

AN ANALYSIS OF EASTERN EUROPEAN AND BALTIC COUNTRIES WAGES

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Abstract

The aim is to analyze why the Eastern European and Baltic countries, wages are several times lower than in Western Europe. In Eastern European and Baltic countries, the new European Union (EU) member states, the labour movement into the old EU member states, where wages are higher, has become a serious problem. Why do people not get paid as high wages in East European countries and Baltic countries as they do in Western Europe: in Germany, England, Sweden or Finland? This article focuses on the analysis of productivity and wages and their relations in East Europe, primarily in Estonia. It is usually alleged that wages cannot be increased due to low productivity. While the emphasis of this article will be on Estonia, the EU as an entirety has partially been involved for theoretical generalisations. After the opening of the EU labour markets, some EU countries started facing the problem of partial workforce drain into richer countries with higher wages. At the same time, on the one hand, East European and Baltic countries face quite high unemployment rates and many vacant jobs on the other – there is a lack of qualified workforce.

Keywords: East European and Baltic countries, Estonia, salaries and wages, productivity, labour market.

1. Introduction

Before the economic depression and after the economic crisis, the EU Baltic States, among them Estonia, were successful. Hence, these countries were called the Baltic Tigers. That is why we look at the example of Estonia in connection to East European problems. We take the small Estonian economic model to extrapolate regarding Eastern Europe, but also for some Southern European countries.

An important element in the post-independence reorientation of Estonia has been closer ties with the Nordic countries, especially Sweden and Finland. These countries are also major partners for Estonia today, and we have also received the most knowledge from them after the restoration. Estonia has had a market economy since the end of the 1990s and one of the highest per capita income levels in Eastern Europe. The current government has pursued relatively sound fiscal policies, resulting in balanced budgets and low public debt. A balanced budget, almost non-existent public debt, flat-rate income tax, a free trade regime, a competitive commercial banking sector, innovative e-services and even mobile-based services are all hallmarks of Estonia's market economy. The country is ranked 16th in the 2012 Index of Economic Freedom, having the freest economy in Eastern Europe and the former Soviet Union (Index, 2012).

Before the economic crisis, the economic growths of Estonia, Latvia and Lithuania were among the highest in the EU. The crisis, however, took the three countries into a completely different situation – the fall of their gross domestic products (GDP) was one of the biggest in the EU. After the crisis, the economic growth factors of Estonia have again been the biggest in the union. Real GDP growth was in 2011 8.3% and in 2012 3.2%. (Code: tsieb 020)

A thorough analysis of the development of a small economy, such as that of Estonia, will also help make more general conclusions, at least on the European level.

After the economic crisis, GDP usually moves on an upward incline, while unemployment is hard to curb. Why? To surmount the crisis, companies try to reduce labour costs to a minimum. In the first place, they endeavour to get rid of poor quality, redundancy and also workers prone to conflict. Concurrently, a new problem arises – qualified labour is scarce. This problem does not only pester Estonia, it is endemic. Among the root causes are locally prevalent low salaries as compared to the remunerations paid in West European countries.

After the crisis, the economy does not develop along the extensive track, but mainly in intensive ways, i.e. on account of growth in productivity. Expanding production occurs mainly with the help of adopting more efficient machines and equipment and better work organisation, reducing the number of low-qualification workers and increasing the demand for high-qualification ones. Besides workers, the problem also affects people with higher education, and other specialists. Regardless of relatively high unemployment, an opposite situation has appeared in the labour market – in many branches of the economy, qualified labour is scarce. Due to the free movement of labour in EU countries, a situation has occurred in the East European and Baltic member states, incl. Estonia: younger and experienced workers leave the country to work abroad, where salaries are higher. It is a foregone conclusion.

Looking into the future, all this boils down to the need to increase the efficiency of production and productivity, and also to provide a competitive salary level. In order to elaborate on the means necessary for enhancing the efficiency of how the labour market operates, a complex labour market analysis is needed. By reference to the above, the **goal** of this article is to analyse wages and their relations in East Europe and Baltic states, primarily in Estonia. It is usually alleged that wages cannot be increased due to low productivity. Since Estonian productivity in ratios is more than two times higher than the salaries, the question “Why?” proposes itself. While the emphasis of this article will be on Estonia, the EU as an entirety has partially been involved for theoretical generalisations.

Hence the *objective* of this article is to analyse the labour market of new EU member states coming from East Europe and Baltic states, with emphasis on Estonia, more specifically on productivity, labour costs and salaries, and problems associated with the labour market; and to compare these with the EU levels.

What are the opportunities for increasing the labour market’s efficiency and wages?

Theoretical bases, as a rule, lay on relevant positions of renown economists published in academic issues and are mainly concerned with East Europe, analyses and reference data of international organisations (IMF, OECD, Eurostat, etc.) and also on the positions of the present authors released in their earlier publications (Tanning 2012 a, b, c, d; Tanning 2013).

