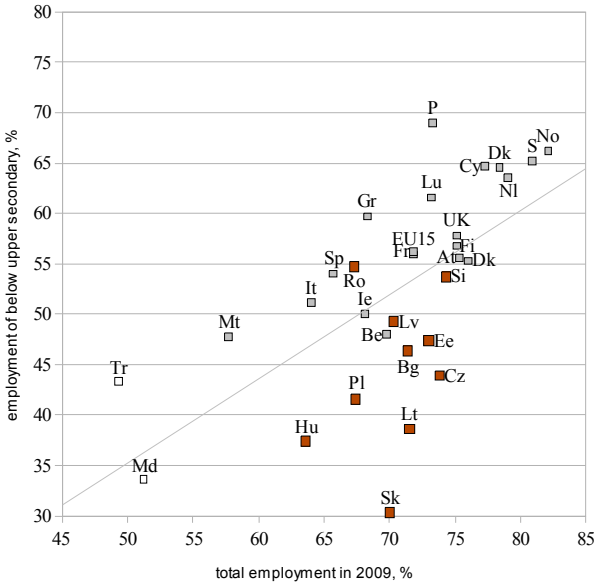
Figure 1. Level of employment in accession countries, 1989=100



Sources: for 1989-1995: ILO (2011) ; for 1996-2007: Eurostat on-line database (LFS employment, population aged 15-64

The employment rates declined deeper among uneducated workers and have been persistently and significantly below the EU15 average in all the post socialist accession countries (figure 2). The socialist labour market was also characterised by a relatively compressed wage distribution, though with considerable variation within the socialist bloc (Atkinson and Micklewright 1992). Compressed wages, full employment, an extensive system of price controls and subsidies, and in kind provisions ensured a low level of income inequalities.

Figure 2. Employment rate for the total working age population and for the uneducated, 2009



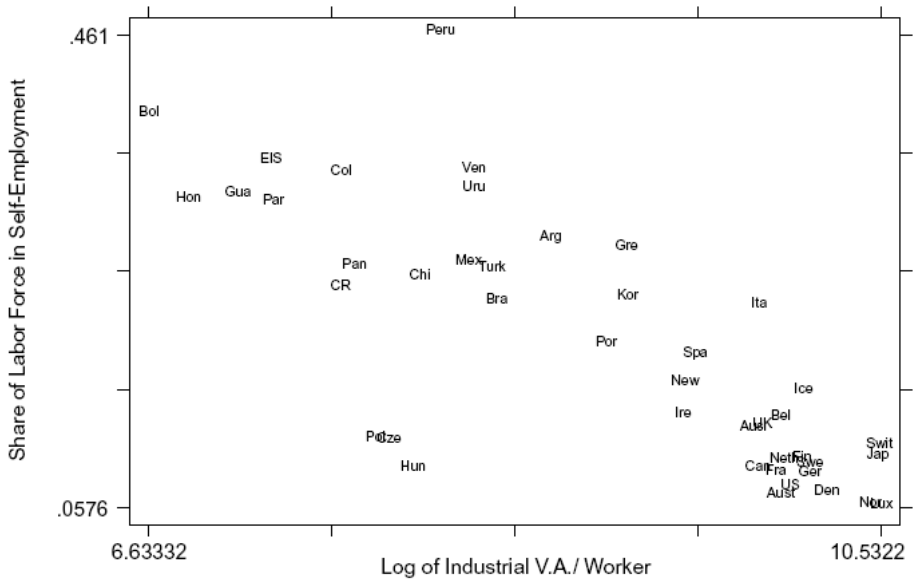
Source: Eurostat on-line database. Age 25-64.

Ironically, the present misery of uneducated workers has been aggravated by their good fortunes in the past. In socialist economies the demand for low skilled workers was much higher than in most developed market economies. Köllő (2006) examines the distribution of jobs by level of reading and writing skills required and shows that in the mid 1990 the share of undemanding jobs was still 2-3 times higher in post-socialist economies compared to western economies. This had two important consequences: first, the socialist

education system had not been challenged to change and focus more on skills. Second, many workers spent much of their working careers in jobs that made little use of their competencies, which eroded even the poor skills they had had when leaving school. As a result, the typical post-socialist economy entered into the economic transition with a relatively large proportion of low skilled workers (larger than what the educational composition of the workforce would suggest) and a traditional educational system that continued to produce workers poorly equipped for working with new technologies.

The composition of the new jobs created in the newly emerging market economies was however close to that of Western economies in terms of skills requirements, or even exceeded it, where foreign investment entailed green field investments and the introduction of new technologies (Köllő 2006). Moreover, while market institutions were established relatively fast, many features of the socialist economy and society have been slow to change. Most importantly, the lack of genuine, independent entrepreneurs and the disrupted tradition of family businesses could not be regenerated overnight. In market economies it is typically the SME sector that absorbs most unskilled workers, but in Eastern Europe it could not fill this role as it was too small and too slow to develop even after the transition. Maloney (2004) finds that in the mid 1990s, the CEE self-employment rate was less than half of what it should have been, given the level of labour productivity in the formal sector (Figure 3).[8]

Figure 3. Self-employment and industrial productivity in the mid 1990s



Source: Maloney (2004). Note: The Czech Republic, Hungary and Poland are the outliers in the bottom left quarter.

