

## **EUROPEAN LABOUR MARKET : TRENDS AND PROBLEMS**

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### **Potential Manpower Mobilization**

The free movement of persons, which included the right to live and work in another member state, is one of the fundamental freedoms guaranteed by the Treaty of Rome. So, right from the start, the EEC aimed to encourage, stimulate and fuel cross-mobility. The basic principle to increase mobility is to reap the benefits of economic integration. This requires some degree of labour mobility, which is regarded as a real instrument in terms of reaching some kind of optimum in the perceived and desired functioning of the labour market. Since then, whether the efforts of the EU have been the essential triggers or whether the developments were only the mere accommodation and consequence of global trends remain ambiguous, and the fact is that the mobility of goods, money, and information has increased considerably across the Union (Houtum and Velde 2003: 100). However, labour as one of the production factors has undoubtedly not risen to the same extent. The labour flows in the EU member states are about half responsive to the labour demand shocks. Hence it is reasonable to suggest that the workers have low propensity to move across the EU countries and regions.

In 1983, the actual movement was very limited. Only 1.6 million of the EU citizens lived in another member state. This figure has remained unchanged for decades. According to Labour Force Survey held in 2001, the national labour markets of the countries of the EU accommodated a little

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over 3 million workers from the other EU countries amounting to 1,7 per cent of the total active population. Frits Bolkestein and Anna Diamantopoulou, commissioners for the internal market and for Employment and Social Affairs stated:

In spite of the legal citizens to live and work in another member state, mobility across the EU is very low. Less than 2 per cent of people resident in Europe come from other member state. A much smaller proportion – less than 0.5 per cent – move between the member states each year. In order to achieve a healthy level of labour mobility and exploit the job potential of the Single European Market, governments should promote a genuinely labour mobility two to three times higher than today. If Europe is to make best use of this new market, both governments and economic actors at European, national, regional and local levels need to do more to free up the barriers and hurdles hindering its development (Financial Times 2001: 5).

With the free movement of capital after 1992, labour mobility has been seen essential to boost the European economy, while realising the need for an even higher priority for the social dimension such as skills and education. The fact is that an action programme to modernize the free movement arrangements which was begun in 1997 included rationalizing the rules as well as developing the minimum numbers of regulations for special groups as required. This would enable the EU to start from the principle of the right of the free movement of citizens. And in reality, challenges seem to lie ahead.

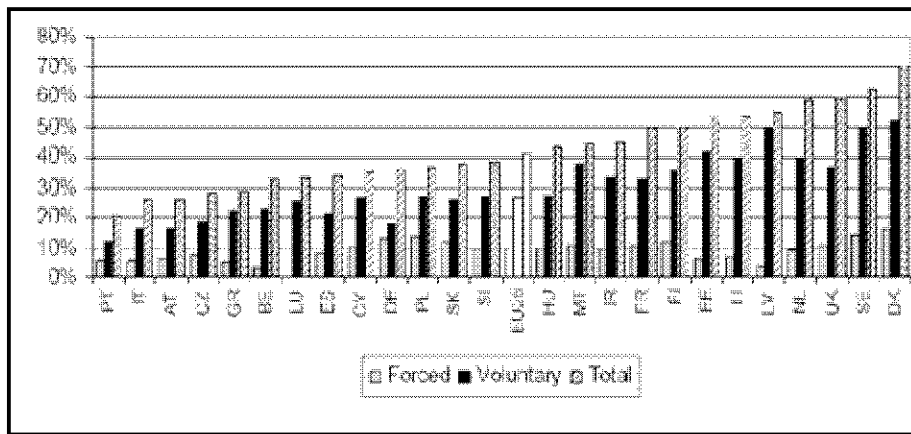
For EU-27, projections for ten years were made by the 2005 Eurobarometer survey on job mobility. Figure 1 below shows the predicted future job mobility in the EU. About 41% of all European workers were expected to change employers during the next five years. While 10% gave one forced reason<sup>1</sup> for mobility 26% expressed at least one voluntary reason. In addition, 35% of those who enquired to the EU's EuropeDirect advice centre in 2007 related to mobility issues, compared to 25% in 2005. Both

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<sup>1</sup> The term as forced reasons means that the respondent's expectation in a sense that they will be made redundant, while acknowledging that their contract will expire.

results revealed that 3 out of 4 Europeans recognised that job mobility was essential for the European labour markets. Unskilled manual workers are by far the occupational group with the highest job mobility expectations. These high mobility expectations are mainly due to particularly high forced job mobility expectations (Coppin and Vandenbrande 2006: 10).

Figure 1. Expected job mobility by country



Source: Eurobarometer (2005), Europeans and Mobility.

Given the levels of current and expected mobility, these results overall suggest that Europeans recognise the importance of mobility. With regard to the new trends in mobility patterns, a clear majority of young workers – over 70% – are now aware that their career would require some form of mobility, according to statistics by European Year of Workers Mobility in 2006. There is no dispute that worker mobility is both a fundamental right for the EU nationals and a key instrument for developing a European labour market. However, future policy will have to take into account the new accession countries more carefully over a longer time horizon than one that merely focuses on the EU-15 during the time of growth and expansion. In order to overcome bottlenecks in the labour market and to allow more people to find better jobs, the EU should call for more co-operation between ‘old’ and

