

# Employment and unemployment in the new EU member countries

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## Key points

- The enlargement which took place on 1 May 2004 is significant in terms of the economic histories and cultures of the new member states and has involved the population increasing by 75 million people (one-fifth of its current population).
- Some 70 per cent of employment in the EU15 is in the services sector, 26 per cent in industry and 4 per cent in agriculture, whereas the new members have between 50 and 60 per cent of employment in services, and a greater proportion of employment in industry and agriculture.
- Unemployment rates, GDP and inflation rates vary widely across the EU15 and across the new member states. Unemployment is relatively high in Poland (19 per cent) and the Slovak Republic (17 per cent).
- Unemployment fell slowly in the EU15 during the period 1996-2003, in sharp contrast to some of the central and eastern European economies.
- Growth in employment in the services sector has been especially marked in Hungary and Latvia.
- Earnings growth has been stronger in many of the central and eastern European economies than in the EU15, reflecting previous price liberalisation and stronger GDP growth.
- GDP growth in 2002 to 2003 was stronger in every new member state than the EU15 average.
- Inactivity rates have been decreasing in the EU15, despite the economic slow-down of 2002 to 2003. Over half of the new member states have inactivity rates lower than that of the EU15.

*This article examines the labour market characteristics of the new EU member states and compares these countries with the existing members.*

## Introduction

ON 1 MAY 2004 Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia (the accession ten) became full members of the EU (see *Figure 1* for a map of the members of the EU since May 2004). Romania and Bulgaria are set to join in 2007, while Turkey is still a candidate country. This article describes the economic background of the central and east European region (CER) and presents some of labour market characteristics of the new member states.

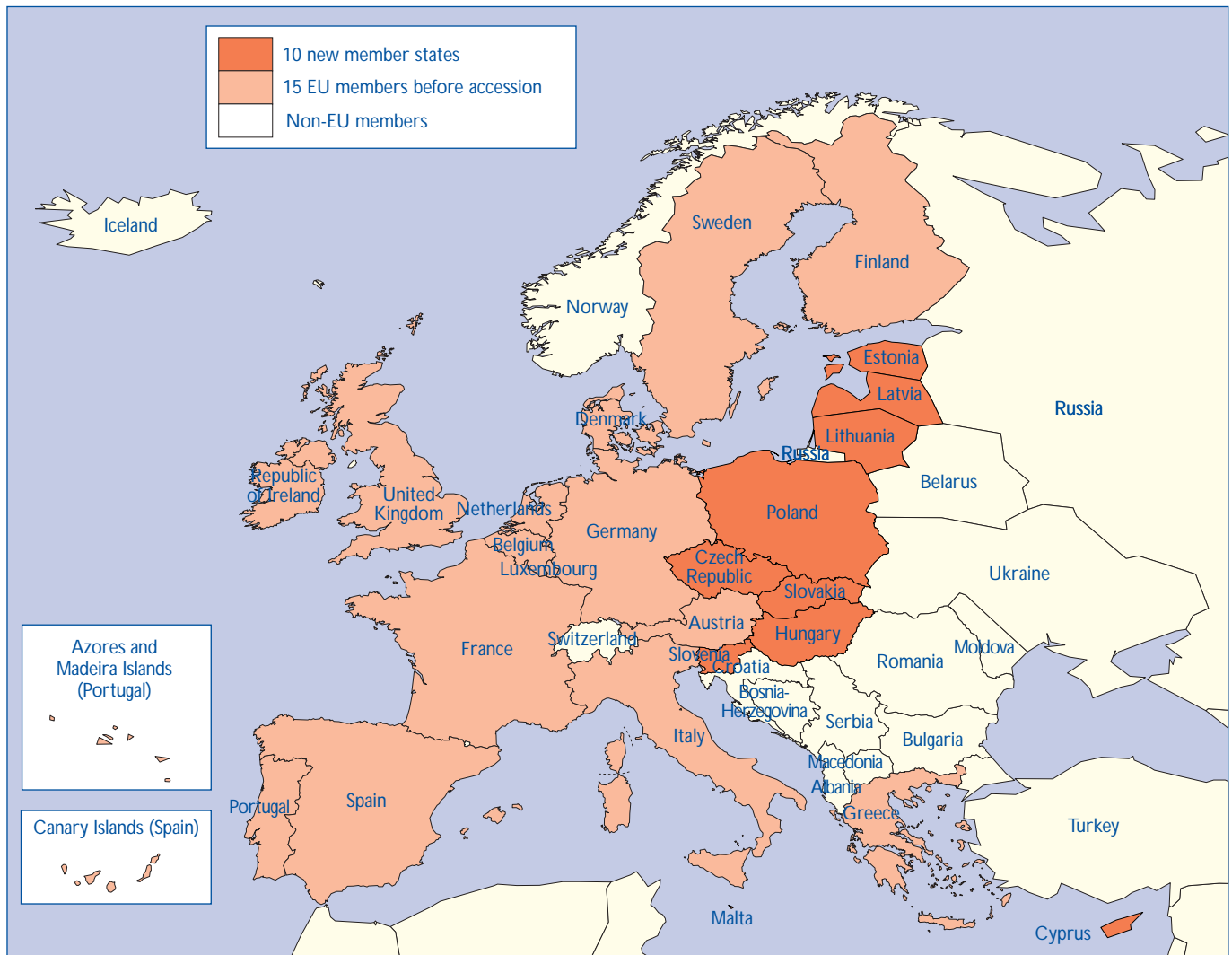
The EU has already undergone several enlargements. In 1951 the Treaty of Paris was signed establishing the European Coal and Steel Community, and in 1957 the Treaty of Rome established the European Economic Community. The

EU then experienced four consecutive enlargements: in 1973 Denmark, Ireland and the UK joined, followed by Greece in 1981, Portugal and Spain in 1986, and Austria, Finland and Sweden in 1995.

The significance of the most recent enlargement is that eight of the new members are from the CER and have had a recent history of transition from centrally planned to market economies (see *Box 1*). In addition, this enlargement brings to the EU a considerable increase in area, market size (in terms of consumers and of the labour force) and a multitude of different histories and cultures.

This enlargement has come at the end of a process which has lasted more than a decade. Grabbe (2003) highlights the recent steps of the new member states to

Figure 1 Members of the European Union; May 2004



Source: Office for National Statistics

accession to the EU. After 1989 the EU initiated the PHARE programme (Poland and Hungary: action for the restructuring of the economy) awarding aid to the CER,<sup>1</sup> and signed the European agreements granting trade concessions to the potential members.

By 1993 a pre-accession strategy had been developed, and the conditions for membership had been put in place at the Copenhagen European Council. In 1998 negotiations had begun with the Czech Republic, Estonia, Hungary, Poland and Slovenia. After 2000 Latvia, Lithuania, the Slovak Republic, Malta and Cyprus also joined negotiations.

The conditions to be met involved guaranteeing democracy, rule of law, and a functioning market economy.

Moreover, the *acquis communautaire*, which detailed the rights and obligations of the EU system and its institutional framework, had to be met. Thus gaining entry to the EU required a thorough overhaul of domestic laws, institutions and policies and involved enforcing hygiene standards in food sectors, environmental regulations and border controls, among other areas.

### Recent developments

This section gives a brief overview of recent economic and labour market developments in the new member states. *Tables 1* and *2* provide an economic snapshot for the EU15<sup>2</sup> and new member states.

Although the accession countries have all met the criteria to join the EU it is important to recognise that the new member states are at different levels of economic development. Beginning with the Mediterranean countries, both Cyprus and Malta have had reasonably robust economic growth in 2002 to 2003, compared with the EU15. However both have suffered from a persistent current account deficit reaching 4.5 per cent of GDP in 2001 in Cyprus and 4.8 per cent in Malta. One of the key causes for this was the international economic downturn and the decline in tourist arrivals since 11 September 2001.