Productivity is an important economic indicator that directly impacts the development of economy as a whole and also companies, as well as workers’ wages – *ditto* the standard of living. Estonian wages fall significantly short of the wages levels of West European countries. Relatively low productivity, which does not enable increasing remunerations in Estonia to the level of Finland and other countries with advanced economies, is referred to as the grounds for this.

Below we shall analyse, by reference to Eurostat source materials, how the factors affecting productivity have changed over an extensive period. We shall compare productivity and wages both in Estonia and Europe. For instance, if a company would like to multiply wages, production should yield the needed

amount of extra money. Moreover, besides labour expenses, the company should retain some money for overheads, profit etc. The obtained income should exceed the incurred expenses. As a rule, labour costs constitute the largest share of a company's expenses.

2. Eastern European and Baltic countries – the background

For an introduction, see the background for the Eastern European countries that were part of the Soviet bloc. This will help them to better understand the economic backwardness of Western Europe, the countries of the Western civilization.

The Soviet Union existed between 1922 and 1991; the government and economy of the 15 multinational Soviet Republics were highly centralized. The Soviet Union established the Eastern Bloc (Soviet satellite states) in much of Central and Eastern Europe and emerged as one of the world's two superpowers after the war.

The German–Soviet Non-Aggression Pact (1939) made the Soviet occupation of Lithuania, Latvia, Estonia, Bessarabia, northern Bukovina, and eastern Poland possible. In 1940, the Soviet Union annexed the Baltic States Estonia, Latvia and Lithuania.

In the late 1980s, the constituent republics of the Soviet Union started legal movements towards potentially declaring sovereignty over their territories. On April 7, 1990, a law was passed allowing a republic to secede if more than two-thirds of its residents voted for it in a referendum. Lithuania, Latvia and Estonia immediately declared the restoration of their full independence, while the other twelve republics continued discussing new, increasingly looser, models of the Union. The remaining republics were recognized as independent with the Soviet Union's final dissolution on December 26, 1991.

The *dissolution of the Soviet Union* was a process of systematic disintegration, which occurred in economy, social structure and political structure.

On 11 March 1990, a year before the collapse of the Soviet Union, Lithuania became the first Soviet republic to declare independence. The Estonian sovereignty declaration was issued on 16 November 1988 and formal independence declared on 20 August 1991. The independence of Latvia was restored on 21 August 1991.

Estonia, Latvia, and Lithuania have been members of both the European Union and the NATO since 2004. Now, most of the former Eastern European Bloc countries are members of the EU and NATO. (The Occupation, 2012; Tanning, 2010; Tanning, 2013).

The United Nations lists Baltic State as a country with a "Very High" Human Development Index. HDI - Estonia 33th, Lithuania 41th and Latvia 44th. (Human)

3. Analysis of the economy of the former USSR

Next, we will analyse the development of the economy of the former USSR (The Union of Soviet Socialist Republics) using UNdata source data. GDP per capita at current prices in USD has been brought below. (GDP per capita, 2012)

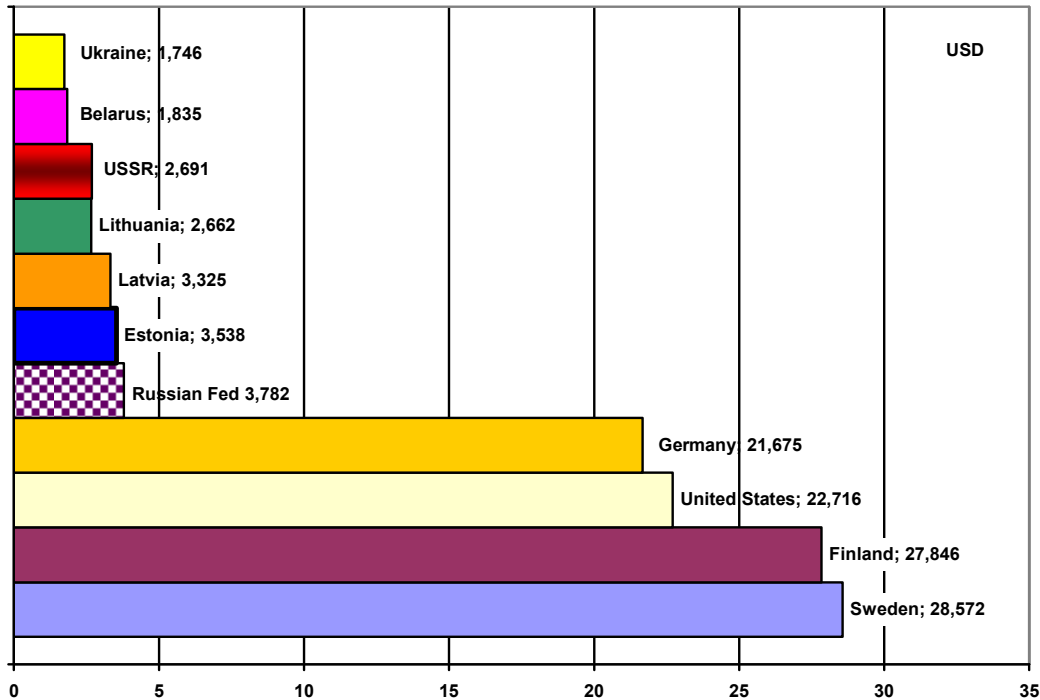


Figure 1. GDP per capita at current prices - USD, 1990 (GDP per capita, 2012)

Source: the authors' illustration

In 1990, GDP per capita in Estonia and Latvia was respectively 1.31 and 1.17 times greater than in the USSR, but still slightly below the GDP per capita in Russia. Compared to the GDP of Ukraine and Belarus, Estonia was 1.5 times better. Russia's GDP was high because of its powerful concentrated heavy industry, mainly in the war industry.