In this context the loss of low paid jobs – though it may be a positive development in a mature market economy – is not unquestionably favourable in a post socialist economy as it implies a continuation of the dramatic decline in employment opportunities for unskilled workers during the transitional recession. This also implies that an expansion of employment

[8] Reasons for the slow growth in SMEs are under-researched but most likely include overregulation, lack of capital (including social capital) and a relatively extended welfare system. The EU15 are more often used as a benchmark than Latin American countries and hence, few observers have noticed the insufficient speed of SME growth in the CEE.

in low wage jobs may be driven by the much needed adjustment of labour markets rather than shifts in demand induced by technological change or globalisation.

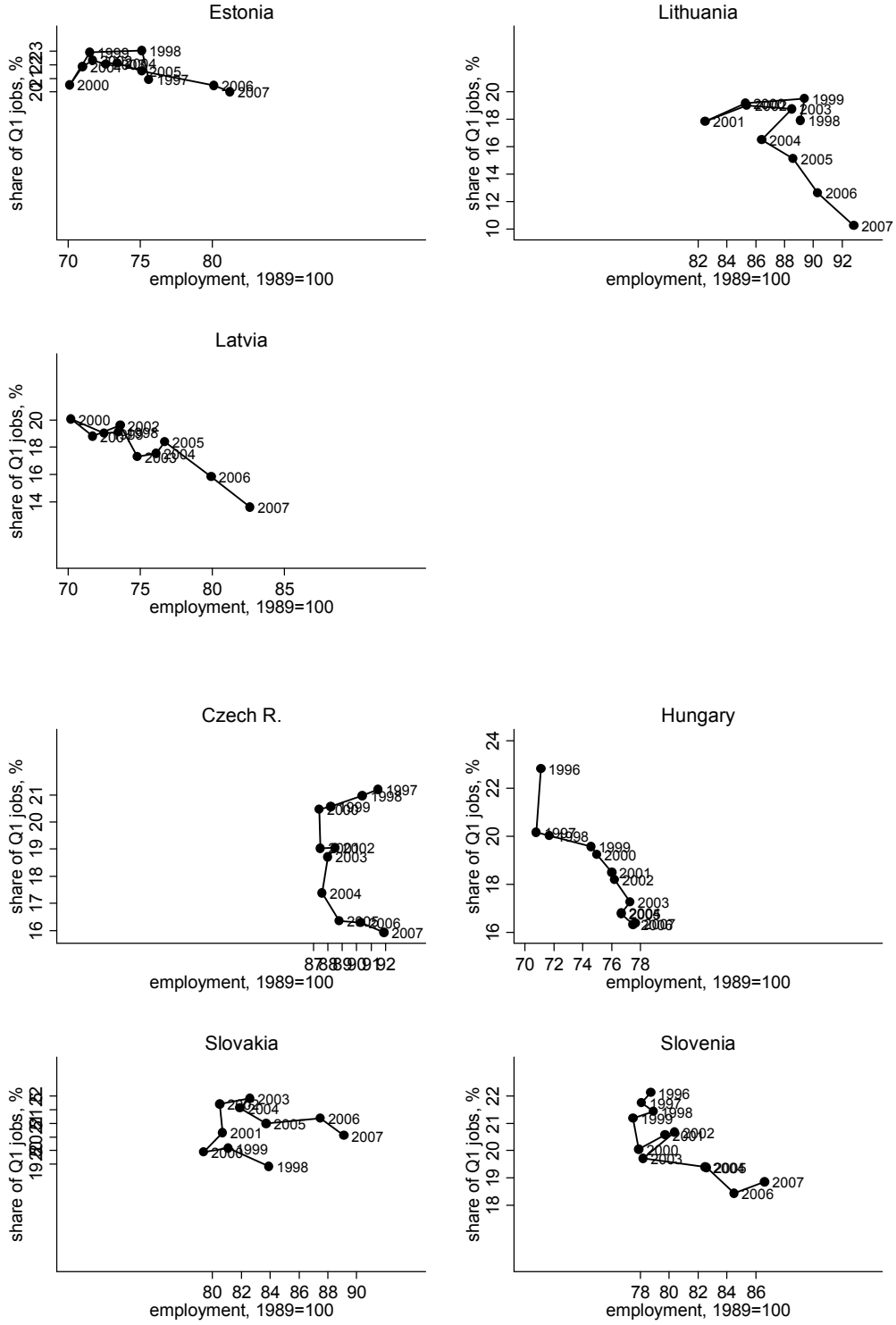
2. Duration of the transitional period

There have been various attempts to measure the degree of restructuring and identify the end of the transitional period, when market structures have converged to mature economies. Jackman (1995) proposes industrial composition as the most important dimension (and measure) of restructuring. On that measure, the transition was continued well into the late 1990s. Comparing data for 1989 and 1994 Jackman and Pauna (1997) find that the sectoral allocation of labour in Central and Eastern European countries was not sufficiently close to that in the European Union: only 35-60 per cent of the required reallocation across sectors had taken place.