The Baltic economies<sup>3</sup> (Estonia, Lithuania and Latvia) have had high

## Box 1 Recent economic history of the new member states

### Transition from the plan to the market

Eight of the new member states – the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia – have a particularly interesting economic background. Before 1989 these countries had a Soviet-style economy. The Soviet economy was characterised by central planning – the co-ordination of economic activity by government ministries – which involved the creation of five-year plans detailing production targets. Gros and Steinherr (1995) document other institutional features of the Soviet economy, such as the replacement of property rights of human and physical capital by collective ownership. In addition, economic incentives were not used and there was no competition between firms. Instead success was measured on the basis of the ability to meet bureaucratic targets. Pay was rarely linked to performance.

Furthermore if a firm made a loss the government covered the deficit. This is more commonly known as the soft budget constraint (Kornai, 1992), whereby there is no penalty for loss-making firms and no incentive to preserve resources or develop innovative production processes. Kornai also notes that the Soviet economy was characterised by chronic shortages and labour hoarding.

### The transition process

In 1989 the transition from centrally planned economy to market economy began – the move was not an easy one. One of the linchpins of economic reform was price liberalisation, which allows prices to reflect scarcity. Price liberalisation is an easy task from a technical point of view – the government just needs to announce that firms and households can set their own prices. In reality the consequences can be politically sensitive as income is redistributed. Furthermore, in order to prevent inflation, price liberalisation must be accompanied by a disciplined fiscal and monetary policy. Poland was an example of inflation exploding – in 1990 Consumer Price Index inflation reached 586 per cent (OECD World Economic Outlook, 1994).

Another mammoth task was privatisation. The CER was typified by state-run industries. The move to a market economy involved moving these industries into the private sector. Privatisation generally requires financial resources and needs institutions to monitor firms and to trade ownership rights. Firms need to be valued, a highly complex procedure in an environment of macroeconomic uncertainty, which can lead to a shortage of willing investors. Following this, there is a question of which privatisation method to pursue (spontaneous privatisation, voucher privatisation,

restitution or management-employment buy outs). The whole process can be a politically sensitive issue, partly because people were used to the state-run system and change can always be controversial, but also because a lack of domestic savings in most countries means that privatisation requires alternative investors such as foreign firms or financial intermediaries.

Macroeconomic stabilisation was also a crucial element of transition. Under the Soviet regime the economy was mostly managed at the microeconomic level (firm, employer and consumer). Fiscal and monetary policy were not used to modify aggregate demand or control liquidity in the economy. Thus the transition to the market economy involved the creation of these economic instruments. One such problem that needs to be addressed by tight financial and fiscal policies is the phenomenon of excessive savings. After price liberalisation consumers tend to spend all accumulated excess cash balances creating inflation. This was an issue in former Czechoslovakia and Poland.

Financial sector reform was also crucial to manage the privatisation process, monetary policy and financing of the public sector debt. This involved the creation of an efficient banking system, financial regulations and financial markets. This was not an easy task given the magnitude of bad debts on banks' balance sheets in some countries, poor incentives for saving, and the relatively limited experience of modern accounting methods.

External reform was also an important element of the transition process requiring trade liberalisation, currency convertibility and exchange rate regime choices, all of which can be fraught with problems. For example, when trade is liberalised the effects on specific domestic producers as their protection is removed can be damaging.

### Gradualism versus shock therapy?

One of the key debates among policy makers in transition economies has been the choice between the gradualist approach and shock therapy. Advocates of gradualism believe that there are benefits from taking time to develop policies and institutions for the transition process. The argument for gradualism is that it avoids the output and employment decline associated with shock therapy. In contrast, shock therapy involves an immediate economic adjustment to the market economy, whereby a comprehensive reform package is introduced.

Poland adopted shock therapy and Hungary adopted gradualism. They provide a perfect comparison between the two (see Sachs, 1992, for a discussion).

growth, but at the same time relatively high unemployment. In part this may be explained by the fact that they were all affected by the Russian economic crisis in 1998.

Lithuania was one of the economies to suffer the most from economic turmoil in Russia. In 1999 GDP in Lithuania fell by 4 per cent. However, by the first quarter of 2003 the economy

had expanded by some 9 per cent (owing also to faster privatisation and adhering to fiscal discipline).

The Latvian economy was the most tightly linked to the Russian economy

because of the structure of Latvian exports. The Russian crisis forced Latvian producers to seek new export markets. In the period between 1997 and 2002 GDP in Latvia increased by 5.7 per cent per year on average, twice as fast as in the EU15.<sup>4</sup> Since 1999 economic growth in Estonia has been strong, by 2003 it had risen to 5 per cent. This growth of recent years has led incomes to converge towards the average European income.

Annual GDP growth in Slovenia has been robust since 1994 and has been hovering at 2 to 3 per cent since 2001. Export growth since the economic decline in the EU has been less encouraging, however; imports of industrial machinery have been on the increase, reflecting a rise in manufacturing investment and the expected economic recovery in Europe.

Poland's record is more mixed. There was a high level of economic growth in the late 1990s, starting with 6.9 per cent in 1997 (EBRD, 1999). However, it slowed in 2001 to 1.1 per cent mainly because of domestic factors, such as the strong zloty as well as the economic decline in Poland's main trading partner Germany. Recently it has recovered and has reached almost 4 per cent, according to the latest figures. Poland's slow-down has had some beneficial effects: the current account deficit and inflation have fallen. In addition, Poland implemented privatisation and reform of health care, education and pensions.

By comparison, Hungary has achieved strong economic growth and good labour market performance, owing to tough institutional and structural reform. Furthermore, living standards have improved through increases in wages and pensions. External deficits continue to be low, thanks to the continued inflow of foreign direct investment. Conversely, inflation has been rather high – in 2003 it was 5 per cent.

The former Czechoslovakia has had somewhat different experiences. The Czech Republic suffered from recession in 1997 and 1998, but by 2000 growth had begun to pick up and the real GDP growth rate reached 3.3 per cent by 2000. Recently, domestic demand has

Table 1 Main economic indicators; EU15 and new member states; 2002 to 2004

	Unemployment rates <sup>a</sup>	GDP annual growth rate <sup>b</sup>	Inflation <sup>c</sup>	Per cent Government deficit/surplus in GDP <sup>d</sup>
EU15	8.0	0.4	2.0	-2.3
Cyprus	4.7	2.2	4.0	-4.6
Czech Republic	8.0	3.4	-0.1	-6.4
Estonia	9.5	4.6	1.4	1.8
Hungary	5.9	2.9	4.7	-9.3
Latvia	10.5	7.3	2.9	-2.7
Lithuania	11.7	8.8	-1.1	-1.4
Malta	8.8	1.9	..	-5.7
Poland	19.1	3.9	0.7	-3.6
Slovak Republic	16.6	4.2	8.8	-5.7
Slovenia	6.4	2.3	5.7	-1.9

Source: Eurostat

a 2004.  
b 2002 to 2003, not seasonally adjusted.  
c 2002 to 2003.  
d 2002.  
.. Not available.

