ARITAKE-WILD

JOINT PROJECT OF THE EUROPEAN SOCIAL PARTNER ORGANISATIONS

"STUDY ON RESTRUCTURING IN NEW MEMBER STATES"

FINAL REPORT

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July 2006

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Final Report

1. Project overview

The work programme of the European Social Partners for the years 2003 to 2005 contained the commitment to undertake a study on restructuring in what were the then ten candidate countries of Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. The intention of the Social Partners to carry out the study was confirmed in a joint letter accompanying the "Orientations for Reference in Managing Change and its Social Consequences" sent to the EU Commission.

The ten new Member States studied faced a series of complex problems. Eight of the ten countries are young market economies that have gone through 15 years of dramatic, and often traumatic, economic transition. This adjustment continues in each country to a greater or lesser extent. All of the countries involved were striving to cope with the requirements of their accession into the European Union whilst dealing with the challenges of globalisation, technological development, modernisation of work organisation and privatisation. The objective of the European Social Partners in undertaking this study was to capture this unique period of experience in a manner that would influence the European social policy agenda and the future joint work of the Social Partners.

2. Methodology

The project was organised in three phases;

- ◊ *Phase one* - Preparation by selected experts of draft national dossiers; discussion of the relevant national dossier in a seminar held in each of the ten countries studied; and finalisation of the dossiers:

- ◊ *Phase two* - Preparation of a synthesis report based on the most important themes emerging in the finalised national dossiers ; and design and management of the interactive "Project Synthesis Seminar" held in Brussels on 26th and 27th June 2006;

- ◊ *Phase three* - Preparation of a final report (this report) for discussion in the EU Social Dialogue Committee with the purpose of identifying priority issues for the EU and its social partners.

Phase one
The draft national dossiers were prepared and the national seminars completed on schedule by the end of April 2006. The national dossiers describe the main economic

challenges facing each country and provide case study evidence of restructuring programmes. In total, more than 250 representatives of the national social partners in the new Member States participated directly in the national seminars. The views of the participants were included in the completed national dossiers, which are available on the websites of the employers and trade union resource centres and hosted by UNICE and ETUC. The national seminars were arranged as follows;