Svejnar (2001) argues that the transition process may also be prolonged by the weakness of governments. A mature market economy requires not only the dismantling of planning and intrusive subsidies – which most post socialist economies quickly accomplished – but also the establishment of a legal framework and efficient public administration that provides a level playing field for the market economy. The latter requires an ability to collect taxes and minimize corruption and rent-seeking behavior, which weak governments may lack.

Assuming that the evolution of employment is a suitable indicator of restructuring, the turning point in the recession ranged between 1997 and 2003, but typically happened in the year 2000. As the time span of the principal dataset used in this volume covers the year between 1996 or 1998 until 2007, the window we are looking through will capture only the last few years of the transition period. For Hungary, we only get the last year of the recession, for Estonia, Lithuania and Slovenia we get the last three years. To illustrate the importance of this 'window' effect, figure 4 plots total employment against the share of the bottom quintile of jobs (using the quintile thresholds in the 2000). To show the depth of the recession, employment is expressed in proportion to its initial pre-transition level in 1989. It is important to note that for most of the countries and most of the recession-years, the share of low wage jobs was decreasing and only Estonia and Slovakia show some reversal of this trend during the recovery.

Figure 4. Share of bottom quintile jobs in total employment by level of employment, 1997-2007



Source: Calculations of Enrique Fernandez Macias and Ágota Scharle based on the EJM database.

3. Policy response to the transition

Balla et al (2008) argue that ill-designed employment policies, and more specifically the lack of incentives to facilitate the reemployment of low-productivity workers was a further important factor contributing to the persistence of low employment and large wage inequalities. Extending the model of Aghion and Blanchard (1994), they assume two segments of the emerging private sector that differ in workers' productivity. Governments may alleviate the social impact of the initial shock by slowing down the privatisation process, providing benefits to the unemployed and/or by subsidising the employment of low productivity workers. Simulation results show that lower benefits induce higher aggregate employment and inequalities throughout the redeployment process, while higher subsidies are conducive to lower inequalities and higher aggregate employment.[9] The marginal effect of the employment subsidy is largest on employment and income when job destruction is fast and benefits are high.

Policy response to the transitional shock varied considerably across the region. Table 1 summarises the two main dimensions of policy choice based on Balla et al (2008), which sorts the accession countries into four groups. In this taxonomy, only Estonia and Latvia appear to have pursued an optimal strategy of rapid privatisation and high share of wage subsidies (instead of unemployment benefits), which would minimise the cost of the transition in terms of national income and wage inequalities.[10]

Table 1. Policy mix and expected labour market outcome

Policy mix		*country*	*inequality in wages*
Low speed dismantling of public sector	Low benefits High ALMP	Czech R., Slovakia Lithuania	small
	High benefits Low ALMP	Poland Slovenia	medium
High speed dismantling of public sector	Low benefits High ALMP	Estonia Latvia	small
	High benefits Low ALMP	Hungary	large

Notes: Voucher type privatisation where shares were distributed to the population had little effect on firms' budget constraints and is therefore not considered as privatisation (even when it was used early on). The grouping by level of active labour market policy spending (ALMP) is based on OECD.stat Public expenditure and participant stocks on LMP. The expected change in wage inequality is based on the model simulations of Balla et al (2006).

The model thus predicts the largest increase in job dispersion in Hungary, and considerable increase in Poland and Slovenia, which would come mostly from a rise at the top of the wage

[9] The underlying process is the following: the transition entails a shift from centrally planned (or at least strictly regulated) wage setting to market wages that correspond to marginal products. Low productivity workers tend to set their reservation wages above the unemployment benefit, which is likely to be too high compared to their marginal product. It takes time for workers to notice this (through their failure to get a job) and lower their expectations. Inequalities continue to persist until wages adjust sufficiently. The adjustment process is longer if the cost of hiring low wage workers is increased by taxes, and shorter if it is reduced by subsidies (Balla et al 2008).

[10] Income inequalities nevertheless increased relatively faster than in the other accession countries, partly because the Baltic states were the poorest among the A8 and could not (or chose not to) spend as much on social transfers (especially on pensions). There is also a lack of reliable data to compare pre- and post-transition levels of inequality. E.g. Milanovic (1999) finds that income inequality increased faster in Latvia than in the Visegrad group, but admits that data for Latvia suffer from a strong upward bias (mostly due to biased sampling).

distribution, i.e. a growth of employment in good jobs.[11] In allother A8 countries wage inequalities are expected to increase less, but wages at the bottom end are more likely to drop (since benefit levels are relatively low).Wage cuts at the bottom end may shift some jobs to the bottom quintile and may also boost labour demand: both factors imply an increase of employment in bad jobs.

