



## CHARACTERISTICS OF THE LABOUR MARKET IN THE NEW EU MEMBER STATES

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### Rezumat

În prezentul articol autorii și-au propus să surprindă principalele caracteristici ale pieței muncii în noile state membre ale Uniunii Europene în actualul context al crizei financiare și economice, care își pune amprenta și pe economiile țărilor analizate. Se observă că la nivelul noilor state membre (NSM), deși s-au făcut demersuri importante pentru implementarea unor măsuri care să ofere o mai bună integrare a politicilor sociale și ale pieței muncii, rezultatele sunt sub așteptările scontate. O explicație pentru această stare de fapt este și menținerea unui nivel scăzut în toate noile state membre a ponderii cheltuielilor privind politicile pieței muncii și educației în produsul intern brut al țărilor analizate, comparativ cu media UE27. În contextul mondial actual, la nivelul tuturor noilor state membre piața muncii a suferit o serie de modificări structurale, forța de muncă canalizându-se spre domenii atractive, observându-se că piața muncii înregistrează o flexibilitate mai mare a salariilor și mai redusă a ocupării



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forței de muncă la nivel național. Lipsa unor măsuri concrete, eficiente în planul politicilor publice, ce puteau fi întreprinse cu succes în anii anteriori, pot face ca domeniile „attractive” să fie mai riscante din perspectiva pierderii locului de muncă.

### **Abstract**

In this article, the authors aimed to capture the main features of the labour market in the new EU member states in the current context of economic and financial crisis which put its imprint on the economies of countries analyzed. It could be noted that in the New Member States (NMS), although they have been important steps to implement measures to provide a better integration of social and labour market policies, however, the results are below expectations. An explanation for this state of affairs is the low level maintenance in all NMS of the share of expenditure on labour market policies and education in GDP of the countries examined, compared with the EU27 average. In the actual global context, in all New Member States the labour market has suffered a series of structural changes, labour directing towards attractive fields, being noticed that the labour market records a greater flexibility concerning wages and a lower one concerning employment at the national level. Lack of effective concrete measures in the plan of public policies, that could be successfully undertaken, can make "attractive" fields to be more risky from the perspective of losing jobs.

**Keywords:** unemployment rate, economic growth, workforce employment rate.

**JEL code:** E24, J01, J08, J21.

The national macroeconomic monetary, fiscal and social policies represent instruments which “shape” the process of nominal convergence, process by which the real convergence should be supported, in agreement with EU policy requirements. In general, to attain convergence and to control the possible asymmetrical shocks in the situation of crisis, the effort of monetary policy adjustment should be doubled, both before and after accession to the euro zone, by the adequate modification of employment and of the wage at the level of the

new EU member states economies or economic branches. This prompt response of the labour market evolution, in order to cope with the possible adverse shocks due to the economic crisis, is found under the concept of labour market flexibility and concerns authorities at the national and EU level.

All new member states witnessed increasing *employment rates* during 2000-2007, concomitantly with a decrease of the unemployment rate. In Estonia, the employment rate increased from 60.4% in 2000 to 69.4% in 2007, while the *employment rate of the older workers* increased even more, from 46.3% in 2000, to 60% in 2007, exceeding thus the target set by the 2001 Stockholm Council which stipulated a 50% employment rate of the people aged 55 to 64, by 2010. We can not say the same thing about Romania where, due to the massive reorganisation of the economy, the employment rate decreased from 65.4% in 1997 to 57.6% in 2002, increasing thereafter slowly during 2003-2007, reaching 58.8% in 2007<sup>1</sup>. The same trend can be observed for the employment rate of the older workers, 2002 being a turning point in the evolution of this indicator which increased gradually, from 37.3% in 2002, to 41.4% in 2007. However, despite the increase of these indicators, one can notice the lack of an efficient national policy which to support the maintenance in activity of the older workers and which to facilitate the inter-generation exchange, the experience being one of the criteria disadvantaging the young generation in their quest for jobs.