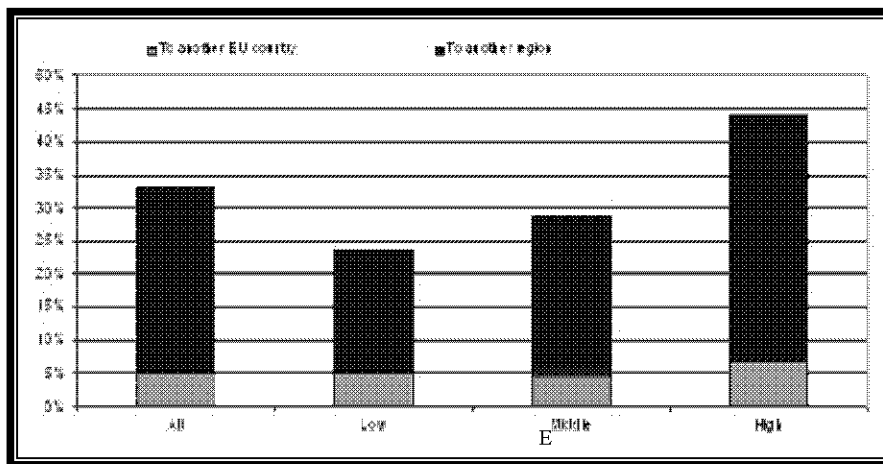
‘new’ member states and make sure that workers can fully benefit from mobility.

In this regard, perhaps a real sense of opening up the debate on the benefits and challenges of working abroad or changing the job began with Commission’s next action plan, notably its designation of 2006 as the European Year of Workers’ Mobility. It is a key instrument for developing a European labour market. These measures are expected to help better match workers with jobs. Primarily concerned with a fundamental right for the EU citizens, the issue of co-operation between the member states is also highlighted in order to improve knowledge of the citizens on mobility and foster awareness of the opportunities, which may be available across the EU countries.

The results of these measures are fruitful. After two years the Lisbon Summit that was launched in 2005, the main conclusion of the Commission’s Strategic Report on Economic Reform across Europe (along with a range of measures to increase mobility across the EU) in 2007 was that the Lisbon Strategy was contributing to the recent much improved performance of the EU economy. Since 2006, there has been a gradual, but consistent change in the attitudes of Europeans towards geographic and job mobility. Nevertheless, the level of mobility is still unimpressive despite a steady increase is observed. So, the initiative for a general picture that prevails is one of low mobility. And yet there is no doubt that the performance of the EU-15 is poor in comparison with the US, where labour mobility in percentage of the total population is almost five times higher. When broken down to the national level there are considerable differences between countries. Further initiative comes with a special Eurobarometer survey in 2005, which was carried out to find out how many Europeans have left their towns or region of origin. As Figure 2 shows, one-third of respondents said that they have moved house at least once in the past, nearly 24% of respondents another member state and 3% in a non-EU country. Those with higher level of education are more likely to move than those with a low level of education, regardless of gender. However, immobility applies particularly to women and older generations, the two categories of persons

that are least inclined to move. It also seems implausible that 70% of the Europeans have no intention of moving.

**Figure 2. Proportion of the people who have moved outside their region of Origin at least once by level of education, EU-25**



Source: Eurobarometer 64.1 on geographical and labour market mobility September 2005

Additionally, the survey results reveal that cross-border mobility is dominantly held back by the lack of language skills, and cultural factors (58% respondents) and finding a post (29%) are only one of the obstacles inhibiting mobility across the Europe – for both individuals and companies.<sup>2</sup> Recognition of non-formal or informal learning can also enhance occupational mobility. For older workers recognition of on-the-job learning and experience can be particularly beneficial for occupational mobility (Shah

<sup>2</sup> Analysis of Eurobarometer survey on geographical and labour market mobility, 2006, Mobility in Europe  
European Foundation for the Improvement of Living and Working Conditions, [www.eurofound.europa.eu](http://www.eurofound.europa.eu)

and Long 2007: 25). Other specific barriers emerging from labour market rigidities of the individual member states are the following: lack of market transparency; difficulties in comparing wages and working conditions; lack of information on rights and opportunities; difficulties arising from moving to different tax and benefit systems; problems of recognition of qualifications and a variety of legal and administrative problems. The barriers at hand apply to employees as well as their partners and families.

### **Prospect of a Declining Population in the EU**

For too long, the assumption has been that the European labour mobility can not run smoothly because of demographic changes, albeit there are variations in the timing and scale of such changes between the EU countries. In other words, European demographers have sounded warning bells for at least the last 30 years to the effect that the population ageing process might eventually bring with it the possibility of a decline in the population size of industrialized nations. The combination of ageing and absolute decline results from a history of below-replacement fertility plus a continuous increase in life expectancy. In the absence of major demographic catastrophes (wars, large-scale epidemics, etc), absolute population decline is a natural and unavoidable consequence of the population ageing process. In these countries, fertility has not been stabilized around a replacement level of two children per woman, as was generally expected in the 1970s and 1980s. European fertility levels seem to have fallen permanently much below this critical level. Their ‘post-transitional’ development has kept their fertility much below replacement levels (Behar 2006: 24). Besides, it is assumed that a new ‘baby boom’ is, as things stand now, improbable.

On a Europe-wide scale, ‘greying populations’ are a turning point, with a view to determining how integrated the labour markets of Europe are likely to be in the coming years. This is clearly what Vladimir Spidla meant when he talked about ‘flexible, not precarious’ at the International Conference held in Turin on 16 February in 2008, referring to ‘the modernisation of the labour market with a sound tool: European societies must respond to the demographic challenge: by 2050, Europe is to lose 10% of its inhabitants

(e.g., around 48 million people) a loss for which migratory flows will not be able to compensate' (European Commission 2008: 2).

