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The Enlargement of European Union and Labor Market: Trends and Challenges

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Abstract
In this paper the relationship between the EU labor markets and Eastern Enlargement is examined. Several issues will be examined throughout the paper, namely the current challenges and problems of the EU labor markets, their impacts on the overall competitiveness of the European economy, and the possible effects of the Eastern enlargement on both of these.

Keywords
European Union, labor, labor market, employment, and enlargement

Disciplines
Labor Relations

Comments

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THE ENLARGEMENT OF EUROPEAN UNION AND LABOR MARKET: TRENDS AND CHALLENGES

***Tuncay Guloglu**

****Gokhan Guder**

Introduction

The main topic of this paper is the inter-relations between the European labor markets and the Eastern Enlargement. Several issues will be examined throughout the paper, namely the current challenges and problems of the EU labor markets, their impacts on the overall competitiveness of the European economy, and the possible effects of the Eastern enlargement on both of these. The main question to be asked throughout paper is that if the eastern enlargement will be able to create a positive environment on solution of the problems of the European labor market and if it will help to increase the competitiveness of the European economy.

The general idea of the writer on the topic is that the Eastward enlargement will be able to provide only a very little support to the solution of problems of the European labor markets. The possible negative effects of the widening of the EU borders on the EU labor markets in terms of unemployment and wage-cuts will be also considerably small. On the other hand, the labor markets of the new EU members will be able to benefit from continuing foreign investment and alignment of the national social policies to the EU ones. Regarding the competitiveness of the EU economy, the writer argues that impacts of the eastern enlargement on the competitiveness might be significant in the short term but taking into account the structural problems of the EU economy and the significance of the international challenges ahead they will be insufficient in the long run.

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European Labor Markets: Trends and Challenges

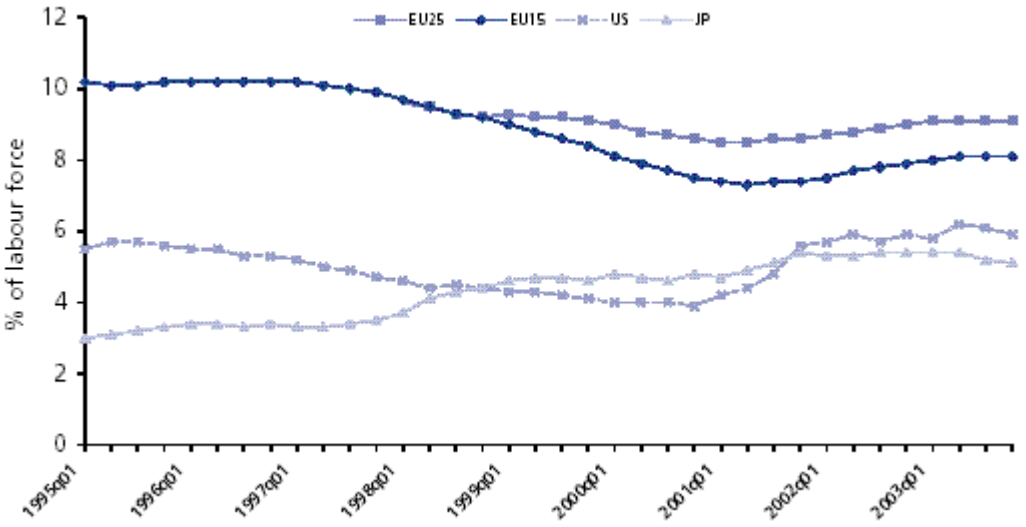
According to the reports prepared by the European Commission, some of the main problems in the labor market are low employment rates, particularly in women and the older people, high unemployment rates, and low employment creation. In 2003 the employment rate in the EU-15 is stagnated at 64.3%. This value is lower for women at around 56.0% and for older people at around 41.7%. These values are pretty low when we compare to the 2010 employment targets of the Lisbon Strategy. All of these values are higher in the US. EU is lacking to meet the employment levels of the US especially for women and the older people. Low level of employment rates especially for the older people, women and the low-skilled labor are regarded as the signs of the structural problems in the EU labor markets. Employment creation is also limited reflecting the small economic growth when we compare to the levels in the other developed countries. For instance, in 2003, employment growth rate in the EU was 0.2 % and it was 0.9% in the US. Unemployment rate for the EU was 8.1% in 2003 and it was 6.0% for the US (European Commission, 2004A).