Figure 1 indicates that in 1990 the USSR had a backward economy in comparison to Western countries, when measured by GDP per capita, which is 8 to 11 times higher there. The lag of the Baltic States was also very high: 6 to 8 times.

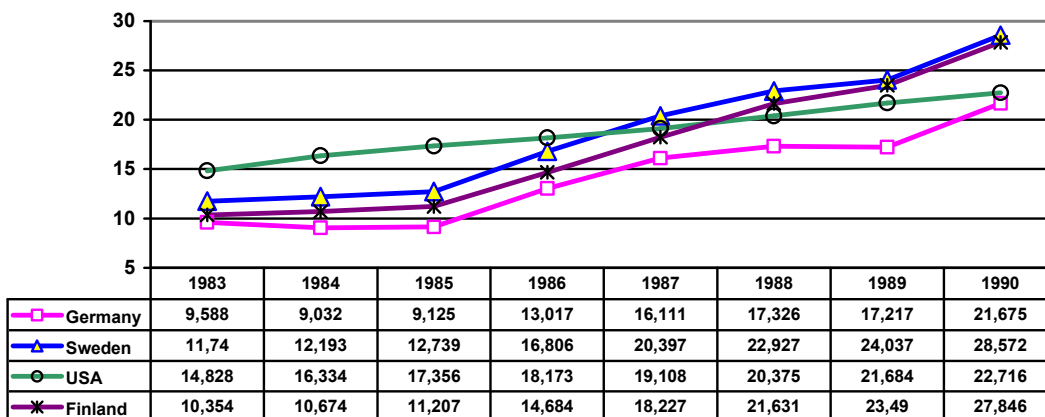


Figure 2. GDP per capita for Germany, Sweden, the USA and Finland at current prices - USD, 1983 – 1990 (GDP per capita, 2012)

Source: the authors' illustration

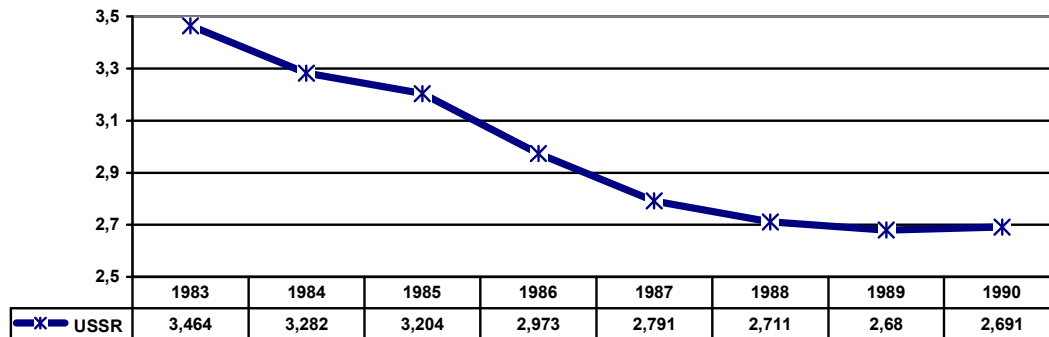


Figure 3. Former USSR GDP per capita at current prices - USD, 1983 – 1990 (GDP per capita, 2012)

Source: the authors' illustration

While in the years 1983 - 1990 the economy of the developed economies of the Western countries grew up to 1.53 to 2.69 times, the economy of the USSR simultaneously fell by nearly a quarter (22.3%).

This analysis shows the economic reasons behind the disintegration of the USSR. Their economy did not only stop, but went back.

4. Analysis of economy in the European Union

Table 1. Minimum wages. EUR/month, 2002 – 2013 (Code: tps00155)