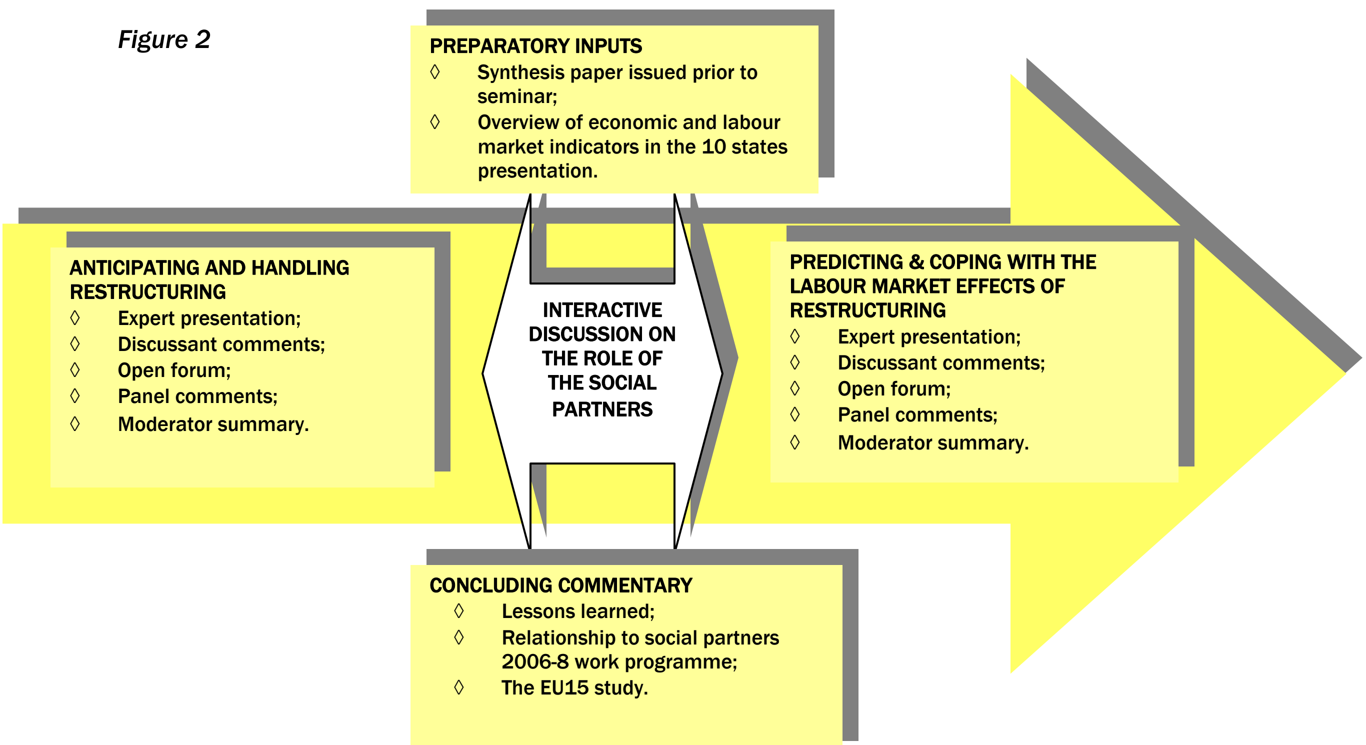
Figure 1

Malta	13 April 2005	Poland	16 Nov 2005
Lithuania	26 May 2005	Slovakia	2 Feb 2006
Czech Republic	22 Jun 2005	Slovenia	16 Feb 2006
Cyprus	8 Sept 2005	Estonia	30 March 2006
Hungary	5 Oct 2005	Latvia	27 April 2006

Phase two

A draft synthesis report provided the main input for the "Project Synthesis Seminar" held in Brussels on 26th and 27th June 2006. It summarised and arranged the broad themes arising during the ten national seminars in a manner designed to provoke discussion on the role of the social partners in restructuring in the new Member States. Using discussant presentations, panellist input and general discussion (see below), the views of more than 170 participants drawn from each of the European Union's 25 Member States was reflected in the final report.

Figure 2



Phase three
This final report will be presented to the EU Social Dialogue Committee in November 2006. The committee will use the report to identify priority issues for the European Union and for the Social Partners.

3. Summary of key economic and labour market indicators in the ten countries studied

It is assumed that most readers of this report will not be familiar with economic and labour market data relating to all of the ten new Member States studied. This section of the report is designed to provide sufficient background information on the countries studied to enable an informed discussion on the of the two main themes emerging from the national seminars and described in sections five and six below;

◊ "*Anticipating and handling restructuring*"; and

◊ "*Predicting and coping with the labour market effects of restructuring*".

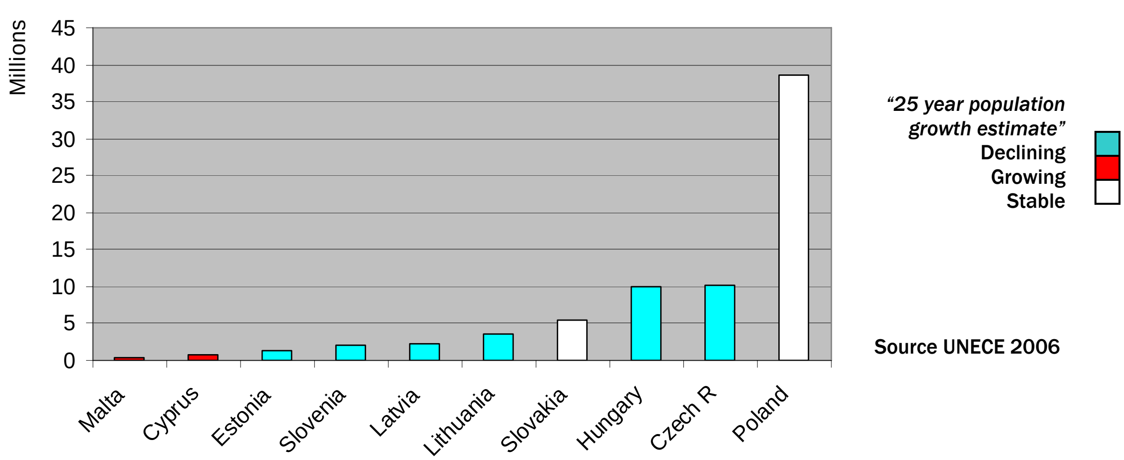
The economic and labour market data is presented in three sections;

1. Comparative demographic and economic data;
2. Comparative labour market indicators;
3. The structure of industry and foreign direct investment.

A. Comparative demographic and economic data;

Population
The variation in population size between the ten countries is vast. At one extreme Malta has less than half a million inhabitants. At the other, Poland has almost 40 millions.