There is certainly an increasing evidence of a demographic decline and a process of replacement in all EU countries. The perspectives of Europe's population are that it is currently stagnating and, by no means, is set to rise if there is no immigration. Leaving out the immigration scenarios under discussion, the EU could expect demographic developments. The UN has prepared a global population prognosis extrapolating the current population to the year 2025. The main result of this extrapolation was reproduced by the Eurostat, which made its own calculations. The Eurostat projection foresees that by 2025 the total population of the EU will rise very slightly; 469,5 million, which corresponds to an increase of just over 2%, and then fall to 468,5 million in 2030. In the same period, the United States population will have increased by 25.6%. For changes in the age structure of the working population in the coming 25 years it is estimated that the number of older workers aged 55-64 will have increased by 14 million between 2005 and 2030. Specifically, the increase seems sharpest in the year 2030 where people aged over 80 will rise from 19 million to 34 million. The EU's total working population aged 15-64 will fall by 20 million within this period. Simply, this attests to a change in the nature of demographic regime of the European Union.

**Table 1. Projections for EU's population trend 2005-2050 (in thousands)**

	2005-2050	2005-2010	2010-2030	2030-2050
<b>Total population</b>	-8659	5563	5312	-19534
	-1.9%	1.2%	1.1%	4.2%
<b>Children (0-14)</b>	-13811	-2304	-6080	-5427
	-18.6%	-3.1%	-8.5%	-8.2%
<b>Young people (15-24)</b>	-14035	-2383	-6663	-4990
	-24.3%	-4.1%	-12.0%	-10.2%
<b>Young adults (25-39)</b>	-24867	-3896	-14883	-6088
	-25.0%	-3.9%	-15.6%	-7.5%

<b>Adults (40-54)</b>	-18666	4116	-10029	-12754
	-19.0%	4.1%	-9.8%	-13.8%
<b>Older workers (55-64)</b>	4721	4973	8717	-8969
	9.1%	9.5%	15.3%	-13.6%
<b>Elderly people (65-79)</b>	25688	1947	22281	1460
	44.5%	3.4%	37.3%	1.8%
<b>Frail elderly (80+)</b>	32311	3109	11969	17233
	171.6%	16.5%	54.0%	50.8%

Source: Eurostat, 2004.

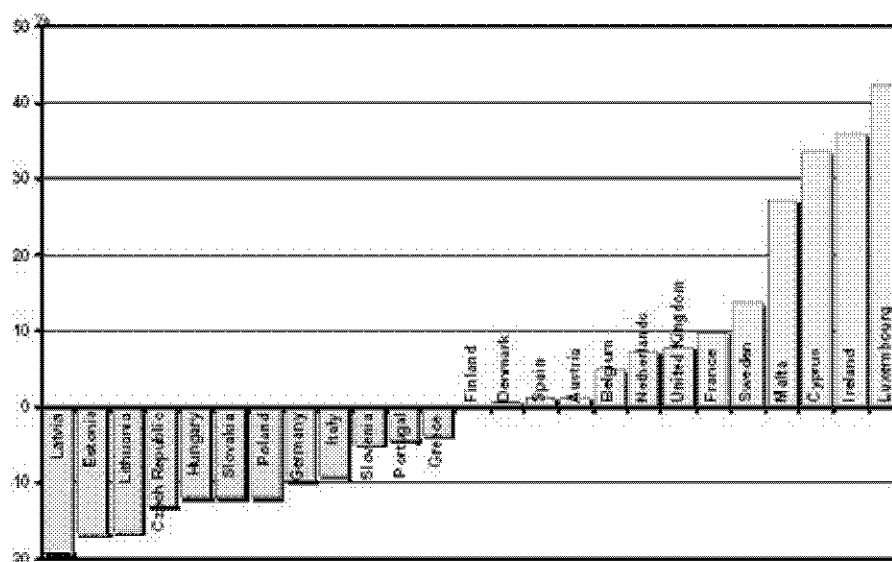
In addition to those figures, which indicate a growing shift in age structure towards an increasing number of old people in the EU, the decreasing trend is particularly marked in the Southern European countries because of their more recent steep declines in fertility. The aging of the Spanish population has run more or less parallel to that of Italy and Portugal. Projections from the Eurostat in 2006 state that life expectancy in Spain is among the highest in the EU and in the year 2050 Spain will have the world's oldest population. This is due to fact that 40% of its people are over 60 years old. In the Northern European countries, of the six most-populated EU countries (Germany, France, the UK, Italy, Spain and Poland) only the UK and France will see their populations increase between 2005 and 2050, with the UK population projected to increase by 8% and the French population by 9.6%. These two countries are clearly moderate cases. The opening of frontiers, albeit gradual, for workers from the 12 new member states has proven to be a contributing factor to the improved operation of European labour markets.<sup>1</sup> It is interesting to note that in some new accession countries, namely Hungary, Latvia, Lithuania, Estonia, Slovakia and Czech Republic, the populations are already falling (indeed their

<sup>1</sup> Liana Son, Ioan Talpo and Ciprian, Ipo (2007), The Labour Mobility in the European Union: Economics and Social Determinants, <http://store.ectap.ro/articole/346.pdf>



populations undergo the same ageing process regarding the EU-15 member states and their fundamental demographic characteristics are a reminder that these countries belong to a region of the continent which has long been regarded as ‘different’. Given the low birth rates in the EU, most changes in the population occur due to migration from one region to another.<sup>2</sup>

**Figure 3. Population change between 2004 and 2050 in EU-25  
(percentage increase or decrease of total population)**



Source: Eurostat

Figure 3 above illustrates how countries will be experiencing the ageing populations according to their future population growth and decline between 2004 and 2050. As indicated above, these declines are largest in the former communist states (as well as Germany) which is experiencing very low

<sup>2</sup> Zuzana Gáková and Lewis Dijkstra (2008), Does population decline lead to economic decline in EU rural regions?, The Economic and Quantitative Analysis Unit of the Directorate General for Regional Policy of the European Commission.

fertility rates. Specifically, the decline seems sharpest in the Baltic States (Latvia, Estonia and Lithuania), and then in Central Europe (The Czech Republic, Hungary, Slovakia, Poland and Germany). Despite the small upturns in Southern Europe (Italy, Portugal, and Greece) and Slovenia, the general decline in population will be scheduled to continue into the 2050s, while fertility is particularly low. The countries with increasing populations will still be Luxembourg, Ireland, Cyprus and Malta. Other countries (France and the UK) are in a similar position, with a natural increase that is only just positive. But the population increase will start to decrease after 2040. Also, the years 2004-2050 will see a faster ageing speed, and it will increase from 13.6% to 29.1% in the new member states, while the percentage of people aged 65+ will increase from 17.0% to 30.0% in the EU-15. Given the recent European demographic development, it might appear that demographic change has caused one of the major challenges in European labour market. However, it is important to note that these are only projections which may prove wrong depending on the changes in the level of fertility.