	2002	2006	2007	2008	2009	2010	2011	2012	2013
Belgium	1140.24	1234.00	1259.00	1309.60	1387.50	1387.50	1415.24	1443.54	1501.82
Bulgaria	51.38	81.79	92.03	112.49	122.71	122.71	122.71	138.05	158.50
Czech Rep	178.34	261.03	291.07	300.44	297.67	302.19	319.22	310.23	312.01
Estonia	118.24	191.73	230.08	278.02	278.02	278.02	278.02	290.00	320.00
Ireland	1008.93	1292.85	1402.70	1461.85	1461.85	1461.85	1461.85	1461.85	1461.85
France	1127.23	1217.88	1254.28	1280.07	1321.02	1343.77	1365.00	1398.37	1430.22
Latvia	107.86	129.27	172.12	229.75	254.13	253.77	281.93	285.92	287.07
Lithuania	122.06	159.29	173.77	231.70	231.70	231.70	231.70	231.70	289.62
Luxembourg	1290.21	1503.42	1570.28	1570.28	1641.74	1682.76	1757.56	1801.49	1874.19
Hungary	203.93	247.16	260.16	271.94	268.09	271.80	280.63	295.63	340.55
Malta	557.45	584.24	601.90	617.21	634.88	659.92	664.95	679.87	697.42
Netherlands	1206.60	1272.60	1300.80	1335.00	1381.20	1407.60	1424.40	1446.60	1469.40
Poland	217.43	232.90	244.32	313.34	307.21	320.87	348.68	336.47	376.58
Romania	50.33	89.67	115.27	138.59	149.16	141.63	157.20	161.91	157.26
Slovenia	432.63	511.90	521.80	538.53	589.19	597.43	748.10	763.06	783.66
Slovakia	115.01	182.15	220.71	241.19	295.50	307.70	317.00	327.00	337.70
United Kingdom	1109.29	1212.61	1314.97	1242.24	995.28	1076.46	1136.22	1201.96	1264.25
USA	1012.90	756.69	677.81	688.81	815.79	872.32	940.48	971.22	998.15

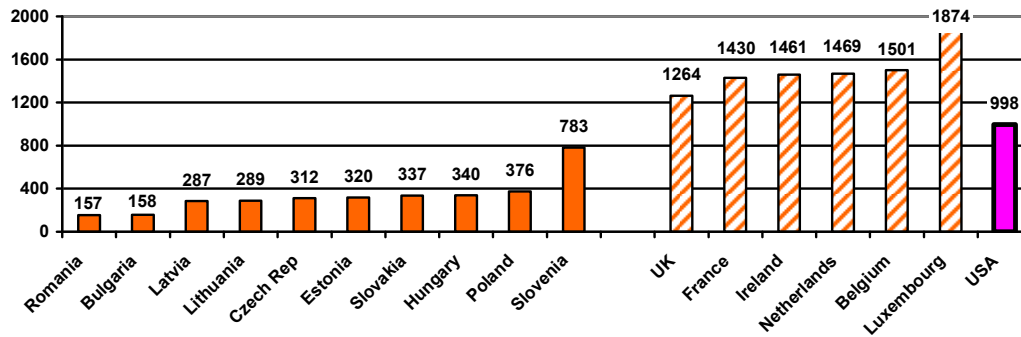


Figure 4. Minimum wages. EUR/month. 2013 (Code: tps00155)

Source: the authors' illustration

National minimum wage is enforced by law. The national minimum wage usually applies to all employees, or at least to a large majority of employees in the country. Minimum wages are gross amounts, that is, before deduction of income tax and social security contributions. Such deductions vary from country to country. (Code: tps00155)

Figure 4 illustrates the major min wages in Europe and the U.S. Differences are 12 times (Luxembourg versus Romania and Bulgaria). From the new EU member states, in turn, Slovenia min wages is two times higher than the other, and almost five times higher than in Romania and Bulgaria.

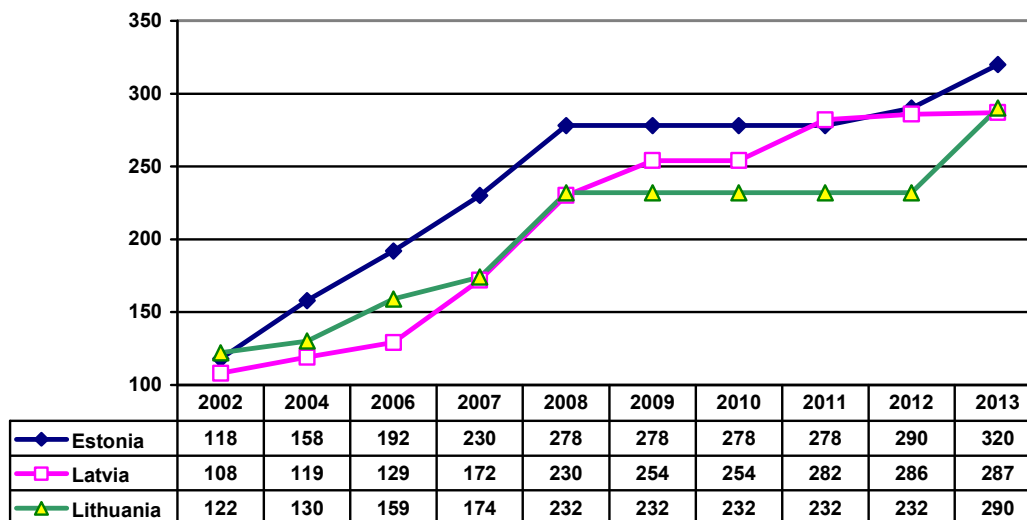


Figure 5. Minimum wages. EUR/month. 2002 – 2013 (Code: tps00155)

Source: the authors' illustration

During the period 2002 - 2008 grew nearly twice min wage; Estonia and Latvia have more, and Lithuania is less. Estonia and Lithuania followed until recovery from the crisis of stagnation, but the big economic difficulties continue to Latvia increased min wage.

