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Impact of Accession on the Labour Markets of the New Member States

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EVIDENCE

Economic performance

- The annual rate of economic growth in the new Member States – which has averaged around 4% since 2000 – is now twice the EU25 average, and the economies are attracting high rates of foreign direct investment.
- The new Member States' economies are becoming increasingly integrated with rest of EU25. in terms of both trade and production Since their economies are growing much faster than those of EU25 as a whole, they are creating markets for EU15 countries, as well as raising their own living standards.
- Higher rates of economic growth in the new Member States between 2000 and 2004 were not sufficient to create additional employment, given their high rates of productivity growth as the wide gap with levels in the EU15 countries in all sectors of activity began to be narrowed and as they shifted production into higher value-added, higher skill, economic activities.
- However, 2005 marked a turning point, with an increase in the overall employment rate in the new Member States of close to 1%, with all central and eastern European countries benefiting to some extent.

Size and living standards

- The impact of enlargement on the EU as a whole should not be exaggerated: entry of the new Member States increased EU employment by 15%, but only raised GDP by 9% because of the lower average productivity in those countries
- The new Member States differ markedly in size and economic performance. Poland accounts for around half, in terms of both population and GDP, though slightly less in terms of employment
- Average real living standards, in terms of GDP per head measured in purchasing power standards, are only around 55% of EU25, but some new Member States – Cyprus and Slovenia – are already at 80% or more.

Employment rates

- Employment rates in the new Member States are commonly reported as being much lower than in EU15 – 57% as against 64%. This is correct, but potentially misleading since the great majority of those employed in the new Member States work full-time whereas a significant number in the EU15 work part-time.
- Part-time work accounts for only 8% of employment in the new Member States compared with 18% in EU25, with the majority of part-time work done by women in both cases.
- If the employment data is adjusted to full-time equivalents (FTE) to take account of part-time work, then the apparent employment rate gap between the new Member States and EU25 falls from 7 percentage points to just 2 percentage points i.e. the difference in the 'volume' of employment carried out is much less than the difference in the number of people at work.

Women and men

- Employment rates of women are 6 percentage points lower in the new Member States than in EU25, but in FTE terms they are 2 percentage points higher.
- Male employment rates in the new Member States are lower than in EU25 in both unadjusted terms (8 percentage points) and in FTE terms (6 percentage points).

Young people and older workers

- Employment rates of young people (those aged 16-24) are much lower in the new Member States than in EU25: 24% as opposed to 37%, with employment rates of young women around 21% as opposed to 27% for young men. This reflects the much more limited extent to which employment is combined with training in these countries than in other parts of the EU and the smaller importance of apprenticeship schemes, as well as the greater difficulty young people have in finding a job.
- Employment rates of older workers (those aged 55-64) are lower in the new Member States than in EU25 – 31% against 36%. This partly reflects the lower official age of retirement in a number of the countries than in most EU15 Member States.

Unemployment rates

- While the economies of the new Member States have coped with the upheavals of transition, restructuring and modernisation, some people have clearly suffered and are failing to benefit from the new opportunities.
- This is reflected in an unemployment rate that was non-existent before the transition but which rose rapidly as soon as it begum, reaching an average of 10% in 1998 and then increasing further to 13.5% in 2005, while EU25 unemployment fell slightly over the latter period to below 9%.
- Difficulties faced by those seeking to return to work are reflected in the extent of long-term unemployment, with some 55% of the unemployed in the new Member States having been unemployed for a year or more compared with 45% in EU25.

Income inequalities

- Relative poverty rates within the new Member States are as varied as in the rest of the EU, even between neighbouring countries. The Czech Republic has the lowest rate, while Slovakia has the highest. Hungary, Slovenia, Latvia and Bulgaria have lower than average rates, while Latvia, Romania, Poland, Estonia and Lithuania have above average rates.
- Minimum monthly wages also vary between countries, much as they do in the rest of the EU, ranging from around 35% of average national monthly earnings in Slovakia, Romania, Estonia and Poland to 38-39% in Lithuania, Latvia and the Czech Republic, 40-45% in Hungary, Bulgaria and Slovenia, rising to 49% in Malta.

Working conditions

- Compared with the EU25 average, men in the new Member States currently work some 2 hours a week longer than the EU25 average, and women work even longer, on average (partly because there is little part-time work).
- The use of fixed-term contracts has increased rapidly in the new Member States and now exceeds the EU25 rate – 16% against 14% – with many workers in medium-sized and large companies (50+ employees) employed in this way in the new Member States.

Labour market reforms and challenges

- Labour market reforms have been wide-ranging in the context of the European employment strategy and the integrated guidelines, as well as under the influence of Community legislation in relation to labour law and industrial relations.
- While these have brought benefits, some significant structural imbalances have developed, as reflected in:
  - problem groups – notably young people and those who are less well educated having very low employment rates;
  - problem regions – with both agricultural and older industrial areas being left behind compared with other region, and the capital city regions in particular.
- Outward migration has been larger than predicted, but relatively problem-free in the receiving countries, despite some initial fears. However, there are concerns in a number of the new Member States about the 'brain drain' effect as many of those leaving have been the most highly educated.

Regional income and unemployment differences

Income levels in the most urbanised areas in the new Member States are now 70% above the average for the country as a whole and, In countries like the Czech Republic and Slovakia, unemployment rates in peripheral or backward (agricultural or industrial) regions can be four times higher than in capital cities and urban areas.

Structural changes

Over the period 1998-2005, the economies of the new Member States converged towards EU25 sectoral employment structures with:

- reductions of 3% of employment in manufacturing; 2% in agriculture; and 0.5% in mining/utilities and low skill market services
- increases of 1% in employment in communal services; 2% in high skill market services (i.e. business and financial services).
- Nevertheless, compared with the EU25 average, employment is more concentrated in declining sectors (22% as against 18% in manufacturing) and below the EU25 average in growth sectors (8% as against 12% in high skill market services).

Convergence

- Differences in living standards as compared with the rest of EU25 are narrowing, but average real living standards in the new Member States, measured in terms of GDP per head, adjusted for price level differences (i.e. measured in purchasing power standards) are still only 56% of the EU25 average, and differences within individual new Member States are widening as the economic fortunes of regions diverge.
- Opinion surveys suggest that the level of satisfaction with working conditions in the new Member States are close to the EU25 average, but there appears to be considerable uncertainly among working people concerning job security.

Acqui communautaire

- The acqui communautaire has been interpreted very positively by the European Commission on the grounds that the new Member States have notified their implementation of nearly 99% of EU directives. A fuller judgement awaits the verification of the quality of the transposition and the effectiveness with which it is applied.
- In terms of employment policies the new Member States are actively engaged in labour market reforms – setting quantitative employment rate targets, and committing themselves to actions through national reform programmes.
- In terms of health and safety, the Commission has launched a new strategy for 2007-12 which puts much more emphasis on monitoring progress and enforcement, and it remains to be seen how far the new Member States are able to raise their performance.
- In terms of the social dialogue, considerable efforts have been made to assist the new Member States and their social partners to develop the social dialogue at all levels, including through co-operative actions with the old Member States. Progress is not easy, although European Works Councils provide one route through which practices in the new Member States can be effectively linked with other Member States.

CONCLUSIONS

1. The new Member States experienced a difficult economic, social and political transition during the1990s, with large scale economic restructuring, significant job losses, a dramatic reduction in social support services, and, in many cases, a high degree of social unrest. How much of this could have been avoided, or alleviated, is mainly a matter for historical debate, but should be borne in mind in relation to the integration of Bulgaria and Romania.
2. The new Member States have adopted the acqui communitaire and generally embraced the EU' 'social model' approach to structural adjustment. The EU has provided financial support for both institutional and economic restructuring.
3. Economic growth has increased and employment levels stabilised since 2000, with growth now running at twice the EU15 rate. Employment increasing for the first time in 2005, despite the higher rate of productivity growth in the new Member States given their much lower level of productivity compared with the rest of the EU.
4. If the new Member States are to converge more rapidly towards EU standards of living with the help of higher levels of employment, then even higher rates of economic growth will be required. Given the extent of integration with the rest of the EU economy, however, this is likely to imply higher rates of growth in the whole of the EU.
5. In one respect the overall employment position in the new Member States is better than generally reported. Unadjusted employment rates are some seven percentage points below the EU25 average. However, since most of the employment in the new Member States is full-time, the gap measured in terms of the 'volume' of employment (i.e. in full-time equivalents) is only 2%.
6. The new Member States are being encouraged to develop more flexible working patterns, with more part-time work and temporary work, as part of the process of labour market modernisation, which should provide opportunities for more people to participate in the labour market, and share incomes. However, employees in the new Member States already consider their working hours arrangements to be at least as compatible with their family/social commitments as employees in other EU27 Member States. Equally, any move towards more part-time working has to overcome the fact that employees in the new Member States are unlikely to be able to accept the lower wage levels which part-time working implies.
7. The major employment problems in the new Member States are related to a divergence in economic activities – between regions and localities, between skill groups, and between foreign and domestic firms. The main growth regions are those in and around capital cities (which vastly outperform all other areas); most of the major recruitment is taking place in foreign owned companies,(with most of the job losses in domestic companies); and the job prospects for those with low education levels are, everywhere, very poor.
8. No general problems are reported by the European Commission concerning the adoption of the *acqui communautaire* with 99% of EU Directives implemented. However, this legislative transposition has still to be fully reviewed, and there are no grounds for complacency given the still underdeveloped and under-financed administrative and legal structures in many of the new Member States.

On the other hand, active support for employment targets and labour market reforms are encouraging, as are actions to promote social dialogue, albeit from a low base.

9. The Community is set to increase its financial support for the new Member States over the next budget period, with an additional focus on Bulgaria and Romania. This is a significant improvement over the past. However, it will be important to help the new Member States to identify their priority needs correctly, and to help them develop and strengthen their institutional and organisational 'capacity' to use EU funds fully and effectively.

10. A 'rising tide' of economic growth does tend to 'raise all boats', but the tide is too weak at present to do much for people and regions lower down the order in the new Member States. Ensuring that everybody benefits from accession requires the problems to be correctly recognised, and a combination of measures targeted on them. Deregulation of markets and access to foreign direct investment are important elements in ensuring economic and employment success, but they are not sufficient. Public policy support and positive structural adjustment policies are also needed.

11. Starting points and challenges for individual Member States vary a great deal – obviously between poorer and richer localities, but also between the new Mediterranean Member States and those in central and eastern Europe. Income levels in the accession countries now range from around 30% of the EU average in Bulgaria and Romania up to 80% Slovenia and Cyprus, within an average figure of 56% of the EU27 as a whole. Based on the positive experiences of past enlargements, however, that average could rise to 65% or more over the coming decade, and to 75%, even 80% a decade further on.

12. In terms of the entry of Romania and Bulgaria, the main lessons that can be drawn from the experience of the Central and Eastern European countries that preceded them is the need to ensure there is adequate policy support (labour market, regional and industrial) for tackling problems faced by backward regions and poorly educated members of the workforce if they are to avoid the emergence of dual economies and societies: one (growing) part linked to the rest of the EU, and one (declining) part rooted in the past.

RECOMMENDATIONS

1. Significantly higher rates of economic growth and job creation are needed in order to deliver more jobs and raise living standards more quickly, given the high rates of productivity growth in the developing economies of the new Member States.
2. Positive labour market flexibility needs to be promoted, rather than more precarious work, in order to improve access to the labour market and raise confidence among the workforce.
3. The new Member States need to focus more on tackling the problems of declining regions and the difficulties faced by the young and unskilled, with support from EU structural funds.
4. Education and training systems need to be better adapted to the needs of modern economies and societies, probably involving closer co-operation between companies, regions and public agencies.
5. Effective implementation as well as transposition of social legislation needs to be assured, with much more support for the development of effective social partnership, particularly from employers and trade unions with experience in EU15.
6. The positive experiences of previous enlargements, as well as the 2004 enlargement, should inform policy regarding the integration of Romania and Bulgaria, not least with regard to developing an effective social dialogue, while respecting the autonomy of the social partners.

IMPACT OF ACCESSION ON THE LABOUR MARKETS OF THE NEW MEMBER STATES

INTRODUCTION

When the 10 new Member States joined the EU in May 2004, mixed views were expressed about their economic and social prospects. Some thought that many would have difficulty adapting to the high productivity, competitive environment of the EU, while others felt that their low wages and lower social standards would work to their benefit and the detriment of others.

This report provides a detailed factual review of labour market developments in the New Member States, collectively and individually, from 1998 to 2005, with appropriate comparisons with EU25/27 as a whole.

This is designed to provide a general assessment of:

- how well the new Member States have coped with transition and EU entry
- how far they appear to be achieving EU standards in the employment and social area and the problems that are emerging
- what conclusions should be drawn regarding their experience in recent years, including their relevance for the entry of Romania and Bulgaria.

Methodology and data

In most cases, data in the report is presented for each of the individual new Member States, for the new Member States as a whole (NM10) and for EU25, using the latest date available, namely 2005.

The use of EU25 averages provides a common basis for comparison for all EU Member States, 'new' and 'old', and is more appropriate than EU15, even though the difference is not generally very significant since EU15 accounts for 85% of employment in EU25.

In some cases – for example, in regional comparisons – it can still be useful to present findings in terms of 'old' and 'new' Member States. There are also cases where it is more appropriate to address the new central and eastern European countries apart from the new Mediterranean Member States.

Most of the data covers the years 1998 to 2005. In some cases the report uses the letters NM10 to refer to the new Member States, and the official country codes for each individual country.

CZ	Czech Republic	Česká republika
EE	Estonia	Eesti
CY	Cyprus	Κύπρος/Kıbrıs
LV	Latvia	Latvija
LT	Lithuania	Lietuva
HU	Hungary	Magyarország
MT	Malta	Malta
PL	Poland	Polska
SI	Slovenia	Slovenija
SK	Slovakia	Slovensko

Some data on Bulgaria and Romania is presented in the report, but it is not, of course, included in the NM10 aggregations or averages.

Country size matters

Within the enlarged EU, the new Member States (NM10) account for some 16% of the total population – 73 million out of a total of 453 million – 15% of total employment – 30 million out of 197 million – but only 9% of total GDP (measured in purchasing power standards).

Poland tends to dominate the data for the NM10 since it accounts for 51% of the total population and nearly 48% of employment in the 10 countries. Hence it is generally important to address situations and developments in individual countries as well as in the group of countries as a whole.

The term percentage point is sometimes used to indicate a change in the percentage point from, say 50% to 52% – a 2 percentage point increase – as opposed to saying that there has been a 4% increase (52/50 x 100).

Data

Most of the data used in the report is drawn from the Eurostat NewCronos database. However, a variety of other statistical sources have been used, including UNCTAD data on foreign direct investment, opinion surveys conducted by Eurobarometer and the European Foundation for the Improvement of Living and Working Conditions, together with specialist databases on company expansions and contractions in the new Member States..

Other material has been drawn from a range of European Commission reports, and analyses carried out by The Vienna Institute for International Economic Studies, either independently or in conjunction with Applica.

Table 1 Population and employment, 2005

in thousands	Total population	Population 15-64	Total employment	Employment 15-64
CZ	10,229	7,270	4,764	4,710
EE	1,343	910	607	586
CY	727	494	348	338
LV	2,305	1,583	1,034	1,002
LT	3,424	2,322	1,474	1,454
HU	9,932	6,815	3,902	3,879
MT	402	274	149	148
PL	37,527	26,211	14,116	13,834
SI	1,999	1,402	949	925
SK	5,379	3,824	2,215	2,207
NM10	73,268	51,103	29,557	29,082
EU25	453,831	305,076	197,477	194,551

Measuring living standards

Before accession, misleading statements were commonly made about the extremely low standards of living in the then candidate countries, and the implication this might have for convergence and integration.

Such statements were misleading because they made comparisons on the basis of market exchange rates between currencies – which are relevant for trade, but not for comparing domestic standards of living.

Our analysis uses PPS (purchasing power standards) data, which seeks to provide comparisons of real standards of living, taking account of generally lower price levels as well as lower wages. These comparisons have their weaknesses, but they are the most realistic available.

PART A: INCOMES, EMPLOYMENT AND LABOUR MARKET DEVELOPMENTS

PRE-ACCESSION

Following the transition in 1988/91 (the exact year in which the former regime was abandoned varying between countries), the countries of Central and Eastern Europe experienced considerable upheaval over the next decade, most especially in the first 4-5 years or so, including in many cases an initial collapse of output, crises in banking and in the restructuring of basic industries, notably in Hungary in the mid-1990s and in the Czech Republic and Slovakia at the end of the 1990s.

As a consequence the ‘catching up’ process that was originally foreseen to take place rather rapidly, has proceeded much more slowly with average real GDP growth per head growing no faster in the new Member States than in the old Member States between 1993 and 2000.

From 2000 onwards, however, the economic ‘catching up’ process has gathered pace in the new Member States, while economic growth slowed significantly in the old Member States (with a few exceptions, notably, Greece and Ireland).

The Baltic States and Bulgaria and Romania experienced particularly high rates of annual economic growth – of the order of 5.5% – with growth in the other new Member States somewhat lower, at between 3% and 3.5%. This was nevertheless, significantly higher than the average economic growth of less than 1.5% in the old Member States over the period 2000-2005.

Despite this convergence, the overall income gap between the new Member States and the old remains large. Moreover, there are:

- significant differences in levels of GDP per head, and rates of ‘catching up’, between the new Member States
- pronounced differences in growth and incomes among regions within Member States, and across the central and eastern European region as a whole.

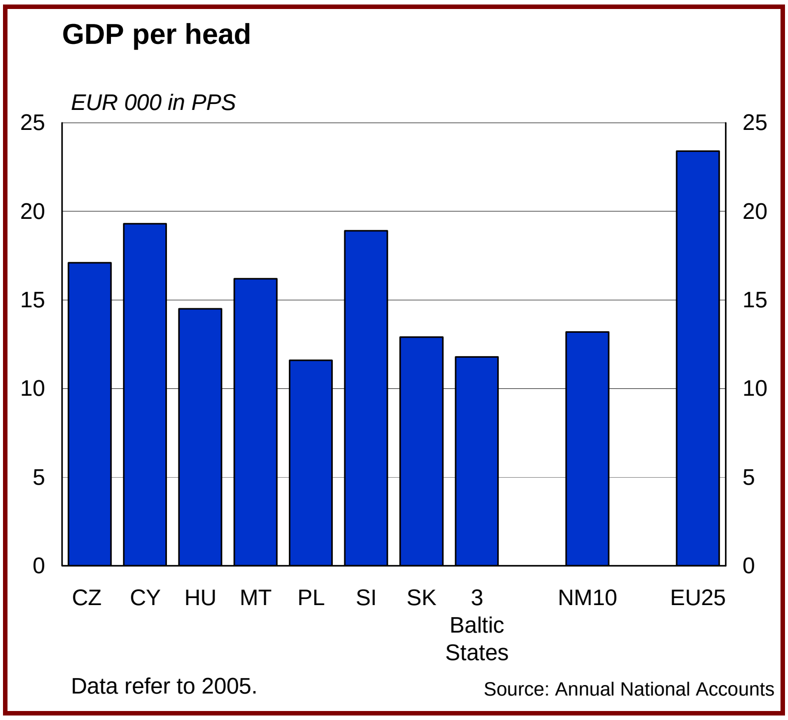
INCOMES

GDP per head of population

Data on average GDP per head of population (i.e. total output shared evenly across the entire population) suggests that the average living standards in NM10 are now, 2005, some 56% of the average of the whole EU25.

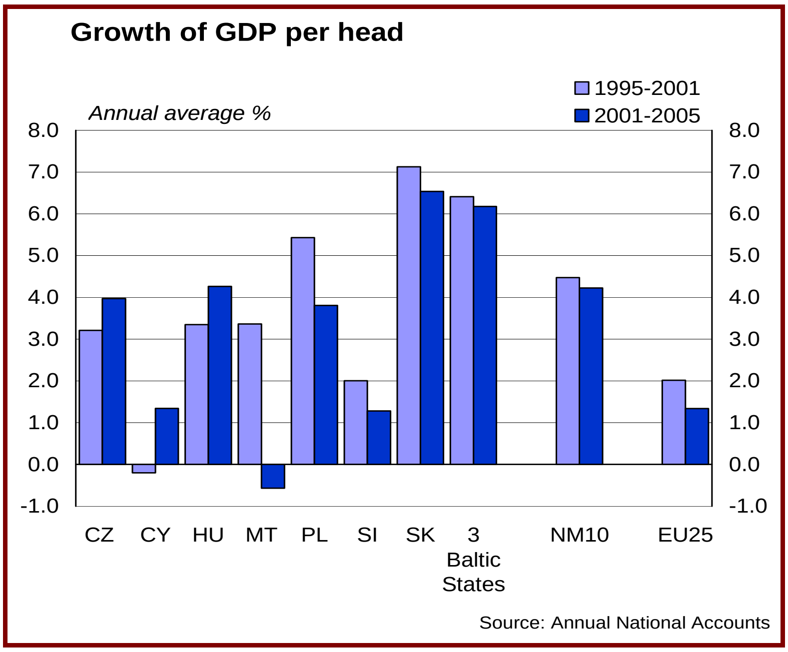
Poland, Slovakia and the three Baltic States are below the average – at 50%, 55% and 50% respectively, with Poland pulling the NM10 average down considerably, while Cyprus and Slovenia are much closer to the EU% average, with 82% and 80% respectively. Below them are the Czech Republic at 73%, Malta at 69% and Hungary at 62% of the EU25 average.