Figure 3 Total population by country



Whilst the populations of Cyprus and Malta are growing, the 25 year growth estimates for Estonia, Slovenia, Latvia, Lithuania, Hungary and the Czech Republic are for long term population decline. At the same time, the population of each of the ten countries is ageing. Poland, Cyprus & Hungary (below) are examples of populations ageing in the context of stable, expanding and decreasing overall size respectively;

Figure 4
Poland - population forecast 2000-2030

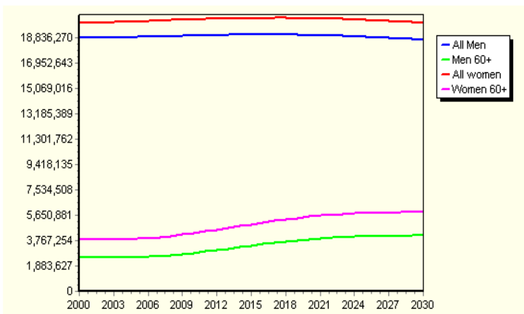


Figure 5
Hungary - population forecast 2000-2030

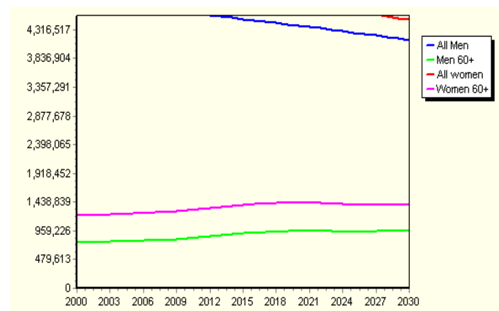
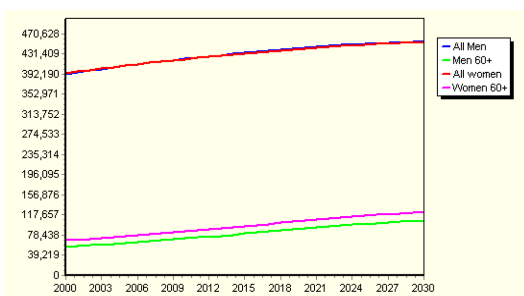


Figure 6
Cyprus - population forecast 2000-2030



Source UNECE 2006

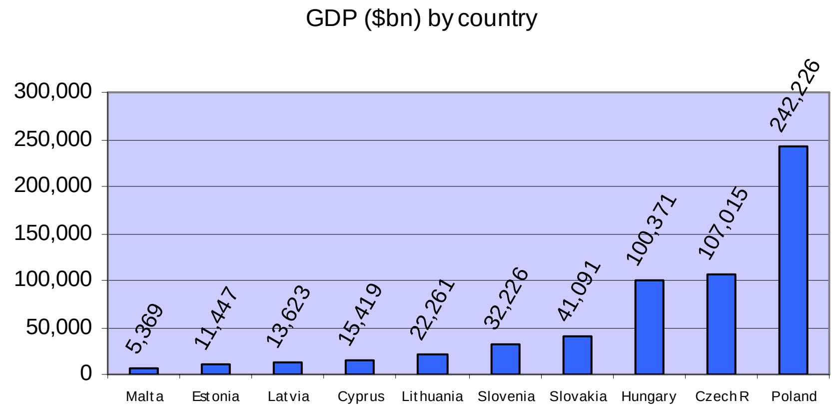
In the context of population change, inward and outward migration flows are, to varying extents, important for the labour markets of each of the new Member States. Large wage and standard of living differences in narrow geography combine with more open borders to drive a variety of migration flows. Four broad categories of migration can be identified: "Brain drain" (Estonian doctors to Finland and Sweden); "Muscle drain" (Cross border construction and motor workers); "Youth drain" (from most countries, often to Ireland and the UK); and in the opposite direction, "Extra EU infill" (legal, quasi legal and illegal inflows into the new Member States, often from the Ukraine, Belarus, Russia, the Balkans and South Asia).

In the Baltic States hiring problems are being experienced and concerns expressed about potential constraints on economic growth due to simultaneous "muscle", "brain" and "youth" migration. In Cyprus, acute labour shortages have provoked debate on the subject of loosening inward migration controls. Although migration from the largest of the study countries, Poland, is at a high level, its effects are largely offset by the size of the domestic labour force and current high levels of unemployment (see figure 21 below).