Table 1. Major Labor Market Figures for EU, US and Japan (2003)

	EU-25	***EU-15***	***US***	***Japan***
Population (million)	455	381	284	128
GDP (1000 million, PPS, current prices)	10180	9302	9980	3227
GDP Gowth at constant prices	0.8	0.7	3.1	2.5
Employment rate	62.9	64.3	71.2	68.4
Employment growth rate	0.2	0.2	0.9	-0.2
Unemployment Rate	9.1	8.1	6.0	5.3

Source: Employment in Europe 2004, Recent Trends and Prospects, European Commission, 2004.

Chart 1. Unemployment Rates in EU, US and Japan (1995-2003



Source: Employment in Europe 2004, Recent Trends and Prospects, European Commission, 2004.

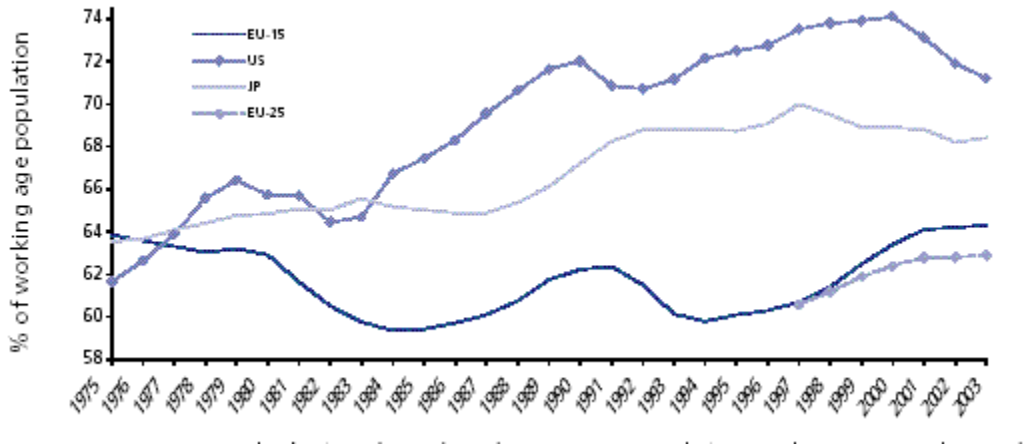


Chart 2. Employment Rates in EU, US and Japan (1975-2003)

Source: Employment in Europe 2004, Recent Trends and Prospects, European Commission, 2004.

Employment report of the Commission concludes that globalization, technological change, economic integration, and the rapid aging of the population are the main challenges for the better functioning of the EU labor markets. Globalization takes place in two folds in the EU case. First, general worldwide integration of the economies and the second, regional integration. Some of the main characteristics of the general globalization is the increasing volume of trade between developing countries and the developed ones in manufacturing goods, lesser customs tariffs and border controls to the products of other countries, more integrated financial institutions and as a result of this more flexible international capital. So far, free movement of labor couldn't become a significant part of the globalization trend but EU enabled to achieve it within the borders of its continent. Globalization increases the efficiency of the markets and create more opportunity to growth but also implies a re-organization of the economy against the losing sectors and in favor of winning sectors. Although current globalization doesn't mean a free movement of labor, it has some effects on labor markets, namely the wage levels may decrease in the manufacturing sector and due to outsourcing unemployment may increase.