Figure 1



It can be noted that, on entry to the Union, comparable figures for Portugal and Ireland were 55% and 62% of the then EU average, respectively.

Figure 2



Levels and changes in GDP per hour worked

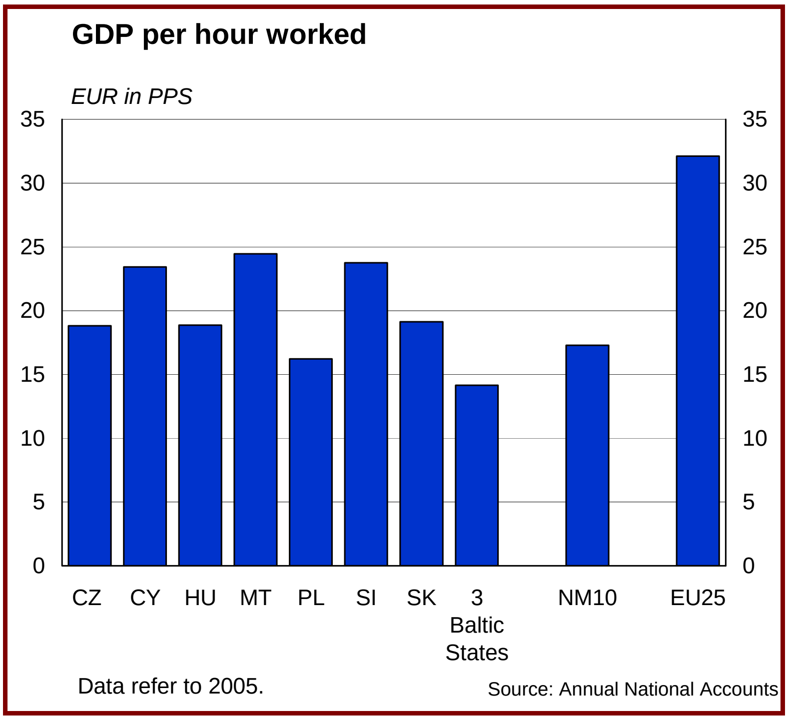
GDP per hour worked is a commonly used measure of productivity. – at least of labour productivity. On this basis, the level of productivity in NM10 is slightly below the figure for living standards, at 54% of EU25.

This performance represents a significant catching up by the NM10 countries. They achieved an average annual growth in productivity per hour well in excess of 4% – 4.5% between 1998 and 2001, and 4.2% between 2001 and 2005.

During the same two periods, EU25 as a whole only achieved a growth rate of 2% and 1.3% a year over these two periods.

Differences between individual countries partly reflect their starting points. Slovakia has, therefore, shown the highest growth in GDP per hour worked each year, of the order to 7% over the 1998 to 2005 period, with the three Baltic States achieving in excess of 6% over the same period, while Cyprus, by contrast, has averaged only around 1%.

Figure 3



EMPLOYMENT

Overall there have been divergent trends in employment between EU25 as a whole and the NM10 as a whole, as well as between the new Member States themselves.

The following comparisons use employment rate data – i.e. the proportion of people aged 15-64 who are in employment, whether full-time or part-time.

Employment rates

Employment rates rose slowly but relatively steadily in EU25 from 61.2% in 1998 to 63.8% in 2005 (a gain of 2.6 percentage points), while those in NM10 declined from 60% to 56.9% (a drop of 3.1% points) over the same period.

Within the NM10, there has been good and bad news. Employment rates fell over this period in the Czech Republic (but from a level well above the EU25 average), Estonia (marginally), Malta (marginally), Poland (heavily from 59% to 52.8%), and Slovakia.

Employment rates increased, however, in Cyprus, Latvia, Lithuania and Slovenia. Moreover, 2005 witnessed an increase in the employment rate in 8 out of the NM10 countries compared with 2004, with the exception of Cyprus (which has the highest employment rate in the NM10) and Malta (marginally).

In terms of levels, Cyprus remains the top NM10 performer (with a 68.5% employment rate) followed by Slovenia at 66%, CZ at 64.8%, and Estonia at 64.4%, compared with the EU25 average of 63.8%.

In this context, the employment rates in Bulgaria and Romania in 2005 were 55.8% and 57.6% respectively.

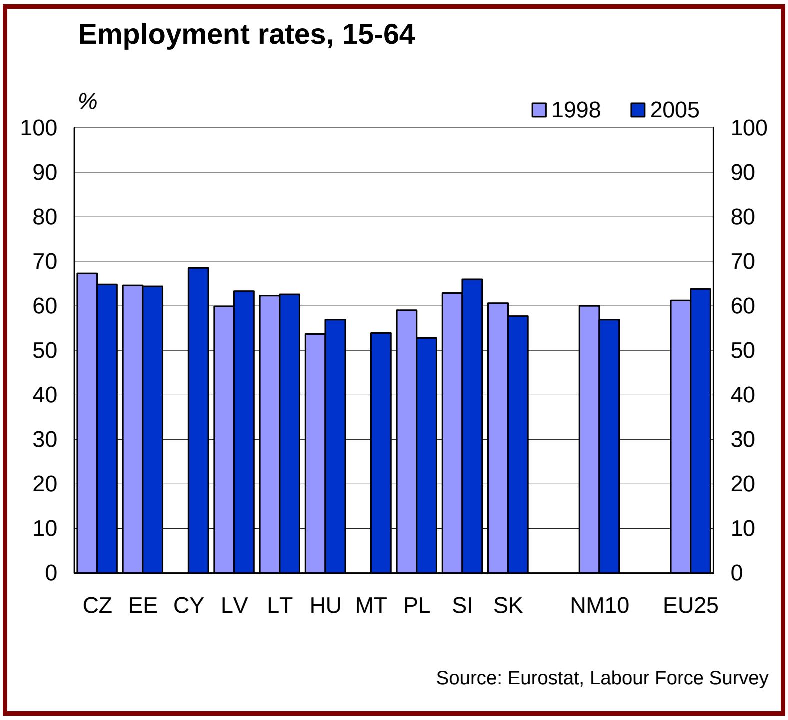
Table 2 Employment rates in NM10 and EU25

Employed as % of working age population 15-64

Total	1998	1999	2000	2001	2002	2003	2004	2005
CZ	67.3	65.6	65.0	65.0	65.4	64.7	64.2	64.8
EE	64.6	61.5	60.4	61.0	62.0	62.9	63.0	64.4
CY	:	:	65.7	67.8	68.6	69.2	68.9	68.5
LV	59.9	58.8	57.5	58.6	60.4	61.8	62.3	63.3
LT	62.3	61.7	59.1	57.5	59.9	61.1	61.2	62.6
HU	53.7	55.6	56.3	56.2	56.2	57.0	56.8	56.9
MT	:	:	54.2	54.3	54.4	54.2	54.0	53.9
PL	59.0	57.6	55.0	53.4	51.5	51.2	51.7	52.8
SI	62.9	62.2	62.8	63.8	63.4	62.6	65.3	66.0
SK	60.6	58.1	56.8	56.8	56.8	57.7	57.0	57.7
BG	:	:	50.4	49.7	50.6	52.5	54.2	55.8
RO	64.2	63.2	63.0	62.4	57.6	57.6	57.7	57.6
NM10	60.0	59.0	57.4	56.6	55.8	55.9	56.0	56.9
EU25	61.2	61.9	62.4	62.8	62.8	62.9	63.3	63.8

Source:Eurostat, Labour Force Survey

Figure 4



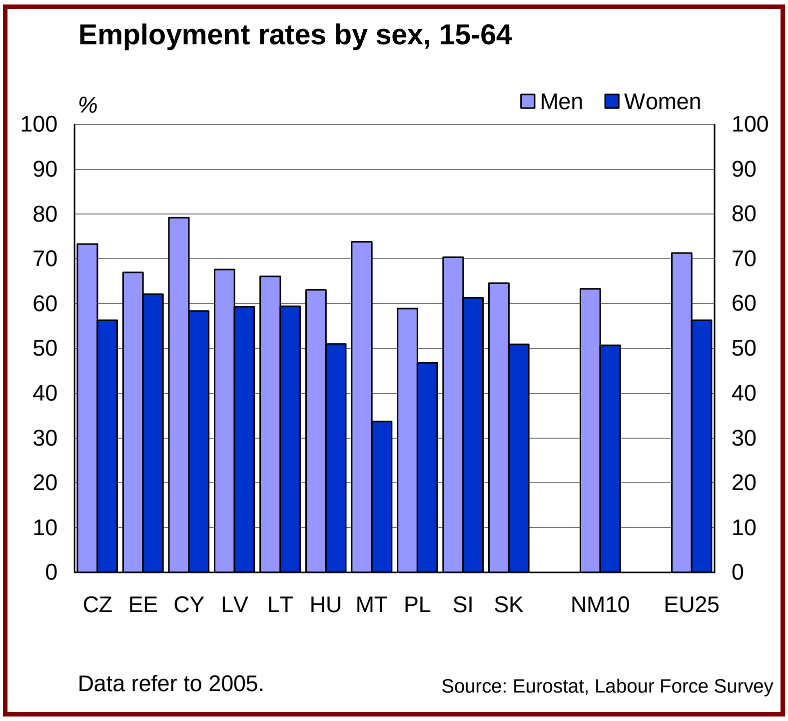
Employment rates of women

From 1998 to 2005 the employment rate of women in NM10 declined from 52.8% to 50.7% – a drop of 2.1 percentage points.

In this period 5 new Member States increased their employment rate of women – Estonia, Latvia, Lithuania, Hungary and Slovenia – but their performance was not enough to offset the decline in other new Member States, notably in Poland, where there was a very significant drop – from 51.7% to 46.8% – particularly taking account of the size of the country, and the heavy weight it carries in such comparisons.

In terms of the employment of women – where a relatively high proportion work part time in EU15, unlike in the new Member States – the FTE employment rate is higher in NM10 – at 46.6% – than it is in the EU as a whole – 44.8%.

Figure 5



In fact all the new Member States have female FTE employment rate above the EU25 average, apart from Malta and Poland.

Employment rates of men

In contrast to female employment rates, however, male employment rates in the new Member States are well below the EU25 average today, having declined from 67.3% in 1998 to 63.3% in 2005 (a drop of 4 percentage points) while male employment rates in EU25 as a whole increased – albeit modestly – from 70.6% to 71.3% (an improvement of 0.7 percentage points) over the same period.

Despite this, male employment rates in the new Member States are now above in EU25 average in 3 new member States – the Czech Republic, Cyprus, Malta – but with the NM10 average being pulled down by the very low 58.9% rate in Poland in 2005 – a decline from 66.5% in 1998 (a loss of 7.6 percentage points).

In Bulgaria and Romania, the male employment rates in 2005 were 60.0% and 63.7% respectively.

Table 3 Employment rates in NM10 and EU25 – men and women

Employed as % of male/female working-age population 15-64

Men	1998	1999	2000	2001	2002	2003	2004	2005	FTE 2005
CZ	76.0	74.0	73.2	73.2	73.9	73.1	72.3	73.3	74.5
EE	69.6	65.8	64.3	65.0	66.5	67.2	66.4	67.0	66.8
CY	:	:	78.7	79.3	78.9	78.8	79.8	79.2	79.9
LV	65.1	64.1	61.5	61.9	64.3	66.1	66.4	67.6	67.9
LT	66.2	64.3	60.5	58.9	62.7	64.0	64.7	66.1	66.6
HU	60.5	62.4	63.1	62.9	62.9	63.5	63.1	63.1	63.4
MT	:	:	75.0	76.2	74.7	74.5	75.1	73.8	73.6
PL	66.5	64.2	61.2	59.2	56.9	56.5	57.2	58.9	59.0
SI	67.2	66.5	67.2	68.6	68.2	67.4	70.0	70.4	68.6
SK	67.8	64.3	62.2	62.0	62.4	63.3	63.2	64.6	65.4
BG	:	:	54.7	52.7	53.7	56.0	57.9	60.0	59.9
RO	70.4	69.0	68.6	67.8	63.6	63.8	63.4	63.7	64.0
NM10	67.3	65.6	63.7	62.6	61.8	61.7	62.0	63.3	64.1
EU25	70.6	71.0	71.2	71.3	71.0	70.8	70.9	71.3	70.1

Women	1998	1999	2000	2001	2002	2003	2004	2005	FTE 2005
CZ	58.7	57.4	56.9	56.9	57.0	56.3	56.0	56.3	52.1
EE	60.3	57.8	56.9	57.4	57.9	59.0	60.0	62.1	57.6
CY	:	:	53.5	57.2	59.1	60.4	58.7	58.4	51.8
LV	55.1	53.9	53.8	55.7	56.8	57.9	58.5	59.3	54.3
LT	58.6	59.4	57.7	56.2	57.2	58.4	57.8	59.4	56.1
HU	47.2	49.0	49.7	49.8	49.8	50.9	50.7	51.0	48.8
MT	:	:	33.1	32.1	33.9	33.6	32.7	33.7	28.6
PL	51.7	51.2	48.9	47.7	46.2	46.0	46.2	46.8	41.3
SI	58.6	57.7	58.4	58.8	58.6	57.6	60.5	61.3	56.3
SK	53.5	52.1	51.5	51.8	51.4	52.2	50.9	50.9	48.7
BG	:	:	46.3	46.8	47.5	49.0	50.6	51.7	50.6
RO	58.2	57.5	57.5	57.1	51.8	51.5	52.1	51.5	49.6
NM10	52.8	52.5	51.3	50.7	50.0	50.2	50.2	50.7	46.6
EU25	51.8	52.9	53.6	54.3	54.7	55.0	55.7	56.3	44.8

Source:Eurostat, Labour Force Survey

Table 4 FTE-Employment rates in NM10 and EU25

Employed as % of working-age population 15-64

Total	1998	1999	2000	2001	2002	2003	2004	2005
CZ	65.7	64.0	63.4	63.6	64.0	63.2	62.9	63.3
EE	62.2	59.5	58.2	58.8	59.9	60.3	60.7	61.9
CY			62.9	64.9	66.1	66.1	66.0	65.4
LV	57.0	56.0	55.0	56.0	57.9	59.3	59.4	60.8
LT	59.7		57.2	55.5	57.3	58.8	59.2	61.2
HU	52.8	54.5	55.4	55.4	55.4	55.9	55.7	55.9
MT			52.5	52.4	52.2	51.9	51.8	51.2
PL				50.8	48.9	48.7	49.0	50.1
SI	60.0	59.8	60.6	61.7	61.0	60.4	61.8	62.6
SK	60.9	58.7	57.3	56.3	56.4	57.0	56.3	57.0
BG				49.3	50.0	51.9	53.6	55.1
RO	63.4	62.6	62.2	61.5	56.9	57.0	56.9	56.8
NM10	60.0	59.3	58.9	54.9	54.3	54.4	54.4	55.3
EU25				57.4	57.4	57.3	57.3	57.4

Source:Eurostat, Labour Force Survey

Since few men who are in employment work part time in either the NM10 or EU25 as a whole, the male FTE employment rates in 2005 were close to the unadjusted figures in both cases. In the case of the new Member States, the FTE employment rate figure was actually higher than the unadjusted rates, at 64.1% as against 63.3% (reflecting the longer hours worked by men on average than normal full-time hours of work), while the comparable male employment rates for EU25 as a whole in 2005 were 70.1% for FTE and 71.3% for the unadjusted figures.

Figure 6

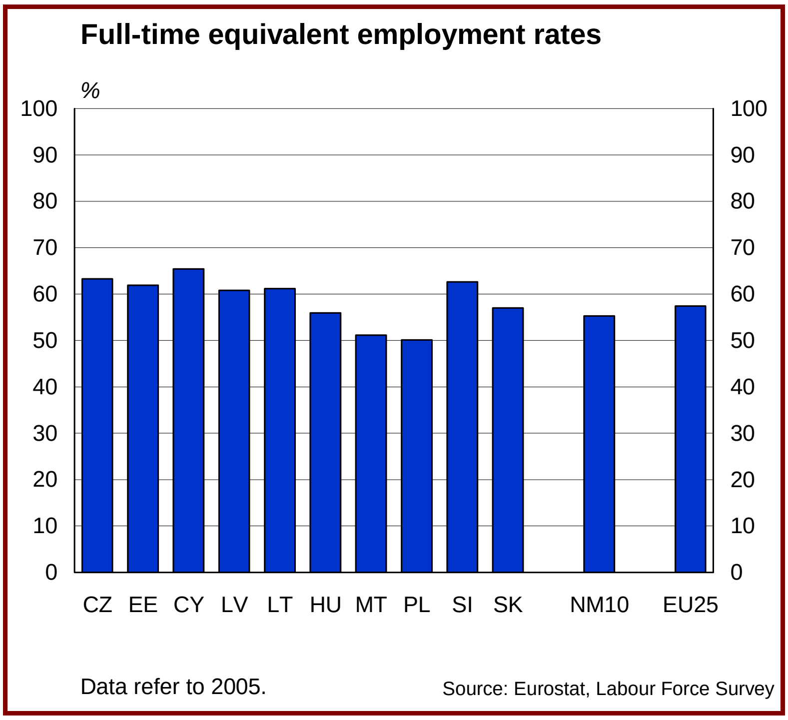
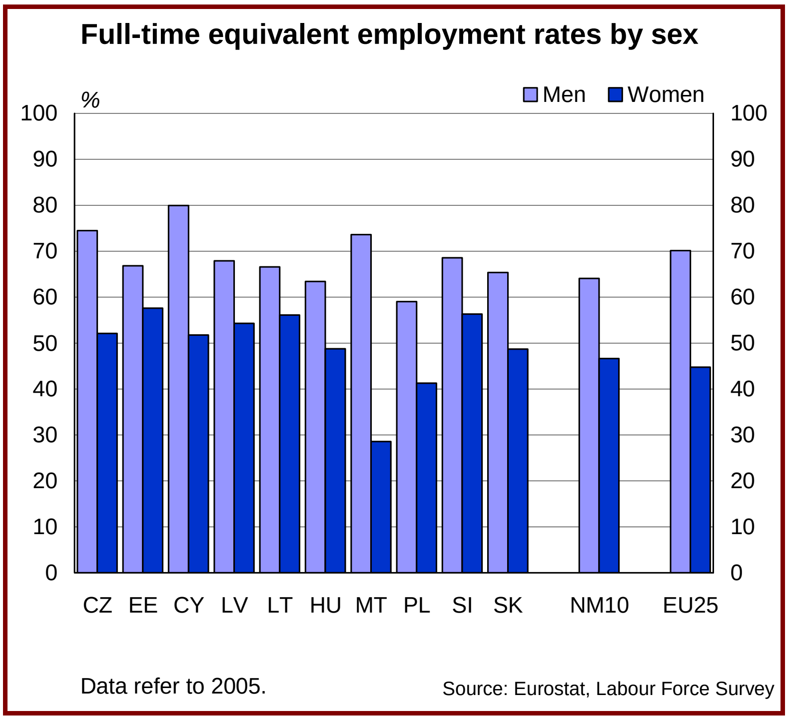


Figure 7



Meeting the Lisbon employment targets

In terms of achieving the original Lisbon target of a 70% overall employment rate by 2010 for the EU as a whole, the enlargement from EU15 to EU25 and the further enlargement to EU27 is sometimes presented as reducing still further the EU's slim chances of success.

However, the notion that enlargement has made this goal more difficult to achieve is misleading. The Lisbon targets are set in terms of numbers of people in employment, and take no account of the proportion of those jobs that involve part time or full time working.

This counts *against* the new Member States since a much lower proportion of workers, notably women, in those countries work part time – accounting for only 8% of total employment compared with more than twice that amount in EU25 as a whole.

In fact, it can be argued that full-time equivalent employment rates (that take account of the proportion of part-time workers) provide a more accurate comparison of the employment achievements or performance of the different Member States since it is a better measure of the *volume* of employment created.