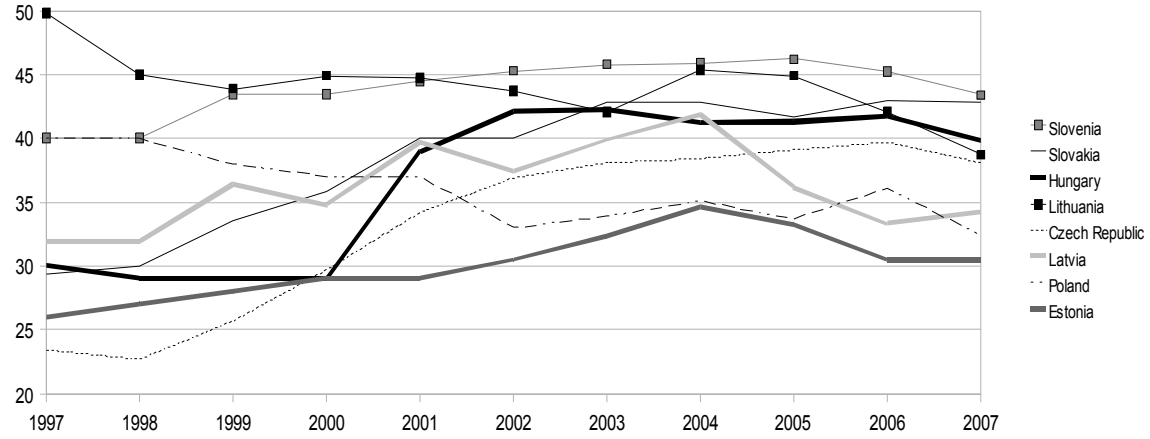
4. Wage costs: minimum wages and taxation

Minimum wage policies, and to some extent the flat tax reforms (in the Baltics and in Slovakia) have also impacted on employment and the jobs distribution.

All the eight accession countries have a statutory minimum wage and seven of the A8 (with Estonia as the only exception) executed a steep rise in it at some point between 1989 and 2010. The increases have been typically justified by ensuring decent wages, boosting labour supply and reducing poverty, or by the need to approximate local wages to western levels on the eve of EU accession. A less often cited, but perhaps more important motivation has been to increase goverment revenues.[12]

Minimum wage levels in the A8 have converged around 35-45 % of the average wage during the past decade, which is comfortably within the range observed in the EU15 (cf lowest at 36.5 in Spain and highest at 46.9 in France in 2007). However, minimum wage legistlation has been more volatile in the A8 than in old member states. Between 1997 and 2007, the Czech Republic, Hungary and Slovakia experienced unusually fast and steep increases in the minimum wage (see figure 5; in other A8 similar increases happened earlier or later in time.)

Figure 5. Level of the statutory minimum wage in accession countries, % of average wage



Sources: Eurostat on-line database (earn_mw_avgr1) for 2001-2007, http://www.eurofound.europa.eu/eiro/2005/07/study/tn0507101s.htm for 1998-2001, for 1997: Eriksson and Pytlikova 2004, World Bank 2002, Skledar (2004).

If large enough, a minimum wage rise would typically eliminate some jobs in the bottom quintile. We expect to find such an effect in the Czech Republic, Hungary and Slovakia and to some

[11] Recall that in the model the rise of inequalities follows from relatively high benefits and part of the problem is that low skilled wages do not fall enough.

[12] The underlying expectation is that firms underreport wages and a minimum wage rise would reduce the undeclared part. The conclusion however that this would boost net government revenues is not sufficiently supported by theory and empirical evidence. For a summary of the Hungarian debate, see Benedek et al 2006.

extent, also in Lithuania, where the minimum wage was almost doubled in 1997. To a lesser extent, relatively high minimum wage levels may have accelerated the destruction of low wage jobs in Slovenia as well.

Flat tax reforms were implemented in Estonia, Lithuania (1994), Latvia (1997), and Slovakia (2004). Such reforms are likely to affect the wage distribution if the flat rate is low and replaces a highly progressive personal income tax system. This applies especially to Slovakia, where high incomes had been taxed at 38 % before the 19% flat rate was introduced in 2004. As a result of the reform, above average wages are likely to increase slower, as employers gradually appropriate some of the tax gain of employees, i.e, the tax cut will first increase net wages but this gain is gradually reduced as employers adjust gross wages. The rise in the net wage may increase labour supply and the fall in the (relative) gross wage may increase labour demand, but both effects may induce some expansion in employment at the top end of the wage distribution.

5. Self-employment

As already mentioned above, the accession countries have a below optimum self-employment rate, which have hindered the recovery of low skilled employment. Policies to improve the business environment, especially if specifically tailored to small businesses, may have lowered the inherited constraints (lack of capital and experience) to SME growth. The self-employment rate (in proportion to total employment) tended to be relatively high and increasing in the Czech Republic, and markedly increased from a relatively low level in Slovakia. Importantly, in these countries the self-employed typically work in industry or services rather than in agriculture.That implies that Czech and Slovak entrepreneurs have had some potential to create jobs for low skilled workers while this was less likely in the case of the petty farmers of Latvia, Lithuania and Slovenia who constitute a large share of the self-employed in these countries.