One of the main targets of the Lisbon Strategy, the leading policy document of the EU concerning employment, is to create a knowledge-based economy. Technological changes not only

create efficiency and growth but reorganization of the labor markets. Demands of the economy from the labor market are becoming more technological oriented, so it requires more knowledge based labor, reorganization of the education systems and more training. The figures indicating the knowledge base of the European economies such as the share of the research and development expenditures in gross national product, computer literacy rates, rates of using internet, mobile phone and other telecommunication instruments, references to the academic papers produced by Europeans etc are significantly lower than the figures of the US.

Aging of the society is one of the most important problem of the EU labor markets. Aging population means less employment rates, lower level of participation to the economy, lower level of productivity, higher social and health expenditures and lower demand for the consumer goods and services. The natural increase of the population is very limited and that's why Europe tends to import labor more. But the social integration of the immigrants to the host country always become difficult and requires several generations. New cultures and lifestyles coming from the home countries may create negative reactions in people of host countries. That's why immigration does not provide a sustainable solution to the aging problem.

European Enlargement Toward East

European Union has expanded its borders to the East on May 2004. This recent enlargement increased the number of EU members from 15 to 25. Gross domestic product of the EU is increased by 10% in pps term. On the other hand, population of the EU is increased by nearly 74 million people which is around 20% of the EU population. The difference between the GDP increase and the population increase shows the most significant feature of this enlargement. EU is opening its doors to countries whose GDP per capita levels are ranging from 33% and 79% of the average of current members.

Enlargement is regarded as a positive sum game for all participants by the Commission. According to the documents of the Commission, main benefits of the enlargement can be listed as

follows:

- The extension of the zone of peace, stability and prosperity in Europe will enhance the security of all its peoples.
- The addition of more than 70 million people, in rapidly growing economies, to the EU's market of 370 million will boost economic growth and create jobs in both old and new member states.
- There will be a better quality of life for citizens throughout Europe as the new members adopt EU policies for protection of the environment and the fight against crime, drugs and illegal immigration.
- The arrival of new members will enrich the EU through increased cultural diversity, interchange of ideas, and better understanding of other peoples.
- Enlargement will strengthen the Union's role in world affairs - in foreign and security policy, trade policy, and the other fields of global governance (www.europa.eu.int).

Several studies analyzing the enlargement process come up with results in favor of the aforementioned benefits. For instance, an academic study in 1997 by the Center for Economic Policy Research estimated that accession of countries of Central and Eastern Europe (CEECs) would bring an economic gain for the EU-15 of € 10 billion, and for the new members of € 23 billion (Baldwin, Francois and Portes:1997).

(In supportive of this result, a study of the Commission concludes that enlargement will be able to increase the growth of GDP of the new member countries by between 1.3 and 2.1 percentage points annually, and for the existing members it could increase the level of GDP by 0.7 percentage point on a cumulative basis.

Labor Markets of the Accession Countries: Trends and Challenges

CEECs are still under transition process from State-led economy to the market economy that's why having some difficulties in their labor markets. Some of the main characteristics of the labor markets in the CEECs are low employment rates which are declining in recent years, high unemployment rates, low wages, and the aging of the population. Regarding the labor markets, there are some differences between accession countries and the existing EU members in general figures of labor markets. Employment rates as a percentage of working age population seems to be similar but below the EU level. For instance, for the 8 Central and Eastern Europe Countries the employment rate for 2003 is 55,7% which is lower than the EU-15 figure of 64.3%. Despite high growth rates in the economy, employment levels tend to decline or remain same for the period of 1996-2003 in CEECs. As it can be seen from the table, unemployment rates for the CEECs are very high in general comparing to the EU-15 levels. Sectoral distribution of the labor force shows that agriculture and industry employs more people in CEECs compare to the EU-15. But there is a tendency to increase in the share of the service sector in the employment. Women tends to participate more to the economy comparing to the EU-15. Participation of the young population and older people to the economy in accession countries seems to be similar with the EU-15 trends (European Commission 2004B)