Next, we will analyse the salaries and productivity of the EU and its partner countries. We proceed from the fact that labour productivity must rise faster than salaries and labour costs. Productivity and wages rise due to increases in the businesses' earnings opportunities.

In 2011 was net per year salaries in Europe Norway (35 361 EUR) and Switzerland (33 334). In EU was Luxembourg 28 016, Sweden 27 320, Belgium 26 541 and Germany 26 253. The lowest in the EU-15

countries were Portugal (10 883) and Greece (10 111). By comparison, that same year, EU- 27 were 17 928, Japan 24 605 and the USA 8 725 EUR. (Code: earn_nt_net)

In new EU member states (Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia), the average net annual salary in 2007 was 5,266 EUR, which is significantly smaller than the Estonian salary (in 2011, it was 6,664). Also, the salary for the EU candidate state Turkey, which was on an average level among the others, is herein presented contrastively. Regarding the remunerations in Estonia, the data for recent years will be separately presented in greater detail at the end of this article.

In the period under scrutiny, the salaries of the new EU member states have grown 2.16 times, in the majority at least 3 times, and in Estonia 4.34 and in Lithuania 3.95 times.

Table 2. Net per year salaries in new EU states, EUR, 1997 – 2011 (Code: earn_nt_net)

	1997	1999	2002	2004	2006	2007	2008	2009	2010	2011
New States (10)*	2,43	2,72	4,01	4,05	4,83	5,26	:	:	:	:
	8	3	8	4	3	6				
Estonia	1,52	1,73	3,28	3,81	4,96	5,95	6,69	6,35	6,43	6,66
	2	0	5	9	9	8	5	3	8	4
Latvia	1,36	1,49	2,22	2,36	3,23	4,15	5,03	5,13	5,09	5,31
	4	2	1	1	3	1	1	7	6	6
Lithuania	1,24	1,54	2,28	2,60	3,37	4,14	4,85	4,52	4,43	4,55
	8	9	5	3	6	8	3	3	9	5
Czech Republic	2,64	3,03	4,10	4,42	5,56	6,09	7,37	7,14	7,61	7,91
	0	3	1	5	3	5	8	4	4	5
Hungary	:	:	4,13	4,66	5,11	5,81	6,29	5,77	5,85	6,03
			7	6	2	9	3	6	8	5
Poland	2,58	2,99	3,83	3,48	4,53	4,98	5,50	4,62	5,18	5,37
	8	5	0	4	7	3	9	5	9	0
Slovenia	4,57	5,15	6,61	7,23	7,94	8,49	9,15	9,33	9,81	9,90
	1	3	4	6	5	0	4	4	9	8
Slovakia	1,64	1,51	2,62	3,22	3,78	4,50	5,36	5,70	5,88	6,09
	9	3	8	3	7	1	3	6	4	4

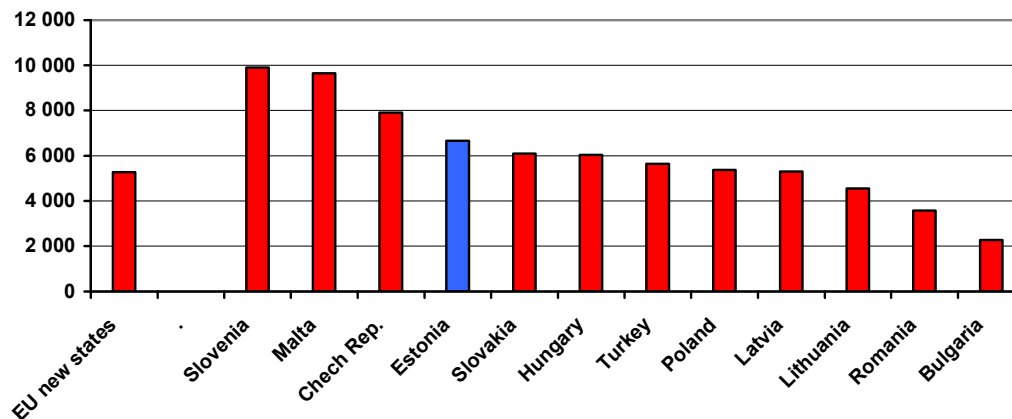


Figure 5. Net per year salaries in new states, EUR, 2011 (Code: earn_nt_net)

* New States (10) = new EU member states - Cyprus and Malta.

