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**THE CONSEQUENCES
OF EU ENLARGEMENT FOR
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LABOUR MARKETS**

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ABSTRACT

The Consequences of EU Enlargement for
Central and East European Labour Markets*

This paper summarizes some of the findings of Boeri, Burda and Köllo (1998), which provide an overview of the state of labour markets in the transition economies of Central and Eastern Europe. It argues that a hasty 'return to Europe' with respect to labour market policies may not be in the best interests of these economies, and may actually impede an efficient transition.

JEL Classification: J68, P41, P52
Keywords: labour markets, transition economies, Central and Eastern Europe, active labour market policies

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NON-TECHNICAL SUMMARY

Decades from now, economic historians are likely to note that a hallmark of successful economic transition in Central and Eastern Europe (CEE) was the speed in which it became a non-issue for the body politic. A corollary is the expectation that, as formerly centrally planned economies transfer responsibility of resource allocation to markets, they will increasingly resemble and behave little differently from other less-developed OECD countries or advanced developing economies. The prospect of accession to the European Union has heightened an already exaggerated sense of optimism that the transition will be achieved in little time. Indeed, while the transformation to a decentralized, market-based economy has been painful, CEE countries have made a dramatic recovery in the meantime: since 1993 GDP has increased by at least 11% in the Czech Republic, 10% in Hungary, 30% in Poland and 20% in Slovakia. But there is much work left to be done; these countries remain at *per capita* income levels well below those of the poorest EU members.

The most visible trail left in the wake of the transformation of the CEE economies has been unemployment, which rose from virtually zero in 1990 to double-digit, and decidedly West European levels. Given its importance in political and policy discussions, understanding the nature of this unemployment is essential for isolating and implementing policy solutions. This paper summarizes some of the findings of Boeri, Burda and Köllo (1998), which studied supply, demand and policy factors in the ongoing CEE labour market crisis. The present paper focuses on policy, and makes special note of the risks which rapid entry into the European Union may bring for the functioning of labour markets in the CEE economies. The rush to 'return to Europe' and to implement a 'social market economy' is likely to collide with efficiency-related objectives of a successful transition. The transformation necessitates redeployment of talents and skills, which is often associated with human capital loss and reduction of expected lifetime income. As the OECD-European experience has shown, attempts to prevent unemployment or protect displaced workers do so at the cost of postponing necessary structural changes. This mobility is not restricted to moving labour resources from bloated manufacturing to underdeveloped services; within-industry mobility is also necessary.

First, by accident more than design, the transition has already led to overtaxation of the labour market and stimulated a large underground economy. The abdication of central planning meant surrendering large parts of the economy to private owners and managers. Consequently, many

government revenue sources disappeared, leading to increases in wage taxation, either directly or via 'contributions' to various social funds. These taxes and contributions were easier to collect than VAT or income taxes, so governments became increasingly dependent on their existence. As costs of passive measures (primarily unemployment insurance and assistance) soared and tax collections and social security contributions declined, labour taxes were further increased, raising labour costs, reducing labour demand and rendering the system increasingly unsustainable. Although the literature is generally agnostic about the role of labour taxation and employment in advanced economies, there is clear circumstantial evidence in the CEE economies of a negative association between statutory payroll tax rates and employment ratios, and a positive association between payroll tax rates and dependency (unemployed plus those out of the labour-force, such as the disabled and pensioners). Coupled with the underground economy, these facts point to the existence of an unemployment trap – a bad equilibrium in which taxation of economic activity is excessive, as is the evasion of those taxes.

Second, there has been a rush to implement active labour market policies in the best West European tradition. In principle, a theoretical case can be made for ALMPs if workers are 'scarred' by unemployment (loss of skills or industry-specific human capital) or discriminated against ('ranked' by duration of their current spell of joblessness), or if job creation schemes serve as a direct test of the unemployed's willingness to work. In a transformation context in which all firms are shedding excess labour and selecting their least desirable productive employees for culling, unemployment is a particularly noisy signal, but one with negative consequences all the same. At the same time, ALMPs have attained panacea status in EU-Europe, while policy-makers increasingly overlook risks of deadweight loss and substitution effects that are well-established in the literature. The recent response of Swedish and Finnish labour markets to shocks in the early-1990s have cast doubt on the utility of ALMPs in coping with turbulent labour market conditions, and the Czech Republic (CR) may be in line to confirm this hypothesis. At best, econometric evidence points to small positive effects of ALMPs on flows from unemployment to jobs in the CEE economies, so their use should be limited to a support role, accepting some inefficiency (in the form of displacement effects) as the price for 'churning up' stagnant pools of unemployed.

Third, the enforcement of continental style regulation of the labour market may have detrimental effects on the dynamics of the CEE economies. An important component of the 'return to Europe' was the adoption by CEE countries of West European style labour market regulation and the rejection of Anglo-

Saxon 'hire at will' industrial relations. Despite rather compelling evidence from employers' surveys, there is surprisingly little academic agreement that severance regulation adversely affects employment. It is nonetheless important to stress one prominent effect seldom considered in the context of the CEE countries and systemic transformation: the impact of such regulations on small firms and new business formation. In a situation of systemic structural change, such regulations are likely to have a negative effect on the emergence of new firms. Firm formation and dissolution is not only a precondition for productive activity in rapidly changing markets, but also serves the important function of processing information, which remains scarce in these countries. Imposing red tape costs can be equated to a direct tax on this activity, and it is hard to imagine a constellation of costs or stochastic environments under which this tax would fail to suppress it. This is especially true in light of high fixed costs of compliance, for which a separate department and personnel is often required. By this logic it would seem important to offer generous exemptions for small firms from these rules, and that 'small' should be liberally defined. In fact, the present regime has achieved *de facto* precisely this outcome; only large state enterprises have been subject to such rules, with smaller and foreign firms evading them in one way or another.

The implications of the return to Europe can be seen in the principles embodied in the Social Charter (ESC) of the European Union. One generous interpretation of the ESC is an expression of 'European' solidarity with the working classes and an effort to enshrine this idea in a common doctrine. A second, more cynical one is an attempt to pre-empt 'wage and social dumping', meaning preventing competition from poorer newcomer EU member countries by virtue of their low labour costs. A less elastic enforcement of the Social Charter, for example, would vitiate the attractiveness of CEE economies for direct investment and diminish their ability to compete in the internal market. Another example is the treatment of the burgeoning underground economy, which has assumed mammoth proportions in these countries. Insistence on the inclusion of lost VAT income attributed to this sector will increase costs and reduce flexibility. Finally, as foreign firms raise their FDI stakes in these countries, they will come under pressure to adhere to rules at home, especially as labour unions begin to break out of their national boundaries.

To examine in a more quantitative fashion the implications of EU membership for newcomers past, Boeri et al (1998) studied the behaviour of unemployment rates and employment growth for newcomer EU-members (those joining after 1970). The behaviour of these variables were studied around the dates of: 1) first application to the EU; and 2) EU accession for nine newcomers to the

European Economic Community (EEC) or its successor, the European Union. Informal 'Burns-Mitchell' evidence as well as regression analysis suggests that countries experience increases in structural or equilibrium unemployment upon application, and that this rise continues after accession. One explanation is that joining induces structural change and short-term joblessness, possibly combined with an increasingly 'European' safety net which affects the adjustment process. An optimistic view that EU membership accelerates integration, however, is also supported by results for employment growth. These results survive after excluding Austria, Finland and Sweden, or controlling for the EMS period.

The paper concludes by summarizing the implications of accession for East European labour markets. It is important to emphasize just how much adjustment still needs to occur in these countries. The 'return to Europe' is a desideratum, yet the price is negotiable; it currently appears too high. While entry in the EU will yield significant economic advantages, it will also imply additional burden of structural adjustment, as inefficient producers in agriculture, high-tech manufacturing and services are squeezed. The evidence reviewed in this paper suggests that the adjustment process itself may be attenuated by excessively rapid entry into the rich man's club which is the European Union. Moreover, it may even be in the interests of current EU members to extend their labour market inflexibility to newcomers, thereby reducing or eliminating competition along this dimension. It would therefore be a great mistake to adopt continental-style labour market rigidities at such an early point in the transition process.