GDP

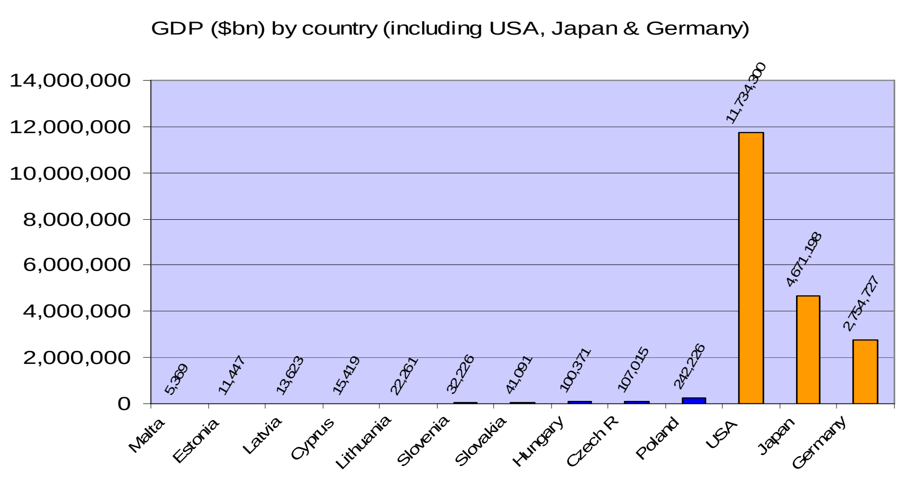
As with population, differences in GDP are pronounced, the Polish economy being more than twice the size of the second largest new Member State, the Czech Republic.

Figure 7



Source IMF 2004

Figure 8

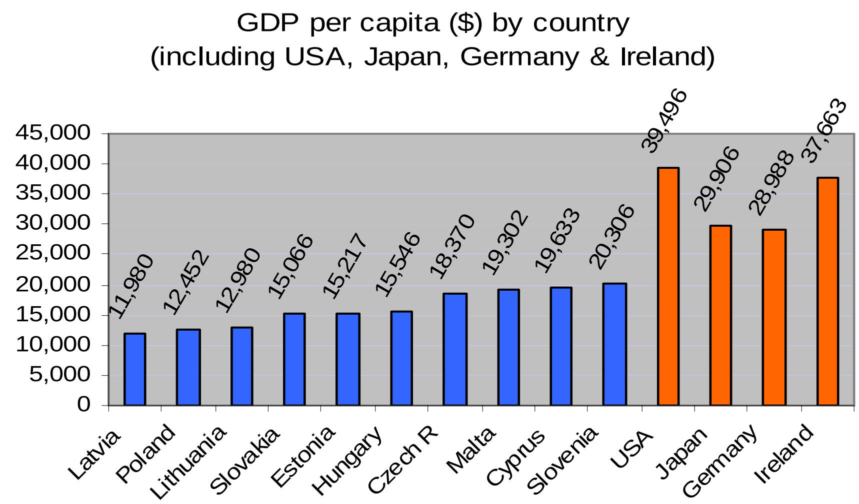


Source IMF 2004

The GDP figures for the new Member States are only put into perspective when they are compared to economies like the US, Japan and Germany. In this context, the new Member State "ten" all but disappear in the scaling on the graph (Figure 8 above).

When GDP per capita figures are considered, the gaps close significantly and certain of the smaller countries such as Cyprus, Malta and Slovenia, perform very well. The following table (Figure 9) shows the GDP per capita of the new Member States alongside that of the US, Japan, Germany and the Republic of Ireland.