On this basis, the difference between the employment rates in the new Member States and EU25 are much smaller. In 2005 the FTE employment rate in NM10 was only lower by 2.1 percentage points (55.3% against 57.4%) whereas the gap in unadjusted employment rates was much larger – 6.9 percentage points (56.9% as against 63.8%)

In fact, six of the new Member States – the Czech Republic, Estonia, Cyprus, Latvia, Lithuania and Slovenia – have total (men and women) FTE employment rates above the EU25 average, and the unadjusted employment rate figures for women show that two of the NM10 – Estonia and Slovenia – already meet the specific Lisbon target of 60% for women.

Employment rates of young people

For the new Member States as a whole, the youth employment rate (measured in terms of those aged 15-24) has fallen since the late 1990s, dropping 8.3 percentage points between 1998 and 2005. By 2005 the youth employment rate in the new Member States was down to 24.2% compared with 36.8% in EU25 as a whole. In fact, over the period 1998-2005, falls were recorded in all countries for which data was available (excluding Cyprus and Malta) although to varying extents. The largest decline was seen in the Czech Republic, Lithuania, Hungary and Slovakia.

Overall the sharp decline in the employment rates for young people in NM10 contrasts with the position in EU25 as a whole, where the rate was fairly stable throughout the period 1998 to 2005. This decline is seen to reflect the relatively low rate of new job creation in these countries, which inevitable affects young people disproportionately, especially when seeking to enter the labour market for the first time.

Figure 8

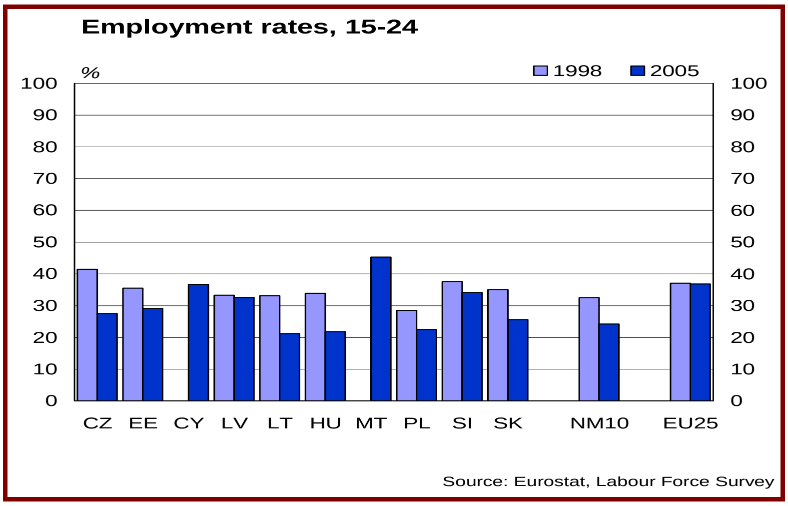
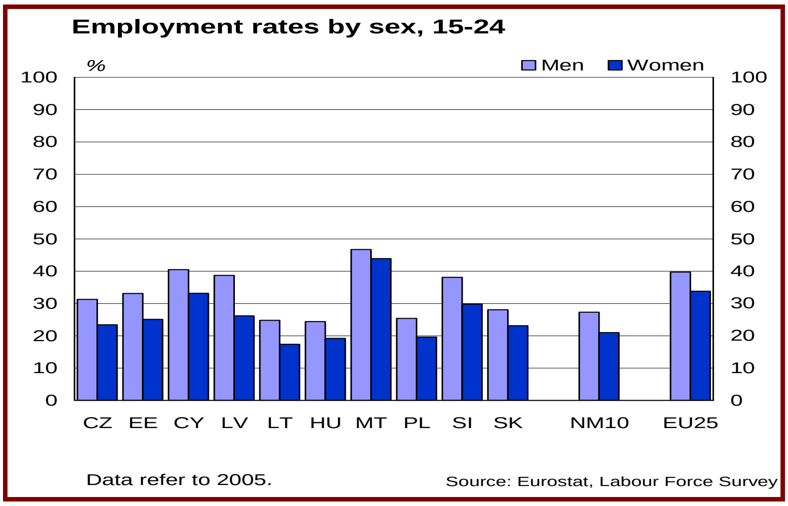


Figure 9



In terms of gender, the employment rates of young women are significantly lower – 21% as against 27.3% for young men – a gap of 6.3 percentage points, which is somewhat larger than the average 4.9 percentage point gap in the EU25. Overall, however, differences between employment rates of young men in NM10 and EU25 are much the same as differences between young women – of the order of 12.5 percentage points.

These gender differences are generally consistent across all the new Member States. However, the employment rate of young women in Malta is 43.9% – close to the male 46.7% rate, and well above the EU25 average of 33.8%, and the employment rate of young women in Cyprus is also close to the EU average at 33.2%.

Employment rates for young men are also above the EU25 average in Malta and Cyprus, and the rates in Latvia and Slovenia are close to the EU25 average.

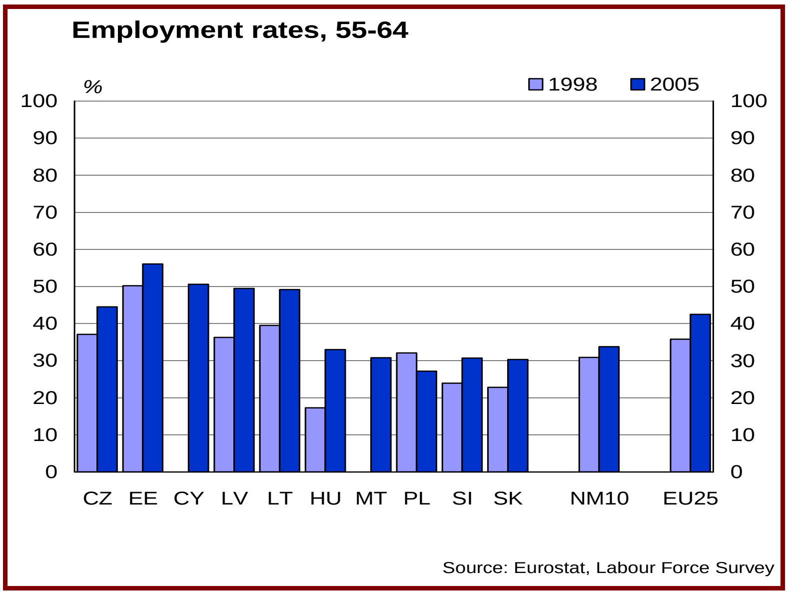
Part of the decline in employment rates can be attributed to more young people remaining longer in education. Indeed, the increase in the proportion remaining in education and training partly reflects the difficulty of young people to find work.

As noted earlier, the increasing difficulty that young people apparently face in making the transition from school to work is partly because of a lack of new jobs. However, it can also reflect a mismatch between the skills they have acquired, and the skills that are now demanded by the labour market.

Employment rates of older workers

The employment rate of older workers (measured as those aged 55-64) was well below the EU25 rate in 1998 – 30.9% as opposed to 35.8%. The rate increased somewhat over the period 1998 to 2005 – rising to 33.8% (an increase of 2.9 percentage points). However, the employment rate of older workers in the EU 25 as a whole increased much more strongly – to 42.5% in 2005 (an increase of 6.7 percentage points since 1998) – thereby widening the gap still further.

Figure 10



The new Member States fall into two clear groups with respect to older workers – those with employment rates of older workers grouped around 30% or less – including Hungary, Malta, Poland, Slovenia, Slovakia – and those with rates of around 50% – the Czech Republic, Estonia, Cyprus, Latvia, Lithuania – i.e. well above the EU25 average of 42.5%.

The low rates in some countries may be partly explained by the lower statutory retirement ages, but it can also reflects the impact of early retirement programmes that were introduced in the1990s in many countries with the aim of reducing recorded unemployment as well as the relatively lower official age of retirement in a number of countries. (In the Czech Republic, for example, the official age of retirement is 58 for women and 61-62 for men, in Estonia and Lithuania, it is 60 for women and 62 for men, while in Hungary and Slovakia, it is 62 for both men and women, whereas in the EU15, the official retirement age is 65 in most countries.)

More detailed analyses of different age groups tend to confirm the effect of earlier retirement in the new Member States. The employment rates of those aged 50-54 in the latter are, therefore, similar to those in EU25 (if Poland is excluded), although health factors may also be a contributory factor in bringing on early retirements in some new Member States.

The new Member States with the highest rates of employment of older workers in 2005 have generally increased their rates quite substantially since 1998. The only country where the employment rate of older workers has fallen over the period is Poland, the country with the most serious overall employment problem – down from 32.1% in 1998 to 27.2% in 2005 (a fall of 4.9 percentage points) – but this weighs heavily on the overall result for the new Member States.

Figure 11

In terms of gender, the employment rates of older women in the new Member States are substantially below those of EU25 (24.9% as opposed to 33.7% in 2007 – a gap of 8.8. percentage points. Again, though, there are countries with rates above those in EU25 – Estonia, Latvia, Lithuania – with Malta and Slovakia at the other end of the spectrum – with rates of only 12% and 15.6% respectively in 2005.

The employment rates of older men in the new Member States are equally below the rates in EU25 – 44% as against 51.8% (a gap of 7.8 percentage points) in 2005. Differences between Member States are equally wide for men, but with a very different (and partly off-setting) distribution from those of women.

The employment rates of male older workers in the new Member States range from 70.8% in Cyprus to 35.9% in Poland, against the NM10 average of 44%. In this context, the Czech Republic, Estonia and Latvia have rates close to 60%, with Latvia and Malta in the lower 50%, and Slovenia, Slovakia and Hungary in the mid or lower 40%.

Part-time employment

In contrast to the EU25 average position – where part time jobs (defined as those in which people normally work less than 30 hours a week) account for some 18.4% of total employment in 2005 – part-time working is much more limited in the new Member States – at under 8%, – reflecting the legacy of the economic and social systems of the past.

In fact, total part-time working for men and women declined between 1998 and 2004 in the new Member States – from 8.2% of total employment to 7.9%, while the share in EU25 rose from 15.8% to 18.4%.

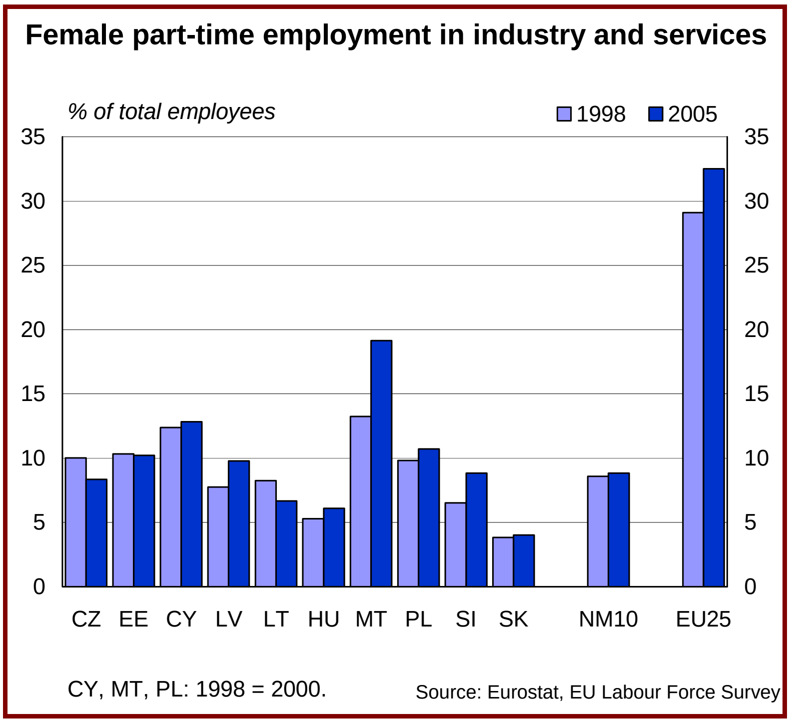
These contrasting trends were more marked in relation to men. In the new Member States, the share of total employment accounted for by male part-time employment fell from 4.4% to 3.7%, while it increased from 5.6% to 7.0% in the EU as a whole.

Much more part-time work is carried out by women than men in both the EU25 and NM10, but there are also significant differences. In the EU25, female part-time employment in industry and services accounted for 32.5% of female employment in 2005 – up from 29.1% in 1998 – while the share in the NM10 was a mere 8.8% – with only a slight increase from the 8.6% in 1998.

There is considerable variation between new Member States, with Malta way ahead of any others – 19.1% in 2005, as against 13.2% in 1998 (but bearing in mind the very low employment rate of women in Malta compared with the NM10) – with Cyprus next – 12.8% in 2005, and Poland, Estonia and Latvia around 10%, and all the rest below, with Slovakia at around 4%.

In general, the services sector is the part of the economy with the largest proportion of part-time workers.

Figure 12



Any expansion of part-time working, however, has to contend with the decline in average earnings that is likely to be associated with it. Given the low level of real incomes in the new Member States, therefore, it unlikely that many people will be willing to voluntarily exchange full-time jobs for part-time ones, or to take a part-time job instead of a full-time one if it offered. It is no accident, therefore, that part-time employment is most developed in EU Member States where average incomes per head are relatively high.

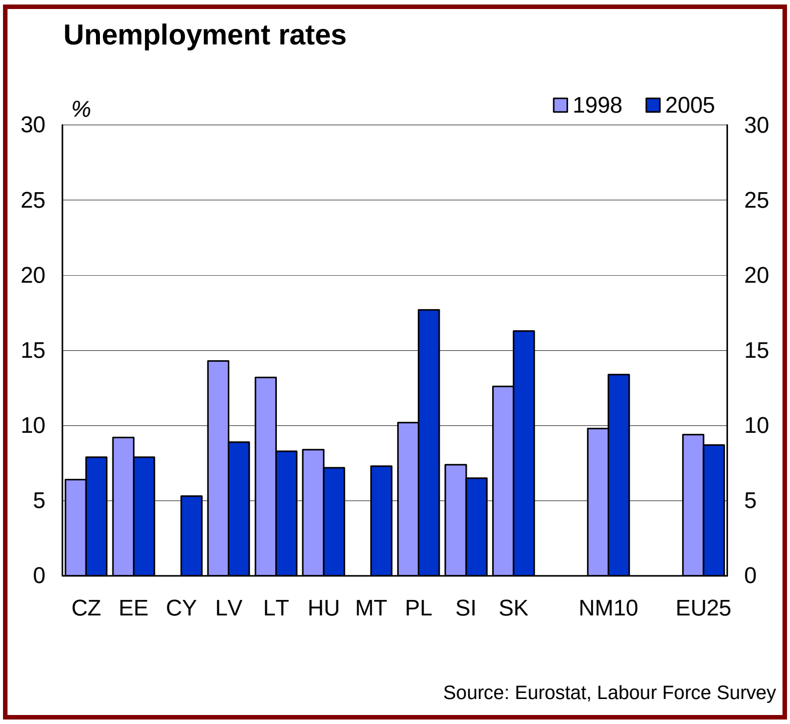
Unemployment

The dramatic job losses that occurred during the transition process resulted in a decline in employment rates, an increase in recorded unemployment, and an increase in inactivity.

There were hopes that the labour market situation would improve once GDP began to grow again, but this did not happen. In fact, unemployment in the new Member States, having risen rapidly in the early years of the transition, increased further from 9.8% in 1998 to 13.4% in 2005 at the same time as it fell in EU25 as a whole – from 9.4% to 8.7%.

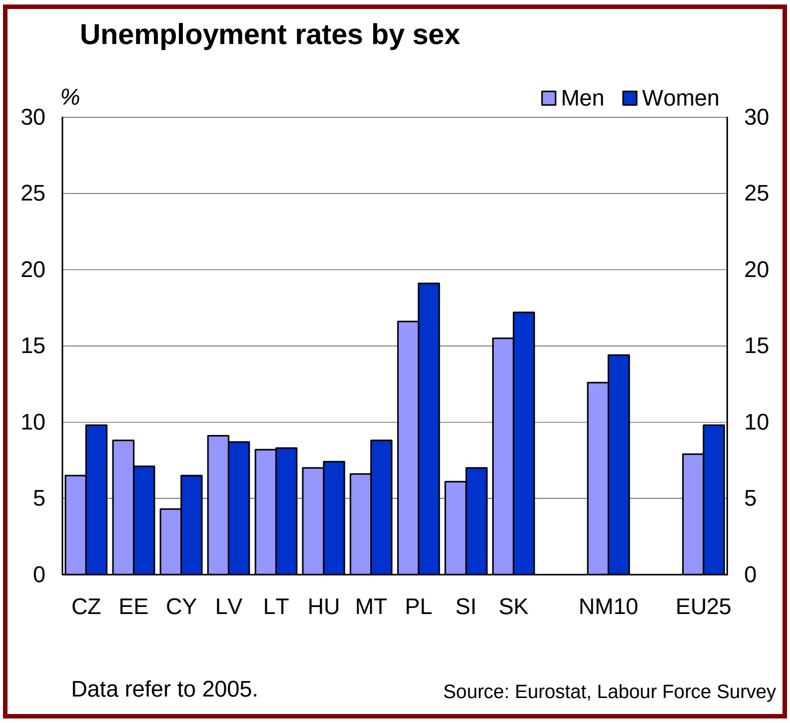
However it is important to consider the situation in the individual countries. In effect, Poland – with an unemployment rate of 17.7% – dominates the figures. Apart from Slovakia – with a 16.3% unemployment rate – only Latvia (marginally) exceeds the EU25 average unemployment rate, and most are a percentage point, or more, below.

Figure 13



As in EU25, the unemployment rate of women in the new Member States is higher than that of men – 14.4% against 12.6% in NM10, as against 9.8% and 7.9% in EU25. Again, though, Poland and Slovakia dominate the figures and none of the other new Member States exceed the EU25 rate of unemployment for women, although the Czech Republic does equal it.

Figure 14



Levels of unemployment vary enormously by region. In countries like the Czech Republic and Slovakia, unemployment rates in peripheral or backward (agricultural or industrial) regions can be four times higher than they are in capital cities.

Table 5 Unemployment rates by NUTS2, 2005

% of active population in each age group

Country	Region	Aged 15+	Aged 25+
CZ	Praha	3.5	3.1
	Stredni Cechy	5.2	4.6
	Jihozapad	5.1	4.3
	Severozapad	13.5	11.9
	Severovychod	5.6	4.6
	Jihovychod	7.7	6.5
	Stredni Morava	9.7	8.5
	Moravskoslezsko	13.9	11.9
EE	Eesti	7.9	7.0
CY	Kypros / Kibris	5.3	4.3
LV	Latvija	8.9	8.3
LT	Lietuva	8.3	7.6
HU	Kozep-Magyarorszag	5.1	4.4
	Kozep-Dunantul	6.3	5.5
	Nyugat-Dunantul	5.9	5.2
	Del-Dunantul	8.8	7.3
	Eszak-Magyarorszag	10.6	8.8
	Eszak-Alfold	9.0	7.4
	Del-Alfold	8.1	7.0
MT	Malta	7.0	4.5
PL	Lodzkie	17.3	15.3
	Mazowieckie	14.8	12.7
	Malopolskie	15.2	12.4
	Slaskie	19.0	16.1
	Lubelskie	14.3	11.9
	Podkarpackie	16.7	13.2
	Swietokrzyskie	18.9	15.8
	Podlaskie	14.4	12.2
	Wielkopolskie	17.1	13.9
	Zachodniopomorskie	22.7	20.1
	Lubuskie	19.1	16.8
	Dolnoslaskie	22.8	20.0
	Opolskie	16.9	14.5
	Kujawsko-Pomorskie	19.8	16.6
	Warminsko-Mazurskie	20.4	18.0
	Pomorskie	18.9	16.1
SI	Slovenija	6.5	5.4
SK	Bratislavsky kraj	5.3	4.8
	Zapadne Slovensko	12.5	11.2
	Stredne Slovensko	19.6	17.4
	Vychodne Slovensko	23.1	20.2
EU25		9.0	7.8
NMS10		13.4	11.4

Source: Eurostat, Labour Force Survey

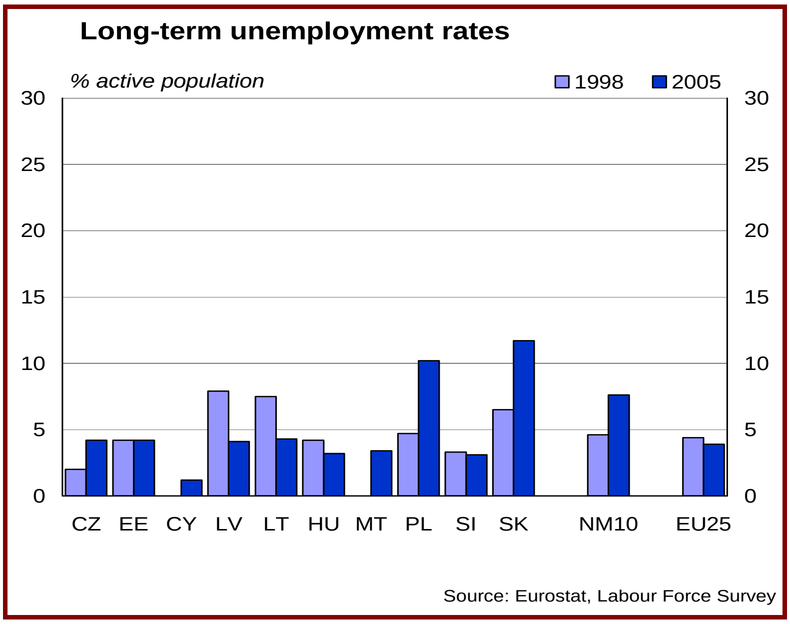
Differences between high and low unemployment regions appear to be less marked in Poland, but probably only because unemployment is high everywhere – with none of the 16 regions in the country below the new Member States average of 11.4%, and with two regions experiencing unemployment rates of 20%.