Table 2 Proportions of people in employment by industry sector; EU15 and new member states; 2001

	Services	Industry	Per cent Agriculture
EU15	70	26	4
Cyprus	..	..	..
Czech Republic	55	40	5
Estonia	60	33	7
Hungary	59	34	6
Latvia	..	..	..
Lithuania	56	27	17
Malta	..	..	..
Poland	50	31	19
Slovak Republic	61	33	6
Slovenia	51	38	11

Source: Eurostat

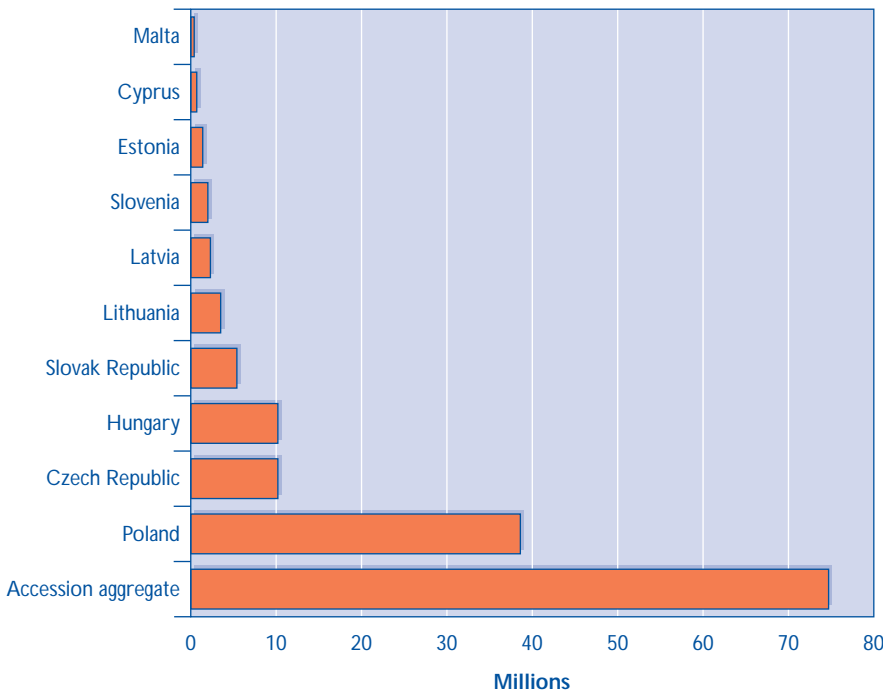
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been an engine of this growth, although the floods of summer 2002 did affect short-term performance in late 2002 to 2003. Productivity gains and an increase in competitiveness have been fuelled by strong foreign direct investment flows. By comparison, the Slovak Republic also suffered from the 1997 recession but has not recovered as well as the Czech Republic.

## Labour market characteristics

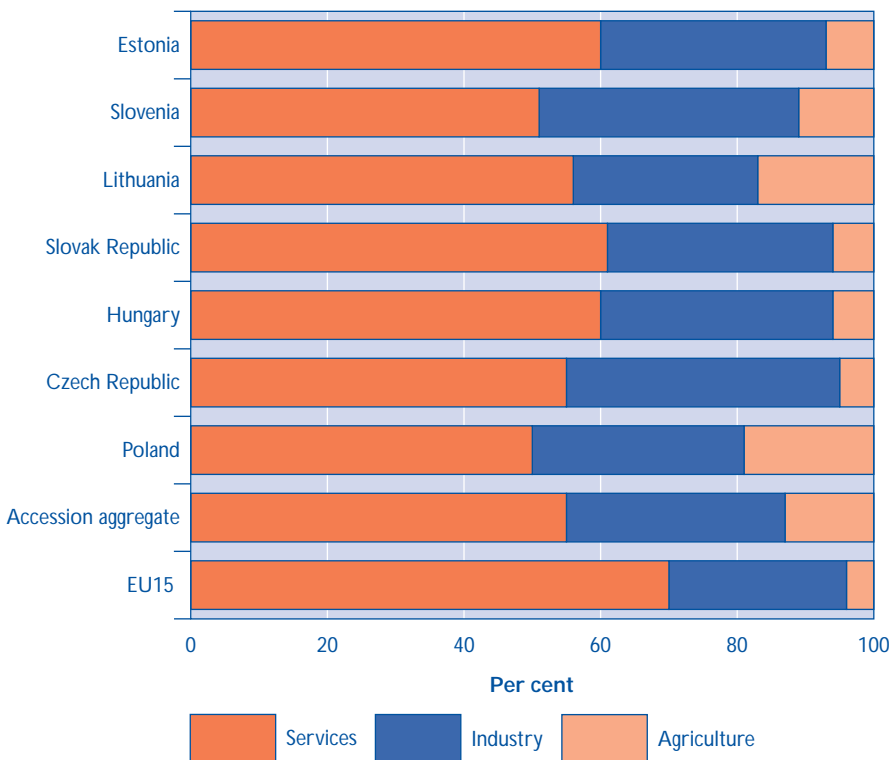
The data for this section are sourced from the Eurostat New Cronos database. Unemployment data are defined according to the International Labour Organisation (ILO). Unemployed people are those aged 15 to 74 years old, not living in collective

Figure 2 Populations of new EU member states; 2002



Source: Eurostat

Figure 3 Proportions of people in employment by industry sector; CER<sup>a</sup> and EU15 countries; 2001



Source: Eurostat

<sup>a</sup> Data unavailable for Latvia, Cyprus and Malta.

households, who were without work within the two weeks following the reference week, and are actively seeking work, or who have found a job to start within a period of at most three months. Unemployment estimates are based on the results of the European Community Labour Force Survey. Employment data are based on annual benchmark figures.

### Population and industrial composition

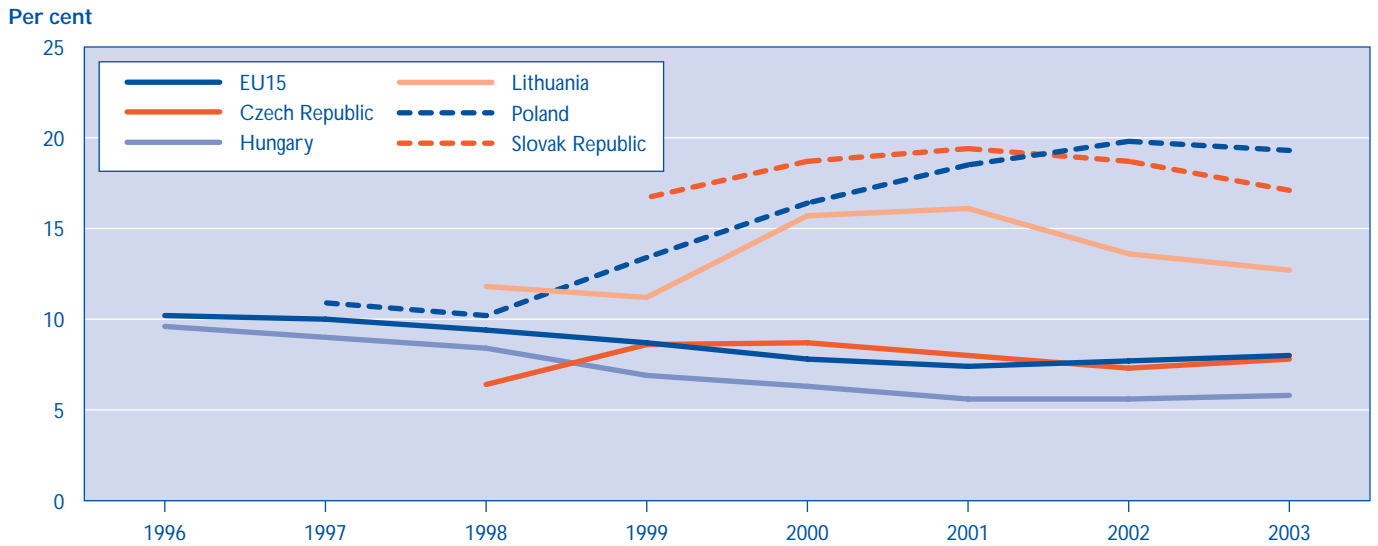
The existing EU15 had a population of approximately 378 million, and the ten new member states have increased this by some 75 million. In terms of population, the new members vary enormously, as shown in *Figure 2*.

*Employment in Europe (2002)* documents some of the important demographic changes that have occurred in the new member states. Population growth declined in the 1990s, which was coupled with a drop in fertility rates and high levels of outward migration. As a result, populations declined in all new member states except in Poland, the Slovak Republic, Malta and Cyprus between 1990 and 1999. In contrast, most EU regions had rising populations.