Figure 9

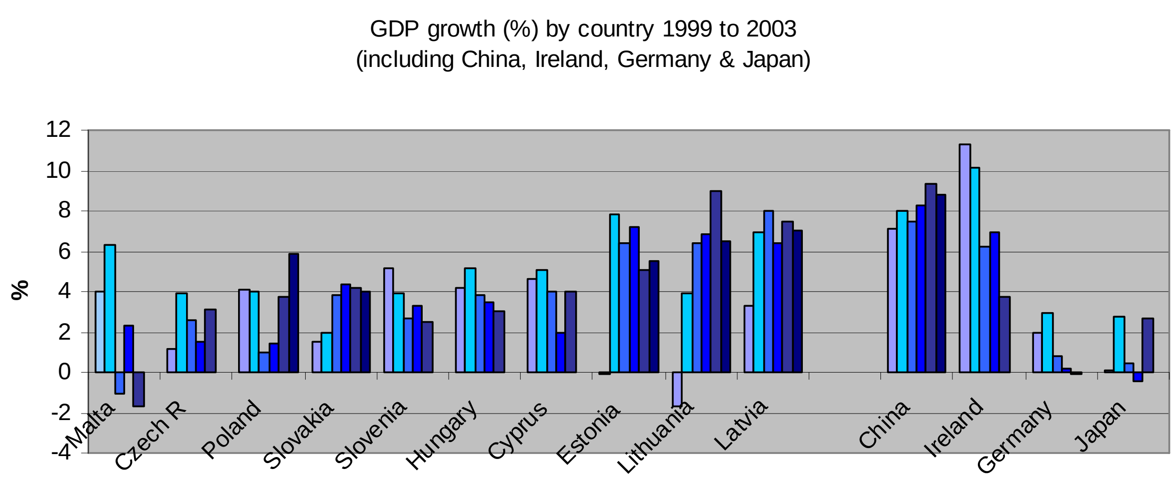


Source IMF 2005

Economic Growth & Development
Three selected dynamic measures of growth and development are illustrated below; GDP growth; UNDP Human Development rankings; and WEF competitiveness rankings. They show the massive progress made in growth and development in recent years by most of the new Member States.

GDP growth from 1999 to 2004 (figure 10 below) compares that achieved by the ten new Member States against the "growth phenomena" of China and the Republic of Ireland on the one hand, and the more modest achievements of Germany and Japan on the other. Recent GDP growth in the Baltic States has been particularly impressive.

Figure 10



Source IMF 2005

UNDP human development report rankings measure the length and health of life; knowledge; and standard of living in most countries in the world. During the period 1992 to 2003 (the data reported in the latest 2005 HRD report) every one of the sample countries increased their Human Development Index score. Most countries improved their place in the world rankings, in the cases of Lithuania, Poland, Hungary and Slovenia, quite spectacularly.

Figure 11

UNDP Human Development Report rankings (using HDR Index scores)					
+/- 1992 to 2003	2005 report [1] (rank order)			1995 report[2] (rank order)	
+11	Slovenia	26		Cyprus	23
-6	Cyprus	29		Malta	34
+7	Czech Republic	31		Slovenia	37[3]
+2	Malta	32		Czech Republic	38
+15	Hungary	35		Slovakia	42[4]
+15	Poland	36		Estonia	43
+5	Estonia	38		Latvia	48
+32	Lithuania	39		Hungary	50
-	Slovakia	42		Poland	51
-	Latvia	48		Lithuania	71

Source UNDP 1995 and 2005

By the year 2005 Estonia had risen to number 20 in the World Economic Forum competitiveness rankings. The World Bank rated Estonia higher than eight of the "EU15".

Figure 12

World Economic Forum Growth competitiveness rankings 2005		
Country	2005 rank	2004 – 2005
Finland	1	►
United States	2	►
Sweden	3	►
Denmark	4	▲
Taiwan	5	▼
Japan	12	▼
Germany	15	▼
Estonia	20	►
Austria	21	▼
Slovenia	32	▲
Cyprus	34	▲
Malta	35	▼
Czech Republic	38	▲
Hungary	39	►
Slovakia	41	▲
Lithuania	43	▼
Latvia	44	►
Italy	47	►
Poland	51	▲

Source WEF 2005

[1] 2003 data
[2] 1992 data
[3] 1995 data
[4] 1995 data

Maastricht and Lisbon

Maastricht - Only Poland of the new Member States has no formal target date for use of the Euro. Three states, Estonia, Slovenia and Lithuania targeted 2007 for entry, having completed two years as members of ERM11 by June 2006. Cyprus, Malta and Latvia targeted 2008, Slovakia 2009, and the larger economies of the Czech Republic and Hungary, 2010. The chart below shows their mid 2005 performance against the Maastricht convergence criteria reference values.

Of the three countries planning entry in 2007, a decision was made on 16th May 2006 to allow Slovenia to join the Euro zone. The application of Lithuania was rejected due to the prevailing rate of inflation being marginally above the upper limit. Estonia reviewed their target date of 2007, again due to inflation figures, and now look to a new date of 1st January 2008 for full membership. Clearly from the data, the Hungarian and Polish economies are struggling to converge.