Moreover, the unemployment rates in Poland conceal a substantial proportion of people who are employed in agriculture on a subsistence basis (estimates put the number at over half of those employed in the sector), who, in other words, are not employed in commercial activities as such, but who survive by producing their own food. Without subsistence farming, unemployment rates would be very much higher in many Polish regions, especially rural areas. It can be noted that the same phenomenon also exists in Romania.

Long-term unemployment

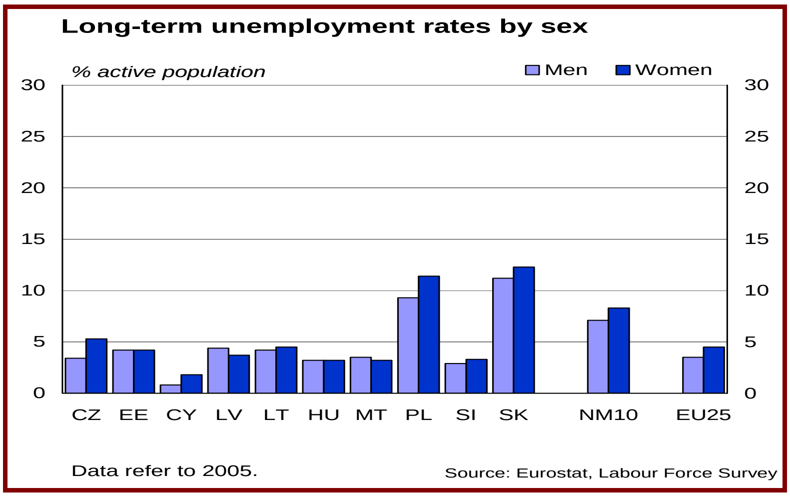
Long-term unemployment rates have also risen significantly in the new Member States. Whereas the percentage of people who were long-term unemployed (relative to the active population) had been much the same in NM10 and EU25 in 1998, at around 4.5%, the NM10 rate had increased by two-thirds to 7.6% by 2005, while the EU25 rate had fallen somewhat.

Figure 15



In this case, though, while Poland and Slovakia again dominate the figures, it is significant that four of the remaining eight new Member States have LTU rates somewhat above the EU25 level. Again, women are more likely to be long-term unemployed than men in all areas – with rates of 8.3% against 7.1% in the new Member States, and rates of 4.5% against 3.5% in EU25.

Figure 16



Thus some 57% of the unemployed are currently long-term unemployed in the new Member States, as against 45% in EU25. Apart from Cyprus, where only 23% of the unemployed are LTU, all new Member States equal or exceed the EU25 rate.

The explanations of the high unemployment rate in Poland include the effects of restructuring and demographic factors (large numbers of young people entering the labour market), as well as low overall GDP growth.

In Slovakia, the very high unemployment rate among the Roma population is also seen as contributing to the high overall unemployment rate (in 1999 the Roma accounted for around 25% of unemployment, and were particularly concentrated in the eastern parts of the country). Moreover, many of the Roma are not recorded as part of the labour force at all, working in activities outside the official economy.

The decline in employment in the new Member States over the transition period has also been accompanied, not only by high unemployment, but by increasing economic inactivity, with increased numbers taking early retirement, increasing numbers going onto disability benefits, an expansion of the informal economy, and a growth in the number of 'discouraged workers' – factors that are present, however, in many other parts of EU25.

Figure 17

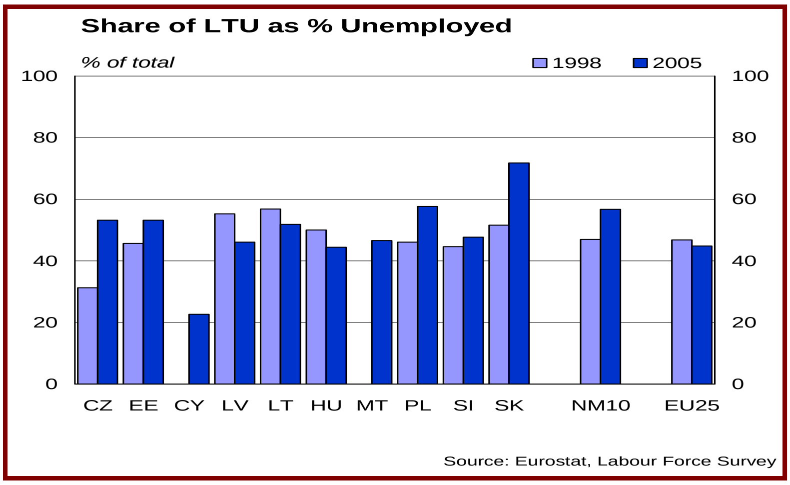
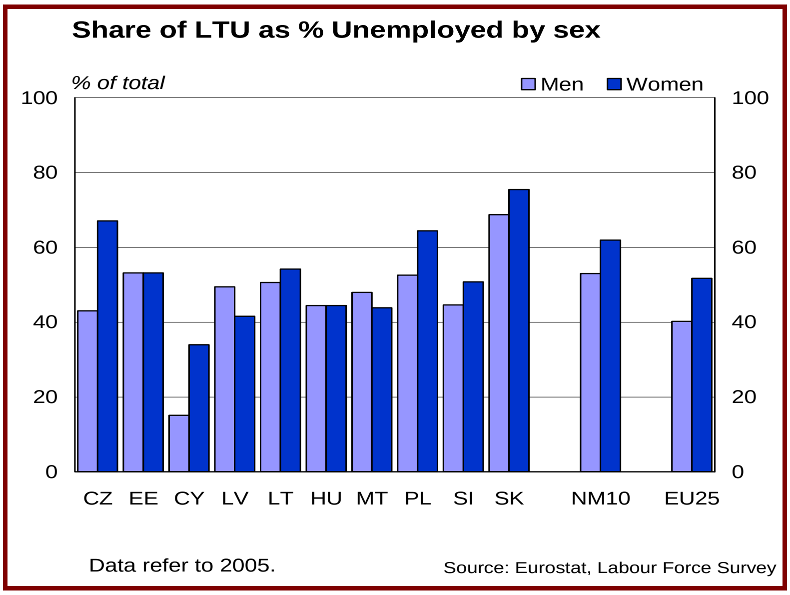


Figure 18



Income Inequalities

One commonly used EU inequality measure is the ratio of the income share received by the 20% of a country's population with the highest incomes, compared to that received by the 20% with the lowest incomes.

In Slovenia, and the Czech Republic the ratio is 3. Across EU25 as a whole, the highest ratio is in Portugal, with 7 – indicating that people with incomes in the top fifth of the income distribution have incomes 7 times higher than those in the bottom fifth. The average for EU25 countries is just below 5.

The difference between countries with the lowest and highest levels of income inequality, as measured by this ratio, is around two to one within the European Union. In general, Mediterranean and Anglo-Saxon countries tend to have higher than average inequality, while Nordic countries tend to have lower than average levels. Evidence from the new member States is mixed in that they do not cluster at any particular level.

There is disparity even among neighbouring countries. For example, while the Czech Republic is one of the most equal in these respects, income inequality in Slovakia is relatively high. Two of the Baltic States, Latvia and Estonia have above average degrees of income inequality, but this is not the case in Lithuania..

Income inequality indicators for individual countries only tell part of the story, however, and tend to divert attention away from differences between countries in absolute terms. For example, while the income gap between the affluent and the poor is high in Luxembourg and small in Estonia, someone in the top 20% of the income distribution in Estonia could have a lower income than someone in the bottom 20% in Luxembourg.

The income poverty threshold indicator commonly used in the European Union is 60% of the national median income. In terms of these poverty rates, new Member States do not seem to perform better or worse than other EU Member States overall, nor do they seem to cluster together. The Czech Republic and Slovakia are the most marked cases, the former having the lowest rate of relative poverty, the latter the highest. Hungary, Slovenia, Latvia and Bulgaria have lower than average levels of relative poverty while Latvia, Romania, Poland, Estonia and Lithuania have higher than average figures.

Another measure that can be used is the poverty gap, which indicates the extent to which the incomes of the poor fall below the 60% poverty threshold on average and, hence, the scale of transfers that would be necessary to bring the incomes of the poor up to the poverty threshold level. This varies across age groups, but less so between men and women. It is wider for men than for women in some countries, including Lithuania and Slovakia, while it is larger for women in Cyprus. Only in Cyprus is the poverty gap of the elderly comparatively large.

A recent OECD study[1] has explored the relationship between trends in inequality and unemployment, but finds no general relationship. In four countries inequality declined when unemployment fell, but it increased in five others. Among countries with rising unemployment, the Czech Republic and Luxembourg both experienced rising inequality.

Labour market participation, or the lack of it, is a key factor explaining rates of relative poverty among people of working age. The unemployed are the most vulnerable, although the economically inactive also tend to have higher rates of poverty than those in employment.

The incidence of poverty is relatively high among the unemployed in most EU countries – over twice as high on average as among the total population as a whole. In Slovenia, Hungary, the Czech Republic and Malta, the incidence is at least three times higher.

[1] Burniaux J[-M. and d'Ercole M. (2005)

The poverty risks for the unemployed depend on two main factors: whether or not other people in the household work, and the quality of the unemployment insurance and social assistance systems in the country concerned.

Poverty among the unemployed tends to be relatively high in all the new Member States, with the exception of Cyprus. In many of the central and eastern European Member States, the risk of poverty is likely to have been affected by the tightening of the rules governing entitlement to benefit and the scale of the benefits, on the one hand, and the recently improved prospects of obtaining paid employment, on the other.

Minimum wages

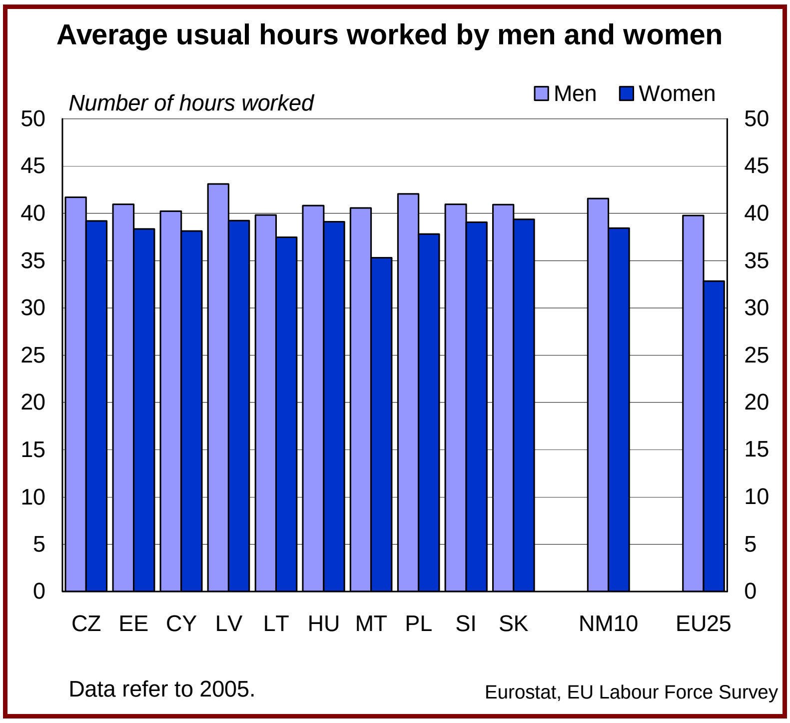
The minimum monthly wage in the new Member States varies from under 35% to almost 50% of average monthly earnings in industry and services. In terms of these overall average figures, Slovakia, Romania, Estonia and Poland have minimum wages of around 35% or under; Lithuania, Latvia and the Czech Republic are around 38-39%, with Hungary, Bulgaria and Slovenia between 40% and 45%, and Malta at 49%. This range is not dissimilar to that in the old Member States, where figures range from 38% in Spain and the UK to 50% in Ireland.

WORKING CONDITIONS

Working hours

Those in employment in the new Member States work longer hours, on average than those in employment in EU25 as a whole. In the case of men, the average difference is 1.8 hours per week – 41.6 hours as against 39.8. In the case of women, the average difference is much larger – 38.4 hours as against 32.8 hours (a difference of 5.6 hours a week), partly explained by the much lower incidence of part-time working in the new Member States.

Figure 19



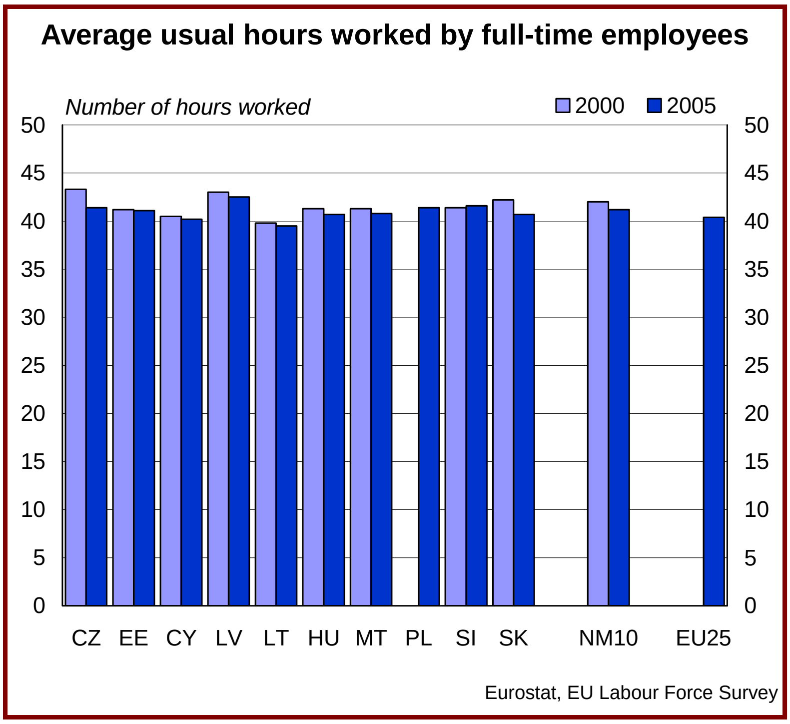
Differences between the new Member States are not particularly large, although men in Latvia and Poland do work longer – 1.5 hours in the former, and 0.5 hours longer in the latter compared with the NM10 average – while women in Malta work significantly shorter hours on average – 35.3 as against the NM10 average of 38.4 – 3.1 hours less.

In the case of those employees (men and women) working full-time, the average hours worked are also slightly higher in NM10 than in EU25. In 2005, the difference was 0.8 hours – 41.2 as against 40.4.

During the previous 5 years – i.e. from 2000 to 2005 – average hours worked by full-time employees in the new Member States did fall by 0.8 hours – from 42.0 to 41.2, with the biggest reductions in the Czech Republic – from 43.3 to 41.4 (a reduction of 1.9 hours) – and in Slovakia – from 42.2 to 40.7 (a reduction of 1.5 hours).

Particularly notable is the fact that the proportion of men and women employed in industry and services, and usually working 40 hours or more, is currently much higher in NM10 than in EU25 as a whole – 89.5% against 63% in the case of men, and 79.6% against 37.4% in the case of women.

Figure 20



Fixed-term contracts

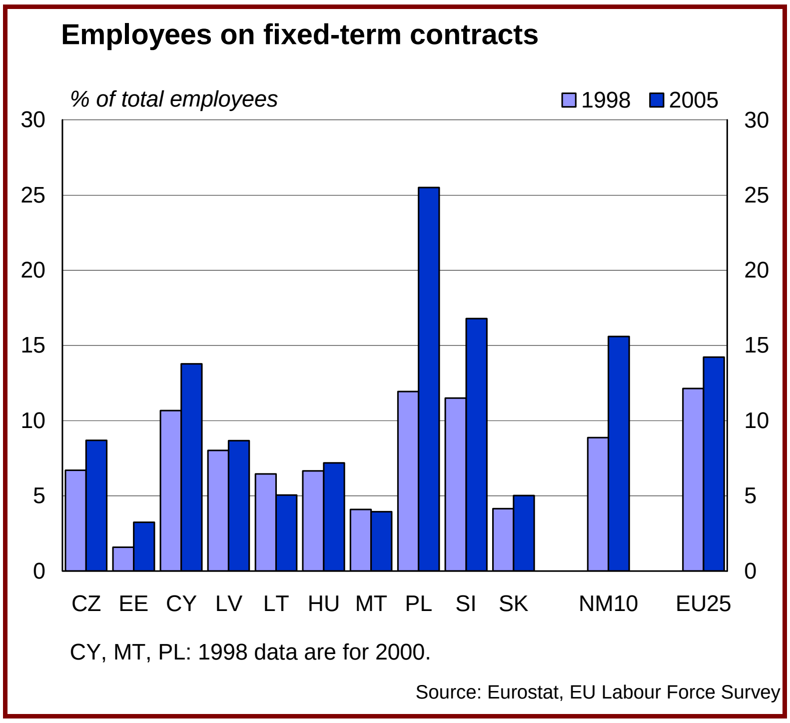
The use of fixed-term contracts increased in EU25 from 12.1% of employees in 1998 to 14.2% in 2005. In the case of the new Member States, however, their use had been much lower in 1998 – 8.9% – but rose well above the EU25 average by 2005 to 15.6%.

It is notable that the use of fixed-term contracts is similar as regards employees aged under 30 – some 30% in both NM10 and EU25, having more than doubled in NM10 since 1998. Within NM10, their use for workers under 30 is particularly high in Poland – 49% – and in Slovenia – 42%.

In EU25, fixed term contracts are used somewhat more by smaller companies than larger ones – with, for example, 14% in business with up to 10 employees, and 9.5% in business with 50 or more, and this pattern has changed very little over the past 5 years.

In the new Member States, however, the use of fixed term contracts doubled between 2000 and 2005 in companies with up to 10 employees – from 10.6% to 20.7%. Their use in companies with 50 or more employees increased from 4.2% to 14.7%, resulting in their use in such companies in NM10 being 50% higher than in the EU25 as a whole.

Figure 21



EDUCATIONAL ATTAINMENT AND EMPLOYMENT

Levels of education in the new Member States are recognised to be relatively high, which augurs well for raising productivity and for achieving convergence towards EU average living standards, given the importance of human resources in this respect.

However, the position is complex and, as ever, comparative educational data is difficult to interpret.

According to the data, some 17% of the NM10 population aged 25-64 (leaving out those aged 16-24, many of whom will still be in education) have completed higher education compared with 23% in EU25, but 67% have undergone medium level education compared with 48% in EU25, leaving only 16% with just low levels of education compared with 29% in EU25.

In these cases, 'low' means those with lower secondary education or below (which usually corresponds to compulsory schooling); 'medium' means those who have completed upper secondary education *or further training*; and 'high' means those who have completed tertiary education.

In passing it can be noted that Cyprus and Malta are way out of line with the central and eastern European Member States in that the proportions of low education are put at no less than 34% and 73% respectively.