While the current picture suggests that a new wave of decline in the working population across Europe should not be underestimated and undervalued. The specific question of increasing the ratio of economically active to inactive population could be addressed by allowing workers from the third-countries to enter the European labour market. However, it remains uncertain whether there will be a need to import workers from the third-countries or somewhere else after the accession of Eastern European countries given their population sizes. What is clearer is that there will be a major implication for prosperity, living standards and relations between the generations as a result of unparalleled demographic changes. To this end, a great deal of time has been devoted to the question by the European policy makers as to whether the member states will be capable of meeting the challenges of a shrinking workforce and an ageing population, which remains to be seen. In any event, the EU needs to keep an open mind on the need for a younger migrant labour to replenish its labour force in the long run.

### **Labour Market Participation**

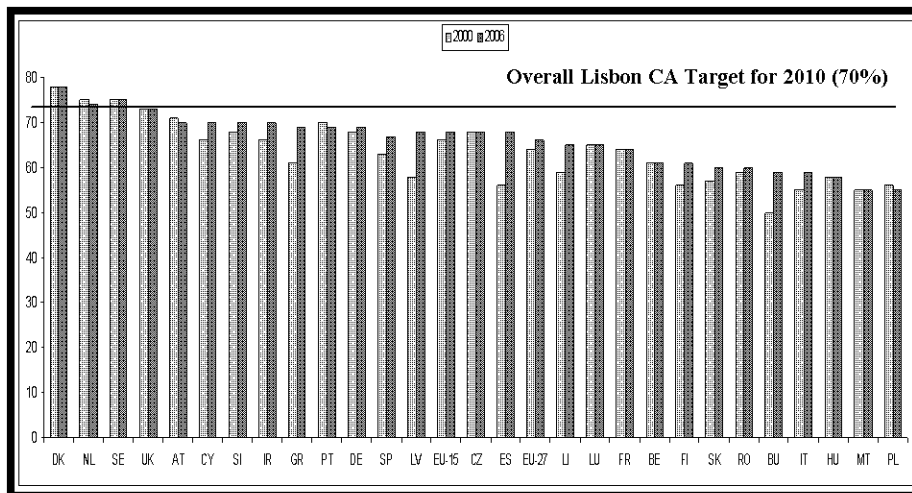
There have been striking changes in the labour force of the EU since the Treaty of Rome in 1957. In the last three decades, the working age population has grown, and, in particular, women have come into the work place. At the same time, the emphasis was placed on unemployment structure. The least far-reaching dramatic changes are the growth of information and communication technologies. They both refer to the new form of industry and business with a major restructuring. Much of the employment growth has occurred in relatively high-skilled, knowledge-intensive sectors and occupations. Often, however, the direct effect of such a growth seems to be part-time or temporary basis. The result is to observe the redundant workers with the idea of demanding new skills in the EU labour market. It is within the European Social Model that a well-balanced system should be benefiting all Europeans.

Increasingly, about half of the EU member states have developed or are developing comprehensive approaches to balance more flexibility in the labour market with employment security to varying degrees, but their performance on the specific components of flexicurity is less positive. Firstly, the most important example so far concerns the labour market segmentation which remains as a significant problem in most member states. Many have been frowned upon divergences. A systematic policy needs to be based on specific aspects of labour market regulations rather than on reforming mainstream labour legislation. Secondly, and most importantly, from an economic integration perspective, active labour market policies – although becoming more personalised – have been subject to a decline in expenditures since 2000 both as a share of the GDP and per worker. Thirdly, the restraints involved in reforms of social security systems have typically tended to be limited to pension reforms, with a general need for coordination between the rules for occupational and supplementary pension provisions under different legislative regimes at both national and trans-national levels. In addition, new measures need to be taken to increase the participation of workers in lifelong learning in the EU. Problems are still reported. For

example, adult training provision remains uneven, and it actually decreased in the half of the member states especially since 2005.

The Lisbon criteria set the overall employment rate target (70%) as well as the targets for females (60%) and older persons (50%) employment rates. Figure 4 presents a general picture of the current employment situation in all countries, showing the progress made and how far they are from the Lisbon objectives.

**Figure 4. Overall employment rate for the EU member states, 2000 and 2006**



**Source:** Eurostat EU LFS annual averages.

**Note:** Data for RO 2002; 2006 data for DE and FR provisional.

Figure confirms the ongoing steady improvement in the European labour market, with the overall employment rate at 64.3% in 2006 – the highest since the mid 1980s. The average employment growth in the EU-27 which picked up significantly in 2006 at 1.4% is indeed the strongest after rather the modest increases in the previous years. Over the same period, the long-term unemployment rate fell from 4% to 3.6%, which is also an

indicator of the robustness of the labour market performance. The total employment reached around 223 million with an annual increase of around 3.5 million. It is estimated that another 20 million jobs will have to be created by 2010, if the target is to be reached. This reflects the continuing strong demands for new workers despite the moderate economic slowdown.