1. Introduction

Two or three decades from now, economic historians will note that a hallmark of successful transformation in Central and Eastern Europe (CEE) was the speed in which it became a non-issue for the body politic. A corollary of this is the expectation that, as formerly centrally planned economies transfer responsibility for resource allocation to markets, they will increasingly resemble and behave little differently from other less-developed OECD countries or advanced developing economies. The prospect of accession to the European Union has heightened an already exaggerated optimism that this transition will take little or no time at all. Since 1993, GDP has increased in Poland by more than 30%; in the Czech Republic by 11%; in Hungary by 9%; and Slovakia by more than 20%. But there is much work left to be done; these countries remain at per capita income levels well below those of the poorest EU members[1].

The principle that the same rules should apply to EU newcomers from the East is especially relevant for labor markets. It is generally observed that mechanisms which reallocate human resources in advanced economies have lost their cutting edge in Europe. While overall job turnover -- measured as gross job creation and destruction -- is comparable, worker turnover in Europe, especially employer initiated turnover, is dramatically lower.[2] The attenuation of the churning or sifting function of labor markets has contributed to a low employment equilibrium in which outside hiring by firms in bad times has become an unusual, almost last-resort measure. As it stands, a large fraction of the CEE labor force has already been reallocated in response to the transition, but more is needed to move skills and

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[1] The Czech Republic boasted a per capita GDP of $4420 in 1995, Poland $3057 versus $22631 for the EU15 and $20315 for OECD-Europe. When these numbers are corrected for purchasing power, the comparison remains striking; while the Czech Republic's per capita GNP is roughly 40% that of Germany's, Slovakia is only one-third, while Poland is 27% and Bulgaria is 21%! (Source: World Bank Atlas 1996).

[2] See Burda and Wyplosz (1994), Boeri (1996).

talents across alternative uses. Insofar as the CEE countries jump into the EU bed, to what extent are they giving up flexible labor markets -- joining in effect the continental European camp -- at a time when they might still need them? First, for most CEE countries, joining the European Union will imply additional structural shocks to agriculture, industry and services, after already been subject to the "transformation shock." Second and more significantly, EU membership may will affect labor markets' ability to cope with future shocks on the horizon. Could joining the EU lead to higher unemployment, if only by virtue of a much slower adjustment to the new steady state?

This paper reports on recent joint work with Tito Boeri and Janos Köllö on a comprehensive review of Central and Eastern European labor markets prepared for the European Policy Initiative (EPI) and the CEPR.[3] The report's purpose was to gather and assemble information and evidence on progress made in Eastern and Central European countries in transforming their labor markets, and to assist policymakers in comparing the experiences of these countries. The first two parts of the report constitute a survey of what had occurred; the last is a prospective overview of what could be expected in the future. In particular, the last chapter dealt with some of the risks and benefits associated with EU enlargement, and it is this set of issues I have chosen to stress in this paper. After looking at the preliminary program, I don't think this was such a bad idea after all. Thus, despite Western Europe's fascination with the impact of the East on their own labor markets, I plan to spend more time asking -- in the spirit of J.F. Kennedy, perhaps -- not what can the CEE countries do for us, but what can or will Western Europe do for them?

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[3] Boeri et al. (1998).

The paper is organized as follows. Section 2 describes the state of affairs in the CEE economies and concludes that the transformation of labor markets, while well underway, is far from complete. Section 3 describes some of the labor market implications of EU entry, while Section 4 presents empirical evidence suggesting that EU entry may contribute to higher levels and persistence of unemployment rates. Section 5 concludes.

2. The current situation, yearend 1996: Transformation's scars on CEE labor markets

2.1 Growth returns but unemployment is still high

It is well-known that the CEE countries took an economic nose dive in the course of transformation to a decentralized, market-based economy. The liberalization of prices led to a price shock, but more importantly, output dropped dramatically in the first two to three years, on the order of 20-30% of GDP and more if industrial output is considered. Explanations for the output shock have abounded: excessively tight fiscal and monetary policy, the collapse of COMECON trading arrangements, the destruction of network capital associated with the planned economy, lack of managerial incentives for restructuring, and so on. What is less well-known is that the CEE countries have made a dramatic recovery in the meantime. Table 1 conveys some of the most important developments.

<Table 1>

As Figure 1 shows, unemployment rose in less than three years from virtually zero in 1990 to double-digit, and decidedly west European levels. The interesting fact is that "Okun's law" seems to work, albeit in a limited fashion. Large one-off changes in labor force participation have wrecked havoc with the figures, but more so with the link between output

and employment than between output and unemployment. In 1997 the long awaited declines in unemployment rates finally occurred, in Poland (down to 10.6% in October 1997 compared with 13.5 a year ago), and Hungary (down to 10.5 % in October 1997 compared with 11.1% a year ago). In contrast, joblessness in the Czech Republic stood at 5%, up from 3.3% in the previous year. Romania has also been a surprise to many, showing surprising resilience despite large political and economic setbacks. The curious pattern in Bulgaria can be attributed to a sharp decline in labor force participation coupled with a return to "subsistence" agriculture and an expansion of the underground economy.

<Figure 1>

2.2 Participation is down but not out

One of the most remarkable facts about labor markets under communism was the high rate of labor force participation by both men and women. Partly due to communist ideology, partly due to necessity, everyone worked, often long beyond established retirement ages. Explicit subsidies made this ideal affordable for the average family. The adoption of capitalist labor markets radically changed attitudes towards the benefits and costs of labor force participation, as well as the opportunity set workers faced in the market. The socialist ideal of work for all at all costs was not only economically inefficient and unsustainable, but also conflicted with preferences for leisure, family, household production (especially the raising of children), as well as social alternatives to work. As Figure 2 shows, countries of central and eastern Europe have experienced dramatic declines in labor force participation rates in the years following transformation.

<Figure 2>

Seven years afterwards, labor participation rates in the CEE countries remain above those in OECD economies of similar levels of development or in advanced developing economies. When compared with EU neighbors, they are much more comparable, ranking roughly at the average for wealthier central European countries. For males, participation declined below west European levels, while female participation -- even after a sharp drop -- remains considerably higher. Employment rates in CEE countries are now roughly comparable with OECD countries, so to a large extent high unemployment rates can be attributed to above-average labor force participation.

Some evidence on incentives to remain in the labor force despite unfavorable job market prospects as well as the nature of unemployment itself is available from comparisons of survey and registry unemployment. With the support of international organizations, labor force surveys using ILO standards have now been implemented in almost all CEE economies, and are now widely used for assessing joblessness there. It is agreed among labor economists that the labor force survey (LFS) provides the best measure of effective labor supply, reflecting the self-reported activity of employable individuals who are fit and available for work. Using this metric, worker discouragement reflects an assessment that work at current wages and job availability is not an economically viable strategy. Registry unemployment, in contrast, is based on actual count data generated by local labor offices and is related to advantages flowing from this status, including access to job information, counseling, and training programs; more importantly, registration is often a precondition for unemployment benefits, health insurance, housing subsidies, etc.[4] The relationship of registry to survey unemployment can be viewed as an indicator of these net incentives. Table 2 shows that this ratio deviates widely from country to country. In countries where it is significantly less than

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[4] See the OECD's recent review of the labor market in Slovenia, for example (OECD 1997). There, the national employment office pays pension and health insurance contributions for registered unemployed.

one, job information services and social benefits linked to employment offices are probably unattractive. Values in excess of unity suggest that either that many registered unemployed have ceased to search, or that continued registration is a requirement for other benefits administered by the employment offices. It may be important to ask whether the latter indicates an inefficient use of employment agency resources.[5]

<Table 2>

<Table 3>

2.3 The transformation was and remains painful

The transformation has been a painful process. An unprecedented rearrangement of economic activity has not only shifted individuals out of work and the workplace for good, but has also reallocated resources across alternative uses. Table 4 displays the extent of these relative shifts since 1989. In almost all countries, a dramatic reduction in industrial employment has been observed; only in Hungary, where services had already assumed an important role at the outset, was the shift modest. In some countries, notably Poland and Hungary, there has been a marked shift out of agriculture as well; in Bulgaria and Romania, agricultural activity has *increased* in both relative and absolute terms. In all countries the relative and absolute size of the service sector has increased, in some dramatically so.