Figure 22

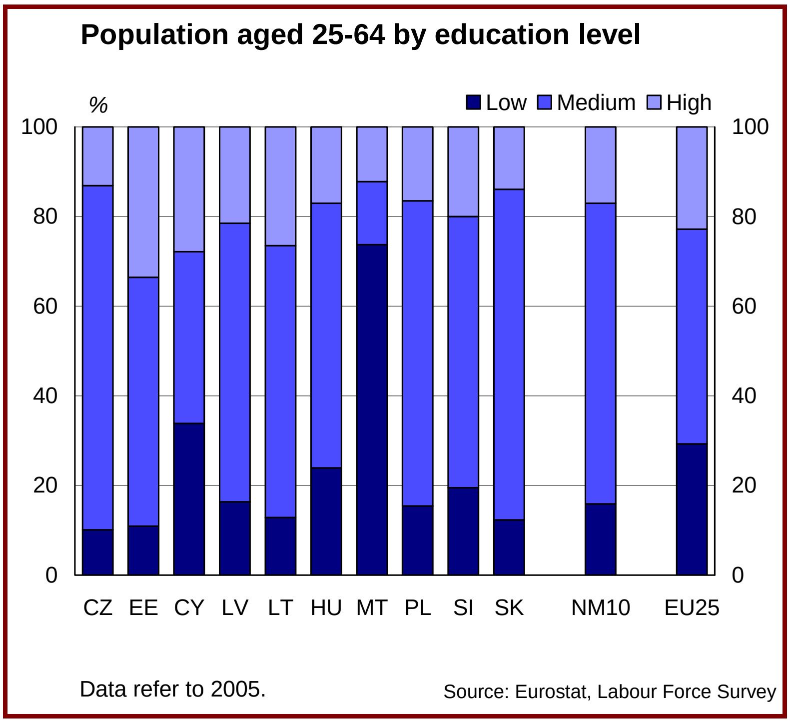
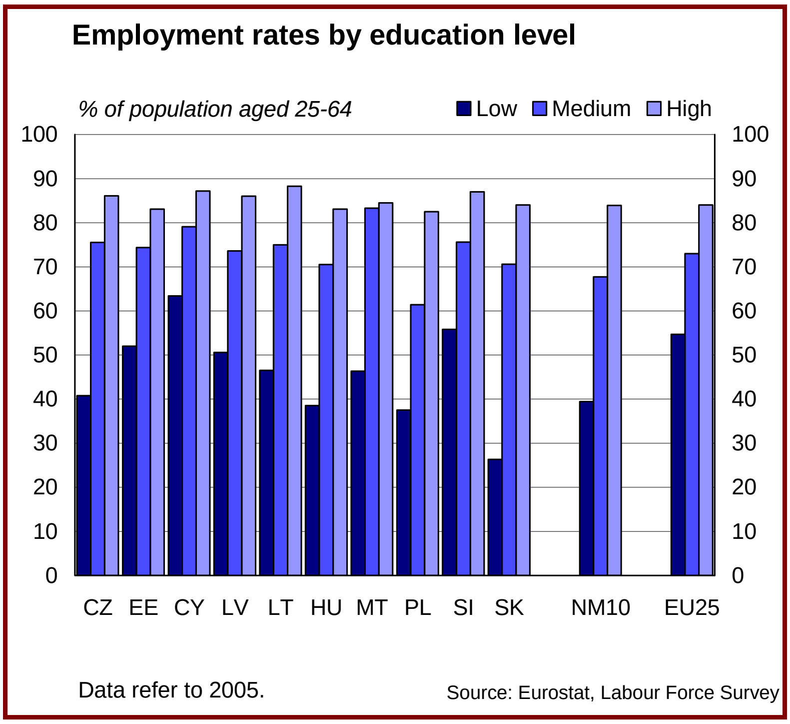


Figure 23



When education is related to employment rates, a common picture emerges in that people with higher levels of education have much higher employment rates than those with lower education levels. However, while the employment rates of those with higher education are virtually the same in NM10 and EU25 as a whole – 84% – the employment rates of those with low education in NM10 are much lower – 42% – compared with 57% in EU25.

Low rates of employment for those with low levels of education apply across most new Member States, although the rates are particularly low in Slovakia (26%). There are also significant differences between men and women.

In the case of men, the employment rates in the new Member States average 51% compared with the EU25 rate of 69%. In the case of women the employment rates in the new Member States average 35% against 46% in EU25.

Changes in demand for different skill levels

A more detailed analysis of the period 1999-2003 highlights significant changes in the new Member States, with demand shifting in favour of the most highly educated and away from the least well educated – contributing to rising unemployment among the least well educated, and reductions (or, at least, smaller increases) in unemployment among the more highly educated.

In this context, sectors differ markedly as regards their demand for people with different educational attainment levels. The primary sector has a much larger representation of low educated people than the economy as a whole, with a much smaller representation of high and (to a lesser degree) medium education people;

The secondary (manufacturing and industry) sector in the new Member States employs relatively large numbers of medium educated people relative to EU25, presumably reflecting the large number of workers with vocational training at upper secondary level. Compared with EU25, the highly educated are less strongly represented in high-skill industries in the new Member States than they are in the economy as a whole – which partly reflects the smaller proportion of people with high education levels in the new Member States, but mainly reflects the fact that more people with higher qualifications work in sectors outside industry;

In market services, differences in the educational demands of the high-skill sectors as compared with the low-skill ones are very evident. The high-skill market services sectors (financial and business activities) absorb a relatively large share of the highly educated, while the opposite is true of low-skill services like distribution.

As regards the medium and low educated, an interesting difference emerges between the new Member States and EU25. It might be expected that the low educated would be less strongly represented in high-skill market services and more strongly represented in low-skill market services than in the economy as a whole, as is the case in EU25.

However, in the new Member States, there is a smaller representation of the low-educated in *both* types of market service, while the medium-educated are strongly represented in the low-skill sectors, and much less present in the high-skill ones.

In communal services in both the EU25 and the new Member States, the demand for the highly educated is greater than in the economy as a whole (particularly in the education sector) with below average demand for the least educated.

Over the period 1999-2003, therefore, the demand for labour with different education levels changed in different ways, with some sectors contributing more to the change than others. The most striking points are:

- The growth of demand for the highly educated was high in both the new Member States and EU25. However, while the increase in market services was higher than in non-market services in EU25, the opposite was the case in the new Member States. Moreover, the increase in the new Member States was more concentrated in financial and business services than it was in EU25.

- The growth of demand for the medium-educated in the new Member States was also concentrated in services. In industry, there was strong job growth in the medium-skill sector but little growth in the sector as a whole, reflecting the rapid productivity catching-up in the sector.
- Demand for those with only a low education fell sharply, primarily because of job losses in the primary and secondary sectors. There was also a fall in demand in services, especially in non-market activities. In the EU25, by contrast, job losses were concentrated in industry and there was a growth of jobs in both market and non-market services.

The structure of occupations

It is also possible to analyse employment trends in 5 occupational groups: non-manual high-skill (includes managers, professionals and technicians); non-manual medium-skill (includes clerks and office workers); non-manual low-skill (includes service and shop workers); manual high-skill (includes craft workers and plant and machine operators); manual low-skill (includes agricultural workers and elementary occupations). Differences in these occupational terms are much less marked between NM10 and EU25 than is the case in terms of education.

With the exception of the primary sector and some parts of non-market services (in particular health services and public administration), the occupational structure within sectors is quite similar in the new Member States and the EU25. This implies, however, that similar occupations are being performed by people with different education levels in the new Member States compared with EU25 as a whole. In particular, many of the jobs undertaken in the EU25 by workers with low or high education appear to be performed in the new Member States by people with medium level education.

Another difference between the new Member States and the EU25 lies in the distribution of the highly educated between occupations in different sectors. In both the new Member States and the EU25 as a whole, the proportion of highly educated in high-skill non-manual jobs in agriculture, industry and low-skill market services is smaller than in high-skill market services and non-market services. However, the extent of the difference is much greater in the new Member States than in the EU as a whole, where relatively few people with this level of qualification are employed in industry to perform these jobs.

This reinforces the conclusion that a disproportionate number of highly educated people are being employed in high-skill market services in the new Member States compared to the EU25, and that a smaller proportion of highly educated people are being employed in industry.

Overall, differences in occupational structure are consistent with a lack of certain types of jobs (low- and medium-skill non-manual jobs, and low-skill manual jobs) in the new Member States for those with low education, resulting in their very low employment rates, and consequent high unemployment rates.

Human resource assessment

Given the ease and speed with which capital and technology can now move rapidly around the EU and the world, and the relative immobility of labour – for a variety of obvious economic and social reasons – it has long been recognised that the quality of an economy's human resources is la key determinant of its ability to mobile resources and knowledge, to adapt to change, and to raise productivity and living standards.

Drawing on the evidence about education and occupations, the basic facts about the human resource potential of the new Member States are seen to be as follows:

- Levels of educational attainment in the new Member States are relatively high but somewhat lower than the EU25 average in terms of the proportion of working-age population who have university degrees or the equivalent, with 17% of the working age population having completed higher education, compared with 23% in EU25.
- A much larger proportion of the new Member States working-age population is recorded as having medium-level education compared with EU25, but this is largely because of the substantial numbers who have completed training to qualify for particular vocations and there are doubts about the match between the skills they have acquired and those required by modern market economies and, more especially, about their ability to adapt to the skills demanded by new jobs should the need arise for them to switch between activities.
- Much of the increased employment of more highly qualified people in the new Member States appears to be taking place in market services (financial and business services) rather than in high-skill industries for which many of the people have been trained.
- There is some evidence to suggest that similar occupations are being performed by people with different skill levels in the new Member States compared with EU25, although this may reflect differences in categorising skills.
- As in EU25 as a whole, there has been a shift in demand away from the unskilled to the skilled, but this seems to be much more pronounced in the new Member States. Jobs for those will only low levels of education seem to be in short supply and declining, partly because of the loss of jobs in agriculture.

MIGRATION OF LABOUR

Before the 2004 enlargement, there was widespread concern that large-scale, unimpeded, migration from the new Member States into the existing Member States could seriously disrupt their national labour markets. As a result, the 2003 Accession Treaty granted a derogation to the principle of free movement of workers for up to 7 years with respect to workers from the new Member States of central and eastern Europe, but not those from Cyprus or Malta.

Only three countries – Ireland, Sweden and the United Kingdom – decided not to take advantage of the possibility to apply restrictions (though the UK required new migrants from the new Member States to register to obtain work permits), while other EU15 Member States operating work permit systems, sometimes combined with quotas.

The new Member States opened their labour markets to one another, but Poland, Slovenia and Hungary imposed reciprocal restrictions on workers from EU-15 countries.

These arrangements were reviewed in 2006. following the presentation of a European Commission report[2] Greece, Spain, Portugal and Finland decided to lift their restrictions for the second (three year) phase of the transitional arrangements, beginning 1 May 2006, and six other EU15 Member States – Belgium, Denmark, France, Italy, the Netherlands and Luxembourg reduced their restrictions.

The European Commission noted at that time that migrant workers from the new Member States amounted to just 0.6% of the working age population in Germany and 1.5% in Austria (mostly on relatively short-term work permits), while non-nationals in total accounted for some 10% of the overall working age population – i.e. most migrant workers come from third countries.

[2] European Commission (2006g)

The report indicated that some 2% of the working age population in Ireland came from the new Member States a quarter of the total number of non-nationals. In the case of the United Kingdom, no figures were apparently available at the time of the report although,

in August 2006, the United Kingdom authorities reported that some 427,000 people (mostly from Poland) had been granted work permits, and subsequent estimates suggest total figures of the order of 500,000 to 600,000 once the self employed were included.

These numbers appear to have taken the UK government by surprise since its previous estimates had been for additional inward migration flows of a mere 13,000 a year.

The presence of large numbers of workers from the new Member States, notably Poland, has prompted a considerable amount of press and public comment in the United Kingdom and Ireland. However there is little evidence of serious or widespread social or labour market problems, given their buoyant economies, and the acknowledged shortage of labour in many sectors, including construction and services.

On the other hand, concern has been expressed in the countries of origin that they could be at risk of experiencing a 'brain drain' of the sort the EU as a whole had worried about in earlier periods in relation to the USA.

This is seen to be a particular problem in Poland and the three Baltic States, and it likely to also be the case in Romania and Bulgaria. One estimate suggests that some 55-60,000 of the most highly qualified people in Bulgaria left in the 1990s, while the number of research workers in Estonia is estimated to have fallen by 30% over the same period. In Poland, around 10% of doctors are said to have left the country before the transition began, and a survey of medical students in Hungary reported that 60% of them intended to seek work abroad.

Of course, not all migrant workers stay forever in their country of arrival – over a million Portuguese migrant workers were reported as having returned to their home country after it joined the EU. Moreover, financial remittances by migrant workers to their country of origin can be an important supplement to low domestic incomes, and often provide 'seed corn' funding for the development of local business initiatives.

On the other hand, there is evidence that migrants may decide not to return once they have settled down in their new country, and remittances alone may not be enough to revive de-populated regions and localities that lose large numbers of their younger, more dynamic, workers.

Reliable data on short term labour movements are not easily obtained through sources such as the Labour Force survey – probably because many migrant workers are on short-term contracts, or self-employed, with only temporary addresses, whereas the sample for the LFS is drawn up on the basis of household registers. Hence information is liable to be incomplete, and to come from specific investigations, often conducted by researchers or the press.

Changes in working age population

In an attempt to look for evidence of the migration phenomenon within the departing countries, we[3] measured changes in the size of the resident working-age populations in the new Member States which result from net migration (adopting a cohort approach and allowing explicitly for mortality among men and women of different ages, which essentially enables net migration to measured precisely on the assumption that population estimates are accurate).

[3] Applica estimates 2006/2007

On the basis of these estimates, the experiences of the new Mediterranean Member States appear to have been very different from those of the new Member States in central and eastern Europe in that Cyprus and Malta both saw substantial increases in their working age populations between 2000 and 2005 as a result of net inward migration – of nearly 8% and 5%, respectively.

At the other end of the scale, the three Baltic States all experienced significant reductions in the size of their working age populations from net outward migration over the period 1995 to 2000 – of the order of 4% on average – with further, but more modest, falls from 2000 to 2005 – of the order of 1%.

Of the other new Member States, the experience of Poland has been the most significant because of its size, with a reduction in its working age population of some 2% between 2000 and 2005 from net outward migration, although Bulgaria also experienced a significant reduction (of around 3%) over the same period.

PART B: STRUCTURAL CHANGES AND EMPLOYMENT

EMPLOYMENT SHARES BY SECTOR

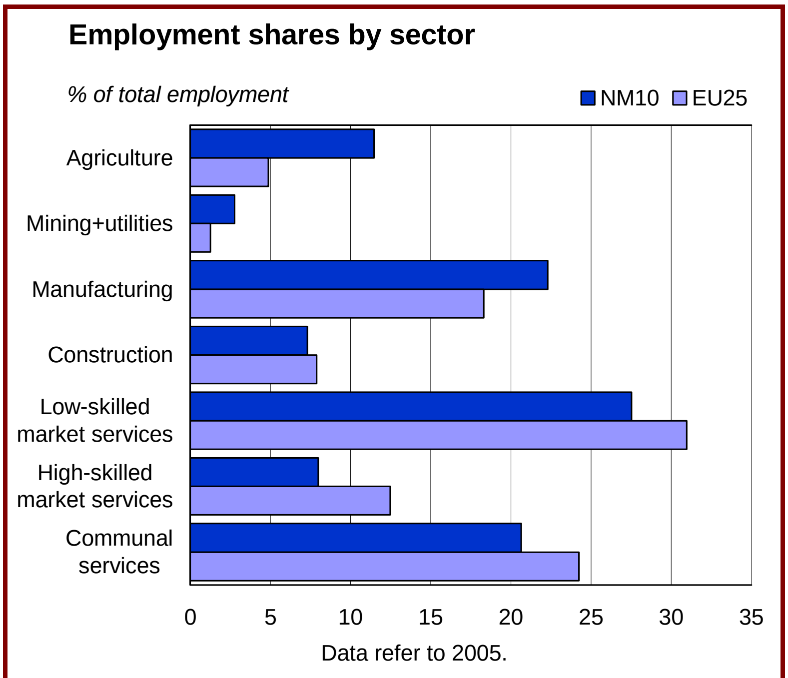
The overall pattern of employment by sector of activity remains strikingly different between NM10 and EU25 even in 2005. Primary sector activities account for 11.5% of employment in NM10 as against less than half that amount – 4.9% – in EU25. Moreover, the manufacturing sector accounts for 22.3% of employment in NM10 as against 18.3% in EU25.

Construction is similar in NM10 and EU25 – at around 7.5% of total employment.

Differences are apparent in low-skilled market services (the distributive trades, hotels and restaurants, transport and personal and community services) – 27.5% of total employment in NM10 and 31% in EU25 – but the differences are much larger in relation to high-skilled market services (business and financial services) – 8% of total employment in NM10 as against 12.5% in EU25.

Communal services (health, education and public administration) are also somewhat higher in EU25 – at 24% of total employment – than they are in NM10 – at 20.5%.

Figure 24



Source: Eurostat, Labour Force Survey

Structural differences between the new Member States

The most notably difference between the new Member States is in the extent to which there is still, in 2005, a large agricultural sector. In the Czech Republic, Cyprus, Hungary, Slovakia, Malta it accounts for less than 5% of total employment whereas it accounts for 12.7% in Latvia, 14.8% in Lithuania and 17.1% in Poland.

Table 6 Employment shares by sector, 2005

%	All sectors	A_B Agriculture, forestry, fishing	C+E Industry	D Manufac-turing	F Construc-tion	G+H+I+O+P+Q Low-skilled market services	J+K High-skilled market services	L+M+N Communal services
CZ	*100*	4.1	2.6	27.1	9.7	28.4	8.0	20.1
EE	*100*	5.8	2.2	24.2	7.5	31.1	8.8	20.5
CY	*100*	4.6	1.1	11.7	11.7	40.4	12.3	18.1
LV	*100*	12.7	2.1	14.7	8.7	33.0	6.6	22.1
LT	*100*	14.8	1.8	17.4	8.4	29.5	5.1	22.9
HU	*100*	4.8	2.0	22.3	8.1	31.1	9.3	22.4
MT	*100*	2.0	1.4	20.3	8.1	33.8	9.5	25.0
PL	*100*	17.1	3.4	20.7	5.7	25.3	7.8	20.0
SI	*100*	8.8	1.6	29.5	6.3	25.8	9.0	18.9
SK	*100*	4.9	2.6	26.9	9.4	27.0	8.0	21.2
BG	*100*	9.3	3.3	24.6	6.2	31.0	6.3	19.3
RO	*100*	32.8	3.4	22.0	5.4	19.4	3.4	13.6
NM10	*100*	11.5	2.8	22.3	7.3	27.5	8.0	20.6
EU25	*100*	4.9	1.3	18.3	7.9	31.0	12.5	24.2

Source:Eurostat, Labour Force Survey

At the other end of the spectrum, Hungary, Malta, Slovenia and especially Cyprus have significantly higher levels of employment in high-skilled market services – accounting for 9% or more of total employment (12.3% in the case of Cyprus) compared with levels of 5-8% elsewhere in the new Member States.

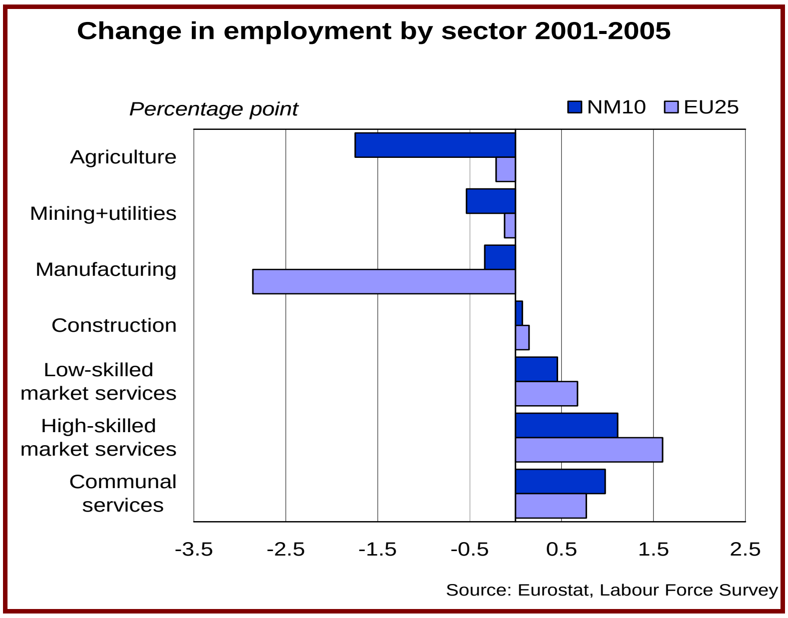
There are also some notable differences regarding manufacturing employment. Cyprus is at one extreme (with only 11.7% of total employment in such activities) followed by Latvia and Lithuania (15-17%); Malta and Poland (20-21%); with all other countries in the bracket 24-29% – all compared with 18.3% in EU25 as a whole.

Changes in the structure of employment

The impact of EU entry – both actual, but anticipated – can be seen clearly in respect of changes in relative levels of employment between different sectors.

In the period between 1998 and 2005, manufacturing employment in the new Member States fell by 3.2%, agriculture by 1.7%, mining and utilities fell by 0.6%, low skilled market services fell by 0.4%, while communal services increased by 0.9%, high skilled market services increased by a substantial 1.7%.