The Mediterranean countries (Cyprus and Malta) are much smaller than those of the CER. For example, Malta has a population of 400,000 compared with Poland at 39 million. Within the post-Communist region the Baltic countries are small, with Lithuania having the largest population at 3.5 million, compared with Central European countries such as the Czech Republic with a population of 10.2 million.

*Figure 3* shows the sectoral composition of the CER and the EU15. The sectoral composition of employment in the EU15 was dominated to a greater extent by the services industry in 2001, compared with the CER, which still had a relatively large industrial sector, especially in the Czech Republic and Slovenia. Another point of interest is the relatively large proportion of employment in agriculture in Lithuania, and particularly in Poland, where it was almost 20 per cent.

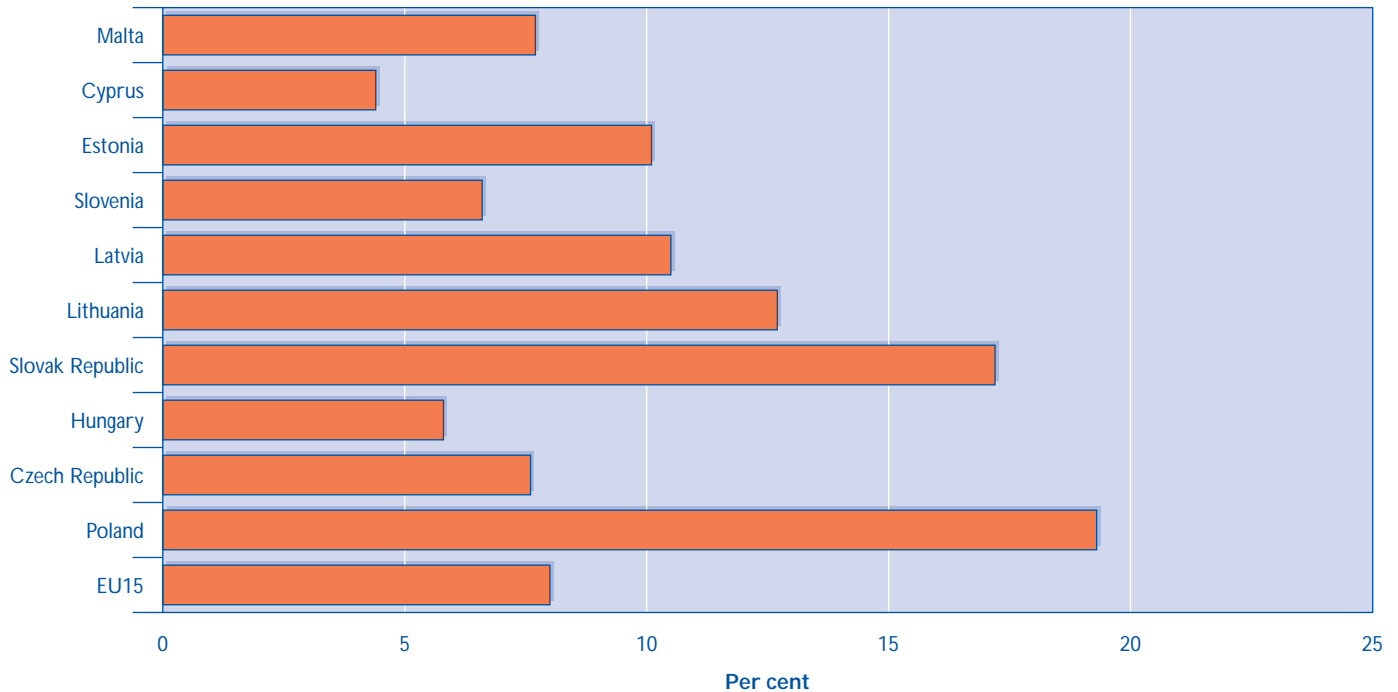
Figure 4 Unemployment rates;<sup>a</sup> selected CER and EU15 countries; 1996 to 2003



Source: Eurostat

<sup>a</sup> Eurostat compiles harmonised unemployment rates for member states and accession countries. They are harmonised to allow comparability between states.

Figure 5 Unemployment rates;<sup>a</sup> EU15 and new member states; 2003



Source: Eurostat

<sup>a</sup> Eurostat compiles harmonised unemployment rates for member states and accession countries. They are harmonised to allow comparability between states.

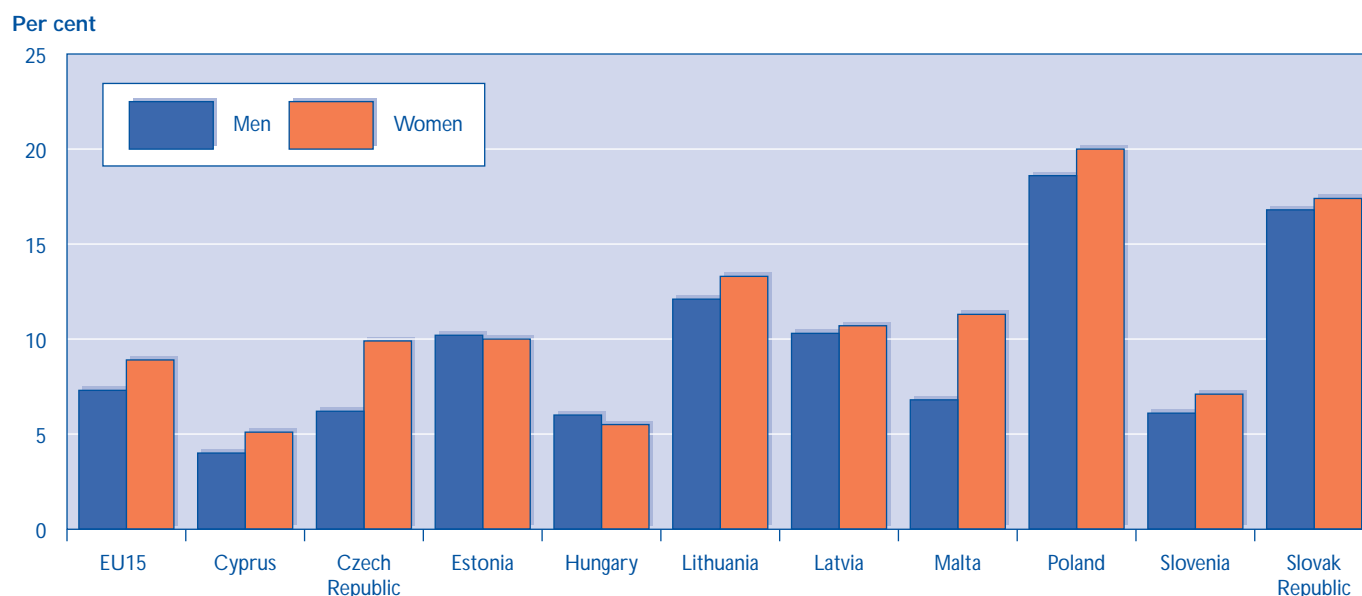
## Unemployment

Figure 4 shows the path of unemployment for the EU15 and selected new member states for 1996 to 2003. Unemployment slowly decreased in the EU15 during the period 1996-2003. This

was in sharp contrast to some of the CER economies. For example, unemployment was relatively high in Lithuania, the Slovak Republic and Poland. Unemployment increased in all three countries during the start of the period.

Unemployment peaked in 2002 in Poland at 19.8 per cent, and in 2001 for the Slovak Republic and Lithuania at 19.4 per cent and 16.1 per cent respectively. Yet, more recently, unemployment has fallen in all of these countries.