Figure 13

Country	Inflation (Jn04 – Jun05)	Govt deficit (% of GDP)	Govt debt (% of GDP)	ERMII
Maastricht ref value	*2.3*	*-3.0*	*60.0*	
Cyprus	2.5	-4.1	71.9	April 2005
Czech Republic	2.1	-3.0	37.4	
Estonia	4.1	+1.8	4.9	June 2004
Hungary	5.0	-5.4	60.4	
Latvia	7.0	-0.7	14.3	May 2005
X Lithuania X	2.7	-2.5	19.7	June 2004
Malta	2.4	-5.2	75.0	May 2005
Poland	3.8	-6.8	47.7	
Slovakia	4.5	-3.3	43.6	Nov 2005
√ Slovenia √	3.0	-1.9	29.4	June 2004

Source Eurostat & Fitch Ratings

Lisbon - The World Economic Forum has taken the Lisbon strategy objectives relating to information society, innovation and R&D, liberalisation, network industries, efficient and integrated financial services, enterprise environment, social inclusion and sustainable debt and ranked the world's economies in terms of achievement. 24 of the 25 EU member states[5] perform as follows marked against a maximum potential score of 10.

Figure 14

World Economic Forum "Lisbon rankings" (max score 10)					
Finland	5.8	Austria	4.94	Portugal	4.25
Denmark	5.63	Belgium	4.88	Malta	4.2
Sweden	5.62	Ireland	4.69	Czech Republic	4.16
UK	5.3	Estonia	4.64	Hungary	4.12
The Netherlands	5.21	Spain	4.47	Lithuania	4.05
Germany	5.18	Italy	4.38	Greece	4.0
Luxembourg	5.14	Slovenia	4.36	Slovakia	3.89
France	5.03	Latvia	4.34	Poland	3.68

Source WEF 2005

[5] Cyprus is not included in the WEF Lisbon index

As an interesting benchmark, the USA would have come 4th in both the “European” and “World” leagues with an index score of 5.55.

B. Comparative labour market indicators;

Employment rates

Overall employment rates (Eurostat 2004) are highest in Cyprus (69.2%), Slovakia (67%) and Slovenia (65.3%) and lowest in Hungary (56.8%), Malta (54.1%) and Poland at just 51.7%. Employment rates are affected by a number of issues not directly associated with the performance of the economy. Both the economic behaviour of women and the extent of undeclared work are good examples of factors that can inflate or reduce the overall employment rate in a country. Notably, the very low employment rate of women in Malta (Figure 16 below) is the reason for the national figure (54.1%) being the second lowest in the European Union. Hungary’s employment rate (56.8%) is generally believed to be affected by high levels of undeclared work, whilst Poland is unfortunate enough to combine the lowest employment rate in the European Union (51.7%) with the highest rate of unemployment (Figure 22 below).

The employment rates of the population by gender and age are essentially similar for each of the CEECs. Women are marginally less active in the workforce than men at all ages, and particularly so between the ages of 24 to 40 when families are being raised. Employment rates in middle age of around 90% are normal, and the male activity rate starts to tail off extremely quickly at age 50. The Polish graph below illustrates the typical shape, albeit at a low general level of participation, of the working population in a CEEC country. By contrast, Cyprus and Malta show markedly different profiles, with the participation rates of women being particularly, and persistently, low after the age of 24. This phenomenon is most marked in Malta.

Figure 15

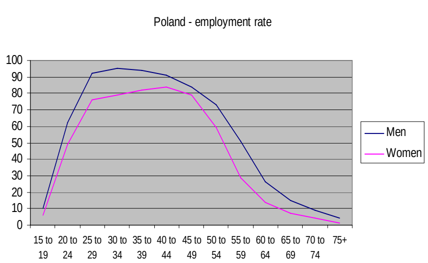


Figure 16

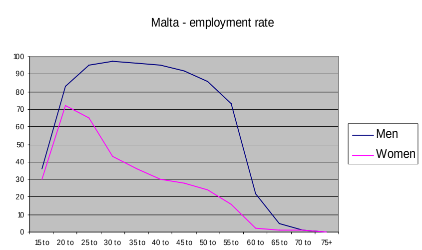
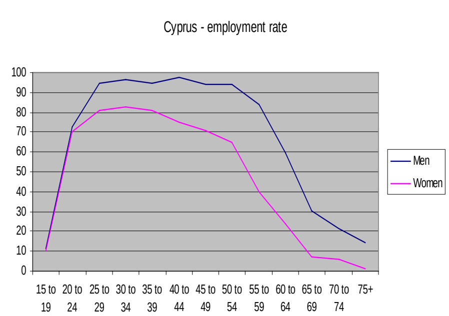