Figure 25



Although market services activities are still concentrated in relatively low-skill activities such as distribution, tourism (i.e. hotels and restaurants) and transport, employment gains (apart from in distribution) have mainly occurred in the high-skill activities, especially in certain business services, where the gap in employment relative to EU25 is still wide.

Table 7 Employment changes by sector, 2001-2005

Total change 2001-2005

%	All sectors	A_B Agriculture, forestry, fishing	C+E Industry	D Manufac-turing	F Construc-tion	G+H+I+O+P+Q Low-skilled market services	J+K High-skilled market services	L+M+N Communal services
CZ	*-0.2*	-0.8	-0.7	-1.0	0.6	0.8	0.4	0.7
EE	*3.4*	-1.2	-0.8	0.1	0.3	-0.2	1.5	0.3
CY	*0.7*	-0.3	-0.2	-1.0	2.0	-1.3	0.6	0.1
LV	*4.7*	-2.5	0.1	-2.6	1.9	1.1	1.2	0.8
LT	*5.1*	-2.8	-0.6	-0.8	2.7	2.1	1.2	-1.8
HU	*0.7*	-1.4	-0.4	-2.5	0.9	0.7	1.6	1.1
MT	*-0.4*	-0.1	-0.7	-1.4	1.1	-2.6	1.1	2.6
PL	*-0.6*	-2.1	-0.5	0.5	-1.0	0.2	1.2	1.7
SI	*2.2*	-1.2	-0.2	-1.2	0.2	-0.6	1.4	1.5
SK	*0.9*	-1.3	-0.9	1.3	1.4	-0.3	1.1	-1.4
BG	*6.1*	-0.4	-0.4	0.5	1.2	0.0	1.0	-1.8
RO	*-4.8*	-11.7	-0.1	3.6	1.4	3.1	1.5	2.2
NM10	*0.3*	-1.7	-0.5	-0.3	0.1	0.5	1.1	1.0
EU25	*1*	-0.7	-0.1	-1.8	0.1	0.7	1.0	0.9

Source:Eurostat, Labour Force Survey

More detailed investigations of developments within the growth area of market services show that employment has risen strongly in *business services* in all countries, with the bulk of this increase occurring in 'other business activities' (covering legal, architectural and engineering services, advertising, and so on), although there has also been a growth in computer and related activities, and in real estate.

Employment in *financial intermediation* has remained largely unchanged, with reductions in employment in banking (caused by restructuring) being generally offset by increases in insurance and auxiliary financial activities. However, all the central and eastern European Member States remain well below the EU25 average.

Jobs in *tourism* (hotels and restaurants) have also grown in all countries although this sector still accounts for a smaller share of total employment than in EU25. The proportion is particularly low in Poland and Romania.

Transport and communications is the only sector within market services where employment declined, with a reduction in all sub-sectors of transport, except travel agencies and auxiliary transport activities, and with substantial job losses in post and telecommunications, although employment remains larger than in EU25. A breakdown by new Member States indicates that the share of employment in the sector as a whole is above the EU25 average in all countries except Poland and Romania.

COHESION AND CONVERGENCE

Regional divergences within the new Member States

A 'core-periphery' differential pattern of economic development exists, to some extent, in most Member States, and even within the EU as a whole, with a concentration of high income, economic activity around southern Germany, Austria, northern Italy and the south-east of France.

In the new Member States, however, the most striking differences have been identified as between the capital cities and other regions, and between the western and eastern regions as a whole.

Because the capital cities represent large, relatively rich, markets for goods and services, attract a skilled workforce as well as foreign direct investment, and have a more developed infrastructure, they were able to 'ride out' the difficult years of structural change much better than other regions, and to have developed much more rapidly since.

In addition to this city-versus-other-regions divide, an east-west divide also seems to have developed in many of the new Member States with regions located closer to western borders in the Czech Republic, Hungary Poland and Slovakia showing higher incomes per head than other regions. This is partly, if not largely, explained by their proximity to the markets of the older Member States, which has enabled them to attract a disproportionate amount of foreign direct investment, particularly into manufacturing, often linked to industries in Germany. These inflows of foreign investment have helped the economic restructuring of these regions and encouraged the emergence of new, technologically advanced sectors.

Conversely, the eastern regions of the new Member States have been generally disadvantaged, particularly with the run down of heavy industries in the Czech Republic, Hungary and Slovakia, which had specialised in such activities under their previous political and economic regimes.

Another factor perpetuating and accentuating regional differences is the persistence in some areas of small scale, subsistence, family-based agriculture – notably in the east of Poland and Hungary (as well as in Romania and Bulgaria).

Estimates of the scale and development of regional income disparities over the period 1995 to 2002 are presented in the table below for the regions of the central and eastern European Member States (i.e. excluding Cyprus and Malta).

Income disparities (measured by coefficients of variation) are seen to be generally higher in the new Member States than in EU 27 at both NUTS 2 and NUTS 3 level. Disparities are most pronounced in Slovakia, the Czech Republic, Romania and Hungary, as well as Estonia and Latvia at NUTS 3. On the other hand, disparities in Poland, Bulgaria, Slovenia and Lithuania are only slightly above, or in line with, the situation in the older Member States.

When the capital cities are excluded from such comparisons, however, the evidence shows that the majority of the new Member States are either in line with, or below, the older Member States. In other words, the overall problem of regional imbalance within Member States across the region as a whole lies primarily in the differences between the capital cities and the rest of the country, rather than divergence between the regions outside the capital cities.

In fact, when capital cities are excluded from the analysis, there is even some evidence of convergence for 'non capital city' regions in the Czech Republic and Slovakia. On the other hand, in Hungary, Lithuania and Romania at NUTS 3 level, a significant increase in disparities did take place between 1995 and 2002. Overall, though, capital cities have grown much more strongly than other regions in all the new Member States except for the western regions of Hungary and Romania.

Table 8 Coefficient of Variation, GDP per capita at PPS, NUTS2 and NUTS3 regions

	including capital city regions			**excluding capital city regions**		
	1995	**2002**	**2002-1995**	**1995**	**2002**	**2002-1995**
			NUTS2 regions			
CZ	0.32	0.47	0.15	0.07	0.05	-0.02
HU	0.25	0.37	0.12	0.13	0.19	0.06
PL	0.16	0.21	0.05	0.14	0.14	0.00
SK	0.48	0.54	0.06	0.10	0.07	-0.03
BG	0.19	0.24	0.05	0.03	0.03	0.00
RO	0.25	0.42	0.17	0.11	0.15	0.04
NMS	**0.43**	**0.50**	**0.07**	**0.31**	**0.30**	**-0.01**
OMS	**0.29**	**0.29**	**0.00**	**0.25**	**0.24**	**-0.01**
			NUTS3 regions			
CZ	0.26	0.40	0.14	0.07	0.06	-0.01
EE	0.31	0.41	0.10	0.04	0.08	0.04
HU	0.28	0.39	0.11	0.16	0.20	0.04
LT	0.14	0.26	0.12	0.14	0.26	0.12
LV	0.32	0.56	0.24	0.22	0.19	-0.03
PL	0.28	0.43	0.15	0.28	0.32	0.04
SI	0.18	0.20	0.02	0.10	0.11	0.01
SK	0.42	0.49	0.07	0.15	0.13	-0.02
BG	0.24	0.29	0.05	0.16	0.16	0.00
RO	0.24	0.34	0.10	0.21	0.28	0.07
NMS	**0.43**	**0.52**	**0.09**	**0.36**	**0.40**	**0.04**
OMS	**0.37**	**0.38**	**0.01**	**0.34**	**0.35**	**0.01**

NMS: New Member States
OMS: Old Member States
Source: NewCronos Database

Regional clusters and incomes

Using methods developed at the Vienna Institute for International Economics, it is possible to categorise regions in terms of their dominant employment patterns, as follows:

Agricultural regions

Mining industry regions

Basic industries regions (covering heavy industries and labour-intensive industries)

Forward-looking industries regions (covering engineering industries)

Basic services regions (distribution, transport etc.)

Tourism regions

Business services regions

Capital city regions

GDP per head varies a great deal across such regional clusters. In the capital city regions GDP per head is, on average, 70% above the national average, with all other types of regions (apart from mining) below the national average.

Incomes in agricultural regions in the new Member States are less than 80% of the national average, with incomes in basic industry regions and tourism regions. less than 85%. The forward looking industry regions and basic service regions come close to the national average, with mining somewhat above at around 105%.

Regional clusters and employment

Employment also varies with regional specialisation, with the highest employment rates found in regions that specialise in modern, skill intensive sectors, such as financial services and engineering. Hence employment rates are highest in the capital cities, the forward- looking regions as well as the business services regions, in the new Member States, as they are in the rest of the EU.

Employment rates in mining and basic services regions are also low in the new Member States. As far as agricultural regions are concerned, however, employment rates are higher than in the rest of the EU, reflecting the fact that subsistence-style farming tends to provides a fall-back position for those unable to find work elsewhere.

Employment rates in the tourism regions are relatively low, however, in the new Member States compared with similar regions in other parts of the EU, although there would seem to be potential for growth.

In these contexts, changes in employment rates depend, not only on the growth of employment, but on any changes in the size of the population of working age. Thus, in a prosperous region, the employment rate may decline simply because the population of working age is growing through inward migration. Likewise, in declining regions, employment rates may rise even when absolute levels of employment are falling, if the working age population is leaving at an even faster rate. In this respect, it should be noted, that part of the growth in the employment rates in the new Member States’ capital city regions is seen to be due to reductions in the populations of working age.

CONVERGENCE BETWEEN THE NEW AND OLD MEMBER STATES

While economic converge is often addressed in terms of a wide range of factors – interest rates, external trade balance, public finance, and so on – our concerns are essentially with employment and incomes and living standards.

Here the expectations are that the new Member States will raise their employment and productivity rates and converge towards EU27 average income levels, as has happened in the case of all other Member States who joined the Union with significantly below average living standards.

The fact that the rate of economic growth in EU10 is currently higher than it is in EU-15 countries is ensuring such a convergence in living standards. If, for example, the new Member States were to achieve 4% annual GDP growth as against only 2% growth in EU-15, then living standards in the new Member States would move from the present position of 56% to 67% over the coming decade, with the current gap between old and new Member States being more than halved over two decades.

The actual outcome will depend, of course, on what happens to all the various elements that go into the economic equation. Probably the most certain is that productivity growth will continue at a higher rate in the new Member States, and the least certain being the rate of economic growth achieved in the Union as a whole and in the new Member States in particular. The employment outcome, in turn, depends on the extent to which economic growth in the new Member States exceeds their rate of productivity growth.

Past experience

Hypothetical calculations have their uses, but it is also important to look to the evidence from previous enlargements, notably those concerning Spain, Portugal, Greece and Ireland. This evidence is generally encouraging given the progress of some of the countries concerned.

Following their entry into the EU in 1986, both Portugal and Spain increased their living standards substantially (measured as GDP per head in purchasing power terms) within a decade – from 55% of the EU average to well over 70% in the case of Portugal, and with an increase from less than 75% to almost 85% in the case of Spain.

In the case of Ireland, progress was initially slow. It entered the EU in 1973 with less than 65% of EU average incomes and made only slow progress over the following two decades. However, the economy then took off, with income per head now standing way above the EU25 average.

On the other hand, Greece demonstrates that the process is not automatic and that many other factors – notably the quality of national economic, structural and social policies – can significantly affect the outcome. It had entered the EU in 1981 with living standards around 70% of the EU average, but saw them fall substantially over the decade, before recovering and then surpassing its original level.

Aspirations and prospects

Aspirations in the new Member States may be higher, however, than merely catching up relatively slowly with the old Member States. In that respect, current rates of economic growth in the new Member States, while much higher than in EU25 as a whole, are no higher than their rates of growth of productivity, meaning that the economies are not, on average, creating higher rates of employment, or are doing so only relatively slowly.

Moreover, because the benefits of growth are currently being shared very unevenly, much of the potential labour resources are underused, or not being used at all, which increases pressures on social security budgets, as well as those who contribute the funds, in order to provide support to maintain minimum incomes.

The fact that opportunities for the low skilled to enter employment appear much worse than in EU25 probably reflect the current pattern of growth, which is largely driven by international companies seeking relatively highly skilled, but relatively inexpensive, workers, while service sectors serving the local market – which normally use both skilled and unskilled labour – remain underdeveloped.

At the same time, the rather low level of employment means that employers are rather spoilt for choice, and can choose to employ more highly educated people to do jobs that do not necessarily require the qualifications they posses.

In other words, those with low education levels are effectively being squeezed out of the labour market, and their position is unlikely to improve until overall employment levels rise.

This assessment of prospects is positive, but obviously less upbeat than that provided in the Commission assessment in mid-2006[4] that stated that *'favourable economic expectations have been fulfilled'*; that *'the new Member States have undertaken extensive reforms to modernise and are now dynamic market economies'* and that *'the stability provided by accession has helped to multiply trade and investment between EU15 and EU10 as well as within EU10, creating a win-win situation for all'.*

At the same time, the Commission recognises potential problems ahead, noting that *'Both new and old Member States face ageing populations and related budgetary strains, global competition increasing pressures on their economies, and a need to adapt to these realities, including by modernising their welfare systems and becoming knowledge-based and innovative societies'.* In that respect, the document specifically notes that *Further convergence of the economies, itself a long-term challenge, would contribute significantly to this end'.*

There is no disagreement on the facts that economic growth in the new Member States has increased and that the downward decline of employment has finally been halted. However, the report seems to place too much reliance on labour market reforms alone, even though it identifies the adaptability of labour markets as a 'major challenge' and stresses the need for 'human resources development'.

However it does not really address the fact that the benefits of growth are currently very unevenly spread, which will have serious economic consequences – congestion and inflationary pressures in some regions, and under-use of resources in others – as well as the social problems that build up when people (old and young) do not have the opportunity to participate fully in economic and social life.

FINANCIAL SUPPORT FOR RESTRUCTURING

Foreign direct investment

Global FDI inflows (which had peaked in 2000 and then fallen back, but have since recovered) are estimated by Unctad to have reached 720 billion euros in 2005, compared with 560 billion in 2004.

Flows of inward investment are driven by a number of factors – notably the financial position of investor companies, the opportunity for privatisation deals, and the global economic climate. FDI can take the form of equity capital, reinvested earnings and other capital.

It tends to fluctuate (sometimes wildly) from year to year. In 2003 several of the new Member States were hit by capital withdrawals, but equity investment and reinvested earnings have recovered in the last two years, with reinvested earnings becoming more important as investments mature.

In 2005, inward investment into the eight new Member States of Central and Eastern Europe totalled some 26,000 million euros, having been above 20,000 million in each of the previous four years, except 2003 when they fell below 10,000 million.

Over the period 1998 to 2005, annual FDI inflows amounted to 10.7% of GDP in Estonia, 8.8% in the Czech Republic, 8.5% in Bulgaria, 6.6% in Slovakia, 6,5% in Hungary, 5% in Romania, 4.5% in Latvia, 4.2% in Lithuania, 4.1% in Poland but only 2.2% in Slovenia.

[4] European Commission (2005b) and (2006a)

In terms of stocks of FDI capital in the new Member States, Poland accounts for 70 billion euros, and Hungary and the Czech Republic for 50 billion euros each. This compared with 100 billion in Russia.

Comparisons between the new Member States can be made on the basis of FDI capital stock per head of population.

In this case, Estonia is estimated to have a per capita stock of 7717 euros per head, compared with 5133 in Hungary, 4932 in the Czech Republic and 3002 in Slovenia. At the other end of the scale, Poland has 1835 euros per head, with Latvia and Lithuania a little lower.

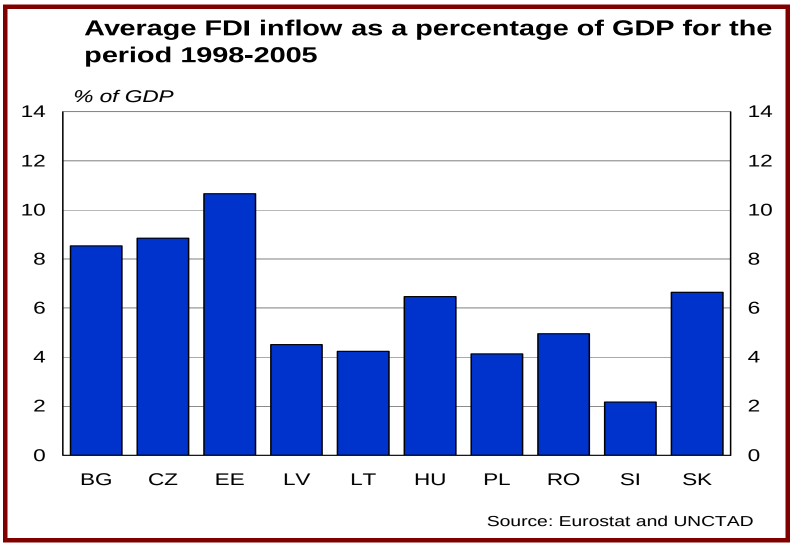
In terms of the source of FDI investment stock in the eight central and eastern European Countries entering the Union in 2004, the Netherlands accounts for 22% (partly because it is the base for many holding companies), Germany nearly 20% and Austria 9%.

In terms of sectors, some 40% of FDI stock is in manufacturing in the largest of the new Member States, which is consistent with other signs that manufacturing industry output and exports in these countries have been increasingly generated by foreign subsidiaries. At the same time, these subsidiaries have been responsible for much of the growth in productivity that has occurred, and have been the primary means through which new technology has been transferred to the new Member States.

Few of these foreign investment enterprises are the result of a direct relocation from EU15 to the new Member States. However, capacity increases in the EU motor vehicle industry and in several other manufacturing branches have taken place to a large extent in the new Member States.

In contrast, real estate and other business services attract more FDI than manufacturing in the three Baltic States. In all the new Member States, service sector FDI is mostly intended to meet the needs of the domestic market, and is concentrated in financial services, real estate and business services, and wholesaling and retailing – all of which are estimated to provide better returns on equity than similar investments in EU15.

Figure 26



As the economies of the new Member States have developed, they have started to invest elsewhere themselves. Such outflows amounted to less than 5% of inflows at the beginning of the 2000s, but had risen to 15% in 2004 and 17% in 2005. This has progressed to the point that Slovenia become a net exporter of FDI in 2005, with repatriated earnings from outward FDI now representing 19% and 16% respectively of the repatriated incomes of inward investors in the Czech Republic and Hungary.

It is difficult to be precise about the profitability of these inward investments, and calculations suggest that the 'profit rate' of income outflow relative to inward FDI stock varies significantly between countries and over the years. However, the highest rates of profit in the early 2000s appear to have been achieved in the countries with (a) the highest FDI stock relative to GDP and (b) the longest FDI history – namely Hungary, the Czech Republic, Estonia, with Poland, Romania and Slovenia moving forward in recent years.

Overall, foreign affiliates in the new Member States are seen to earn high profits, as well as contributing to economic growth and increased competitiveness through rising productivity, with global returns on FDI in the main market destinations in the range 15-20% in the late 1990s and even higher rates in the countries in central and eastern Europe.

On the basis of this positive evidence, it is considered that FDI capital will continue to flow into the new Member States; that investments will probably move more into the high technology activities; and that reinvested earnings will become an increasingly important source of investment funds.

It should be noted, however, that while the FDI figures appear very large, especially in relation to the GDP of the countries concerned, they are estimated to amount to only 4% of the total inward direct investment stock in EU25 as a whole.

EU structural fund support

The EU has been transferring financial resources to the new Member States since the early 1990s, in order to strengthen public administrations, prepare for the adoption of EU legislation, and promote economic and social cohesion through National Development Plans.

These were initially handled through the PHARE programme followed by further programmes – ISPA and SAPARD – focusing on environment and transport infrastructure as part of regional development, and agricultural and rural areas, respectively. To date these transfers are estimated to have totalled 28 billion euros.

Structural support is now delivered through the European Regional Development Fund (ERDF) European Social Fund (ESF) Financial Instrument for Fisheries Guidance (FIFG) and the European Agricultural Guidance and Guarantee Fund (EAGG).

Since accession, the new Member States contribute to, and benefit from, the EU budget in line with the agreement made at the December 2002 European Council in Copenhagen. Gross transfers to the EU-10 Member States from the EU budget are calculated to amount to just under 2% of their GDP in 2005, with close to 40% of EU payments to the new Member States in 2005 being related to agriculture.

These transfers represented some 6.9% of the EU budget, but amounted to just 0.1% of the GDP of the EU15 countries. Since the new Member States contribute since entry to the EU budget 'own resources' along with all other Member States, the average net transfers the EU10 countries receive amounted to just 0.6% of their gross national income.