Figure 6 Unemployment rates by sex; EU15 and new member states; 2003



Source: Eurostat

The reasons for unemployment in each country vary. In Poland, unemployment is largely of a structural nature and reflects the need for advances in competitiveness in certain sectors. Socha and Sztanderska (1999) highlight the differences in the unemployment rates for skilled and unskilled workers.

In the Slovak Republic one of the key causes of unemployment was the lack of domestic demand, symptomatic of the recession in the late 1990s. The duration of unemployment in the Slovak Republic was high, with more than 60 per cent of the unemployed in 2000 remaining unemployed in 2001 (*Employment in Europe*, 2002). Lastly unemployment in Lithuania was seen as being caused by rigidities in the labour market, in particular in wages. Lithuania was also adversely affected by the Russian economic crisis in 1998, which caused a knock-on effect on unemployment in the following years.

In contrast, Hungary and the Czech Republic did not have serious unemployment during the transition period. Unemployment was low in Hungary owing to strong economic growth and the restructuring of the welfare state, which involved a tightening of the eligibility for unemployment funds.

There were a number of reasons for low unemployment in the Czech Republic. One of the key factors was the devaluation of the Czech currency. This coupled with the productivity of Czech workers led to a decline in unit costs, which were a long way below those of Hungary or Poland. This resulted in a high demand for Czech products and subsequent low unemployment. Secondly the activities of the Czech Public Employment Service helped keep unemployment low. For example, they employed active labour market policies such as job counselling and training, and provided job creation in the public sector and subsidies for employers.<sup>5</sup>

Figure 5 presents a snapshot of unemployment in all the new member states and the EU15 for 2003. Of particular interest are the Mediterranean countries. Cyprus differs from the CER, as it has experienced an unemployment rate of below 5 per cent since 2001 – below the EU15 average of 8 per cent. On the other hand, Malta had an unemployment rate of 7.7 per cent in 2003, which was higher than some of the better performing countries. In fact half of the new member states (the Czech Republic, Hungary, Slovenia, Cyprus and Malta) had unemployment rates lower than that of the EU15 in

2003. Meanwhile, unemployment was also high in 2003 for some of the EU15 countries – France (9.4 per cent), Germany (9.3 per cent) and Spain (11.3 per cent).

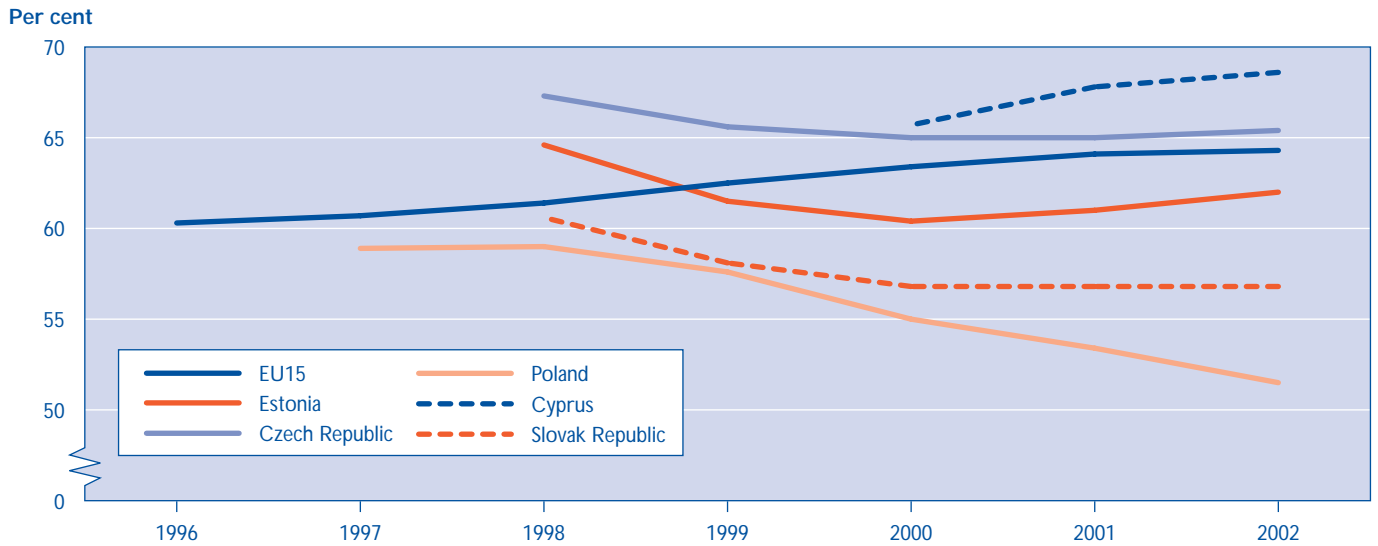
## Gender disparities in unemployment

Figure 6 presents an overview of unemployment for men and women in 2003 for the EU15 and the new member states. For all new members with the exception of Hungary and Estonia, the unemployment rate was higher for women than for men.

In Estonia and Hungary there was a very small difference between unemployment rates of men and women, just 0.2 percentage points in Estonia and 0.5 percentage points in Hungary. In contrast, Malta and the Czech Republic had a larger gender difference. In the Czech Republic the unemployment rate was 6.2 per cent for men and some 9.9 per cent for women; in Malta it was 6.8 per cent for men and 11.3 per cent for women. For the EU15 as a whole, the difference between unemployment rates for men and women was 1.6 per cent.

These disparities reflect the cultural background of Malta, where women's labour market participation has been

Figure 7 Employment rates for people of working age;<sup>a</sup> EU15 and selected new member states; 1996 to 2002



Source: Eurostat

<sup>a</sup> Aged 15 to 64.

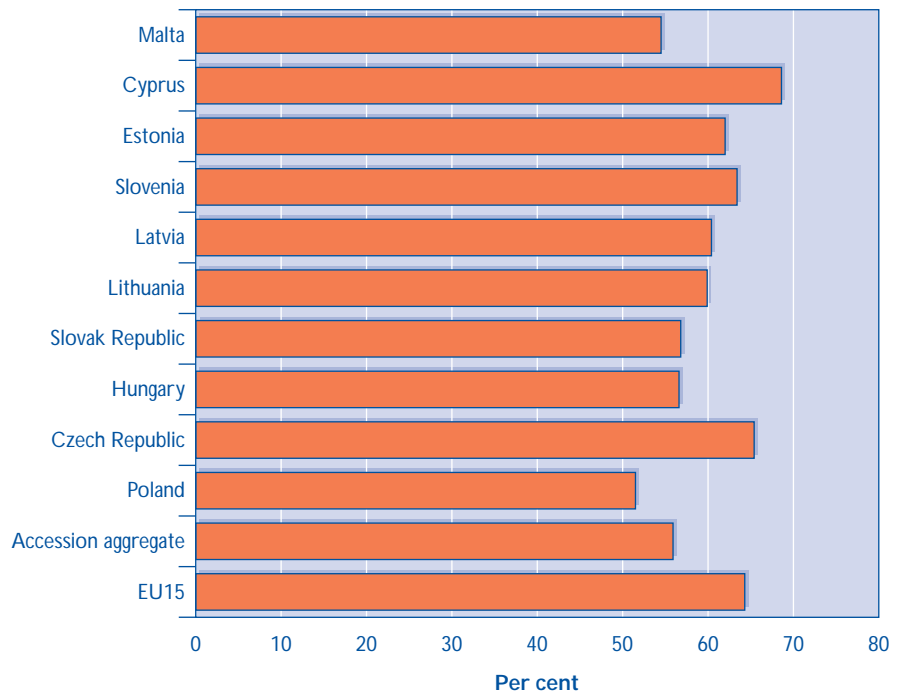
historically low. In the Czech Republic the relatively higher unemployment rate for women may have been caused by the relatively high share of employment in the industry sector.