Table 2. Level and change of self-employment in the accession countries

	Change during recovery**	level in 2000	level in 2007
Czech R	1.08	14.51	15.62
Estonia	1.11	7.95	8.80
Lithuania	0.72	16.67	12.02*
Latvia	0.86	10.77	9.26*
Hungary	0.73	14.71	12.05
Slovenia	0.88	11.20	11.22*
Slovakia	1.65	7.79	12.86

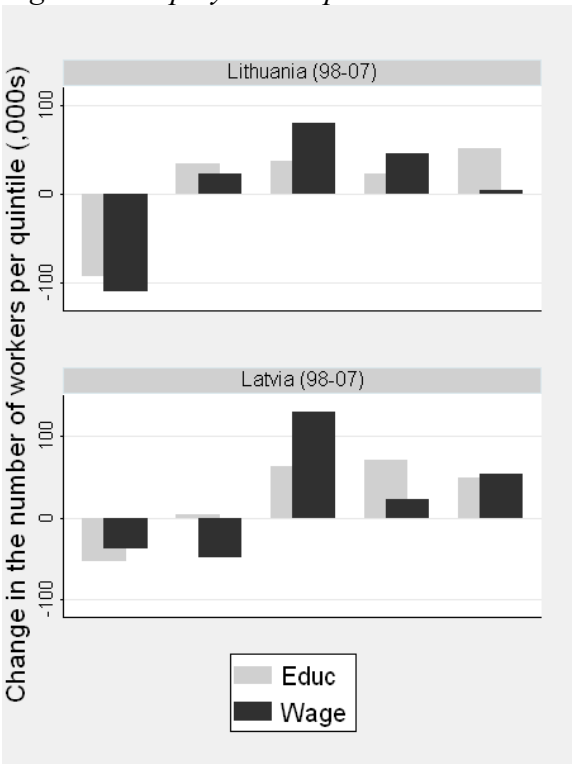
Source: Calculations of Enrique Fernandez Macias and Ágota Scharle based on the EJM database. Notes: *at least one fourth are small holders in agriculture; **Recovery is understood to begin when total employment begins to rise.

6. Patterns of jobs distribution in the accession countries

Let us now turn to the explanation of why the jobs distribution would evolve so differently within the accession countries and as compared to the EU 15 during the past fifteen years.
Latvia and Lithuania experienced large losses at the bottom combined with gains in the middle of the jobs distribution. In the mid 1990s, both countries had a large primary sector (around 20 % of employment) and a relatively small services sector (around 50-55 % of employment), very similar to the sectoral composition of the Greek economy. By 2007, agricultural employment was halved in all three countries, and the share of services grew by

around 14-17%. Changes in the jobs distribution were however markedly different: while Greece (as other Southern European economies) showed a mild upgrading of jobs, Latvia and Lithuania gained jobs mostly in the middle of the jobs distribution.

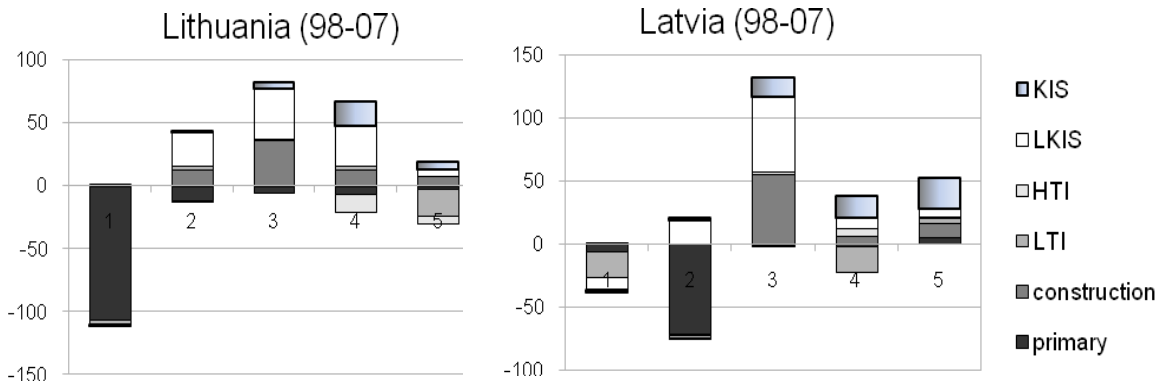
Figure 6. Employment expansion in accession countries: a mixed pattern



Source: Calculations of Enrique Fernandez Macias based on the EJM database.

The loss of jobs in the bottom quintile (the bottom two in the case of Latvia) seems relatively easy to account for: the transition schock eliminated many bad jobs and since the shock was elongated by the Russian crisis, the EJM data spanning from 1998-2007 capture a relatively large part of the recession. However, a more important question would be to understand why there was no job creation at the bottom end until 2007, despite the rise in low skilled unemployment during the transitional recession and the relatively favourable benefits policy. A possible answer (waiting to be tested) may lie in high minimum wages and the lack of a non-agricultural SME sector.