There were some initial concerns that the new Member State governments would have difficulty finding their counter-part financial contribution (matched funding) out of their own budgets, as required by the additionality and co-financing conditions attached to most EU transfers. This is not considered to have been the case, but not all of the funding foreseen at Copenhagen has been sent and spent, with a short-fall of 15% between commitment and disbursement over 3 years is put down to a 'lack of absorption capacity'.

Romania and Bulgaria have received financial assistance, 1.4 billion euros in 2006 (2/3 going through ISPA and SAPARD) – which is seen to compare with the 1.6 billion actually paid to the NM10 in 2003, and justified by the fact that GDP per head in Bulgaria and Romania is only around 30% of the EU average.

In the period 2004-2006, gross transfers (principally channelled through the Structural Funds) amounted to a little under 2% of GDP in the new Member States. Under the financial perspective 2007-13, it is estimated that EU transfers to the EU10 Member States will vary between1.6% and 3.3% of their average GDP during the 6 year period. This is seen as a significant improvement over the average of 1% of GDP they received in 2004-2006.

In the budgets agreed by the Council for the period 2007-2013, some 307.6 billion euros have been allocated to actions in the new Member States:

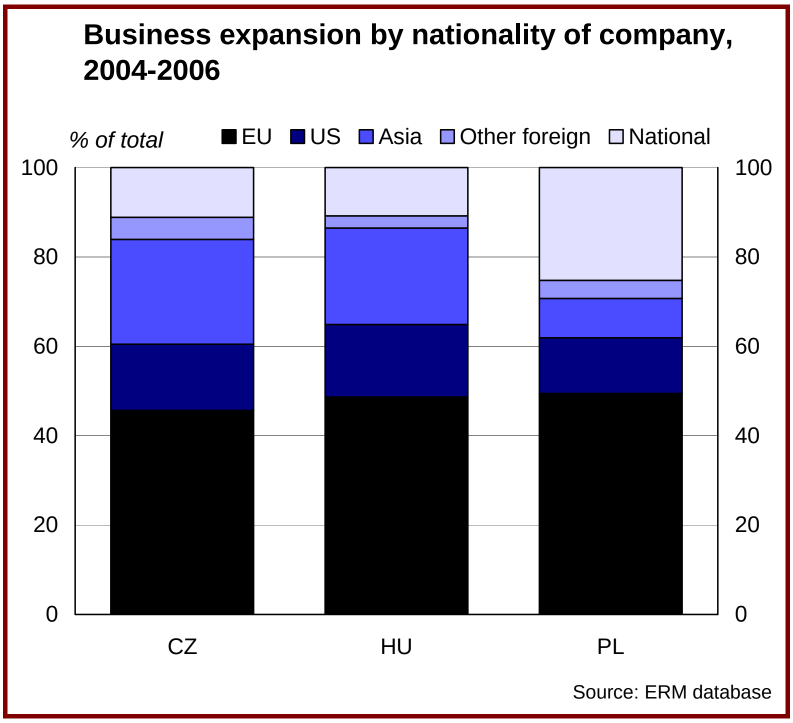
- 251.3 billion euros for Convergence (81.7%)
- 48.8 billion for Regional competitiveness and employment (15.8%)
- 7.5 billion for European territorial cooperation (2.4%).

On this basis, over the 2007-2013 period, gross transfers from the Structural Fund are likely to amount to around 3% of GDP in most of the new Member States.

Restructuring of enterprises

The ERM (European Restructuring Monitoring) database maintained by the Dublin Foundation collates information concerning business expansions and contractions in the new Member States through a network of correspondents. Our analysis of this data indicates that most cases of business expansion involving the creation of 100 jobs or more in the new Member States are in foreign-owned companies, particularly those with their home base in EU15.

Figure 27



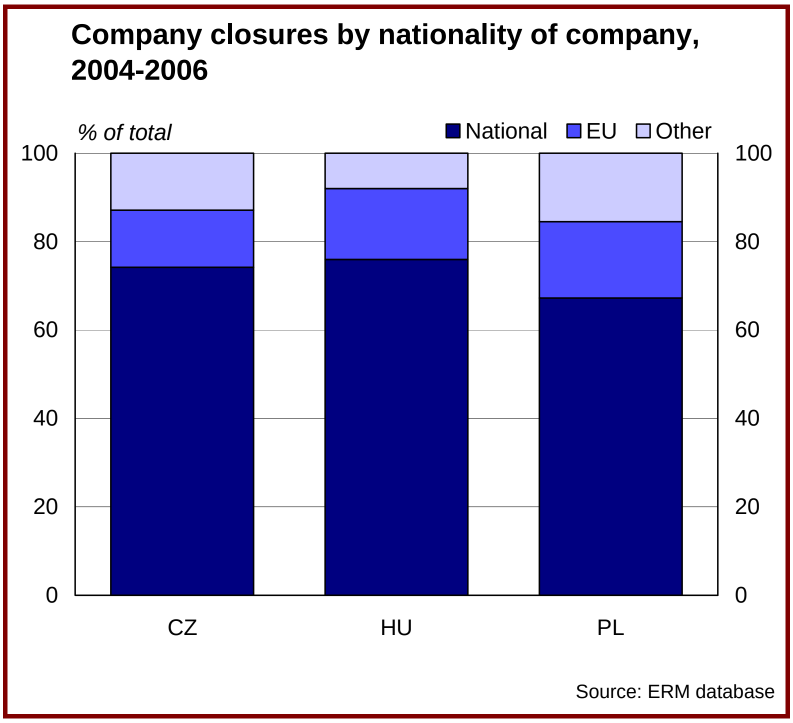
In the Czech Republic, Hungary and Poland, only 10% to 25% of business expansion cases over the period 2004-2006 involved national companies, while 45% involved EU15 based companies, with the balance split fairly evenly between US and Asian owned companies.

In the case of contractions or closures, on the other hand, the position was reversed, with 70-75% of closures taking place in national companies, and only around 10% arising in EU-owned companies.

These contrasting experiences have significant implications, not only for the future pattern of ownership of companies in the new Member States, but also for the development of industrial relations.

Most of the foreign-owned companies will have had experience of EU industrial relations practices, including, for example, works councils and even a European works council. However, national companies that find themselves in difficulties will need, not only to cope with the financial and related problems associated with economic restructuring, but also with the associated EU social policy legislation, including those relating to collective redundancies, for example, with which they will have had little previous experience.

Figure 28



PART C: BENEFITS OF ACCESSION – THE VIEW FROM THE NEW MEMBER STATES

The quantitative evidence on economic growth and employment is beginning to look positive in the new Member States, but the subjective views and opinions of the population as a whole in the new Member States, and of people in work in particular, are at least as important, and appear more mixed.

This is indicated in recent Eurobarometer surveys[5] and in the latest European working conditions survey from the European Foundation in Dublin[6]

EUROBAROMETER

When asked if they considered that membership of their country in the EU was a good thing, only 5 out of the 10 then new Member States appeared to be more positive than the EU average (Lithuania, Poland, Slovakia, Slovenia, Estonia, rising to 7 if Romania and Bulgaria are included), with the Czech Republic, Cyprus, Malta, Latvia and Hungary below.

On the other hand, when asked about any further enlargement of the EU to include other countries in future years, the new Member States gave 10 of the 11 most positive answers (Greece being the only 'old' MS to break the series) – around 75% in the case of Poland and Slovenia, with virtually all the other new Member States (including Romania and Bulgaria) responding positively at between 60% and 70%, compared with an EU25 average of 46%.

In the specific case of EU employment and social policies, the evidence is also somewhat mixed.

When the populations at large were asked for their views about these policies, the responses were generally very positive, with the new Member States taking 10 out of the top 14 places (led by Slovenia and Lithuania, and all within a range of 65% to 76%, along with Romania and Bulgaria) – well above the EU25 average of 56%.

When questions were put to those currently working, a somewhat different, and less positive, picture emerged as regards the new Member States.

When asked how confident they were of their ability to retain their jobs in the following months, some 84% of workers in the EU as a whole replied that they were very confident or fairly confident, but only 4 new Member States (the Czech Republic, Cyprus, Latvia, Slovenia – i.e. three out of the four being the countries with the highest levels of GDP per head among the new Member States) were above this EU25 average, with the other 6 below (with Slovakia at the bottom with 49%, together with Bulgaria and Romania).

When asked whether they were very, or fairly, confident of having a job in 2 years time, the relative position in those employed in the new Member States fell even further, with respondents in only two new Member States being above the EU average of 46% (the Czech Republic and Latvia), with all the rest below, and Hungary, Poland and Slovakia all below 35%.

More detailed questioning about how far those in employment thought that unemployment compensation schemes or the welfare system would compensate for loss of earning in the first 6 months if they were to lose their job, is interesting, if somewhat difficult to interpret. Indeed, 23% of people at work in EU25 felt unable to reply (with Estonia and Lithuania at the top with 50% and 44% respectively).

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[5] Eurobarometer (2006a) (2006b) (2006c)

[6] European Foundation (2007)

In answer to the question ‘do you think you would receive only 30% or less of your current income’, workers in 4 of out of the 12 new Member States (Malta, Romania, Poland, Bulgaria) were more pessimistic than the average EU25 worker (19% of whom appeared to feel this would be the case).

On the other hand, workers in 5 new Member States (the Czech Republic, Cyprus, Hungary, Slovenia and Slovakia) were more optimistic than the average EU25 worker that they would receive between 50 and 70% of their current incomes.

EUROPEAN WORKING CONDITIONS SURVEY

The 2006 European Working Conditions Survey (providing data for 2005) has just been published by the European Foundation, and we have analysed the original data concerning the new Member States. Questions are addressed only to employees, not the population at large.

In particular we have analysed the replies in terms of the share of workers in each of the new Member States, and in EU27 as a whole, who are:

- Satisfied with their working conditions – around 70/75% compared with EU27 of 82%
- Have working hours that fit their family and social commitments – around 75% compared with 80% in EU27
- Consulted about changes in work organisation – around 50% compared with EU27 of around 48%
- Whose job-skill match is seen to correspond well – around the EU27 average of 52%
- Think they are well paid for the work they do – around 30% compared with 42% in EU27, noting that Cyprus and Malta are around 45-55%
- Think that their job offers good prospects for career advancement – 20-25% compared with EU27 average of 31%
- Consider that they might lose their jobs in the next 6 months – around 20%.

Figure 29

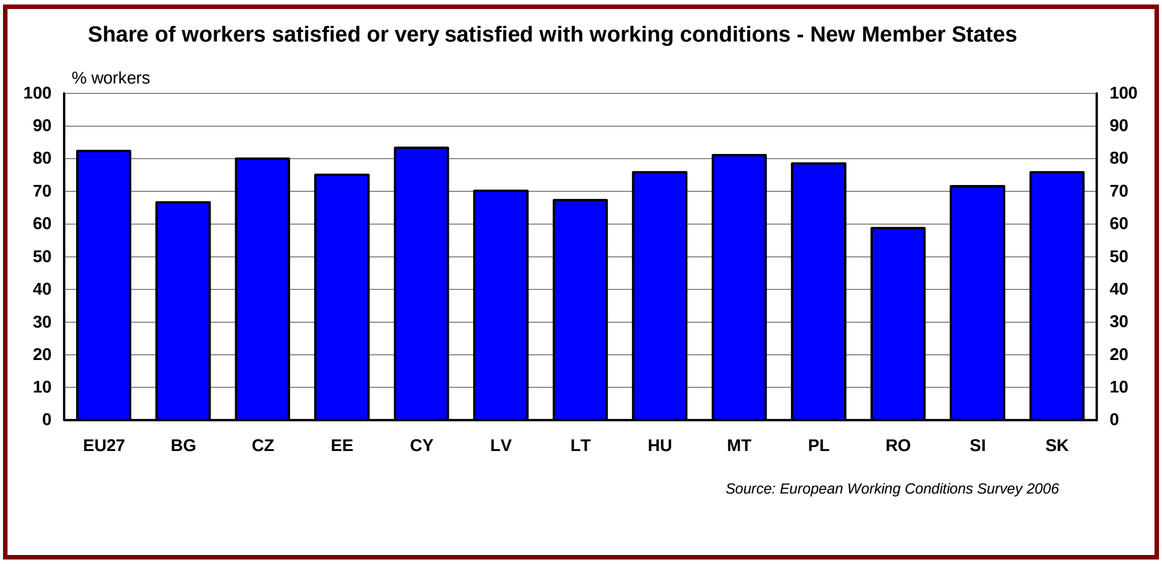

Figure 30

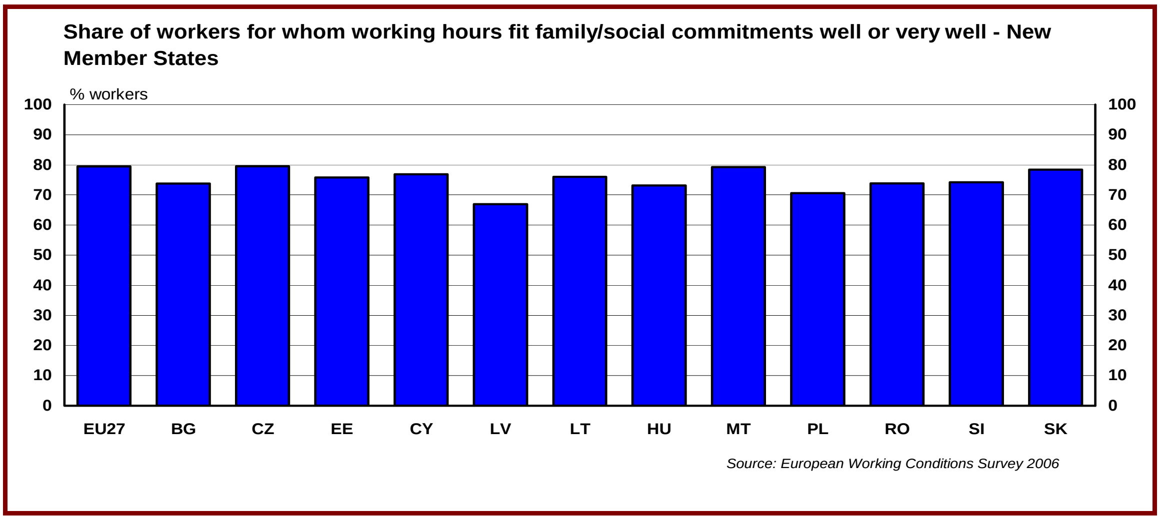

Figure 31

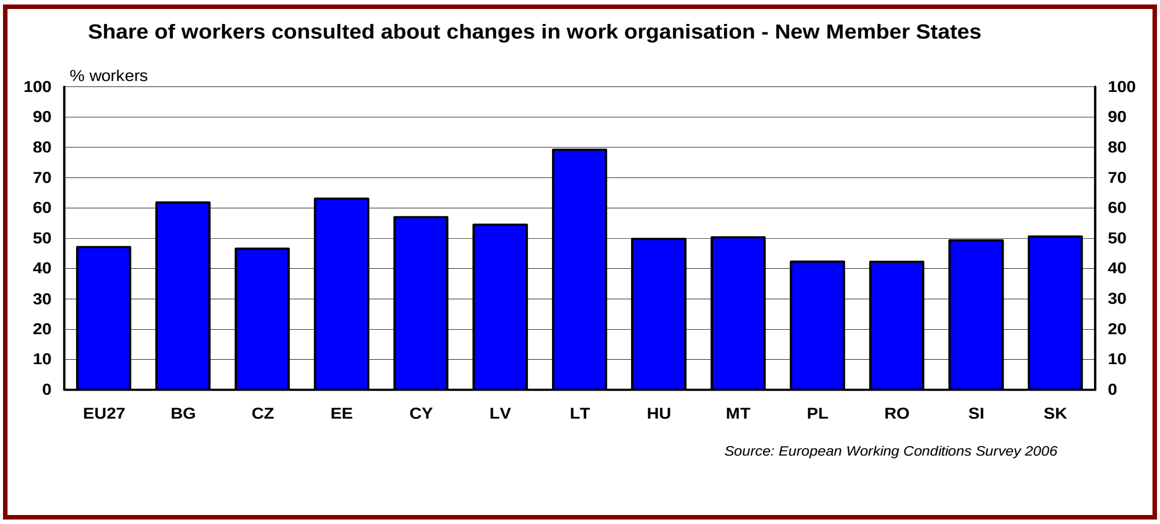

Figure 32

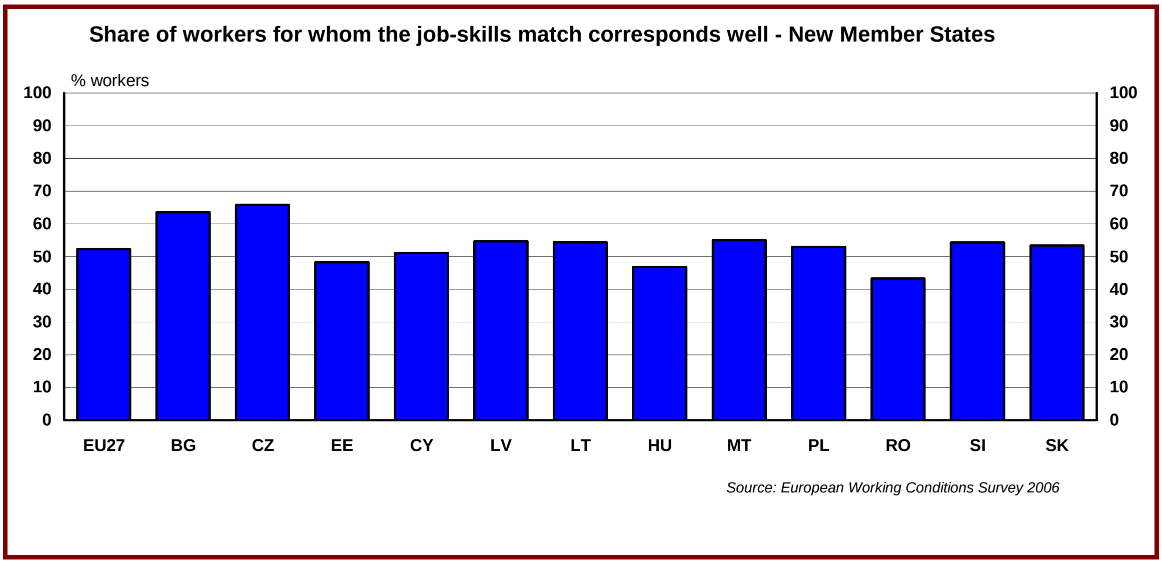

Figure 33

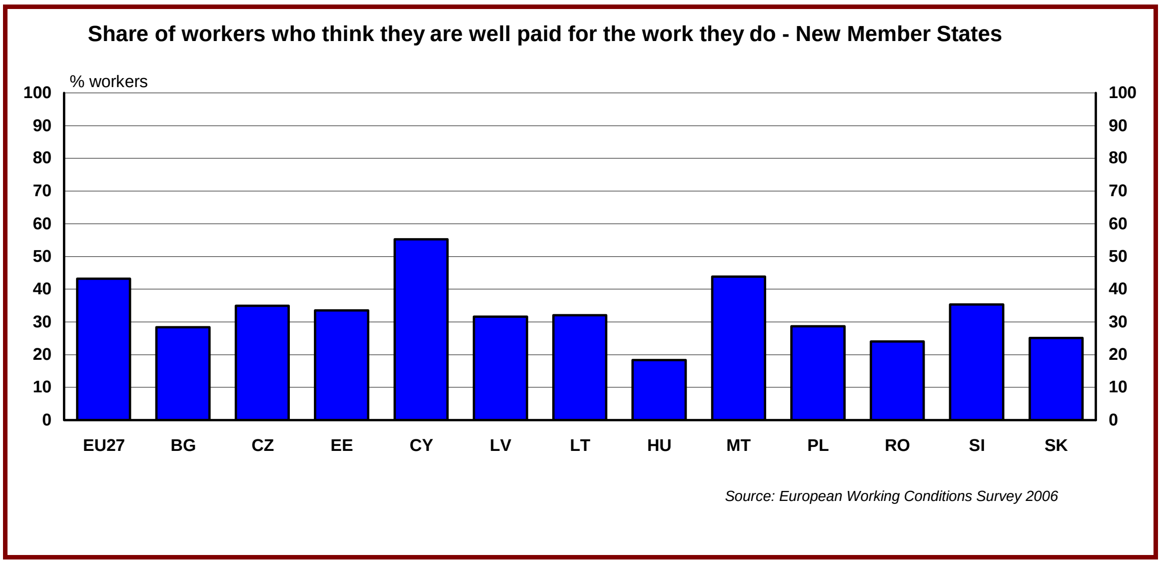

Figure 34

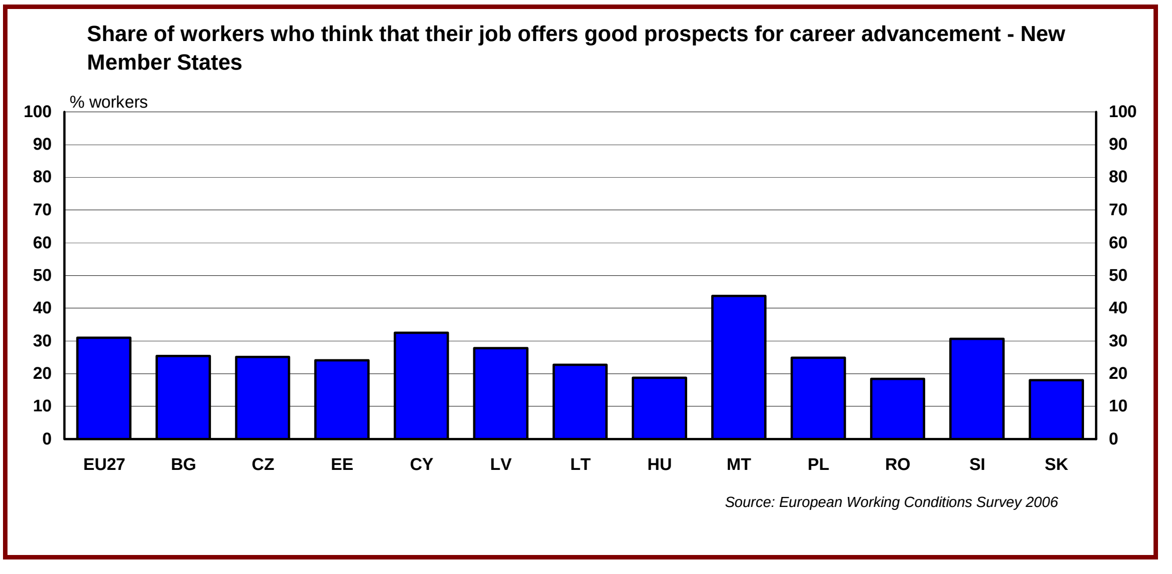

Figure 35

PART D: IMPLEMENTING THE ACQUI COMMUNAUTAIRE

THE ACQUI COMMUNAUTAIRE

Adoption of the *acqui* is intended to align the economic, administrative and legal systems of the new Member States with those of the EU as a whole. As of 8 March 2006, the new Member States had notified their implementation of nearly 99% of the 2683 Directives they were obliged to adopt, although the extent to which they had been correctly transposed and are being appropriately implemented is subject to further verification, noting that some Member States took some time after accession to complete the process.