<Table 4>

The transformation has had a significant regional element, leaving the landscape a patchwork of varying unemployment rates. Table 5 gives some perspective on just how disperse local

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[5] The tradeoffs between social welfare versus unemployment benefits are discussed by Boeri (1997b) and Boeri et al. (1998).

employment rates are relative to the US, a country recognized as having high labor mobility Louisiana was intentionally chosen as it is one of the poorest US states). Observers interpret regional mismatch unemployment as reflecting a large deficit in labor mobility and in travel-related infrastructure (roads, highways, trains, buses etc.), as well as the nature of social insurance and the existence of family networks. Boeri et al. (1998), for example, show that the effective commuting radius of Hungarian workers is severely limited by infrastructural considerations. Human resources are immobile for a variety of reasons - regional chauvinism, generous welfare provisions, extensive family networks, and infrastructure. The comparisons in Table 5 underscore the necessity of capital mobility for helping regions avoid disparities and imbalances and to offset the typical continental European lack of labor mobility.

<Table 5>

3. The "Return to Europe" and the choice of labor market institutions

3.1 Efficiency versus solidarity

Jeffrey Sachs has stressed "the return to Europe" and the desire by CEE economies to regain as soon as possible their lost status in the European integration process.[6] This has become evident by their rush into EU association agreements as well as accelerated negotiations for outright entry, despite enormous problems associated with fast track admission.[7] The "return to Europe" also has another connotation, namely the implementation of a "social market economy" which aspires to avoid inequality by means of state-managed solidarity with the less fortunate. In this context, it was only natural that strains placed on individuals during the course of the transformation would give rise to political demands for social insurance. In most CEE countries, programs of unemployment compensation, early

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[6] See Sachs (1993).

[7] See Baldwin et al (1996).

retirement, social assistance, and severance pay were implemented soon after governments committed to market transformation, even before its most difficult consequences had occurred, and often without much consideration of potential future costs.

Interventions for reasons of equity and solidarity often collide, however, with efficiency-related objectives of a successful transition. One of the greatest challenges in the transformation has been to develop alternate systems of social insurance that guarantees the basic needs of the population, yet at the same time does not impede labor mobility, a central element of transition. The transformation necessitates redeployment of talents and skills, and is often associated with human capital loss and reduction of expected lifetime income. Most attempts to protect displaced workers do so at the cost of postponing necessary structural changes. This mobility is not restricted to moving labor resources from bloated manufacturing to underdeveloped services; within-industry mobility is also needed to allocate labor between shrinking and failing to new and growing enterprises, which are often in the same general area of activity. By reducing the cost of not acting, the social safety net can increase the option value of waiting, and thereby raise the implicit cost of mobility.

3.2 Taxation and regulation of the labor market (and the underground economy)

The abdication of central planning meant surrendering large parts of the economy to private owner and managers. Consequently, many government revenue sources disappeared, leading to increases in taxation of wages, either directly or via "contributions" to various social funds. These taxes and contributions were easier to collect than VAT or income taxes, so governments became increasingly dependent on their existence. So as the cost of passive measures (primarily unemployment insurance and assistance) soared and tax collections and

contributions declined, labor taxes were increased; this raised in turn labor costs, dampered labor demand and made the system increasingly unsustainable.[8]

Although the literature is agnostic about the role of labor taxation and employment in the OECD (See Nickell and Bell (1997), or Layard, Nickell and Jackman (1991)), the first panel of Figure 3 shows a clear negative association in a cross-section of CEE countries between statutory payroll tax rates on the one hand, and employment ratios on the other. The second and third panels show that payroll tax rates are positively correlated with both the incidence of dependent individuals (unemployed plus those out of the labor force) as well as pensioners. It is difficult not to infer the existence of an unemployment/fiscal trap. Under such conditions, a given regime could be consistent with an equilibrium of high job creation, high employment rates, low taxes and low dependency ratios; or with an equilibrium of low employment, with high dependency ratios and high labor taxes necessary to finance them.

<Figure 3>

The elasticity of labor demand, while thought to be relatively low in the short run with given capital stock, is effectively increased by the emergence of the underground economy. It is commonplace for small and medium-sized firms to take on a core of officially reported workers and use a second group "off the books" to reduce tax and social charge liabilities, as well as to respond more flexibly to demand fluctuations. A number of studies, many originating in the CEE countries, confirm a large role for the underground economy.[9]

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[8] A widely-cited case is Hungary. From 1991 to 1993, Hungarian social security contributions rose from 42.3% of wages and salaries to 50.2%. This was a direct result of increasing social insurance burdens and increases in the social security tax contribution rates. EBRD (1994, 1995, 1996).

[9] See Lacko (1995), who estimates the size of the underground economies of Poland, Hungary and the Czech Republic as well as more advanced OECD economies on the basis of household electricity use. For a recent

<Table 6>

There is a danger that social system could kill the goose even before the golden egg has been laid. The early transitional experiences of Hungary and Poland confirm that a "vicious circle" of labor taxation and job destruction can arise in which initially inexpensive but potentially costly programs put in place at the outset of the transition became problematic when unemployment rises rapidly.

<Table 7>

3.3 Active labor market policies

Another sign that the CEE economies have adopted the "return to Europe" is their aggressive implementation of active labor market policies (ALMPs), which are intended to help reintegrate long-term unemployed. ALMPs are usually discussed in terms of three types.[10] *Job intermediation* measures aim at improving information about vacancy availability, employee qualifications currently in demand, and future prospects; they provide guidance to the unemployed and monitor their search behavior. *Labor market training measures* are intended to improve worker skills, and can be justified to the extent that workers lack access to capital markets to finance human capital investments themselves. *Job creation* schemes -- either direct make-work or employment subsidies -- usually comprise the largest component of ALMPs, and are designed to increase the demand for labor, particularly for those individuals in long term unemployment. Such interventions make sense if workers are "scarred" by unemployment (loss of skills or industry specific human capital) or discriminated against ("ranked" by duration of their current spell of joblessness). Another interpretation of

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[10] See Calmfors (1994).

job creation schemes is a direct test of the unemployed's willingness to work, as they are usually used to generate offers for long-term unemployed (Jackman 1995).

In a transformation context in which all firms are shedding excess labor and selecting their least desirable productive employees for culling, unemployment is a particularly negative signal in the labor market. At the same time it is a noisy signal, so a strategy of preventing long term unemployment could presumably be justified. In general, targeted job creation for problem groups can increase outflows out of unemployment and reduce the power of insiders hindering downward adjustment of real wages. While active labor market policy commands considerable political support among both the employed and the unemployed, a strong case can be made that ALMPs have *negative* effects on the functioning of labor markets. Drawing to some extent on the Swedish experience, Calmfors (1994) adduces evidence that these effects may outweigh the benefits.[11] Most importantly, deadweight loss and substitution effects can be large, and under such conditions, they are a questionable use of scarce public resources. At the same time, much evidence supports programmatic targeting of problem groups as a means of getting around this problem (OECD (1993)).

<Table 8>

<Table 9>

In recent years this skepticism has mounted. Most European commentary can be traced to the disastrous response of Swedish and Finnish labor markets to shocks in the early 1990s.

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[11] The most important negative effects cited by Calmfors (1994) are 1) reduction in search intensity of program participations; 2) a labelling or lock-in effect which stigmatizes participants (see Burtless (1985)); 3) deadweight loss effects (some of those receiving subsidies would have found a job anyway); 4) substitution effects of the favored at the expense of others (naturally, what one would hope for!) 5) fiscal displacement effects (local governments undertake projects that would have occurred anyway) and 6) "crowding out" effects in local labor markets, in which wages rise due to labor market tightness, leading to unemployment elsewhere.