Figure 17

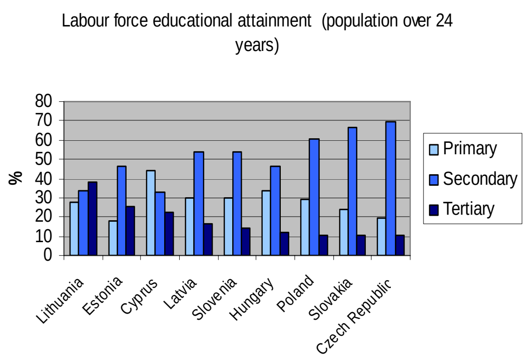


Source ILO (2004)

Educational attainment

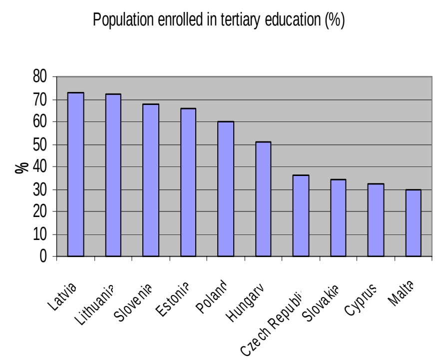
Figures 18 and 19 below provide an insight into the education levels of the current and future workforce of the study countries. The education level of the current workforce, defined as that attained by the general population of the country over the age of 24, varies widely country by country. Whilst more than 20% of Lithuanians, Estonians and Cypriots have attended tertiary level education, the same attainment in Poland, Slovakia and the Czech Republic is only achieved by around 10% of the population.

Figure 18



UNECE from Eurostat 2003

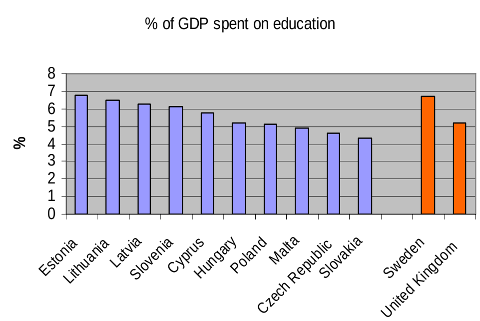
Figure 19



UNESCO 2003

Looking to the future workforce, the percentage of the population enrolled in tertiary education in Latvia, Lithuania, Slovenia, Estonia and Poland is over 60%. The Czech Republic, Slovakia, Malta and Cyprus reach only a half of this number of enrolments. Ongoing investment is captured in figure 20 showing the proportion of GDP spent on education. The Baltic States and Slovenia compare favourably with Swedish levels of spending. Cyprus, Hungary, Poland and Malta compare broadly with UK levels, with the lowest investment in education being in the Czech Republic and Slovakia.

Figure 20



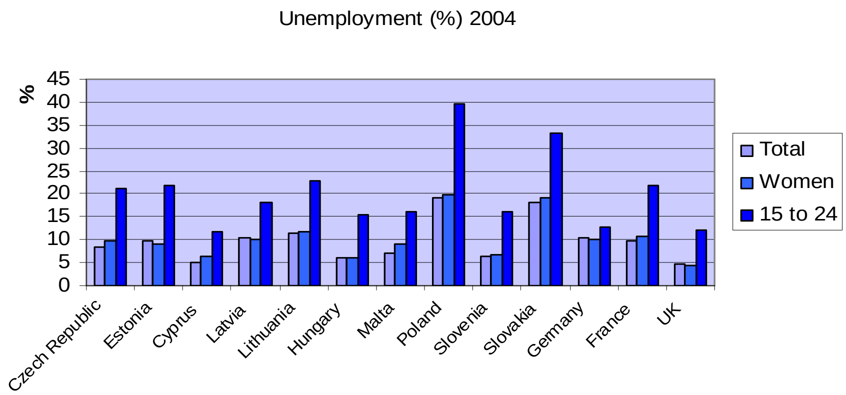
UNECE from UNESCO (data between 1998 & 2000)

Unemployment

Unemployment rates vary widely country by country (figure 21 below). The general rate of unemployment is low in Cyprus, Malta and Hungary. Unemployment is typically at or below the prevailing rates in Germany and France in the other new Member States. The notable exceptions to this are Slovakia and Poland where the general rate exceeds 15%. In most of the survey countries, the structure of unemployment is characterised by wide regional differences.

In all countries there is little difference in the rate of unemployment between men and women but the phenomenon of youth unemployment exists throughout the new Member States. Typically those under 24 have an unemployment rate more than double that of the general population. It was suggested in the national seminars that the data on youth unemployment in the tighter labour markets of the Baltic States might be affected significantly by high levels of outward migration of young people who remain officially "unemployed" at home.