Source: the authors' illustration

As a general rule, in the years of 1999 – 2011 minimum salaries grew; however, due to the economic crisis, some of the countries, incl. Estonia, had frozen their salaries for two to three years at the 2008 level. In 2011, the British decreased their minimum salaries as compared to 2008, while the Americans increased them substantially. Nevertheless, it has increased 3.6 times in Estonia since 1999; 3.8 times in Latvia and 2.5 times in Lithuania. The increase is even greater in Romania (5.9 times) and Bulgaria (4.2 times). Thus, it can be derived that the trend to level out the salaries at variable rates, is significantly influenced by the position of the states' economies during the crisis and the success of the policy in superseding the crisis.

Discrepancies in minimum salaries are still overwhelmingly great. For instance, it was 13.0 times smaller in Bulgaria than in Luxembourg, 5.5 times smaller than in post-socialist Slovenia that has a better economy, and 2.1 times smaller than in Estonia. Whereas minimum salary in Estonia is 6.2 times smaller than in Luxembourg and 2.6 times smaller than in Slovenia. Whereas the Luxembourg's minimum salaries are several times higher than in new EU member states. Taking into consideration the divergent price levels of the countries and according to the purchasing power standard (PPS), minimum salary in Estonia should be 362 euro.

In 2011 was higher productivity (EU = 100) in EU Luxembourg (168.9), Ireland (142.6), Belgium (127.5) and Austria (116.6). The lowest in the EU-15 countries were Portugal (75.5) and Greece (96.0). By comparison, that same year, Norway was 156.5) and U.S. 143.5.

Luxembourg has highest productivity within the EU and also globally; Norway has the highest productivity outside the EU.

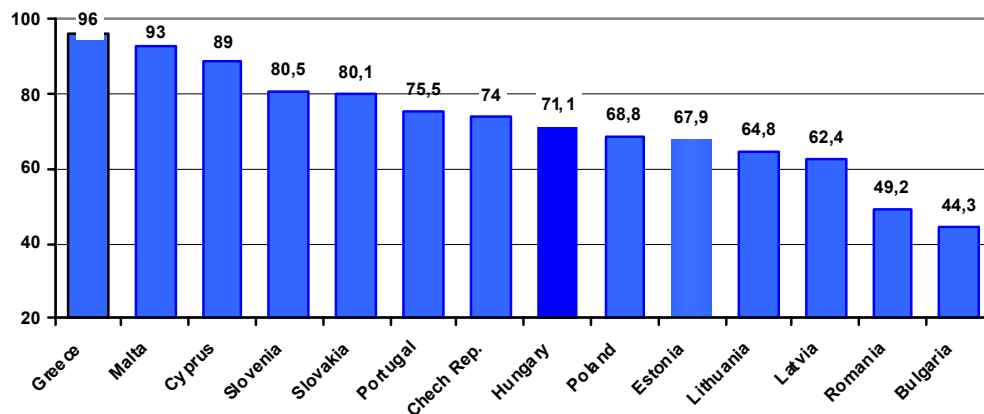


Figure 7. States with lower productivity < EU=100, 2011 (Code: earn_nt_net)

Source: the authors' illustration

Post-socialist countries have lower productivity; however the levels of Malta and Cyprus are somewhat higher. The EU-15 state Portugal has somewhat higher productivity than Estonia. EU post-socialist states Slovenia, Slovakia, Hungary and the Czech Republic have even higher productivity. Of the EU candidate states, Estonia is exceeded by Croatia, while Turkey remains at the same level. (Code: tsieb030; code: tsieb040)

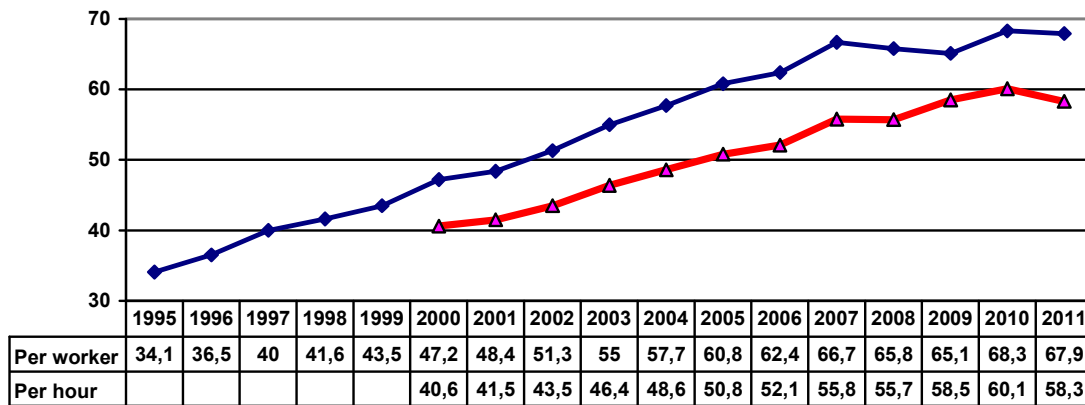


Figure 8. Productivity growth in Estonia (EU=100), 1995-2011 (Code: tsieb030; code: tsieb040)

Source: the authors' illustration

In Estonia yield per worker, i.e. productivity grew 2.0 times during the period under examination; however, it came to a pause during the economic crisis.