Figure 7. Absolute change in employment by sector and wage quintile in Latvia and Lithuania

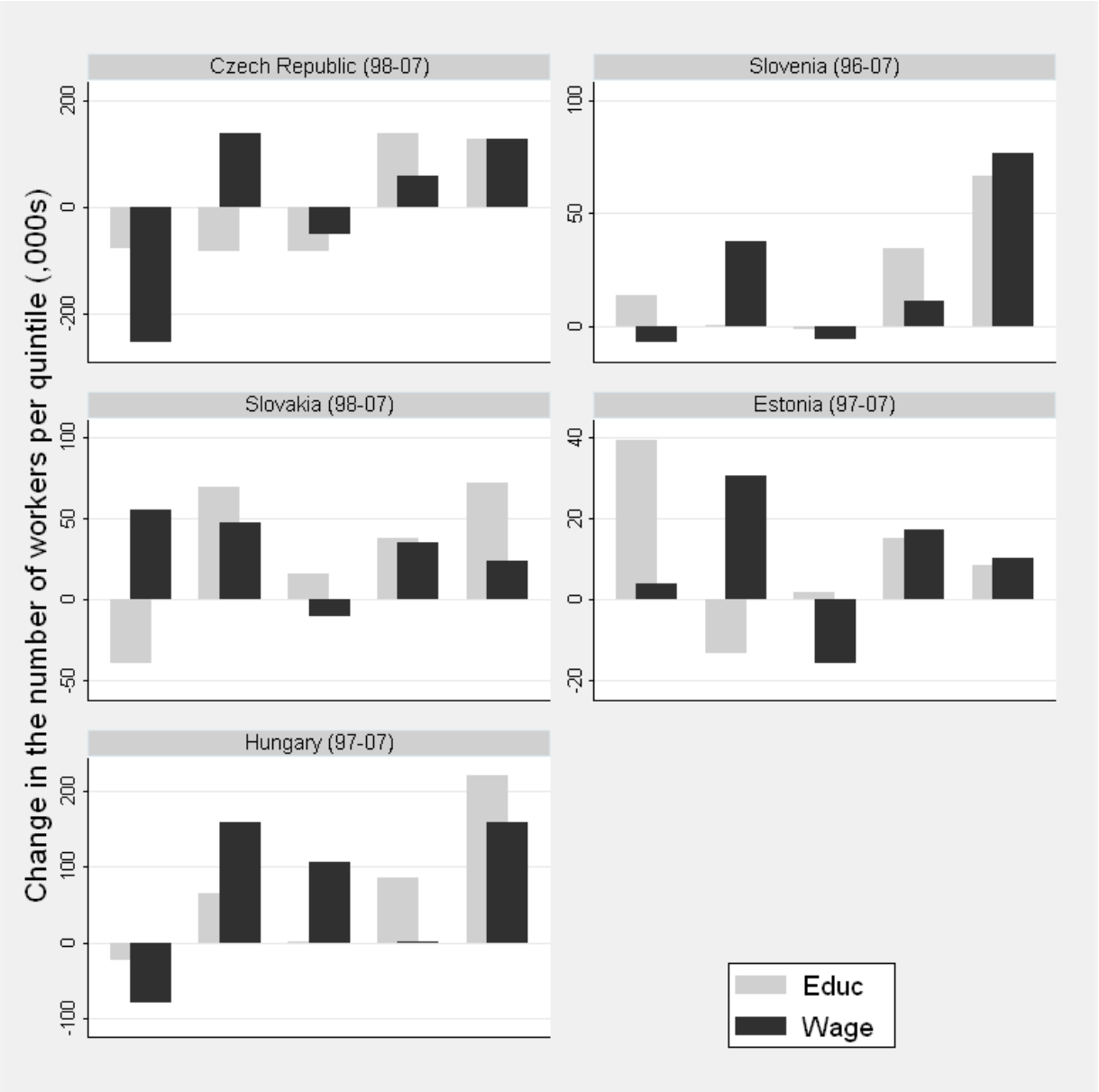


Source: Calculations of Enrique Fernandez Macias based on the EJM database. HTI and LTI stand for high and low technology industry (defined according to the technological intensity of the productive process, following an OECD proposal - see Hatzichronoglou 1997), KIS and LKIS stand for knowledge intensive and less knowledge intensive private services.

Most of the job growth in the middle of the distribution came from construction and less knowledge intensive private services.There was also some growth in knowledge intensive services, mostly in the top two quintiles, but it was too small to impact on the overall pattern of the jobs distribution.