Much attention is devoted to the crucial role played by all member states in the growth of employment. Germany, Poland, and Spain maintained significantly faster growth rates of employment thanks to the recently improved labour market performance in each country. Recovery is due to the economic upswings and the labour market reforms in many EU countries. An interesting fact is that since the enlargement, the employment rate of the new member states in EU-15 has increased, in certain cases quite substantially. A strong employment expansion continues in most of the new member states, while there is some variation across the EU member states. Nonetheless, there is little evidence to suggest that the unemployment rate has dropped in all new member states. Hungary, whose labour market has not been able to generate jobs, is characterised by poor performance. In fact, the reverse is likely to be true. The emergence of some workers in the black economy into official figures in some of the CEECs is partly attributed to this trend.

Another feature of the EU employment outlook is that at the EU level, the employment rate for women continues to rise faster than for men since 2004. Women's full integration into the economy is a desirable goal for equity and efficiency considerations. The equity aspect implies that labor market participation of women will improve their relative economic position. It will also increase overall economic efficiency and improve development potentials of the country (Tansel 2002: 7). The average employment rate for women rose by 0.6 of a percentage point to 58.2% in 2006. However, there is an upturn in the employment rate for men aged 25-54 after several years of decline. A slight recovery is apparent. The ongoing positive trends in the employment rate for older workers stand at 44.8%, but declining participation rates amongst older people are also observed, especially for males, both in finding and keeping jobs. Moreover, the rise in

the share of part-time employment and fixed-term contracts is considered as another positive trend. A number of factors are liable to recent market rise in older workers' employment, as has been suggested, regarding the knock-on effect of participation over time of women in general. An importance was attached to the result of the changes in cultural attitudes and social norms as a whole. The higher skill levels among women are due to greater possibilities to reconcile work and family responsibilities. Other factors can be identified as increasing the policy measures and reforms in the last few years to encourage women's participation and some other recent measures associated with active ageing.

A special interest is to foster the successful integration of young people into the labour market, but the difficulties persist in many member states. One way of illustrating this problem is to consider their relative unemployment rate. In 2006, the average youth unemployment rate was 17.4 % both in absolute terms and relative to that of adults aged 25-54 (see Table 2). In comparison to other industrialised countries such as the US, Canada and Japan, unemployment among young people is considerably higher. This is because of the insufficient levels of qualifications partly due to high dropout from schools and labour market segmentation favouring insiders at the expense of newcomers. In 2005, in a small number of countries, notably Poland, Bulgaria, Lithuania, the Netherlands and Spain, the overall youth unemployment fell, but in several others, the rate has increased since 2004. The overall youth unemployment remains more than twice as likely to be unemployed than the workforce as a whole. It has proved for the EU countries to grapple with the changes in order to improve job security for the EU workers in the changing global economy. It has proved particularly difficult for the EU to undergo more changes for youth integration while active ageing taking hold. There has been a tendency for a decline in the labour market participation rate of the under aged 25 years reflecting the growth of full-time schooling and training.

**Table 2. Youth (age 15-24) employment and unemployment rates in the EU, US, Canada and Japan, 2006**

	Employment rate in %	Unemployment rate in %
<b>EU-27</b>	35.9	17.4
<b>U.S.</b>	54.2	10.5
<b>Canada</b>	58.7	11.6
<b>Japan</b>	41.4	8.0

**Source:** For EU Eurostat, EU LFS annual averages, for other countries OECD Employment Outlook 2007.

For some observers, unemployment among the young people can have a significant impact on society. More emphasis is given to tackle this crisis. The failure will, as they point out, lead to an increase in frustration among the young people. Others would suggest that inequalities between workers depending on their employment contract (temporary, fixed term, part-time, etc.) are constantly increasing. The tendency is that those of less educated and less productive have been driven out of labour market because they are not very productive, and this may have resulted in increased unemployment. Equally important, the linguistic and cultural barriers in the EU are seen as obstacles to workers' mobility. This is bound to a series of mismatch of jobs as well as an implication of high unemployment rates in certain areas.

On the whole, the general system of facilitating employment is under way, but a prominent characteristic of the contemporary European market is the high rates of unemployment. This debate has recently focused on the persistence of high unemployment in the EU, with the European Commission and the OECD both arguing that the need to make labour market more flexible. Certainly, the EU does not generate new jobs at a rate comparable with that of OECD industrialized countries. In spite of the recent, but fairly modest progress, long-term unemployment remains high (around 4%). Unemployment rates for the region as a whole have been rising

for some years and affect nearly 9 per cent of working population, which are roughly 14 million individuals. These figures underestimate the extent of under-employment insofar as they do not include involuntary part-time work, which is relatively common in certain countries (Fled 2005: 651). The Social Action Programme, which was drawn up by the Commission, with the aim of promoting ‘full and better employment’ responded to these concerns. Nevertheless, unemployment is still a major problem, and is likely to remain so for some time.

### **Skilled Labour**

The Lisbon European Council meeting held in 2000 set the target for creating ‘the most competitive and dynamic knowledge-based economy, sustainable economic growth with more and better jobs and greater social cohesion’. Creating a European labour market with inter-country labour mobility is seen as a way to achieve these objectives by combating skill and other labour shortages, reducing the unemployment and offsetting the effects of a declining working age population (Dobson and Sennikova 2007: 124). Surely, assessing this role requires strong and focused action at the European level to promote not only mobility but also the skills. A large number of analyses carried out at both the European level and in each of countries concerned have definitely shown that unskilled labour force is an inescapable phenomenon. In Europe, a shortage of workers in information and communication technologies is estimated approximately 1,9m by 2008 (Fled 2005: 658). Skill shortages exist in an increasing number of sectors including health and elderly care, education, engineering, and many artisan or crafts sectors.