The *acqui* is intended to ensure that the new Member States respect EU norms and standards, while benefiting from the positive contribution they bring in terms of economic and social development.

In the background report[7] prepared prior to its 2006 Communication[8] reviewing the E10 enlargement, the European Commission reports that:

'*The new Member States have not experienced major difficulties in aligning on the acqui communautaire in employment and social policy, which includes minimum standards on labour law, health and safety at work, gender equality and anti-discrimination, as well as social dialogue and participation in EU processes on employment, social inclusion and social protection. Strengthening social dialogue and continuing reforms on social protection are among the key challenges to be addressed.'*

At the same time, a specific reference is made to Community directives against discrimination on grounds of racial or ethnic original, religion or belief, disability, age and sexual orientation (2000/43/EC and 2000/78/EC), where the report notes that *'there continue to be shortcomings in the transposition and implantation of anti-discrimination legislation in several of the new Member States and the Commission is monitoring the situation'*.

The costs implications in the employment, social and education and benefits are likely to be high, although comprehensive estimates do not appear to be available. As an illustration, however, the environment and transport *acqui* costs are each estimated to be of the order of 100 billion euros for the region as a whole.

The positive judgement regarding the *acqui communautaire* is based mainly on the notification rate concerning the directives the countries were required to adopt on accession, even though the effectiveness of the transposition and implementation is subject to further verification.

For the moment, it is difficult to confirm or contest the claim in detail. On the one hand, it would seem somewhat optimistic given the institutional weaknesses that still exist in many of the countries, including in the social area. On the other hand, the commitment to reform processes, notably in relation to employment, are encouraging.

EMPLOYMENT AND LABOUR MARKET REFORMS

The conduct of the new Member States in implementing the European employment strategy can hardly be taken as a precise measure of their respect for Community law, but it does indicate of the extent to which they are actively working with all other Member States to bring their labour markets in line with EU norms, guidelines and goals.

[7] European Commission (2005a)
[8] European Commission (2006a)

The 2005/2006 Joint Employment Report[9] shows that the new Member States are actively involved in managing the processes of structural reform, and appear to be making equally strenuous efforts as many of the older Member States. These efforts include setting national employment rate targets for 2010 in terms of total employment, female employment, and the employment of older workers.

National reform programmes

All countries have adopted national reform programmes, the details of which are reflected in the detailed country-specific commentaries contained in the proposed Council recommendation[10] concerning the 2007 update of ‘The broad guidelines for the economic policies of the Member States and the community and the implementation of Member States’ employment policies’.

The recommendations reflect the Commission’s assessment of the implementation of national reform programmes, and take account of the Council request to rely more on Treaty based instruments in the implementation of the strategy. Therefore the Commission has decided to propose guidelines to Member States in the form of country-specific recommendation under articles 99(2) and 128(4) of the Treaty.

In the case of the new Member States, the following is a summary of the observations that have been made:

Czech Republic

The Czech Republic is seen to be making only limited progress in implementing its national reform programme, despite strong economic growth that should facilitate reforms. Strong points are seen to be in relation to the reform of education, both primary and tertiary. Weak points are seen in terms of poor labour market flexibility.

Estonia

Estonia is seen to be making good progress in terms of economic policies and employment growth, although further progress is needed with regard to the renewal of labour laws, the reinforcement of active labour market policies. Further efforts are also needed to raise the skill levels of the labour force.

Cyprus

Cyprus is seen to be in line with its national reform programme, that includes a broad range of active labour market measures, although further actions are needed in order to increase labour market opportunities for young people – hence the need to accelerate the reforms of education, training and apprenticeship systems.

Latvia

Latvia is seen to be making good progress in terms of employment, including in supporting the growth of innovative SMEs. Stronger efforts are needed, however, to increase labour supply, strengthen the skills of the labour force, improve regional mobility, and enhance the responsiveness of education and training systems to labour market needs.

Lithuania

Lithuania is seen to be making good progress in developing its national reform programme, but with more attention needed in terms of implementation. Priorities include improving labour mobility, increasing participation in life long learning, especially among older workers. There is also a need for more childcare facilities and improved youth employability.

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[9] European Commission (2006e)
[10] European Commission (2006b)

Hungary

Hungary is judged to have made only limited progress in implementing its national reform programme, with much remaining to be done in terms of both employment and economic policy. Positive comments are made regarding the reform of the unemployment benefits system and the integration of the employment and social service systems. The need to reinforce active labour market policies, improve incentives to work, and raise the quality of education and training, are highlighted.

Malta

Malta is seen to be making good progress in addressing its commitments, generally although less so in relation to employment. More efforts are needed to attract people into the labour market, particularly women; to intensify efforts to tackle undeclared work; to promote life-long learning, and to implement changes to the tax and benefit systems that would make working more attractive.

Poland

Poland is seen to be making limited and inadequate progress in implementing both macroeconomic and employment reforms. Active labour market policies need to be expanded and made more effective. There is also a need to improve the quality of human capital through education and life-long learning; and improve incentives to work. The reform of the employment services should be continued.

Slovenia

Slovenia is judged to be making good progress and to have launched most of the major employment reforms, benefiting from relatively favourable macro economic growth. However, progress on the implementation of active ageing (in order to increase the employment rate of older workers) and to remove barriers to youth employment (in order to strengthen the links between education and the labour market) have not been rapid enough.

Slovakia

Slovakia is seen to be making good progress although further measures are needed, included in the employment field. Employment growth has been strengthened by new tax incentives, mobility measures and some improvement in the services offered to certain disadvantaged groups. Additional efforts are needed, however, to reduce long-term unemployment especially among vulnerable groups, including the ROMA.

HEALTH AND SAFETY

The European Commission has just launched a new Community Strategy for 2007-2012 on Health and Safety at Work[11]. It is based on the adoption and application of the large body of Community laws that exist, and which is considered to have the basis for enabling the EU Member States to make considerable progress in reducing the incidence of work-related accidents and illnesses.

The Community strategy for the period 2002-2006 has been evaluated, and is judged to have re-launched preventive policies at national level and raised public awareness of health and safety at work, in part by presenting them as an key elements in creating enhanced economic performance and competitiveness.

[11] European Commission (2007)

The new strategy paper notes that the rate of fatal accidents at work in EU15 fell by 17% over the period 2000-2006 and that the rate of workplace accidents leading to absences of more than 3 days had fallen by 20% over the same period. However, no information is presented on individual Member States performances.

The Commission proposes that the objective should be to reduce the total incidence rate of accidents at work by 25% over the period 2007-2012 in EU27. Significantly, it proposes to strengthen the implementation of Community legislation, stating that *'it is essential that the Community acqui be implemented effectively in order to protect the lives and health of workers and ensure that the companies operating within the large European market are placed on an equal footing'*.

In 2004 the Commission had adopted a report on the implementation of Framework Directive in this field, together with the five individual directives. While the report confirmed the positive impact of the directives, it also identified serious shortcomings in the application of Community legislation particularly in sectors at risk, and among vulnerable categories of workers.

Implementation and enforcement

In the latest Communication, the Commission has confirmed its commitment to ensuring that Community directives are transposed and implemented effectively, and calls upon the Member States to respect their obligations. The Commission proposes that national strategies give priority to addressing the particular needs of small and medium sized firms, and to addressing high-risk sectors.

The Commission stresses the need for reinforced co-operation in order to guarantee comparable levels of protection in all the Member States. To this end it announces its intention to continue to promote the work of the Senior Labour Inspectors' Committee at Community level, with a view to improving the effectiveness of its control and monitoring of the application of the legislation.

The Commission considers that the success of the Community strategy will depend on the Member States adopting coherent national strategies, with quantitative targets for reducing the incidence of occupational accidents and illnesses, with a particular focus on sectors and companies with the worst track record, and on the most vulnerable workers.

The Commission also indicates that it will develop new instruments to measure the progress achieved, and the efforts made, by all the players at both national and European level in order to ensure that an adequate follow up is given to the implementation of this strategy.

The Communication makes no reference to the situation in individual Member States, and hence provides no indication of the performance of the new Member States against EU-wide criteria. However the scale of the challenge is indicated to some extent by the results of the Fourth European Working Condition Survey which provides some evidence on the extent to which workers in the different Member States feel they are subjected to traditional physical work risks.

In response to being asked whether they were subject to various physical risks for a quarter of their working time or more, employees in the new Member States took four our of five of the 'top' places in respect of risk from vibration, high temperature, smoke, heavy lifting of goods, and three of the 'top' five places with regard to low temperature, vapours, chemicals, infectious materials, painful working positions – all suggesting that the new Member States have a lot of catching up to do in practice.

SOCIAL DIALOGUE

The Commission background report to the enlargement assessment[12] states that 'Enlargement offers a major opportunity to develop the scope of European social dialogue' in which *'European social partners have the possibility to become true legislators in social and employment-related matters, and their adopted texts have become part of the acqui.'* Social dialogue is also recognised as a '*tool for manage reforms and change on employment and social policy issues at all levels'*.

However industrial relations traditions in the new Member States are very different from those in the old Member States, with company level bargaining, on the one hand, and tripartite discussions involving the social partners and government on the other. The EU-15 practice of sector-wide bargaining is limited, outside of Slovakia and Slovenia.

Moreover, weak social partner organisations – on the employer side as well as the employee side – with limited financial resources, limit their effective participation in the European social dialogue.

Building capacity

In order to help strengthen the capacity of the Social Partners to undertake a successful social dialogue in the new Member States, a series of projects have been undertaken, mainly funded by the European Community, involving a variety of organisations[13].

These have included the European social partners themselves (UNICE-UEAPME, CEEP, ETUC) who launched an Integrated Programme in 2003 for all the prospective new Member States including Romania and Bulgaria. That initiative involved a series of seminars, a study on restructuring, support for 'competence development' in relation to the European social dialogue, as well as the establishment of two resource centres, one for Employers, and the other for Trade Unions.

Similar projects have been supported by the European Foundation for Living and Working Conditions, the International Labour Office's International Training Centre, and other bodies – usually built around 'twinning' arrangements, involving all ten central and eastern European countries, together with partner organisations in Belgium, the UK, Finland, Ireland, Germany, the Netherlands and France.

While the focus and emphasis has varied according to the needs of individual Member States, this work has generally involved building an information base and developing organisational capacity, although some of these initiatives have also served to assist in the implementation of EU legislation, including in relation to the establishment of European Works Councils.

In this respect it can be noted that nearly 70% of companies with European Works Councils have operations in the new Member States[14], and while their involvement is not going to revolutionise industrial relations in the new Member States overnight, it is seen as part of a positive process, and no evidence is being offered suggesting that companies in the new Member States are actively seeking to avoid its coverage.

The European Foundation, together with the Swedish Work Life Institute, also established a specific project focused on the development of conflict resolution mechanisms in all ten prospective new Member States in the perspective of EMU. Results here were judged to have been largely positive, although a seminar in January 2004 had concluded that *'despite progress, an independent and voluntary social dialogue still needs to find its feet in many of the new Member States'* and that public authorities and social partners needed to work more together.

[12] European Commission (2005a)
[13] European Commission (2005c)
[14] Kerckhofs P. (2006)

In respect of the above, it can be noted that trade union membership (expressed as a percentage of the adult population) is around or below 10% in the majority of the new Member States, the exceptions being Cyprus (30%), Malta (26%) and Slovenia (27%) – figures that are substantially lower in most cases compared with the position in 1998 (notable exceptions being Cyprus and Malta)[15]

[15] European Commission (2006f)

CONCLUSIONS

1. The Accession countries went through a very difficult period of transition during the 1990s, with low rates of economic growth, large scale economic restructuring, significant job losses, a dramatic reduction in social support services, and, in some cases, a high degree of social unrest

   Whether any or all of this could have been avoided or alleviated if different policies had been adopted is a matter for historical debate. What seems to be clear is that the countries themselves rejected the more extreme forms of market deregulation and minimalist government that were being advocated at the time by the World Bank and other agencies, without being willing, or indeed able, to fully embrace the EU social model adjustment approach, not least because of a lack of financial resources.

2. While economic growth remained low in EU15 countries even after 2000, it grew more strongly in the new Member States, reaching twice the EU15 level. However, given the higher rate of productivity as the economies began the upward convergence process, there was little change in employment until 2005 when employment began to rise for the first time in a decade and a half.

   This economic growth performance has been greeted as highly satisfactory in European Commission communications, but it must be remembered that high rates of economic growth are to be expected when an economy is developing and converging towards the average level of its close trading partners. It should be noted that, during the period when Ireland was performing particularly strongly, annual rates of economic growth were close to double figures. Moreover, the rates of growth achieved so far have not been much higher than the growth of productivity, which is the reason why there has been little growth in employment. Since the gap in terms of the level of productivity with the rest of the EU remains wide, high productivity growth can be expected for some time to come, giving the possibility of high rates of output growth without much danger of fuelling inflation

3. If the new Member States are to converge more rapidly towards EU standards of living, then much higher rates of economic growth will be required. However, since they are so integrated with rest of the EU economy, this almost inevitably implies higher rates of growth in the whole of the EU. This is also important in the light of the aspiration of many countries to adopt the Euro – which, at present, is being managed without attention to goals other than inflation, despite widespread concerns about the EU economy's sluggish performance.

4. The employment performance of the new Member States is somewhat better than is generally implied. In terms of employment rates, the countries lag behind the EU as a whole by 7% points – 57% against 64%. However, since practically all of the employment in the new Member States is fulltime, the gap in the 'volume' of employment is only 2%.

   The problem is not so much that rates of employment in the new Member States are lower than the rest of the EU, but that levels of employment in the whole of the EU are well below its potential. If all countries were able to achieve employment rates equivalent to the best performing countries (notably the Nordic countries) employment levels in the EU could be some 15 million higher.

5. There are pressures on the new Member States to follow some current trends in labour market practices, notably to develop part-time work and temporary work, both of which are relatively scarce, although they do exist.

   More flexibility in this respect could provide opportunities for more people to participate in the labour market, which could be a means of spreading available incomes more widely. However, the promotion of greater access to paid employment in the new Member States by encouraging more part-time employment faces the difficulty that average incomes from full time work are already low (around 56% of EU25), making part-time incomes rather unattractive

   Moreover, it should be noted that employees in the new Member States seem to feel that their working arrangements, at least as far as hours of work are concerned, are at least as compatible with their family/social commitments as those in other Member States of the EU.

6. The big problems, in the new Member States appear to be related to the polarisation of activities – between regions and localities, between skill groups, and between foreign and domestic firms.

   Labour market opportunities vary enormously by region. In countries like the Czech Republic and Slovakia, unemployment rates in peripheral or backward (agricultural or industrial) regions can be four times higher than they are in capital cities and urban areas.

   Differences between high and low unemployment regions appear to be less marked in Poland, but probably only because unemployment is high everywhere – with none of the 16 regions in the country below the NM10 average of 11.4%, and with two regions experiencing unemployment rates of 20%

   The European Commission report does warn of the possibility of a dual economy emerging in the new Member States, but this already appears to be a major problem, and one that is not being adequately addressed.

   There are three inter-related concerns:

   - Most of the job growth is in new, foreign owned, inward investment firms, with most of the job losses in domestic companies.
   - The big growth areas are around capital cities, which attract both foreign investment, and skilled labour, and which are vastly outperforming other regions, many of which are in serious difficulties, especially if they are geographically a long way from the old Member States.
   - The labour market has developed in such a way that the job prospects for those with low education levels are very poor indeed – much worse than in EU15 countries, and there are no immediate prospects of improvement.

     In this respect, the 2005/2006 Joint Employment Report of the European Commission and Council noted that an imbalance between flexibility and security in many Member States had led to increasingly segmented labour markets which risk increasing the precariousness of jobs and undermining the incentive to invest in human capital.

7. The European Commission considers that there has been no problem with the *acqui communautaire,* but offers no detailed evidence, other than that 99% of EU directives have been transposed into national legislation. It is not possible to provide contrary evidence. However, it does appear to be somewhat complacent given the underdeveloped administrative structures, and the apparent lack of effective machinery for monitoring and enforcing legislation in the countries concerned.

   Moreover, the social dialogue clearly has a long way to go before it approaches the level in the EU15, and the vigilance of the social partners, together with the NGOs – who normally play an important role in bringing inadequacies in legislation or practices to the attention of governments, and the European Commission – is not so available.

8. In terms of the entry of Bulgaria and Romania, an important lesson seems to be to act early to avoid the divergences that can now be seen in the existing Central and Eastern European economies – given that such developments would appear to be even more likely given their lower initial levels of economic performance and incomes.

   A ‘rising tide’ of economic growth does tend to ‘lift all boats’ but the tide is too weak to do much for those people and regions lower down the order, in the weakest or least competitive positions. The answer is partly more growth, but it is also more support for targeted structural policies, to address the problems.

9. Starting points and challenges for individual Member States vary a great deal – obviously between poorer and richer localities, but also between the new Mediterranean Member States and those in central and eastern Europe.

   Income levels in the accession countries now range from around 30% of the EU average in Bulgaria and Romania up to 80% Slovenia and Cyprus within an average figure of 56% of the EU27 as a whole. If all continues to go well, however, that average could rise to 65% or more over the coming decade, and to 75%, even 80%, a decade further on.

RECOMMENDATIONS

- Significantly higher rates of economic growth and job creation are needed in order to deliver more jobs and raise living standards more quickly, given the high rates of productivity growth in the developing economies of the new Member States
- More positive labour market flexibility is needed, rather than more precarious work, in order to improve access to the labour market and raise confidence among the workforce
- Public policies in the new Member States need to focus on tackling the problems of declining regions and the difficulties faced by the young and unskilled, with support from EU structural funds
- Education and training systems need to be better adapted to the needs of modern economies and societies, probably involving closer co-operation between companies, regions and public agencies
- Effective implementation as well as transposition of social legislation needs to be assured, with much more support for the development of effective social partnership, particularly from employers and trade unions with experience in EU15
- The positive experiences of previous enlargements, as well as the 2004 enlargement, should inform policy regarding the integration of Romania and Bulgaria, not least with regard to developing an effective social dialogue, while respecting the autonomy of the social partners

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