### Employment

Figure 7 shows employment rates in selected new member states and the EU15 for 1996 to 2002. Clearly, the employment rate increased in only the EU15 and Cyprus during the period for which data are available. The increasing employment rate in Cyprus was partly due to its robust economic growth. The EU15 employment rate increased from 60.3 per cent in 1996 to 64.3 per cent in 2002. However the employment rate was almost static between 2001 and 2002. Employment in much of the CER was on the decline, in particular in Poland and the Czech Republic. In much of the CER, employment was affected by the challenges of economic transition, in the guise of industrial restructuring. Moreover, Poland is still experiencing job losses in the agriculture and industrial sectors.

Figure 8 presents a snapshot of employment rates for the EU15 and all of the new members in 2002. Of particular interest is the contrast between the Mediterranean countries. Cyprus had an

Figure 8 Employment rates for people of working age;<sup>a</sup> EU15 and new member states; 2002



Source: Eurostat

<sup>a</sup> Aged 15 to 64.

employment rate is 68.6 per cent in 2002, compared with just 54.5 per cent in Malta. The EU15 had a high employment rate (at 64.3 per cent) in 2002; only the Czech Republic, Slovenia, and Cyprus had a comparable rate to this.

### Sectoral employment growth

*Employment in Europe* (2002) highlighted that after the enlargement of the EU, its occupational structure would

Figure 9a Employment growth rates for people working<sup>a</sup> in agriculture, hunting, farming, forestry and fishing; EU15 and new member states; 1997 to 2003<sup>b</sup>

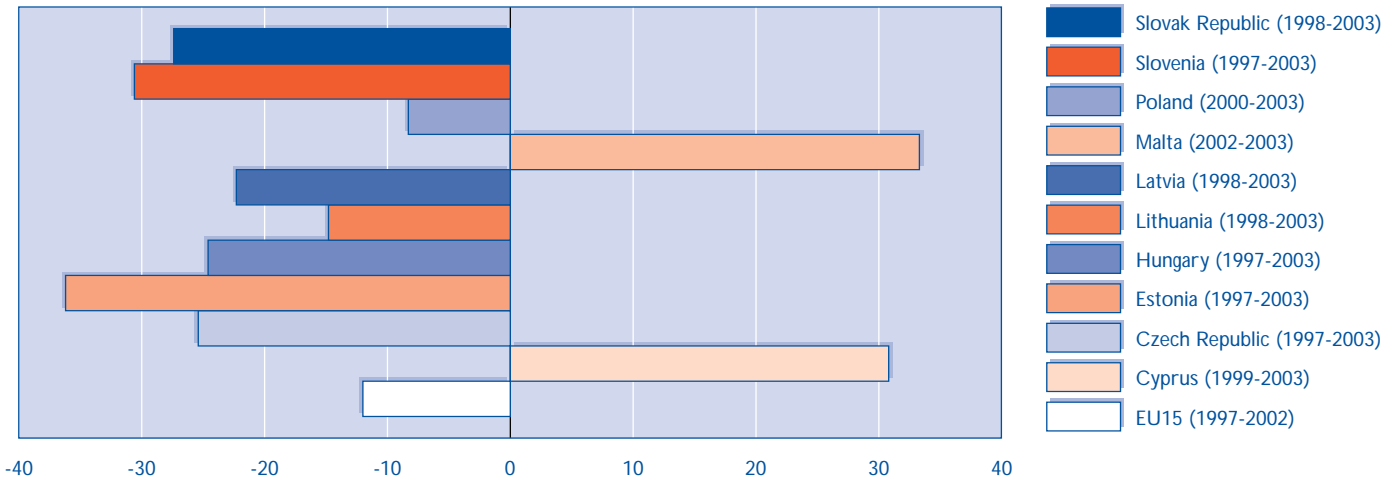


Figure 9b Employment growth rates for people working<sup>a</sup> in industry; EU15 and new member states; 1997 to 2003<sup>b</sup>

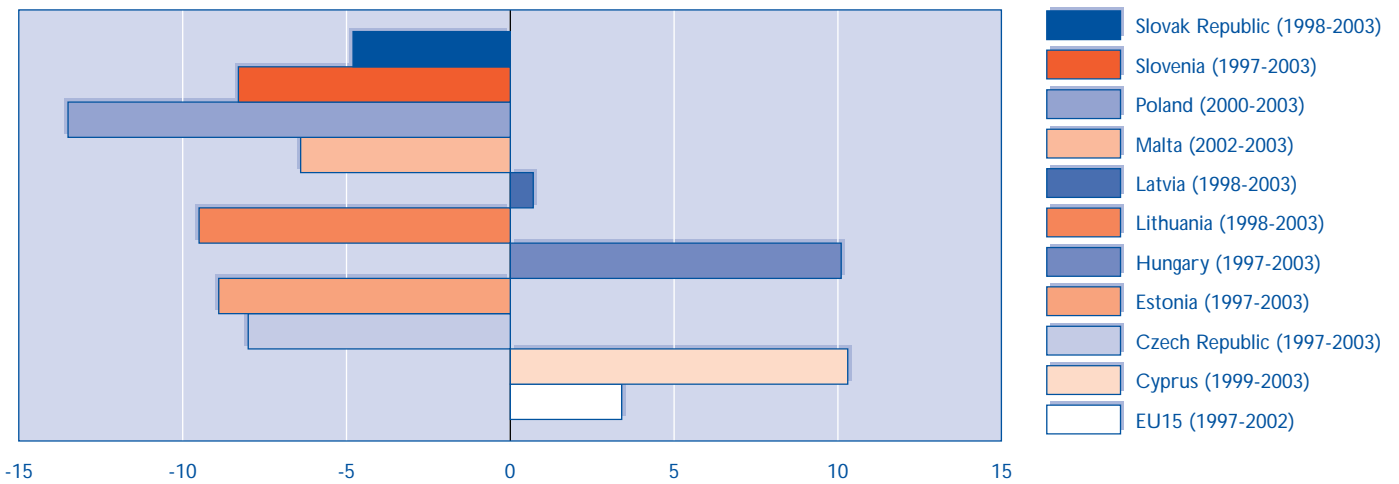
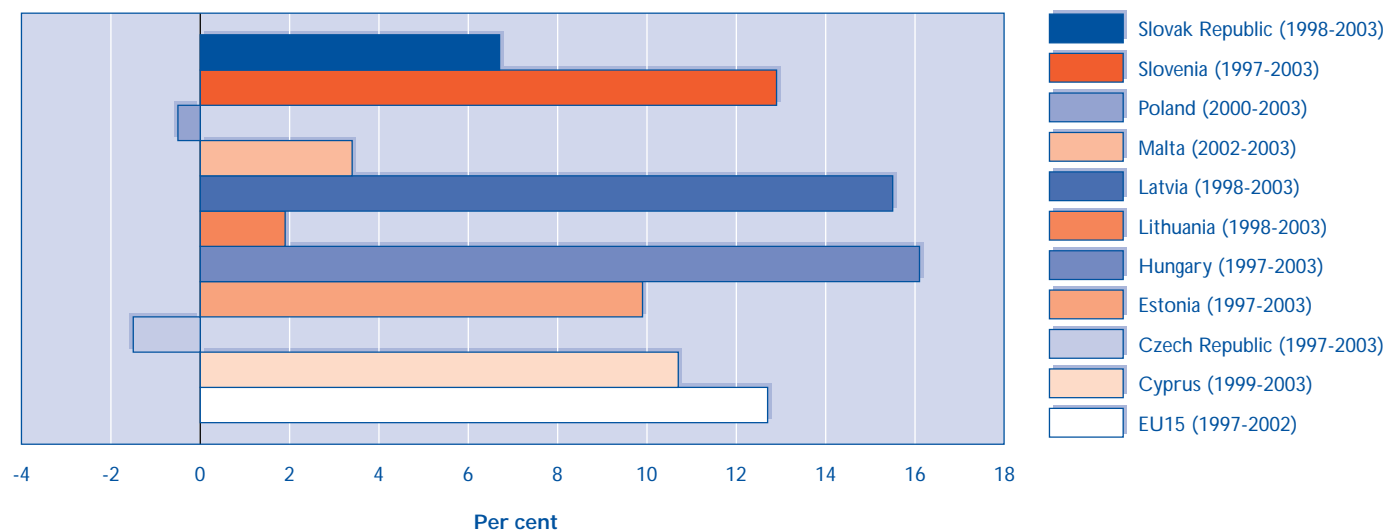
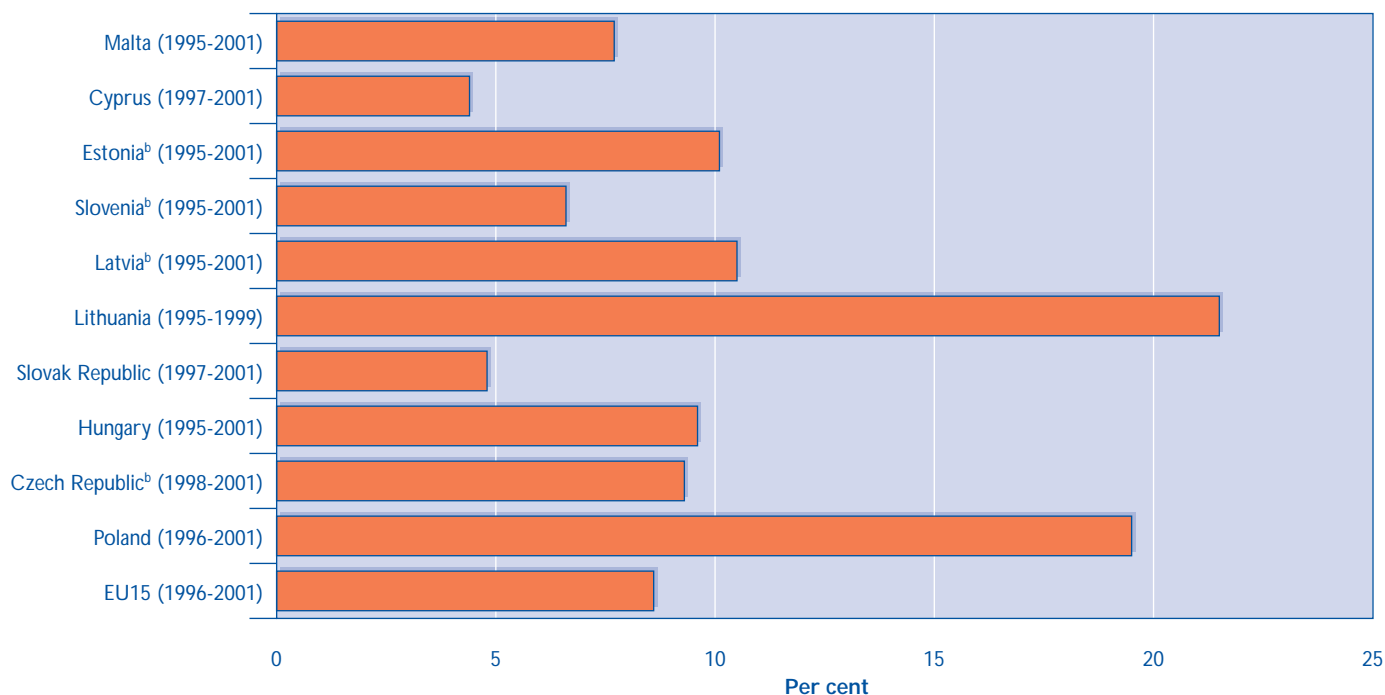