The other A8 countries (except for the Czech Republic) experienced a polarisation of the jobs distribution. Around 1997-1998, the sectoral distribution of employment in Estonia, Hungary, Slovakia and the Czech Republic was similar to Spain's: agriculture employed around 8-9%, and services around 52-59 % of the workforce (the corresponding figures are 9 and 61 % for Spain in 1995, the base year in the EJM data). In ten years, the share of agriculture dropped to 4-5%, exactly as in Spain, and that of services grew to 52-63 % (cf 65 % in Spain). In contrast to Spain however, the gradual shift in the structural composition of employment was preceded by a large drop in the employment rate. Between 1989 and 1998 total employment fell by around 30 % in Estonia and Hungary and by 20 % in Slovakia and Slovenia. Most of the decline was in low paid jobs of uneducated workers. In these countries a large pool of unemployed (actively looking for work, or discouraged by the prolonged recession) were available to be reemployed and most of them were uneducated workers who could only expect to be hired at low wages. In this context, the rise in low wage employment (especially if combined with growth in total employment) would be a signal of successful labour market readjusment rather than an unfavourable side effect of sectoral reallocation of labour.

Figure 8. Employment expansion in the accession countries: polarisation



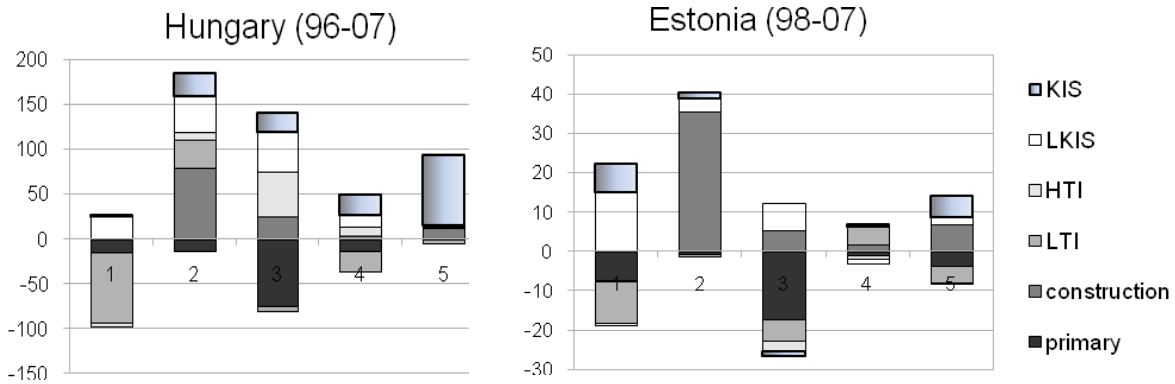
Source: Calculations of Enrique Fernandez Macias based on the EJM database.

Estonia pursued an optimal policy mix during the transition that fostered a fast recovery with supressed growth in wage inequalities and long term unemployment in the low-skilled population. It kept both unemployment benefits and the minimum wage at a relatively low level and encouraged job creation with active labour market policies. Compared to the other Baltic states it also had a relatively high and increasing level of non-agricultural self-employment, most probably helped by a well functioning public administration and early efforts to reduce administrative burdens (Masso and Eamets 2004). These factors, together with an investment boom in construction are likely to explain why employment tended to grow mostly at the bottom end of the jobs distribution.

Hungary fared the worst in terms of labour market readjustment following the transitional shock. The combination of fast privatisation, high unemployment benefits and low spending on active labour market policies led to a fast and large drop in employment and a rise in wage

inequality. Low wage job creation was further discouraged by the rise in minimum wages, increasing macroeconomic instability and feeble attempts to reduce the administrative burden on SMEs. The rapid and early increase in wages at the top of the jobs distribution may explain why there was little job growth in the fourth quintile: apparently knowledge intensive services with more potential to expand already paid relatively high wages in 2000[13] so that new jobs were created either in these high wage knowledge intensive occupations or the low wage construction industry and other services. The considerable job loss in low technology industries reinforced these developments: the shredding of such jobs affected mostly the bottom and the forth quintile.

Figure 9. Absolute change in employment by sector and wage quintile in Estonia and Hungary