This stands in stark contrast to the 1970s and 1980s when the low unemployment rates were linked to high spending on ALMPs. In the aftermath of the serious recessions of the early 1990s, both countries now have open unemployment several times higher than levels previous decades which shows no sign of returning to previous low levels. That labor market policies have done nothing to stem this tide has cast doubt on their ability to cope with stressful conditions.[12]

The Czech Republic (CR) now appears in line to provide confirmation of this hypothesis. The aftermath of the currency crisis in the spring of 1997 has been a slowdown in industrial activity. Until then, the CR was the positive outlier in the labor market experience of the transition economies. With an unemployment rate of under 4%, it was the envy of the OECD as well as the transforming economies; youth unemployment was roughly 6.5% in mid 1996, compared with about 9% in Germany, 20% in Sweden and 40% in Spain. It was tempting to link the extraordinary success of the Czech Republic to its use of active labor market policies (ALMP), and a number of successful aspects of Czech active labor market policy have been isolated by researchers.[13]

While a judgment at this stage may still be premature, evidence is mounting that other circumstances peculiar to the Czech Republic may have been responsible for the "unemployment miracle" (OECD (1995)). These include favorable initial conditions with respect to industrial specialization, a well-educated labor force, a large potential for service employment (tourism especially), a tradition for entrepreneurship, a small agricultural sector, and proximity to high-wage Germany with its demand for low-wage labor and low-cost production sites. Less optimistic observers have criticized the slow restructuring pace in

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[12] For a discussion of the early apparent successes of active labor market policies in the Nordic countries see Jackman, et al. (1990); for a critical discussion see Calmfors and Nymoen (1990).
[13] See OECD (1995).

privatized state enterprises as a sign that the storms lurk on the horizon; recent bank failures and growing internal and external macroeconomic imbalances certainly do not belie this impression. In fact, econometric evidence adduced by Burda and Lubyova (1995) lead one to conclude that ALMPs alone cannot explain the difference between Czech and the Slovak unemployment rates, though evidence point over to a significant, albeit small, effect of ALMPs on flows from unemployment to jobs in the CEE economies.[14]

Viewed in this light, the extensive use of ALMPs can be interpreted as accepting some inefficiency (in the form of displacement effects) as the price of "churning up" stagnant pools of unemployed. However, the recent experience in some Nordic economies suggest that the resulting supervision of the unemployed can be an Achilles heel in the face of large negative macroeconomic shocks. Ljungqvist and Sargent (1995) show in a theoretical search model that endogeneity in the monitoring technology can result in multiple equilibria -- one with low unemployment, intensive supervision, and high exit rates from unemployment; and another with high unemployment, poor monitoring levels, and low exit rates from unemployment. For employment offices to prevent labor markets from moving from good to bad equilibria, an aggressive expansion of staffing would be necessary in response to adverse shocks. Furthermore, a carrot-and-stick policy would necessitate considerable funding flexibility for job creation and subsidy in economic downturns.

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[14] See for example OECD (1995), Munich et al. (1994), Boeri and Burda (1996). Recent evidence relating to experiences of other transforming economies make it clear that conditioning on the country is important for predicting success and may cast doubt on earlier optimism. In particular, the country understudy seems to have a systematic effect on the findings. In Poland, the evidence is almost uniformly negative (Lehmann (1995), Kwiatkowski (1996), Puhani and Steiner (1996)) which is often rationalized by poor targeting of programs (Puhani and Steiner, 1996).

3.4 Continental labor market regulations

An important component of the "return to Europe" was the adoption by CEE countries of Western European style labor market regulation and the rejection of Anglo-Saxon "hire at will" industrial relations. As an example, Table 10 provides an overview of severance regulation currently in force. While not as rigorously enforced as in Western Europe, these laws have the general flavor of continental severance rules. As will be shown below, the accession of these countries to the European Union is likely to mean that these laws will be enforced more strictly or perhaps even tightened in the future.

<Table 10>

It is useful to distinguish between severance benefits paid by the employer directly to the employee, and severance costs imposed from the outside on firms for dismissals (formal approval of labor ministries, adjudication procedures, costs related to "social plan" regulations, the need for specialized legal staff, etc.). In the former case, wage adjustments or side payments -- as long as they are feasible -- can offset the economic effects of mandated severance bonuses. In the latter case, severance regulation acts like a tax on job creation, and creates a wedge between the wage and the (marginal) productivity of workers which accrues to third parties or is pure loss.[15]

Despite rather compelling evidence from employers' surveys (e.g. Emerson (1986)), there is little academic agreement that severance regulation adversely affects employment.[16] It is nonetheless important to stress one prominent effect seldom considered in the context of the

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[15] See, e.g. Lazear (1990) or Burda (1992).

[16] The ambiguity arises in part because the way many models are constructed: whether they are general or partial equilibrium; whether costs are lump-sum, linear, or convex; and whether the stochastic environment implies a smooth or discrete evolution of uncertainty. According to available results, severance regulation can have no effects, small effects, or large effects; they can either reduce or increase employment; these effects may depend on whether the costs are large or small.

CEE countries and systemic transformation: the impact of such regulations on small firms and new business formation. In a situation of systemic structural change, such regulations might have an important effect on the emergence of new firms (Hopenhayn and Rogerson (1993)). This is because firm formation and dissolution is not only a precondition for productive activity in rapidly changing markets, but also serves the important purpose of processing information, which remains scarce in these countries. Matching of resources, capital, and talents inherently entails a certain amount of experimentation; the creation of firms is a highly risky undertaking, which is often unsuccessful.[17] Imposing red tape costs can be equated to a direct tax on this activity, and it is hard to imagine a constellation of costs or stochastic environments under which this tax would fail to suppress it. In the language of the real options literature, these laws would increase the value of postponement, and would have unambiguous negative employment effects, to the extent that innovation and structural change via new firms and new matches of workers and capital do not occur.

It follows that the enforcement of severance rules will either push small enterprises out of business or into the underground economy with the consequent impact on tax collection and aggravation of the fiscal trap discussed above. By this logic it would seem important to offer generous exemptions for small firms from these rules, and that "small" should be liberally defined. This is especially true in light of the high fixed cost of compliance, for which a separate department and personnel is often required. In fact, the present regime has achieved *de facto* precisely this outcome; only large state enterprises have been subject to such rules, with smaller and foreign firms evading them in one way or another.

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[17] It is for this reason that even in advanced, developed western economies the amount of churning -- that is, the excess of gross labour and job turnover over net changes, or even the excess of labour turnover over job turnover -- is significant. See Burgess, Lane and Stevens (1995).

4. Accession to the European Union and implications for labor market policy in CEEs

Despite current preoccupation with the single currency project, recent EU pronouncements have only strengthened accession aspirations of the first wave candidates (CR, Hungary, Poland, Slovenia and Estonia) before 2005. At first sight, admission to the EU seems to have few official implications with respect to labor markets and labor market policy, besides the direct impact of trade creation and diversion as these countries are more intensively integrated into the EU pattern of specialization.

One potential source of trouble is the Social Charter of the European Union, which has recently regained respectability after the Blair government committed the UK to sign on. First ratified in Turin on October 18, 1961, the European Social Charter (ESC) is a convention which has been amended several times, most importantly in October 1991, three decades later. Only in the past decade has the EU begun to put teeth into what was initially a largely platitudinous document. The provisions of the ESC stress a number of rights of workers and responsibilities of employers; Table 11 reproduces text related to the most important forms of labor market rigidities implied by the European Charter.