Figure 9c Employment growth rates for people working<sup>a</sup> in services; EU15 and new member states; 1997 to 2003<sup>b</sup>



Source: Eurostat

a Aged 15 to 64.  
b Or where data are available.

Figure 10 Average annual increases in gross earnings; EU15 and new member states; 1995 to 2001<sup>a</sup>

Source: Eurostat

a Or where data is available.  
b Full-time equivalents.

change. These changes reflect the more agricultural/industrial centred sectors and the less service orientated sectors of the CER. *Figure 9a* shows that employment in the agricultural sector declined in the EU15 and in all new member states except Cyprus and Malta. This is a sign of economic restructuring – the kind that the Western economies went through during, or in the case of the UK before, the 20th century.

*Figure 9b* shows that employment in the industrial sector has been growing in the EU15, Cyprus, Hungary and Latvia (although slightly in Latvia's case). For the EU15 this may be a sign of the resilience of the European labour market, despite lower GDP growth in the Eurozone. *Employment in Europe* (2003) documents that despite slowing of growth in the EU economy in 2002 to 2003 employment has remained buoyant. Initially this was due to the ability of employers to adjust working hours as opposed to employment levels, thanks to the flexibility of contracts. In contrast, robust economic growth in Cyprus and Hungary is partly

responsible for the growth in industrial sector employment.

Poland and Lithuania experienced the largest declines in employment in the industrial sector (at 13.5 per cent and 9.5 per cent respectively). The Polish food processing industry was particularly hard hit by restructuring. Trade liberalisation is partly responsible for the decline in employment in industry, as it may divert demand away from domestic production to higher quality imported consumer goods. Moreover, the existence of labour hoarding<sup>6</sup> in the large, state-owned industrial enterprises means that a decline in employment is inevitable during the transition process.

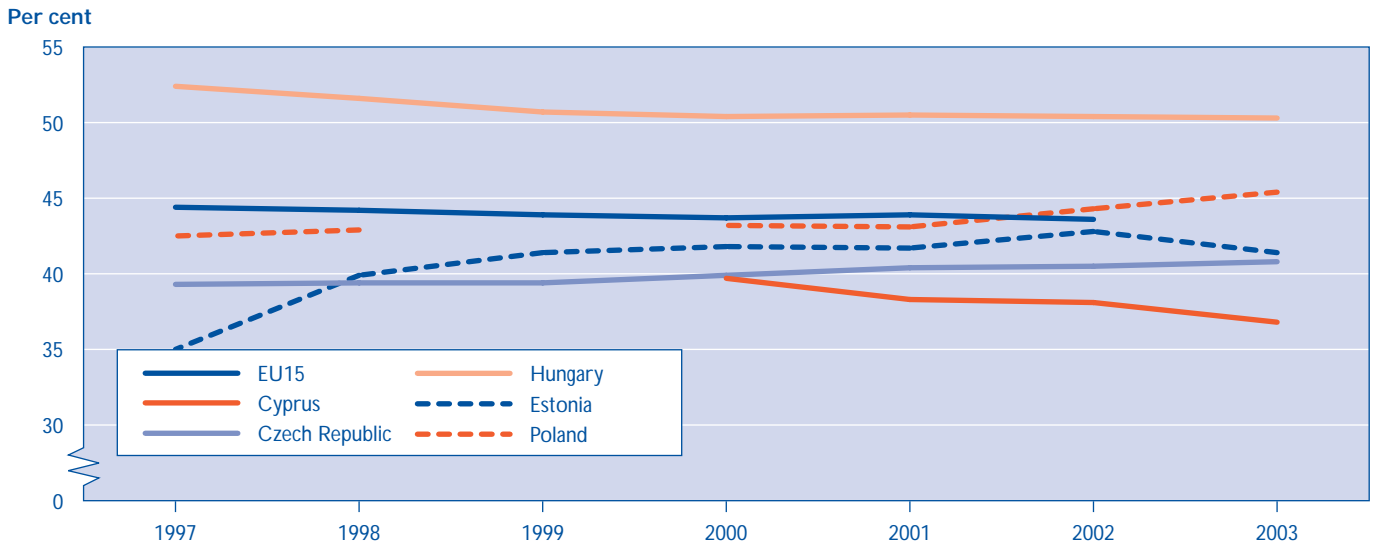
*Figure 9c* shows employment growth for the services sector. The EU15 saw growth of almost 13 per cent in the services sector. In fact all of the EU15 member states have seen an increase in employment in the services sector (with the greatest increases experienced in Ireland and Spain). Growth was also largely positive in the new member states, with the highest rates in Hungary (16.1 per cent) and Latvia (15.5 per cent).