Table 2. Central and Eastern Europe Countries (2000)

Countries	*Population (mill.)*	*Unemployment Rate*	*GDP Index*	*GDP Growth*
Bulgaria	8	17.8	24	5.8
Czech Rep.	10	8.7	60	2.9
Estonia	2	13.2	38	6.9
Hungary	10	6.5	52	5.2
Latvia	3	14.4	29	6.6
Lithuania	4	14.7	29	3.9
Poland	39	16.7	39	4.0
Romania	23	8.4	27	1.6
Slovakia	5	18.9	48	2.2
Slovenia	2	7.2	71	4.6
EU Member	374	8.4	100	3.3

Source: Challenges and Opportunities of the EU Expansion in Central and Eastern Europe, Roxana Wright and Eric Drouart.

The Possible Impacts of the Enlargement on EU Labor Markets

The differences listed above imply an immigration flow from the new members to the existing ones once the obstacles for the free movement of people is removed. There have been several analysis of the impact of enlargement on the labor market and migratory flows in this regard. An extensive study made for the Commission suggested that only about 335,000 people would move to the EU-15 countries from Central and Eastern Europe even if there were free movement of workers immediately on accession. On the other hand, the Union has now agreed on a flexible transition period of up to seven years for limiting the inflow of workers from new member states (Boeri and Brucker 2001).

Some other studies support these results. For instance, Bauer and Zimmermann (1999) forecast that migration flows would be slightly smaller. In general they expect that long-run emigration rates will be in the order of 2-3 per cent of the population of the sending country, depending on the assumptions that are made.

It is also evidence from the previous enlargements that there is no need to have a fear of a huge immigration. Spanish and Portuguese enlargements show that people tend to stay in their own countries especially if the new member state begin to experience of economic recovering and growth. Social and political reforms held in the new members with a view to keeping the standards of the EU are also effective in the low immigration flows.

Other than the immigration, it is argued that the latest enlargement will result in lower wages for the labor force of the existing members. Social expenditures for the new immigrants which are expected to be higher after enlargement is another source of concern. However these two arguments will lose their bases and significance if the effects of the labor unions in the EU remain to be strong on wage determination and a low level of immigration occurs.

If we argue the possible positive effects of the enlargement to the EU labor markets, it would be very difficult to find the evidences of it. Structure of the labor markets in the new comers provides a very little opportunity for the solution of the problems of the EU labor markets. High unemployment rates, low employment rates, low even negative employment growth rates, and aging of the population are some of the main characteristics of the accession countries' labor markets. Bearing in the mind that EU-15 is also suffering from these handicaps, it is very reasonable to argue that eastern enlargement will provide a very limited effect on the problems of the EU labor markets.

On the other hand, the challenges ahead for the EU labor markets namely globalization, technological change, aging of the population and the lack of knowledge-based economy seem to be continue after the enlargement. Current investment flow rates from EU-15 to the Eastern Europe provides that enlargement is helpful for the European industries' competitiveness. The high level of education in these countries is an advantage for the European corporations. But when we look at the general tendencies of the globalization such as increasing influence of the Easy Asian namely Chinese products in the developed economies, higher capital flows from developed countries to the East Asian economies, it would be very difficult to expect that benefits of the enlargement will meet the challenges arising from globalization. Aging of the population is more severe in the CEECs when we compare to the EU-15. As it can be seen from the table below, the natural increase of the population is negative in most of the accession countries. Regarding the very low level of net migration to these countries total increase in the population is becoming negative. It can be resulted that the problem of aging in the EU will be worsened after enlargement. Or in other terms, the labor force demand of the EU labor markets towards more younger people could not be meet by the new member states.