<Table 11>

A benign interpretation of the ESC is an expression of "European" concern for solidarity and an effort to enshrine this idea in a common doctrine, which is especially valid with respect to newcomers to the club. The "return to Europe" necessitates, in this view, a common stance on what constitutes European labor market and social policy. The ESC is not a precondition for accession to the European Union, although it is difficult to believe that ratification is irrelevant. The ESC embodies a number of provisions which, taken individually

and legalistically, are not specific enough to cause alarm; yet in their entirety they commit member countries to provide minimal work conditions. Since its original enacting, it has been accepted with little derogation by all EU countries except the UK, so that accession has generally implied an acceptance of the terms of the ESC.

A second, less favorable interpretation of the ESC is an attempt to preclude "wage and social dumping," meaning preventing poor EU member countries who, because of low labor costs and lower standards of living, offer a cost-competitive production environment. This interpretation would imply that joining the EU implies loss of export competitiveness, and of a chance to develop and raise standards of living rapidly.

It is significant that most of ESC provisions are hardly enforced at present in the CEE economies. Cynically, because EU newcomers can produce at significantly lower labor costs, it might be in the interests of existing EU countries to adopt measures which inhibit direct wage competition. Specifically, raising wages, increasing the option value of the hiring decision, and introducing more regulations and standards will vitiate the attractiveness of Central and Eastern Europe for direct investment as well as diminish its ability to compete in the internal market.

I see a number of potential mechanisms at work here. First, the enforcement of the Social Charter will certainly take on a less elastic quality as accession draws near. For example, the European Commission has recently found new energy in extending social Europe in this direction.[18] A second problem is the underground economy, which has assumed

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[18] According to the Financial Times of December 16, 1997, the European Commission will launch a number of proposals in March 1998 to extend the 1993 law on working hours, rest, and paid holidays to previously exempted workers. In addition, directives have extended holidays, pension rights and dismissal rights to a number of previously exempted industries. Ostensibly, these measures are designed to counter what Social Affairs Commissioner Flynn considers a trend towards excessive exemptions.

proportions in these countries. Insistence on tracking down lost VAT income that

:n segment of the economy generates will be equivalent to increasing its

osts. Finally as foreign firms invest increasingly large stakes in these countries,

ne under pressure to adhere to the same rules at home, especially as labor unions

ak out of their national boundaries.

iny case, EU accession could have a deleterious impact on labor market

. To examine this issue in a more quantitative fashion, Boeri et al (1998) studied

r of unemployment rates and employment growth for newcomer EU-members

ng after 1970), and it is these results that I would like to summarize here. The

these variables were studied around the dates of 1) first application to the EU and

ssion. The list of these nine newcomers to the European Economic Community

successor, the European Union, and the relevant dates can be found in Table 12.[19]

<Table 12>

ic elaboration on the analysis is appropriate. Because candidate countries usually

t their house in order" in order to qualify to join, it is important to distinguish

cssion (the attaining of formal membership) and first application (the lodging of

ictition for membership). The date of application as well as accession itself were

idicators of regime change and as benchmarks for analyzing labor market

c. The time between application and entry into the EU is variable, ranging from 33

inland) to almost nine years (Portugal); this turns out to provide useful variation in

i-r econometric estimation.

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[19] Fo   inity we shall henceforth refer to all accessions as "EU" accessions."

In a first pass at the data, I present the average behavior of unemployment rates and employment growth around dates of first application and EU entry. In order to control for business cycle factors, a cyclical component was removed from these data using conventional regression methods.[20] The unweighted average of the results centered around application and accession dates can be seen in the panels of Figure 4. This "Burns-Mitchell" evidence does suggest that countries experience the strongest increases in structural or equilibrium unemployment upon application, and that this rise continues after accession. One explanation is that joining induces structural change and short-term joblessness, possibly combined with an increasingly "European" safety net which affects the adjustment process. An optimistic view that EU membership accelerates integration, however, is supported by results for employment growth.[21]

<Figure 4>

The "EU is bad news" hypothesis can be tested more formally using econometric methods. Specifically, a fixed-effects regression model was estimated pooling all nine countries into one sample, while allowing an individual trend for each country's relative unemployment rate. The specification was

$$\eta_{it}^{(k)} = \mu_i + \tau_{i1}t + \tau_{i2}t^2 + \tau_{i3}t^3 + \sum_{j=0}^{2}\alpha_j g_{it-j} + \beta_1 ap_{it} + \beta_2 ac_{it} + \varepsilon_{it},$$

---

[20] Specifically, for each country we ran the regression

$$x_t = \alpha + \Sigma_{i=0,1,2}\,\beta_i \Delta y_{t-i} + \gamma_1 t + \gamma_2 t^2 + \gamma_3 t^3$$

where x is either the OECD standardized unemployment rate or the growth rate of employment, y is the log of GDP, and t is a time trend. We then constructed and studied the series $x_t - \Sigma_{i=0,1,2} b_i \Delta y_{t-i}$, where the b_i are estimates of the β_i.

[21] The suspicion that Spain drives this result is unfounded as the panels for individual countries in the Appendix bear out.

where μ_i is a fixed country effect, τ_i are country-specific time trends coefficients, t is a time trend, and g_{it} is the ith country's current growth rate of real GDP. The dependent variable is either $\eta_{it}^{(1)} = u_{it}/u_{it}^{core}$ or $\eta_{it}^{(2)} = e_{it} - e_{it}^{core}$, where u_{it} is the unemployment rate and e_{it} is the employment growth rate' for the ith country in period t, respectively. "Core" refers to an unweighted average of France, Germany and Italy. The different specifications of the two dependent variables are chosen because e_{it} can take negative values. $ap_{it}(ac_{it})$ is a dummy variable which takes the value one after application (accession) to the EU, zero otherwise; so β_1 and β_2 are the coefficients of primary interest.

The regression results are presented in the columns of Table 13. As expected, cyclical factors are significant with the expected sign, i.e. that higher GDP growth is associated with lower relative unemployment and higher employment growth. As in the figures, both application as well as accession of a country to the EU is associated with a statistically significantly higher unemployment rate relative to the core. Interestingly, application appears to be more important than accession, although all coefficients are estimated positive. In columns (b) and (d), in which the cubic time trend is omitted, EU accession is also accompanied by significantly higher employment growth.

<Table 13>

While it is theoretically possible that a few isolated countries affected our results, we obtained similar results when excluding Austria, Sweden and Finland (not reported). This is a particularly interesting result, since the typical ratchet adjustment in the EU to the oil shocks was absent for these countries during that period -- a period during which they were not EU members. Since most analysts describe the recent, persistent 1990 shock to Sweden and

Finland as a "demand shock," it would appear that the "side" (supply or demand) fro · · ·ch the shock originates is less important than the fact that a negative shock occurred.

Finally, we investigated the possibility that the results were simply an arti··· ···ne introduction of the EMS, which coincided with the second great ratchet up·· · n unemployment rates. The results in column (3) and (4) -- reports the same speci¹ s column (1) and (2) -- but includes an "EMS dummy" with a value of zero before afterwards. The results show that relative unemployment rates of EU entrants w· significantly higher in the EMS period. But controlling for the EMS period does r· the result that initial applications and accessions have a significant positive coeffi· relative unemployment rate regressions. In the employment growth rate regression· dummy is insignificant.