Before the transition process in the CER, the expansion of the services sector had already begun. However, while most countries saw an increase, both Poland and the Czech Republic saw a very small decline in employment in the services sector (0.5 per cent and 1.5 per cent respectively). This was in line with the overall decline in employment in Poland and the Czech Republic as noted above.

## Earnings

*Figure 10* presents the annual average increase in gross earnings for the EU15 and the ten new member states. It is noticeable that there were sharp differences in the growth rates of annual average gross earnings between the Mediterranean countries and some of the CER countries. This reflects the climate of price liberalisation in the early 1990s in the latter group of countries. Earnings growth was particularly high in Poland (19.5 per cent) and Lithuania (21.5 per cent). Interestingly, these countries had high unemployment rates, so the existence of high growth rates in earnings could be

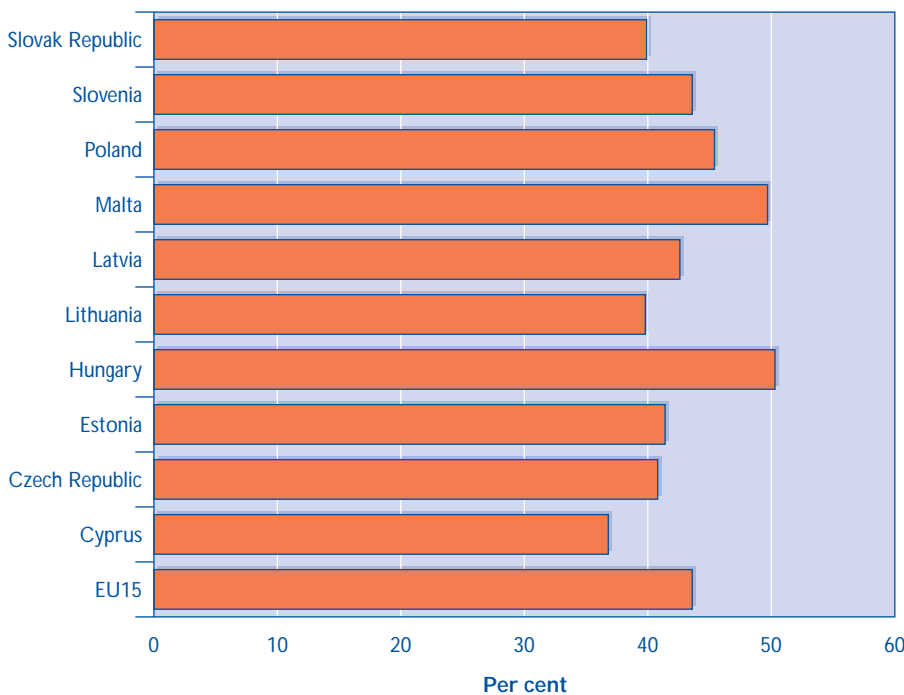
Figure 11 Inactivity rates; EU15 and selected new member states; second quarter 1997 to second quarter 2003<sup>a</sup>



Source: Eurostat

a Latest EU15 figure is for 2002.

Figure 12 Inactivity rates; EU15 and new member states; 2002 (EU15) and second quarter 2003 (other countries)



Source: Eurostat

aggregate and where data are available, for some new member states.<sup>8</sup> Inactivity rates for the EU15 decreased during the period 1997-2002, despite the recent economic slow-down, with inactivity standing at 44 per cent in 2002. However, there were some differences among member states according to *Employment in Europe* (2003). Inactivity was high in Italy and particularly low in Denmark. Furthermore inactivity was particularly high among women in Greece, Ireland, Italy, Luxembourg and Spain.

Figure 11 also shows that inactivity decreased in Cyprus and Hungary, indicative of the strong economic growth mentioned above. In contrast, Poland and the Czech Republic both saw an increase in inactivity during the period 1997-2003. However, Estonia saw the largest increase – from 35 per cent in 1997 to 41 per cent in 2003.

Figure 12 presents a snapshot of inactivity in the EU15 and new member states for 2003. Interestingly, over half of the new member states (Cyprus, the Czech Republic, Estonia, Lithuania, Latvia, and the Slovak Republic) had an inactivity rate lower than that of the EU15. At the opposite end of the spectrum, Hungary and Malta had particularly high inactivity rates at 50.3 per cent and 49.7 per cent respectively.

indicative of wage rigidities within the labour market.<sup>7</sup> Conversely, earnings growth in the Slovak Republic, Cyprus, and Slovenia was lower than in the rest of the new member states. The remaining new members (with the

exception of Malta) had higher growth rates in earnings than the EU15.

### Inactivity

Figure 11 presents inactivity rates from 1997 to 2003 for the EU15

## Conclusion

The enlargements of the EU that took place in 1981 and 1986 were very different from the current one in terms of magnitude and the economic histories and cultures of the new member states. Grabbe (2003) notes that joining the EU in the late 1980s was a much easier process, as the EU itself was much less complex, and, as a result, joining members had fewer adjustments to make. Instead, EU membership now involves the adoption of new policies and the reshaping of a country's institutions. However, Inotai (1999) argues that many of the new member states, in particular Hungary, the Czech Republic, Slovenia and Poland, had begun to establish microeconomic links with the EU, therefore membership should not be so difficult.

The analysis and presentation of economic data above has shown that there are some notable differences, as well as some similarities, between the new member states and the EU15. In terms of the sectoral structure of employment, the new members have a lower proportion of employment in services, and a greater proportion of employment in industry and agriculture; there is a wide variety of earnings levels and unemployment rates similar to the existing EU15, and gender disparities occur both in the EU15 and in most new member states.

Although not within the scope of this article, there are several other important issues surrounding enlargement that are of interest. The interested reader is referred to Dustmann et al. (2003) for the impact of enlargement upon migration flows, Fidrmuc (2001) for fiscal matters and regional imbalances, and Bertola et al. (2002) for a detailed overview of issues pertaining to the labour market.

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## Notes

- 1 Firstly, Poland and Hungary were included and then the aid was extended to all Central and East European countries, including the Baltic states, Albania and Slovenia.
- 2 Consists of Austria, Belgium, Denmark, Finland, France, Greece, Italy, Germany, Luxembourg, Netherlands, Portugal, Republic of Ireland, Spain, Sweden and the United Kingdom.
- 3 See [http://www.balticsww.com/bus\\_overviews.htm](http://www.balticsww.com/bus_overviews.htm) for a review of the economic situation in the Baltic countries.
- 4 Ministry of Foreign Affairs, Latvia.
- 5 See Gitter and Scheuer (1998) for the other reasons: high education levels of workers, low minimum wages and a tighter welfare system.
- 6 In the case of labour hoarding, firms keep workers employed, but they are not fully utilised; it can be thought of as disguised unemployment.
- 7 The 'popiwek' in Poland was part of a type of tax-based incomes policy, which taxed wage rises. The abandonment of this policy in the mid-1990s could be responsible for this increase in wage rates seen in Poland.
- 8 Inactivity is a measure of the share of the population that is not actively participating in the labour market, either in employment or by seeking employment. Individuals may be inactive because they are not of working age, have retired, or have chosen not to participate in the labour market for a variety of reasons. Inactivity levels are likely to reflect demographic and social changes, how quickly the unemployed are able to find new employment, and overall rates of unemployment.

### Further information

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