Given this tendency towards aging of the population in the accession countries, it would be also difficult to meet challenges of the need for a more knowledge-based economy and the demands of technological change. Although high education levels of the society in CEECs could help in the creation of a more knowledge-based economy in the Europe, aging of the population might cut effects

of these benefits.

Table 3. Demographic Trends in the Enlarged EU

Country	Population 1.1.2003	Natural increase	Net migration	Total increase	Population 1.1.2004	Natural increase	Net migration	Total increase
	(1000)					per 1000 population		
EU25	453683	202	1015	1217	454900	0.4	2.2	2.7
EU15	379483	294	983	1276	380759	0.8	2.6	3.4
Belgium	10356	6	35	41	10397	0.6	3.4	3.9
Denmark	5384	7	7	14	5398	1.3	1.3	2.6
Germany	82537	-152	160	8	82545	-1.8	1.9	0.1
Greece	11018	-2	30	29	11047	-0.1	2.7	2.6
Spain	40683	70	225	295	40978	1.7	5.5	7.2
France	59629	207	60	267	59896	3.5	1.0	4.5
Ireland	3964	33	28	61	4025	8.3	7.0	15.3
Italy	57321	-47	208	161	57482	-0.8	3.6	2.8
Luxembourg	448	1	1	3	451	3.0	2.5	5.6
Netherlands	16193	62	3	65	16258	3.8	0.2	4.0
Austria	8067	0	25	25	8092	0.0	3.1	3.1
Portugal	10408	9	63	72	10480	0.9	6.1	6.9
Finland	5206	8	6	14	5220	1.6	1.1	2.7
Sweden	8941	5	29	34	8975	0.6	3.2	3.8
United Kingdom	59329	86	103	189	59518	1.4	1.7	3.2
New Member States	74201	-92	32	-60	74141	-1.2	0.4	-0.8
Cyprus	715	2	10	13	728	3.3	14.1	17.4
Czech Republic	10203	-16	24	8	10211	-1.6	2.4	0.8
Estonia	1356	-5	0	-5	1351	-3.7	-0.1	-3.8
Hungary	10142	-40	12	-27	10115	-3.9	1.2	-2.7
Latvia	2332	-12	-1	-13	2319	-5.2	-0.3	-5.6
Lithuania	3463	-11	-5	-15	3447	-3.0	-1.4	-4.5
Malta	397	1	2	2	400	1.8	3.9	5.7
Poland	38219	-10	-15	-25	38194	-0.2	-0.4	-0.6
Slovak Republic	5379	0	2	2	5381	0.0	0.3	0.3
Slovenia	1995	-2	4	2	1997	-1.0	1.8	0.8
Bulgaria	7846	-47	:	-47	7799	-5.9	:	-5.9
Romania	21773	-56	-1	-57	21716	-2.6	0.0	-2.6

Source: Employment in Europe 2004, Recent Trends and Prospects, European Commission, 2004.

Conclusion

In this paper the relationship between the EU labor markets and Eastern Enlargement is examined. The main problems of the EU labor markets seem to be the low employment rates, low employment growth rates, and the high unemployment values. Some of the challenges ahead for the EU labor markets are globalization, technological change, need for knowledge-based economy and the aging of the population. Enlargement of the EU towards East will be have considerable effects on the functioning of the EU labor markets. Labor immigration from accession countries to the existing members, lowering of the wages in the current members and higher unemployment rates are some of the expectations after enlargement. It can be also expected that the integration of the Eastern Europe economies to the EU will help to the solution of the problems of EU labor markets and assist the meeting the challenges. But, as it is summarized in this paper, several studies show that the effects of enlargement will be small in both positive and negative terms. As a result, it can be expected that number of people who will immigrate from east to the west will be limited, and the enlargement will not help the EU labor market problems such as a need for a more younger and productive population, a more knowledge-based economy meeting the challenges of technological changes. Global developments, the ones especially taking place in East Asia, will be also effective in the aforementioned limited impact of enlargement on the EU labor markets.

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