5. Conclusions

The message of this paper is straightforward and disturbing. The CEE countries ha· experienced a great deal of stress in the adjustment process. At the risk of s·· platitudes, it is important to emphasize just how much adjustment still needs to occ· countries. The "return to Europe" is a desideratum, yet the price is negotiable; ·· appears too high. While entry in the EU will bear significant advantages, it will ·· additional burden of structural adjustment, as inefficient producers in agriculture, manufacturing and services are squeezed. More importantly, the evidence reviev· paper suggests that the adjustment process itself may be attenuated by excessively r··· into the rich man's club which is the European Union. It would therefore be a great adopt continental-style labor market rigidities at such an early point in the transition

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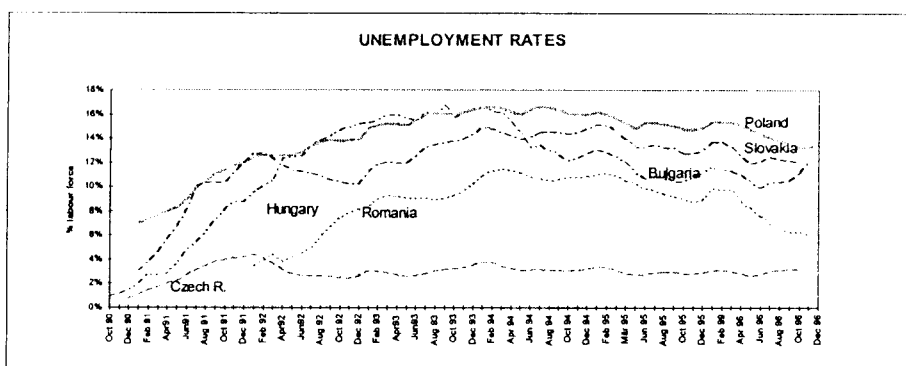993) *"Poland's Jump to the Market Economy"*. Cambridge: MIT Press.

Table 1. Growth and Employment in CEE Economies

Country	Time Period	Real GDP Growth (%)	Employment Growth (%)	% Change LFS Unemployment (period)*
Bulgaria	1993-1996	-8.2	4.9	-7.7 (93:III-96:IV)
CR	1993-1996	12.0	-1.1	-0.2 (93:III-96:III)
Hungary	1993-1996	5.0	-5.0	-2.0 (93:III-96:III)
Poland	1992-1996	22.7	-1.7	-1.5 (93:III-96:III)
Romania	1994-1996	17.4	0.0	-4.9 (1993-96)
Slovakia	1993-1996	19.4	6.0	-2,0 (93:III-96:III)
Slovenia	1993-1996	12.4	3.4	-1.8 (1993-96)

Sources: Boeri et al. (1998), OECD-CEET database, EBRD (1997) for Romanian unemployment;
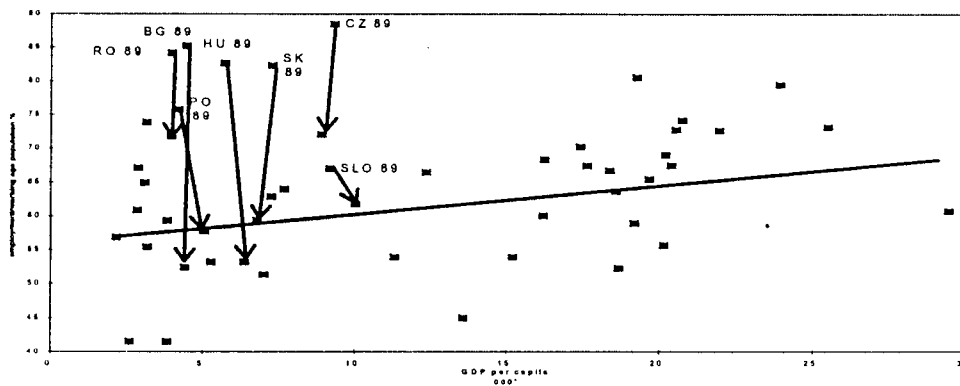OECD (1997) for Slovenian unemployment
*except Romania

Figure 1. Unemployment in the CEE Economies 1990-1996

Source: Boeri et al (1998)

Figure 2. Employment Population Ratios (a) and GDP per capita (b): International Comparisons (1994)

Notes: (a) Employment over population aged 15-64. (b): GDP per capita in USD at PPP.
Regression line: y = 55.8 + 0.52x, R^2=0.19.
Source: Boeri et al (1998)

:. Survey versus Registry Unemployment and Benefit Receipt in 1995 (000s)

ntry	*Registry Count*	*Survey Estimate*	As a fraction of Survey unemployment:		
			Registry Unempl.	*Unemp Benefit Recipients*	*Registered U Social Asst. Recipients*
:: **Republic**	155.0	189.0	0.82	0.12	0.27
·⸱ry	507.7	416.5	1.22	0.38	0.47
·· ᵢnd*	2694.6	2276.8	1.18	0.54	**na**
⸱ᵢnia	1111.3	967.9	1.15	0.21	0.77
·kia	348.2	324.5	1.07	0.27	0.49
nia*	121.5	70.0	1.74	0.40	0.08

ᵗoeri, et al. (1998)

Table 3. Labor force participation
(% of population of working age) 1996:III

⸱ I/E Countries	*Total*	*Male*	*Female*	OECD Comparators:	*Total*	*Male*	*Female*
⸱ᵢlgaria	71.3	72.7	69.7	Belgium (1995)	65.0	73.1	56.8
ᵢᵢch Republic	76.8	82.7	70.2	France (1995)	67.3	74.8	60.0
ᵢᵤngary	65.6	70.8	60.0	Germany (1995)	71.0	80.3	61.3
ᵢᵢnd	69.5	73.8	64.9	Portugal (1995)	70.8	80.2	61.9
ᵢ ᵢ ᵢania	75.8	80.7	70.5	Sweden (1995)	77.0	79.0	74.9
ᵢᵥakia	76.2	80. 9	71.2	Turkey (1995)	58.4	81.2	34.3
ᵢᵢenia	68.1	70.7	65.3	OECD Total (1995)	71.4	83.5	59.2

ᵢᵢᵉ Boeri et al (1998), Table 4.2.

Table 4. Changing Structure of Output and Employment in CEE Economies, 1989-1995

...originating in	Percentage point change in share of:	
	GDP	Employment
Agriculture		
Bulgaria	+2.0	+3.9
Czech Republic**	-0.7	-5.1
Hungary*	-3.7	-9.8
Poland*	-5.6	-7.0
Romania*	+6.2	+12.4
Slovakia	+0.1	-4.6
Slovenia*	+0.2	na
Industry		
Bulgaria	-28.0	-8.0
Czech Republic**	-14.9	-4.0
Hungary*	-2.7	-9.6
Poland*	-11.9	-3.4
Romania*	-20.5	-14.1
Slovakia	-27.1	-7.4
Slovenia*	- 9.2	na
Services		
Bulgaria	+26.0	+4.0
Czech Republic**	+14.2	+9.1
Hungary*	+ 6.4	+22.4
Poland*	+17.5	+10.4
Romania*	+14.3	+1.7
Slovakia	+27.0	+19.2
Slovenia*	+ 9.1	na

Source Boeri et al. (1998)

Table 5. Regional Unemployment: Hungary, Bulgaria, and Louisiana, USA

Hungary:	13.4	Bulgaria:	15.7	Louisiana (USA)	7.6
TransDanube	14.2	Sofia Town	8.8	Alexandria	7.3
Great Plain	17.6	Burgas	15.7	Baton Rouge	7.6
North East	22.5	Varna	11.3	Houma	7.1
North West	9.8	Lovetch	14.5	Lafayette	7.5
of which:		Michailovgrad	20.9	Lake Charles	8.6
Budapest	6.5	Plovdiv	19.6	Monroe	7.5
		Russe	20.7	New Orleans	7.7
		Sofia District	15.2	Shreveport/ Bossier City	7.5
		Haskovo	18.8		

Source: EEC (1993) and Louisiana Department of Labor. Data refer to registered unemployment in Bulgaria and Hungary (1993:2); labor force survey for Louisiana (August 1994). The example is taken from Burda (1996)