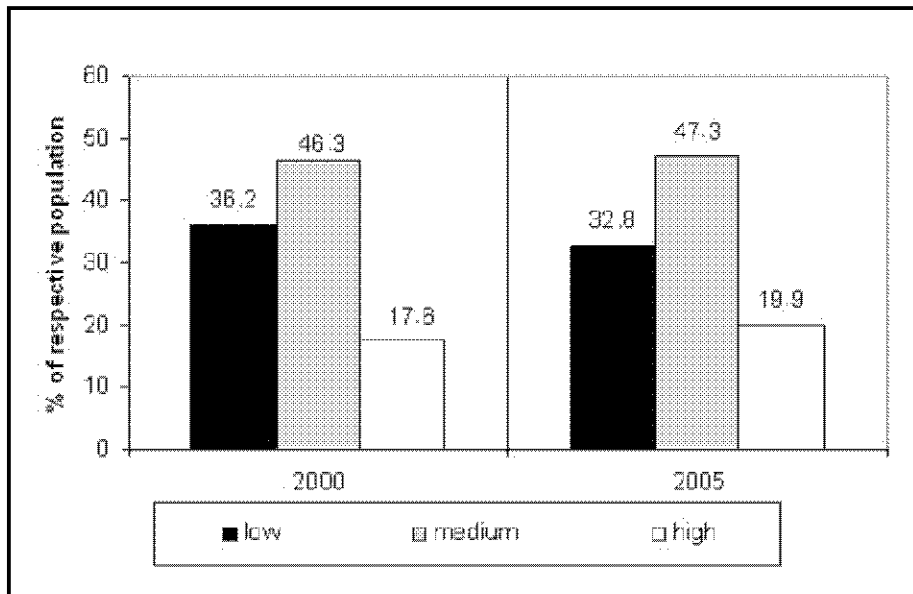
Historically, most international labour migration within the Community has been relatively unqualified manual workers, not professionals. Language skills (or the lack of them) clearly inhibited the mobility of professional workers, whereas a supervisor or team leader, with some knowledge of local language, can meet the language requirements for unskilled workers (Grahl and Teague 1992: 520). In the mid-1970s, many of these Western countries became disillusioned with the unskilled workers due to the industrial crisis,



and professional workers dominated these reduced flows. With the industrial slowdown and technical change in the Northern European countries, the need for less qualified labour has fallen and limited relations between labour markets in different EC countries have been weakened as a result (Ingham and Ingham 2004: 507). The companies are currently looking for foreign workers to fill their skill requirements. The problem is that they are running into barriers and this can often create difficulties in maintaining steady manpower exchange such as lack of information and the gaps in cross-recognition of qualifications in different countries.

The improved growth of employment presents an ‘occasion of premature celebration’ because this improvement is reflected by many, being much less proactive in the issues relating to the quality of the workforce. Rather it is a unique opportunity to push the member states to come up with further structural reforms, with a particular emphasis on development and more integrated employment and training policies. Figure 5 reflects that there is a causal relationship between education and skill, which is linked to the human capital theory. At the same time, it reflects the ongoing improvements in the level of human capital in the EU. On the basis of reports from the Labour Force Survey (LFS), the skills profile of the EU-25 working age population (aged 15-64) has risen over the recent years. The percentage of the working population that has attained a specific highest level of education (those having the high skills) was represented around 20% and 17.6% in 2005. Attainment rates for the lower secondary level of education or below (those having the low skills) were represented just under 33% of the working population, compared with 36.2% in 2000. The EU is far behind the US despite this positive trend. Hence, the overall approach remains as one of an employment strategy which is primarily based on investment on physical and human resources. Such a strategy should be promoting knowledge and skills combining with ensuring an entrepreneurial environment, which is quite similar to earlier objectives.

**Figure 5. Share (as %) of the working age population (15-64) by educational attainment levels and gender, 2000, 2004 and 2005**



Source: Eurostat, LFS spring results

There may be a scope to fill the skills gaps in more productive areas that have been the case up to now since there is a need for more and better forecasting and monitoring of future skills needs. However, it is a reality that the enlargements in 2004 and 2007 have increased both the opportunities for workers to take up employment and for employers to find skilled workers. From this perspective, the European Commission study reveals that workers from the East entering the EU-15 labour market tend to be relatively well educated, despite the fact that most seem to be heading for low-paid, low-productivity jobs. In retrospect, the EU governments are perhaps too cautious when they attempt not to open their labour market during the transitional periods (with the exception of the UK, Sweden and Ireland) to migratory flows from the new accession countries. The progressive increase in the number of workers from the CEECs is undoubtedly making the largest

contribution to the EU labour market. However, it is still the case that the notion of 'discrimination' applies to the low skilled, disabled people together with migrant workers from the third-countries. In this regard, for most countries, immigration of foreign skilled workers is normally both a symptom and a cause of economic restructuring. Even at this level choices must be made between policies which favour permanent settler migration and those that encourage temporary contract migration (Findlay and Gould 1989: 6). On the main, the EU member states are not doing enough to give young people the skills that the employers need.

#### Harmonization Problem

Since the different EU member states (for many ideological, political, economic and industrial reasons) have set different priorities about who should be covered by social policy and to what extent, and what share of the national expenditure should be directed to it, the differences among them are significant. The question is: if differences among the social policies of the member states have sharp external effects which could cause serious distortions in the pattern of competition and resources allocation within the common market, should they be harmonized? Two answers have been given to this problem:

1. The first argues that *ex ante* harmonization is unnecessary, since it will happen on its own accord through market competition. This approach accepts that different social security systems reflect different preferences and competences of the various economies which can not be reconciled without endangering other objectives of the economic policy. Therefore, it favours market-orientation solution.
2. The second argues that, left to the market, the differences in social provisions among the member states will converge, but downwards. Therefore, only *ex ante* harmonization can safeguard the social rights won by workers in the economically more advanced members of the Community. Alternatively, countries with low social standards would gain 'unfair' competitive advantages (Hix 1999: 262).