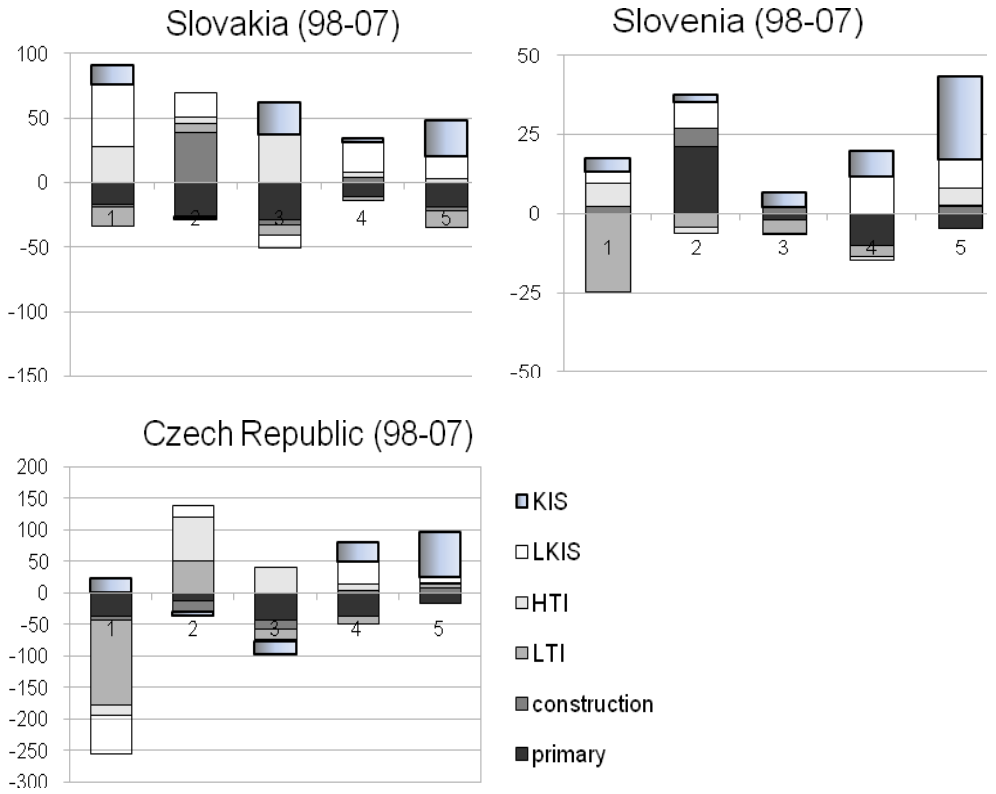


Source: Calculations of Enrique Fernandez Macias based on the EJM database. HTI and LTI stand for high and low technology industry, KIS and LKIS stand for knowledge intensive and less knowledge intensive private services.

Finally, the Czech Republic, Slovakia and Slovenia are somewhere between best performing Estonia and worst performing Hungary. Slovakia was fairly successful at regaining its pre-transition level of employment. Slow privatisation mitigated job destruction during the transitional recession, while labour market policies (together with the flat tax) helped to contain the rise in wage inequality. Slovakia also had the largest increase in self-employment in the region between 2000 and 2007. Self-employed jobs grew mostly in the second quintile, but possibly generated some more employment by hiring as well. This would explain why knowledge intensive services (beside construction) account for most of the rise in low wage employment. However, there was no increase in jobs for workers with primary education, which may at least partly be explained by the relatively high minimum wage. The Slovenian case is similar in that the loss of jobs was moderate during the transition, but markedly different in that agriculture played an important role in the regeneration of low wage employment. While Estonians created jobs for uneducated workers in new SMEs in the service sector, Slovenians employed them on small (and inefficient) farms.

[13] The ranking of jobs is based on the wage distribution in 2000 in the EJM database. Note that in Latvia, Lithuania, and Slovakia, there was considerable job creation in lower paid jobs within knowledge intensive services.

Figure 10. Absolute change in employment by sector and wage quintile in Slovakia, Slovenia and the Czech Republic



Source: Calculations of Enrique Fernandez Macias based on the EJM database. HTI and LTI stand for high and low technology industry, KIS and LKIS stand for knowledge intensive and less knowledge intensive private services.

The Czech Republic seems to be closest to the Southern European pattern of modest but clear upgrading in the jobs distribution. A look at the sectoral breakdown of employment gains and losses confirms this: job shredding in the bottom quintile in low technology industries and less knowledge intensive services was made up for by job creation in better paid jobs in high technology industries and knowledge intensive services. However, this also implies that the Czech economy did not create new jobs for uneducated workers in the past ten years, and hence could not return to its pre-transition level of employment.

Conclusions

This chapter has reviewed patterns of change in the jobs distribution of seven of the eight post socialist countries that joined the EU in 2004. Though slightly poorer, these economies were roughly at the same stage of industrial development as the Southern European economies in the mid 1990s, and followed a similar path of sectoral reallocation of labour during the past fifteen years. However, the observed patterns of change in the jobs distribution shows marked differences both within the accession countries and in comparison to Southern Europe, despite the fact that all countries experienced considerable reallocation of jobs across sectors and the consequences for the jobs distribution were the same as in more developed EU member states.

Most of the differences seem to be attributable to the transitional shock and the variations in the policy choices of post-socialist governments: their initial response to the transitional recession and later, the setting of minimum wages and attempts to create a business

environment favourable to SME growth. It has been argued that the optimal choice of policies would lead to considerable job creation at the bottom end of the distribution resulting in a polarised pattern of change over the past fifteen years. Thus, while the shift away from low wage jobs in agriculture and low technology industries toward well paid jobs in services may seem a favourable development in Southern Europe, it is not so fortunate if it is a result of insufficient job creation in SMEs, as is likely to have been the case in post-socialist economies.

The Czech Republic appeared to be closest to the benchmark Spanish case, where the jobs distribution showed a modest but clear upgrading in the past fifteen years. However, during this period total employment grew by almost 19 % points in Spain, and dropped by over 1 % point in the Czech Republic. By contrast, the seemingly unfavourable growth in bad jobs in Estonia contributed to an increase in total employment of almost 5 % points.

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