Table 6. Taxation in the CEE's, 1995-6

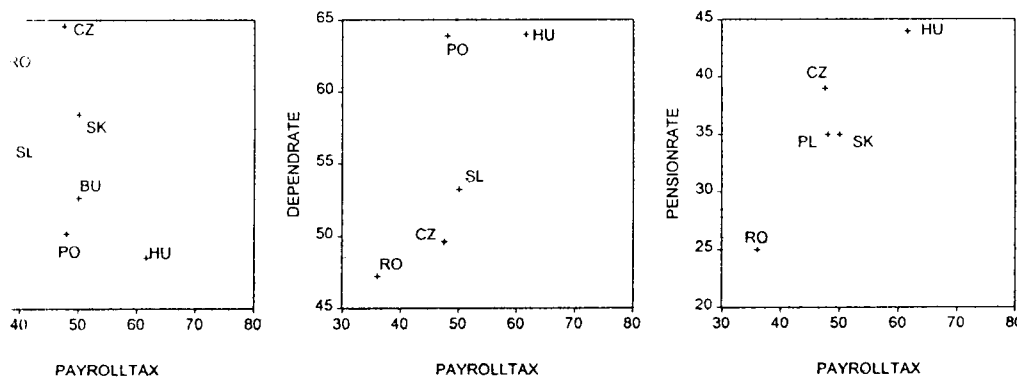| Payroll taxation	Personal income tax	Corporate profits tax	VAT or turnover tax (nonpref)	Govt spending %GDP 95	Social transfers %GDP 95
35-50%	20-50%	30-40%	22%		11%
50-70%	25-35%	25%	26.5%		
47.5%[a]	15-40%	39%	22%		
33%	26%	?	18%		
61.6%[b]	<48%	18%	25%		
48%[c]	21-45%	40%	22%		16%
36%[d]	<60%	38%[e]	18%		
50%[f]	42%	40%	23%		
38%[g]	17-50%	25%	20%		

.·) (1995, 1996), OECD Central and Eastern European Database
·yers,12.5% for employees
·nloyers, 11.5% for employees
· tax for Labour Fund
·ntributions 35%, employees pay 1%
· ·nies pay additional 6.2%
   for employers and employees, respectively
··tween employers and employees.

Table 7. Systemic Dependency Ratios (pensioners as % of contributors)

	1990	1991	1992	1993	1994
Bulgaria	55	65	78	80	84
Czech Republic	42	46	50	51	50
Hungary	47	50	58	66	64
Poland	40	45	49	53	54
Romania	34	38	43	49	58
Slovak Republic	39	45	50	53	55

Source: Boeri et al (1998)

Figure 3. Payroll Taxes, Employment Rates and Contribution Rates

Table 8. An Overview of Active and Passive Unemployment Policies in CEE Economies

Country	Active measures			Passive measures		
	Total Active Spending, (% of GDP)	Total inflows to programs (% of labor force)	ALMP Expd. per % point LF inflow (% of GDP)	Total Passive Spending, (% of GDP)	Unemploy-ment Rate, % (LFS)	GDP cost per % point unemploy-ment
Bulgaria (1993)	0.09	0.6	0.15	0.67	21.4 (1993:III)	0.03
CR (1993)	0.20	0.8	0.25	0.16	3.8 (1993:III)	0.04
Hungary (1993)	0.67	3.4	0.12	2.27	12.0 (1993:III)	0.19
Poland (1993)	0.36	5.7	0.06	1.82	13.1 (1993:III)	0.14
Slovakia (1993)	0.44	4.0	0.11	0.77	12.7 (1993:III)	0.06
Slovenia (1995)	0.68	11.0	0.06	0.75	7.4 (1995:II)	0.10
Sweden (1993-4)	2.98	15.2	0.20	2.77	9.7 (1993-4)	0.07
Spain (1994)	0.60	2.2	0.27	3.26	23.8 (1994)	0.14
UK (1993-4)	0.57	2.4	0.24	1.60	10.0 (1993-4)	0.16

Source: Boeri et al. (1998)

Table 9. Detail on Active and Passive Unemployment Policies

in CEE Economies (% of GDP)

Country	Active measures					Passive measures	
	PES	Labor Market Training	Subsidized Employ--ment	Measures for Disabled	Youth Measures	Unemploy-ment Benefits	Early Retirement
Bulgaria (1993)	0.07	0.01	--	--	--	0.67	--
CR (1993)	0.11	0.01	0.04	0.01	0.03	0.16	--
Hungary (1993)	0.16	0.11	0.29	--	0.11	2.16	0.11
Poland (1993)	0.02	0.03	0.19	0.04	0.08	1.67	0.15
Slovakia (1993)	0.11	0.03	0.27	0.02	0.02	0.55	0.22
Slovenia (1995)	0.13	0.08	0.36	0.04	0.07	0.75	--
OECD (1994)	0.10	0.20	0.10	0.10	0.10	1.00	0.10
EU and EFTA (1994)	0.20	0.30	0.20	0.20	0.20	1.80	0.20

Source: OECD (1996) Employment Outlook, OECD (1997a)

Table 10. Employment Protection Regulation in CEE Economies

Country	Law	Definition of mass redundancy	Required Consultation with empl. rep's	Advance Notice	Statutory Severance Pay
Bulgaria	Labour Code 1994 (Ch. 16,1)	Total or partial closing down of enterprise or staff cuts	yes	30 -90 days	up to 1 month, more if stipulated in collective agreements or labour contracts
Czech Republic	Labour Code 1993	Redundancies resulting from changing firm objective, new technical equip., increasing work efficiency, other organizational changes	yes	3 months	2 months' wages unless collective agreements state otherwise
Hungary	Labour Code 1992	Dismissals of 25% of employees or at least 50 people	yes	30-90 days depending on seniority	1 months' pay if job tenure was less than 3 years, up to 6 months' pay if job tenure exceeds 25 years
Poland	Act concerning termination of employment relationships for reasons connected with establishments (1989)	Dismissals of at least 10% of the staff in establishments up to 100 workers or at least 100 workers in establishments employing more than 1000 workers	yes	45 days	1 month's pay for seniority up to 10 years, 2 months' pay for seniority of 10-20 years, 3 months' pay for seniority >20 years + compulsory allowance for lower income workers in new job, up to 6 months
Romania	Labour Code 1994	Dismissal due to organizational changes, insolvency or reallocation	yes	15 days	at least 3 months' average wages, possibly extended depending on seniority and sector of employment
Slovakia	- Act No. 195/1991, Col. on severance pay after termination of labour contract, - Labour Code (Act No. 451/1992 Col.) - Act. No. 387/1996 on employment	at least 10 employees in a firm with 20-99 employees, at least 10% of employees in a firm with 100-299 employees, at least 30 employees in a firm with >299 employees	yes	3 months	2 months' wages, possibly extended up to 5 months' wages on the basis of collective agreement or an internal instruction of the employer
Slovenia	Labour Code	Following temp. redundancy of up to 6 months (at reduced pay), no numerical limits	yes	6 months	for employees with least two years' tenure: at least one half of the wage during the last three months, for each year of prev. employment

Sources: Boeri, et al. (1998)

Table 11. Labor Market Measures in the European Social Charter

Social welfare European Social Charter (ESC), Turin (1961) I.14	"Everyone has the right to benefit from social welfare services"
Conditions of work (Art. 2) Amendments to the ESC, Strasbourg May 1996	Parties agree to provide: "reasonable daily and weekly working hours" "for public holidays with pay" "for a minimum of four weeks' annual holiday with pay" "a day of rest" "that workers performing night work benefit from measures which take account of the special nature of the work"
Severance protection (Art. 24) Amendments to the ESC, Strasbourg May 1996	Parties agree to recognize: "the right of all workers not to have their employment terminated without valid reasons for such termination connected with their capacity or conduct or based on the operational requirements of the undertaking, establishment or service" "the right of workers whose employment is terminated without a valid reason to adequate compensation or other appropriate relief." to ensure: that the a worker who considers that his employment has been terminated without a valid reason shall have the right to appeal to an impartial body"
Protection from the consequences of Bankruptcy (Art. 25) Amendments to the ESC, Strasbourg May 1996	Parties agree to recognize: "that workers' claims arising from contracts of employment or employment relationships be guaranteed by a guarantee institution or by any other effective form of protection"
Rights of Workers' Representatives (Art. 28) Amendments to the ESC, Strasbourg May 1996	Parties agree to undertake that workers representatives: "enjoy effective protection against acts prejudicial to them, including dismissal based on their status or activities" "are afforded such facilities as may be appropriate in order to enable them to carry out their functions promptly and efficiently"