As an example of the current conditions and problems, Table 3 shows how much the member states spent on active measures, excluding public

employment services in 2004. The differences among various EU countries are remarkable, averaged 0.6% of the GDP in the EU-15. The highest expenditure was recorded in Denmark, the Netherlands and Sweden (over 1%), with Germany, Finland, Belgium and France having lower levels of spending (between 0.7% and 1%). The lowest spending on active measures is in Estonia, Czech Republic, Greece, Hungary, Lithuania, Latvia, Slovakia and the UK (below ¼ % of the GDP). Assuming that these differences are reconciled by harmonization, the question of whether it should be targeted at a high or low level of spending remains.

**Table 3. Active spending measures (as % of GDP) 2004**

	<b>2004</b>
<b>AT</b>	0.4
<b>BE</b>	0.9
<b>CZ</b>	0.1
<b>DE</b>	0.9
<b>DK</b>	1.5
<b>EE</b>	0.0
<b>ES</b>	0.6
<b>FI</b>	0.8
<b>FR</b>	0.7
<b>EL</b>	0.2
<b>HU</b>	0.2
<b>IE</b>	0.5
<i>IT</i>	0.6
<b>LT</b>	0.2
<b>LV a)</b>	0.1
<b>NL</b>	1.1
<b>PT</b>	0.6
<b>SE</b>	1.0
<b>SK</b>	0.1
<b>UK</b>	0.2
<b>EU-15</b>	0.6

Source: Eurostat Labour Market Policy Database a) 2003

From early on, the EU set down a standard by which the member states agreed to 'adopt such measures in the field of social security as are necessary to provide freedom of movement for workers'. It was assumed that the creation of such standards would reduce the potential threat of discrimination in welfare benefits. Further to this development, the removal of existing barriers by striking down the national laws outlined in the Treaty on European Union was set as an explicit objective of the Community; the raising of standard of living and quality of life, economic and social cohesion and solidarity among the member states. In principle, the social provisions of the treaties will necessarily put pressure on the member states to extend more national social policies to other EU citizens (Kvist 2004: 304) in the light of current enlargement. The Commission published the results of the Eurobarometer survey carried out in the 10 candidate countries during the autumn of 2003. The following main tendencies were observed:

Increasing pessimism in the perception of quality of their life: 61% of the populations were satisfied with the life they led as opposed to 79% in the 15 EU member states, 41% of the people consider that their quality of life has deteriorated over the last 5 years (23% note an improvement and 35% no change). Projecting themselves into the future, only 36% of the populations expected an improvement over the next 5 years (31% think that life will remain the same and 20% that it will deteriorate). The populations of the 15 member states were much more optimistic: 33% expect to see an improvement in their life (Eurobarometer survey, autumn 2003).

Indeed, positive steps towards improving the quality of life and creating social standards throughout the Union to enhance the freedom of movement are plausible. The available evidence suggests that since the Tampere European Council declaration, which fixed the objectives of a common European labour market, little progress has been made, however. The member states at present continue to make their own national policies about whether to open up to the demand for skilled and low-skilled labour. They usually come to different conclusions. Whereas progress in changing national rules to meet the current and projected labour needs has been made in certain member states, such as the UK (where eligibility criteria for

temporary workers have been relaxed). In fact, the guiding principles for this initiative fully take into account different demographic and social structures of each country as they generate specific needs for social expenditure. Precisely, their economies are at different levels of development or display different standards of performance, and they differ in their capacity to respond to migratory pressures. With this perspective in mind, Fled gives an interesting account of European harmonization problem:

Exact forecasting of migratory flow movements is a practically impossible task. The best can be done is to show how migrant numbers would develop if current trends continued and, in addition, propose a few realistic alternative hypotheses covering a range of the most plausible possibilities. Going beyond this would involve tentative answers based on uncertain foundations. These precautions are in the last few years in Europe show wide fluctuations that could be called 'erratic', inasmuch as they in no way result from the effect of economic or demographic determinants (Fled 2005: 651).

In part, the reason for this can be found in the way in which the social construction of the member states focused almost exclusively on harmonisation. It is here that the difference between the old and the new member states can be found, but they were affected by the rules governing the free movement. Still, the new member states will defend their national values. This is not necessarily an attempt to promote protectionist aims, as sometimes still happens in the former member states, and will likewise occur in these new countries, but rather in order to make the Community rules workable in the context of their market conditions, and in the context of their social, legal and cultural values (Jozen 2005: 549). Above all, changes will be a long learning process for all the parties involved. The accession is considered as the regulatory aim rather than achieving a functional compatibility of the harmonised rules, both intrinsically and extrinsically as the proper establishment of labour market necessitates. Thus, the removal of obstacles might, for the first time, give the impression of co-operation within the EU. But this is by no means automatically guaranteed, since the existence of domestic rules contrasting with the principles of the EU law

may impede this freedom. This is also the reason why the Commission tests the capacity of national legal and economic system to coexist with the *acquis*.

Many studies are based on a potential scope for the reduction of the policy barriers to the labour movement. This is because the functioning of the economic and monetary union will require new channels for adjustment to region-specific shocks, once exchange rate adjustments and independent monetary policies are no longer an option. In a common currency area the mobility of labour may become important as a response to asymmetrical shocks – labour moves from the depressed to the booming regions, thus taking in the place of a common policy response (Jileva 2002: 683). When put in the perspective of supply and demand on the labour market, this promotion is among others that aimed at attracting possible employees, which could resolve the bottleneck of the postulated mismatch between demand and supply in the labour market (Houtum and Velde 2003: 101). This suggests that the importance of harmonisation on the labour market is merely one of the focal points, when in reality it displays a strong continuity of different perspectives within the EU. Clearly, different aspects of the rules can be accommodated, which reflects European harmonization problem but certainly not sufficient to change the attitude on cross-border mobility. The nationalistic rhetoric derives from a conservative social focal point of the Union. By its very nature, most people agree that viable national and regional identities are more historically contingent. Surely, they do not add to stimulating cross-border mobility of workers.