In contrast, in 2010 in Latvia, yield per one worker was 54.6% and 62.3% in Lithuania, similar to the EU-27 average. Among EU member states, the indicator was highest in Luxembourg (169.9), Ireland (136.9) and France (115.8) and lowest in Bulgaria (41.3) and Romania (48.8). Productivity was 1.5 times higher than the EU average in Norway (150.7) and the USA (143.5).

One working hour productivity displays a similar trend, having been highest in Luxembourg 187.1. Productivity in Estonia only amounts to 61.0%.

However, the prevailing trend is that regardless of growth in productivity elsewhere, the indicator rises noticeably quicker in Estonia and also other new EU accessions, than in veteran and wealthy EU-15 countries.

When analysing productivity in EU-27 (added value produced by one worker) by sectors of the economy and the size of companies, one cannot draw an equipollent (equal in force or effect) conclusion regarding productivity and the number of workers engaged in the company. It is conditioned by the particular sector of the economy. For instance, productivity among energy and water management companies is highest in small firms with up to 9 persons on payroll. On the other hand, for companies active in the lease of movable property, accommodation (housing) companies, and among all the sectors of the economy taken together as an entity, productivity is highest in big firms that employ 250 or more workers. Highest productivity among textile and habiliment (articles of clothing) firms can be noted in companies with 10 - 49 workers; the same can be said for timber companies with 50 – 249 workers. (Code: tin00054)

A more detailed analysis of the productivity indicators of Estonian companies and the labour expenses in current prices, i.e. the predominant share constituted by salaries, is brought below.

In Estonia, productivity differs little for companies in the size of up to 249 workers. In 2003 and 2007 firms with 50 – 99 workers boasted the largest productivity; in 2005 it was companies with up to 9 workers and for the rest of the surveyed period, companies with 100 – 249 workers dominated. Invariably, large companies with smaller productivity had 250 and more workers. This can be accounted for by the fact that smaller companies have larger flexibility in management, a smaller number of ancillary personnel and also because the workers of small companies are more likely to be “jacks of all trades” than in big companies. In big firms productivity is sapped, as a general rule, by large overheads.

Estonian labour productivity growth in 2010 was 4.6% and -1.7% in 2011.

Table 3. Productivity indicators of Estonian companies in current prices, 2001-2012 (Code: FS0411)
Labour productivity per employed person on the basis of net sales, thousand euro

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
I quarter	10.8	11.1	12.3	13.6	15.2	17.6	20.6	21.2	18.5	20.8	25.2	27.1
II quarter	12.2	12.9	13.4	15.2	17.3	20.2	23.4	23.4	20.4	24.0	27.6	29.3
III quarter	12.3	12.8	14.0	15.4	18.2	21.0	23.6	24.0	20.8	25.2	28.1	29.7
IV quarter	13.4	13.6	15.0	16.6	19.7	22.0	24.4	22.0	21.7	26.8	29.3	30.7
Labour productivity per employed person on the basis of value added, thousand euro												
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
I quarter	2.1	2.4	2.5	2.7	3.4	4.0	4.2	3.2	3.5	4.3	4.7	
II quarter	2.5	2.6	2.8	3.3	3.9	4.7	4.6	3.7	4.1	5.0	5.4	
III quarter	2.5	2.7	2.8	3.4	4.2	4.7	4.6	3.5	4.4	5.0	5.4	
IV quarter	2.6	2.7	2.9	3.6	4.5	4.7	4.0	3.8	4.7	5.1	4.9	

From the second half of 2006, productivity per employed person in reference to sales revenues was over 20 thousand euro. A dramatic decline occurred in QI of 2009, which was followed by a slow growth, whereas QIII and QIV of 2010 were record-breakers. Admittedly, Estonia has made its exit from the economic crisis mainly along the intensive road, i.e. on account of productivity growth.

Productivity per employed person in reference to added net value has changed due to other regularities. As late as in QIV of 2010, Estonia reached the level of the three successful pre-crisis quarters of 2007. Whereas in QIV of 2010, the level was already 1.5 times higher than productivity in the deepest slump of the crisis in QI of 2009.

After the crisis, productivity recovered quicker in reference to sales revenue than in reference to added value, which is an indicator of the runaway selling prices after the crisis.

While the above analysis by quarters supports the assumption that during the period of the economic crisis changes take place extremely rapidly, as a consequence, an analysis with one year precision will not provide a correct picture of upcoming changes.

Table 4. Productivity per employed person for Estonian companies (thousand euro), 2005–2011 (Code FS008)

	2005	2006	2007	2008	2009	2010	2011
By reference to sales revenue	72.1	81.2	92.2	93.6	81.2	95.4	112.0
By reference to value added	14.7	17.4	19.3	18.7	17.4	19.6	22.7

Sales revenue per employed person was 44.3 thousand euro in the first quarter of 2010, which is more than in the previous year but still falls short of the average of 2007 and 2008.

Performance of the business sector in relation to the net added increased by 18% in 2010, while the midsize labour costs per employee faces remained on the 2009 level.