The *unemployment rate* is characterized by a trend of accentuated decrease in all new member states during the surveyed period, 2000-2007, remaining under the EU 27 average (7.1% in 2007), except for Hungary, with 7.4% and Slovakia, with 11.1% in the year 2007. If in Czechia and Poland, unemployment is met especially among men, in Romania the situation is atypical. Thus, unemployment among women is much lower than among men, which might outline certain structural characteristics of the labour market in our country. An explanation could be the investments of the recent years in the light industry (clothing) as *John*, using feminine workforce, well qualified, but badly paid compared to

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<sup>1</sup> Source: Eurostat.

the western countries, and the dissolution of the heavy industry which employed mostly men.

The increased employment in the new member states remained high in 2007 in constructions, trade and communications, the most attractive area for the employees being the financial sector, while in agriculture the level of employment decreased due the discrepancy between the rural and urban employment. The workforce increased in all member states during the recent years, particularly due to the increased number of older workers on the labour market and due to the lower rate of withdrawal of the persons with high productivity (population aged 25-54), because of the less intense emigration of the workforce compared to the previous years.

Throughout the surveyed period, the labour market underwent structural changes in all new member states, the workforce channelling towards attractive areas with high productivity, but with large cyclical fluctuation (transportation, construction, trade etc.). This shows a good relocation capacity of the workforce on the labour market, which contributes to the growth of the GDP and prevents the risk of labour market shrinkage. These areas have also attracted foreign labour force due to important wage raises compared to other economic sectors. However, the lack of concrete and efficient measures of public policy which could have been implemented successfully during the previous years, make the "attractive" areas more risky in terms of unemployment because their development may be slowed or even discontinued abruptly by the present world context, the layoff among the immigrants, the unskilled or low skilled workers being a cheap solution for the companies.

During the past years, the positive evolutions of the labour market in the new members states is due mainly to the favourable economic cycles with large economic growth, which boosted the demand for workforce; the unsolved structural problems continue, however, to make their presence felt:

- by a low regional and professional mobility;
- by the lack of employment motivation of the social groups with low incomes;

- by a still high rigidity of the labour market in terms of type of work contracts (the contracts on unlimited duration are still dominant);
- by a still insufficiently developed mortgage market.

In terms of wages, if we analyse the evolution of the *average gross annual earnings in industry and services (euro)*, we can observe they are much lower than the EU27 and euro zone average. Thus, in 2005, the value of earnings was 1978 euro in Bulgaria and 3155 euro in Romania, while in Latvia it was 4246 euro and over 7400 in Hungary and Czechia. The correspondent figure for EU27 was 28992.4 euro<sup>2</sup>, about 9 times higher than in Romania.

In the new member states, although a general trend of decreasing *unemployment rate aged less than 25 years* is noticed for the period 2000-2007, it still is quite high exceeding the EU27 average (15.3%), except for Latvia, Lithuania and Czechia, which suggests a higher flexibility of the labour market in these three states. However, in the following period, the implementation of the measures for labour market flexibilization will have to be continued in all new member states, particularly since the *proportion of employees with limited duration contracts* is 7 times lower in Romania, Estonia and Lithuania, and two times lower in Hungary compared to the EU27 average. Concerning the forecast for 2009, the situation of the labour market will temper down in the new member states, given the current context of the financial crisis. Thus, the structural and conjectural changes of the labour market will be felt by a moderation of the wage raise and by an increase of the short and long-term unemployment rate because of the reduced activity, mainly in constructions<sup>3</sup>.

In all new member states, the concern for education seems to be oscillating. Thus, although the *proportion of population aged 20 to 24 which having completed at least the high school* is much above EU27 and euro zone average, the preoccupation for education doesn't seem to

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<sup>2</sup> Source: Eurostat.

