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Behind Europe's 'iron wage curtain'

In Czechia, half of the population doesn't earn enough to live a decent life. The EU's current proposals for a European minimum wage won't change that

The systemic transformation in Central and Eastern Europe after 1989 was not only driven by a desire for more democratic participation and an end to political repression but also – and possibly above all – by the hope that it would quickly catch up with living conditions in the West. To that end, the people in region put up not only with the initial dramatic economic and social upheaval. Subsequently, they also accepted and quickly implemented – without much complaining – far-reaching fiscal, legal and value-based changes as a pre-condition for joining the European Union, even if this required considerable effort and costs.

More than 30 years after the transition and 17 years after EU accession, Central and Eastern European countries have come to realise that the promise of better living conditions will most likely neither be fulfilled for the generations affected by the upheaval, nor for their children and grandchildren. For years, Central and Eastern European trade unions have called this the 'iron wage curtain'. The region is still very much the poor periphery of Europe.

In the European political sphere, the issue is discussed with an unusual ambivalence. On the one hand, the problem of low wages in Czechia, Slovakia, Poland or Bulgaria has been well-known throughout Europe for quite some time. The low wages were, in the form of wage dumping caused by Polish migrant workers, even made out to be one of the indirect reasons for the Brexit vote. But, at the same time, the impression seems to be that they are being counterbalanced by what were and still are much lower prices than in the West. In that view, the standard of living has recently been relatively reasonable.

This impression is underscored by much-used but misleading macroeconomic indicators. For example, the stable growth in Gross Domestic Product (GDP) says relatively little about the general well-being in these countries, which are dependent on foreign investments, as huge amounts of money flow back out of the countries in the form of

profits. By contrast, the indicator of relative poverty tends to measure income inequality. Therefore, the result seems to be positive in the less unequal countries east of the German border – irrespective of whether people can live off their wages. Czechia is regularly high up in the ranking as one of the countries with the fewest 'poor people' in Europe.

Earning half of what you need to live

But the reality is clearly different. In Czechia, that is clearly demonstrated by the Platform for a Fair Minimum Wage, which has been calculating once per year how much an economically active person would have to earn at current prices to cover all the usual costs for themselves and one dependent. For this purpose, sociologists, economists and practitioners have adapted the British concept of a 'living wage' to the central and eastern European context. Through a methodology developed over several years, they calculate expenditure for housing, food, clothing and shoes, transport, free time and education and one-off expenses and savings.

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Despite the modestly defined standards, the expert group came to alarming realisations both in 2019 and at the end of 2020. The fair *minimum* wage would amount to 1,238€ gross last year (and 1,450€ for the capital city, Prague, which suffers from particularly high living costs). But now the countrywide *average* wage for 2020 only amounted to around 1,190€ in the country.

That means that not even half of the working people in Czechia earn a wage that they can really live off. In 2020, the legal minimum wage was 573€ – not even half of the calculated living wage. But not even people who work in highly qualified positions earn a fair minimum wage – *de facto* income poverty reaches deep into the middle classes in Czechia.

The European non-solution

The European Union recognises the problem of having far too low wages in many places on its territory – and has been striving for a European minimum wage since the last elections in May 2019. To that end, the European Commission presented a draft Directive to ensure adequate minimum wages within the EU last spring. While initially there was a debate on binding minimum wages in relation to current minimum

wages for average wages (at least 50 per cent) or to the wage median (at least 60 per cent) of the EU member state concerned, the proposal is now less concrete: Countries are supposed to set milestones themselves to check the adequacy of their minimum wages.

Admittedly, it remains to be seen how the final version of the Directive will look like, how it will be implemented and how the implementation will be reviewed in the EU member states. But one thing is already crystal clear. It will not be the big leap forward the Commission announced with regards to fair remuneration within the EU. To really achieve that, wages would have to systematically and markedly increase, especially in the low wage countries in Central and Eastern Europe – much more than the Directive will be able to realise because of its non-binding nature.

To talk seriously about fair remuneration in Czechia, as the European Commission proudly does, the legal minimum wage would have to increase by more than 100 per cent compared to the current median. That means that even the earlier, more concrete proposals for defining a European minimum wage for low wage countries wouldn't have been a real solution. The situation is similar for other countries in the region. In the most eastern countries, Bulgaria and Romania, the situation may be even more dramatic. But this seems to be less important in the current debate than the concerns of well-to-do northern countries and their sovereignty in setting wages. Accordingly, it once again triggers the feeling in Central and Eastern European countries that they are second-class European citizens.

Low wages destabilise already fragile societies

It's not hard to see the destabilising consequences of the lack of even marginal improvements in incomes in these countries. Broad swathes of the population are being hit by a precarious situation of economic uncertainty. In this context, it's no coincidence that almost one in ten people in Czechia is heavily indebted and that many of the countries see by a huge exodus of their populations to the West.

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Perhaps it's then also less surprising that these societies make slower progress in adopting 'modern values' or that they find it harder to show full European solidarity. On the contrary, the situation fuels anti-European and anti-liberal resentment. People's hopes *vis à vis* the EU have been dashed, which has led to

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disappointment in many places exploited by right-wing populist forces. How fragile the societies really are becomes clear in a crisis such as the current pandemic, as precious few savings can be generated from low wages.

In this perpetually precarious situation it's almost impossible to develop resilience, which we need for the coming upheavals such as the necessary socio-environmental transformation. By contrast, Eastern European authoritarian leaders have scored points with a counter argument: you don't have to do anything, you have changed yourselves enough according to the wishes of the West and you see what it has brought you – nothing.

The end of poverty?

The European Directive therefore has a symbolic significance. It's a rare opportunity to make Europe's promise for Central and Eastern Europe finally come true – in a very tangible way. But to do so, it has to become more ambitious and really deal with the situation of the people in these countries, instead of being misled by certain macroeconomic indicators. If necessary, this may require saying openly why Central and Eastern European governments are not able to simply raise wages themselves without full European backing: because they are held captive by the logic of competition in the European single market.

If, by contrast, the current draft is accepted in its current form, the following will probably happen: the low wage countries will, now as before, present low wages as adequate – because, as has been the case up until now, they barely have another choice in the face of the dynamics of the free market. That will only further deepen the disappointment in the EU in this region; all the more so if these rules are marketed inadequately as 'the end of in-work poverty in Europe'. That's by no means yet in sight in Central and Eastern Europe.



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