Table 5. Average gross monthly wages and labour costs per employee (euro), 2002-2012 (Code: WS010)

		2002	2004	2005	2006	2007	2008	2009	2010	2011	2012
I quarter											
Gross wages	monthly	366	431	475	549	660	788	776	758	792	847
Monthly cost	labour	498	581	640	739	886	1 059	1 055	1 030	1 074	1 148
II quarter											
Gross wages	monthly	406	474	530	609	738	850	813	822	857	900
Monthly cost	labour	549	639	713	818	991	1 145	1 105	1 114	1 159	1 218
III quarter											
Gross wages	monthly	374	449	498	580	697	800	752	759	809	855
Monthly cost	labour	506	605	670	779	937	1 078	1 024	1 027	1 096	1 158
IV quarter											
Gross wages	monthly	416	492	555	653	784	838	783	814	865	916
Monthly cost	labour	565	665	750	879	1 056	1 137	1 069	1 105	1 175	1 249

Productivity reverted to a decline in the second half of 2007 and reached the bottom of the slump in the IV quarter of 2008. On the other hand, salary increased and reached record sizes in the II and IV quarter of 2008, when productivity had plummeted.

At the beginning of the decade under survey, beginning from 2001, the largest growth in gross monthly salary was witnessed in state companies and a smaller growth in foreign entities under private law. In 2009, all forms of ownership experienced a drop in salaries, mostly in Estonian entities under private law.

As a general rule, salaries have exhibited slower growth in Estonia than productivity. The same also holds true for other countries presented in this article. Although impressive leaps in both directions to occur sporadically.

A large growth in salary units took place in the Baltic States in 2007 and 2008 in connection to productivity. 2010 witnessed a development in the opposite direction.

In 2011 Estonian salaries grow quicker than productivity, however, in 2012 productivity will grow more impetuously than salaries.

Conclusions

In conclusion, the economic crisis in the Eastern European and Baltic countries is behind us. The Baltic States are again the largest EU GDP increments. There is an increase in productivity and wages. Average wage growth in these countries has been a bit higher than in Western Europe (EU-15) countries.

But still, the EU-15 countries productivity is significantly higher than the productivity of the Eastern European and Baltic countries. There is still a large gap between wages and related problems. The outflow of Eastern Europe and the Baltic countries have increased.

In 2011, monthly labour productivity in Sweden was 1.70 times higher and 1.61 times higher in Finland than in Estonia. Net annual salary in Sweden was 27,320 euro, 25,385 euro in Finland and 6,664 euro in Estonia – the respective relations being 4.10 and 3.81. Based on the data from Sweden, according to labour productivity, annual net salary in Estonia should be 17,697 euro, which is more than two times higher than it is now. Based on Finnish data, the respective figures are 16,166 euro. Due to the differences in the Swedish, Finnish and Estonian tax systems, we are currently comparing net salaries.

However, it is not enough to compare merely gross and net salaries: for a deeper analysis, price levels, social expenditures, family budget and other social figures must also be observed. In Estonia, certain prices of more expensive goods and services may even reach the price levels of Germany, but in overall, the price levels in Estonia are still lower than in richer Western European countries.

When comparing the salaries in the public and private sectors in Estonia, it must be taken into account that the number of people with higher education is much bigger in the public sector, than in the private sector. Therefore, as the qualifications of the workers are too different, it is not feasible to compare, for example, the salaries in education (public sector) with the salaries in services (private sector). Unfortunately, the salaries of workers with higher education do not differ that greatly from the salaries of workers with basic education.

Estonian productivity is 68%, but salaries are below 30% of the EU average. Consequently, as a general rule it is possible to raise salaries at such a level of average productivity primarily at the expense of owner profit. This would also lessen the drain of qualified workforce. Keeping qualified workers in Estonia is in the long run also beneficial to the employer. A reasonable raise in salaries would be a beneficial future investment for companies. In addition, the rise of profit would be insured by retaining qualified workforce and by decreasing or saving on the training expenses of new employees, etc. But we must also not forget the golden rule of economic theory: the main goal of a business enterprise is earning profit to its owners. Hence, a conflict of interests arises. Therefore we may also look at different enterprises from a viewpoint of whether their activity is only focused on the present or does it also consider the future.

Productivity in the ratios of other post-socialist countries among new EU states is also substantially higher than salaries.

Significant discrepancies between productivity and salaries cause labour to move from East European states to states with higher salaries. On the other hand, it must be taken into account that East European countries generally produce lower value goods than those produced in Western Europe. Nevertheless, over time the labour market will put productivity and salaries into the correct relationship, but by that time new EU member states will have lost part of their precious labour.

The possibility of raising salaries should be analysed separately by economic branches, jobs and professions. Eastern European countries, including Estonia, could try to model after the experiences of developed industrial countries. In order to find better and more competitive employees, salaries could be raised in the areas, where results (turnover and profit) are more connected to the quality of the workforce. Results should certainly also be connected to productivity and the quality of work through salaries and bonus systems. These generalisations could also be made in connection to other new EU countries.

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