Source: Council of Europe, European Social Charter (revised); Additional Protocols

Table 12. Accessions and Applications to Entry into the EEC/EU

Country	Date of First Application	Date of Accession
UK	10.05.1967	01.01.1973
Ireland	10.05.1967	01.01.1973
Denmark	11.05.1967	01.01.1973
Greece	12.06.1975	01.01.1981
Portugal	28.03.1977	01.01.1986
Spain	28.07.1977	01.01.1986
Austria	17.07.1989	01.01.1995
Sweden	01.07.1991	01.01.1995
Finland	18.03.1992	01.01.1995

Source: W. Weidenfels and W. Wessels (eds.). *Europa von A-Z,* 5th ed., 1995, Bonn: Europa Union Verlag
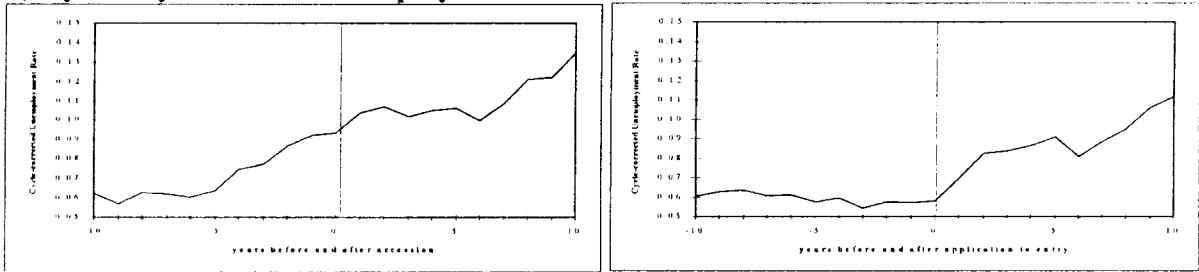
Table 13. Unemployment and Employment Growth Rate Regressions,
1964:1996 (unemployment) and 1966-1997est. (employment growth)

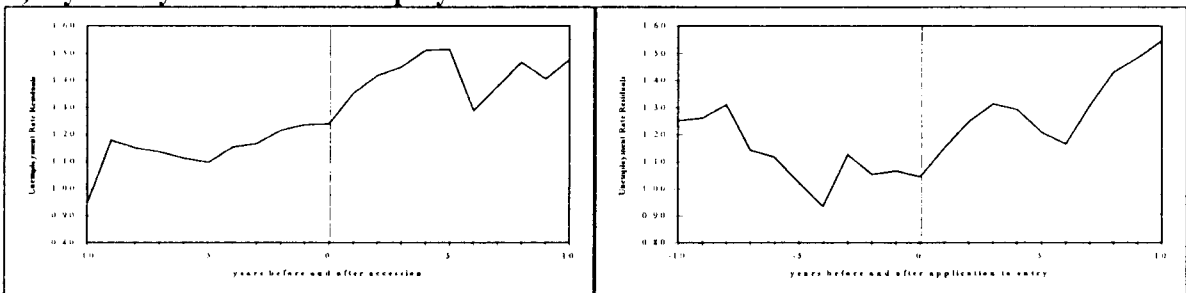| Trend	$\eta_{it}^{(1)} = u_{it}/u_{it}^{core}$				$\eta_{it}^{(2)} = e_{it} - e_{it}^{core}$			
	(1) linear, square, cubic time trend	(2) linear, square time trend	(3) linear, square, cubic time trend	(4) linear, square time trend	(a) linear, square, cubic time trend	(b) linear, square time trend	(c) linear, square, cubic time trend	(d) linear, square time trend
Constant	1.926**	1.224**	1.847**	1.333**	0.015	-0.006	0.014	-0.007
	(0.362)	(0.206)	(0.363)	(0.206)	(0.038)	(0.016)	(0.038)	(0.017)
g_{it}	-1.764**	-2.082**	-1.760**	-2.013**	0.162**	0.172**	0.162**	0.172**
	(0.536)	(0.606)	(0.533)	(0.596)	(0.040)	(0.040)	(0.040)	(0.040)
g_{it-1}	-2.796**	-2.921**	-2.807**	-2.880**	0.117**	0.122**	0.116**	0.122**
	(0.526)	(0.600)	(0.523)	(0.590)	(0.041)	(0.041)	(0.041)	(0.041)
g_{it-2}	-2.827**	-3.048**	-2.797**	-2.897**	0.080*	0.084**	0.080*	0.083**
	(0.537)	(0.600)	(0.535)	(0.592)	(0.041)	(0.040)	(0.041)	(0.040)
Δp_{it}	0.141*	0.204**	0.140*	0.227**	-0.004	-0.002	-0.004	-0.003
	(0.073)	(0.065)	(0.073)	(0.064)	(0.005)	(0.005)	(0.005)	(0.005)
Δc_{it}	0.092	0.225**	0.101	0.241**	0.010*	0.009**	0.010*	0.009**
	(0.069)	(0.065)	(0.068)	(0.064)	(0.005)	(0.004)	(0.005)	(0.004)
$cons_{it}$			0.115*	0.166**			0.002	-0.0003
			(0.059)	(0.052)			(0.004)	(0.004)
Adj. R^2	0.873	0.838	0.875	0.839	0.222	0.215	0.222	0.212
# of obs.	296	296	296	296	288	288	288	288

Note: * denotes significance at a 10% level, ** at 5%. Standard errors in parentheses. Estimated coefficients on time trends not reported. Source: Boeri, et al. (1998)

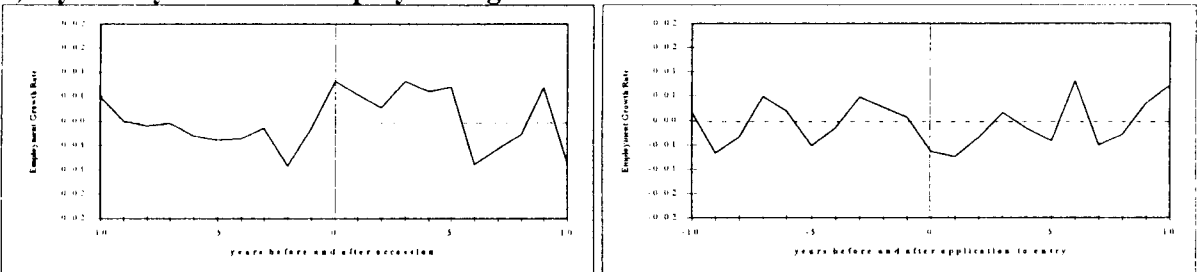# Figure 4. Labour Market Performance and EU Accession

a) Cyclically-corrected unemployment rate

b) Cyclically corrected unemployment rate relative to EU-Core

c) Cyclically corrected employment growth
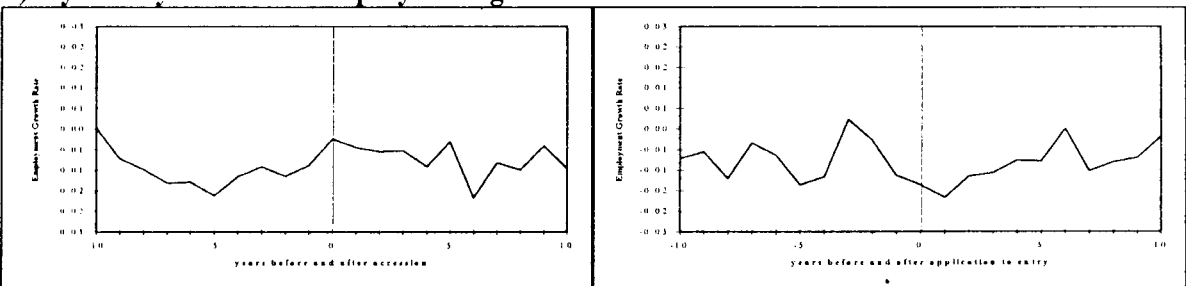

d) Cyclically corrected employment growth relative to EU-Core

Figure A1. Unemployment rates