Although it is agreed that some minimum standards are necessary to support the single European market, there is a strong suspicion regarding some measures designed to fuel a downward spiral of social provisions, eventually leading to the lowest-common-denominator of social welfare. This is indeed the case as a result of migrating labour-intensive industries from the countries of high standards of worker protection to countries where working conditions and pay are insignificant. One noticeable feature is, for example, the wide variations between the member states in the prevalence of types of pension schemes. Nearly 60% of the schemes observed by

Eurobarometer survey in January 2008 in Germany could be described as having features consistent with the defined benefit provision in comparison to only 10% in Poland. It is therefore proposed that the enlarged EU should be given greater powers over social policy in order to convert the ‘constraints’ that are brought in its current approach by the scale effect of diversity into an improved regulatory effectiveness. It is likely that the threat of ‘social dumping’ will persist as long as an efficient allocation of resources and welfare benefits – a community of 27 socio-economic values – are yet to be achieved in the EU. It is for this reason that certain countries have a short period of high entry flow increase, while others suddenly find themselves with a decreasing trend.

Given the potential constraints to harmonisation, the efforts on the labour market harmonisation up till now are considered as insignificant for the workers to become spatially mobile in corporeal terms across the EU. A recent Commission statement refers explicitly to the resulting disparities and highlights the social trends. On the one hand, the limits may be in the form of a widely understood strategic aim of turning the EU into ‘a world-class, competitive and inclusive knowledge economy’ (European Commission 2008: 49). That, in turn depends on the ability of the member states to set the standards for labour market policies. On the other hand, some progress has been made in the last few years with regard to social protection, working conditions, equal pay, employment growth and other social fields, but there is still disagreement about how far this policy should go. With the higher employment objectives, particularly after enlargement, the Commission’s interest in harmonization of the social measures shifted to coordination and integration policies leading to their inclusion in the Lisbon summit conclusions as an essential element in a comprehensive policy (European Commission 2008: 15). The mixed picture emanating from the EU’s experience suggests that the issue of harmonization will still continue to top the agenda.



### **Conclusion**

As the analysis demonstrated, trends in the European labour markets suggest differentiation, flexibility and closer co-operation in the context of the EU treaties, each of which has already constituted a socio-economic unity by a common accord. The EU policy-makers have resorted to different formal and informal strategies in order to reconcile the different approaches to social issues. Even so, the evolution appeared to accord with a slow shift towards more coherent labour market provisions in which the member states no longer follow a uniform social policy. In part, this is because of the initial variations in both intention and achievement. Such a policy should be an unrestricted fashion in terms of labour movement, but may not happen in the short run. In this vein, differences should be put aside in mobilizing manpower volume in the interest of creating a socially desirable labour market and 'submerge' national differences in a united Europe.

In the mean time, creation of a Single European Market in the EU requires the new accession countries to adjust their labour market mechanisms with regard to the European rules and regulations, may, in turn, strengthen the tendency of labour movement. In a similar vein, in accordance with the Lisbon criteria, it is essential to facilitate the far-reaching labour force participation, particularly among the elderly, in order to tackle labour shortages due to population decline and aging. In effect, it is largely left to the member states to decide whether they wish to use controlled migration as one of the policy solutions. At present, the use of continual immigration as a temporary remedy is a major exception. Importing labour force appears to be as entrenched as ever, whilst further measures in socio-economic system will be needed to make adjustments to the reality of aging. Such import provides some relief and reduces adjustment costs, but is not a permanent solution. Most countries are anxious about moves towards a balanced immigration policy, where demand for migrant skills gives a boost to economic growth. This may even offset the initial losses caused by the unskilled migrants.

The Lisbon Summit is tempered by recognition of some of the numerous positive trends that continue to be fruitful for the European labour market, particularly pointing to the European level to promote skills and

mobility. During the last decade, there have been some remarkable changes in the labour market. As described in *Labour Market Participation*, unemployment has fallen, leading to an increase in employment in the EU. A significant increase in participation rates of older female workers has been achieved, but has not been sufficient to compensate for the ongoing adjustment and labour shortages in various sectors. It is also necessary to recognise that regional labour mobility has proven positive, which has become well-accepted by the Europeans. Steps are taken closely with the gradual incorporation of the national policies of the member states, albeit variably. In this regard, the EU enlargement will bring to the member states an essential improvement of labour mobility as well as a definition of a regulated immigration policy. Such a policy must be accompanied by measures to improve the economic and social integration of both European and the third-countries' workers.

A more detailed consideration of the EU policy would appear to indicate that the EU member states, to a greater or lesser extent, have different labour force trends. Several of the trends that have been identified have consequences far wider for the labour market. Poor mobility, high unemployment, the ageing of the European labour forces, the falling of demand for unskilled labour and diverse national characteristics require radical restructuring of the EU labour market, a restructuring which may modify the social forces which initially generated those trends. These trends in labour market situation suggest that the EU governments must continue to raise the overall rate of employment by improving skills, mobility and flexibility. In particular, the inability of the European labour market to promote geographical mobility generates a need to consider more carefully the stability for the improvement of working and living conditions of workers. In the face of existing significant barriers to the free movement of labour in many EU countries the goal of harmonizing the social policy has proved elusive.

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