<sup>3</sup> The perception of the business cycle as being unfavourable on the short term, particularly in this field, will determine the entrepreneurs to prefer part-time employees and they will also reduce the number of working hours, situation in agreement with the new EU regulations.

have been transmitted to the younger generation. Thus, the indicator of *early school leavers by gender, knew as school dropout (Percentage of the population aged 18-24 with at most lower secondary education and not in further education or training)*, reached worrying rates in Romania, Bulgaria and Latvia, above the EU27 average of 14.8%. The same unfavourable trend can be noticed for the *life-long learning (Percentage of the adult population aged 25-64 participating education and training)*, particularly in Romanian and Bulgaria. These evolutions bear on the labour market by the unfavourable influences on employment and unemployment: - the employment rate decreases and the unemployment rate increases when the education level is lower. Thus, in 2007, in all Baltic States and Bulgaria, the *unemployment rate was four times higher among the population with pre-primary, primary and lower secondary education levels, compared to the higher levels of the tertiary education.*

The *gross wage* and the *real wage* increased in the new member states during the recent years, the increase of *productivity per employee* lagging much behind the wage raise. The sectors producing *non-tradables* had the highest contribution to the reduction of productivity during the recent years because of the increased number of employees in these sectors with a low economic efficiency, reason why the employers foresee a reduction of the staff number and of the investment for new production technologies in the near future. Overall the new member states economy, the wage raise might continue during the subsequent period because of:

- the pressure of the labour demand, which still is quite high compared to the supply;
- the pressure of inflation;
- the increase of the minimal wage and of the wage in the public sector;
- labour market opening;
- a better position of the employee in its negotiations with the employer.

The increase of labour productivity, of the demand for labour, the improved market expectations and a higher price convergence after the accession to the EU, is the motivation for wage raises. The trends observed during the previous years will continue in the period 2008-

2010, when the *average gross monthly wage* will increase more, or at least at the same rate as labour productivity, especially in the sectors with higher productivity during the past years.

Although the *real unit cost of labour* was fluctuant in the new member states during 2000-2007, it increased, situation shown also by *hourly labour costs* and by *monthly labour costs* expressed in euro. The same strong trend of increase of the *real unit cost of the labour* manifested in all new member states, which suggests a regional evolution of this indicator, whose increase will be tempered in 2009. However, there still is a comparative advantage of the hourly labour cost which, in 2005, was *1.55 euro in Bulgaria, 2.33 in Romania, 2.77 in Latvia, 3.56 in Lithuania, 4.67 in Estonia, 6.63 in Czechia, compared to 20.35 euro in the EU*. In the future, this situation may support the relocation of the western industry in these countries due to the attractive profit for the employers.

Concerning *workforce migration*, the reasons why it might not be reversible refer to the unrealistic expectations concerning the wages in the country of destination, which might not provide, financially, the possibility of return and of a decent living in the country of origin. Some employers from the country of destination, who have to recruit and train permanently other employees, might prefer to keep the existing immigrant labour force because of the lower costs.

Immigration can not be a solution to the problem of specialists and in general to the problem of the workforce from all new member states, the solution being temporary and only in support of the social and of the labour market policies. On the long term, the increase of birth rates, of the workforce skills and of the educational levels might be important sources for the maximization of company profit and the national income.

In view of increasing economy competitiveness and of reorganization of the economy in all new member states, by increasing all those sectors which require high qualification of the labour force and an increased productivity, the labour force will have to orient towards improving the human capital, towards making a more flexible labour market, by supporting the research, development and innovation activities within the companies and by active measures in support of the labour market. However, the *public expenditure on labour market policies (% of GDP)* was modest in 2006, compared to the EU27 average, as it was also the

situations of the total expenditure on social protection (*current prices, % of GDP*), which suggests the need to continue the reforms in these areas.

A new change of paradigm concerning the labour market is necessary within the context of the macroeconomic policies of the EU, particularly of the new member states. They will have to perceive the macroeconomic risks and crises as succeeding at shorter intervals, the poly-qualification of the young generation being an efficient solution for the short and medium term, but only partially valid for the long term. The conception of a national medium and long-term strategy on “what the society must become” and its materialization in educational programs, for a period of 10-20 years before this change, may be the best solution. The full correlation between the fiscal-budgetary, monetary, social and educational policies with the requirements of labour market development will have to be monitored on a permanent basis, also taking into account the time lag between the implementation of changes in these policies and the moment when their effects materialise.

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