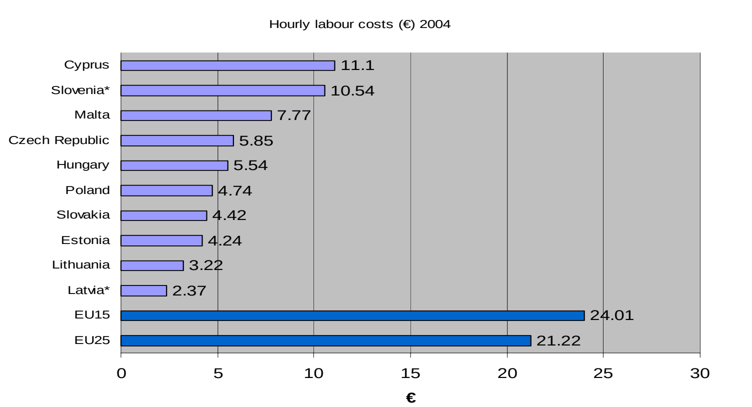
Figure 21



Source FinFacts

Labour costs
Hourly wage rates in Central and Eastern Europe are low in Western terms. Hourly wages in Latvia are less than one tenth of the "EU15" average. Wages in Cyprus and Slovenia are significantly higher than in the other member states but still less than a half of the "EU 15" average.

Figure 22

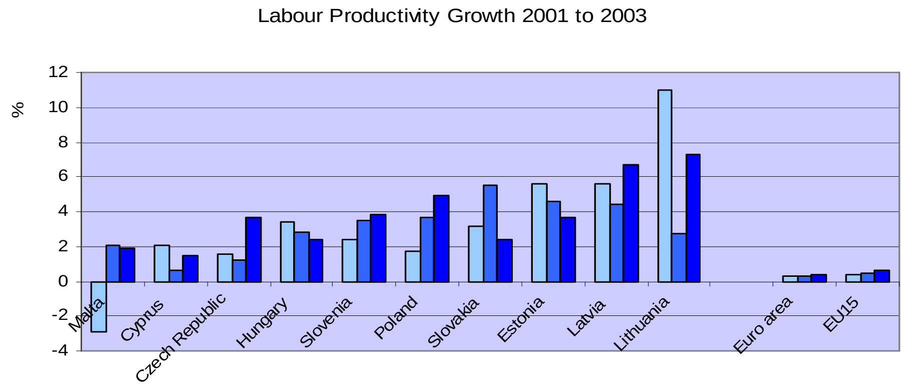


Source Eurostat *2003 data

Productivity
The chart below shows the rates of labour productivity growth in the new Member States between the years 2001 and 2003. Fastest growth is recorded in the Baltic States and the

slowest in Malta and Cyprus. In all cases however productivity growth outstrips that over the same period in the both Euro area and in the "EU15". For a more complete picture of labour competitiveness, the productivity data in figure 23 below must be combined with the wage data above (figure 22).

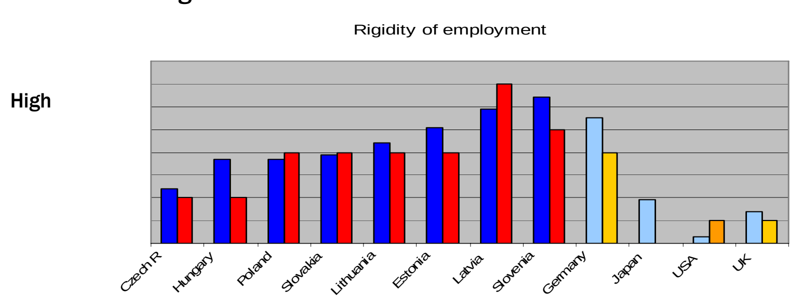
Figure 23



Source AMECO database

Labour law
Of particular interest in the discussion of each of the national dossiers was the real or perceived difference in "rigidity" of labour practices and the "weight" of the labour code. It was generally felt in the meetings that labour market rigidities were high in countries like Slovenia and low in others like Estonia. The World Bank has recently undertaken an international study of "doing business" in most economies in the world, and a part of their index relates to what they call "rigidity of employment". The World Bank index of rigidity is based upon the "difficulties of hiring new workers", "restrictions on expanding or contracting working hours" and the "difficulty and expense of dismissing redundant workers".
In the table below, the left column represents the composite rigidity index, and the right column shows the scores for "difficulty and expense of dismissing redundant workers" staff. Scores in the new Member States are benchmarked against Germany, Japan, the USA and the UK.

Figure 24



Source World Bank "Doing Business" database

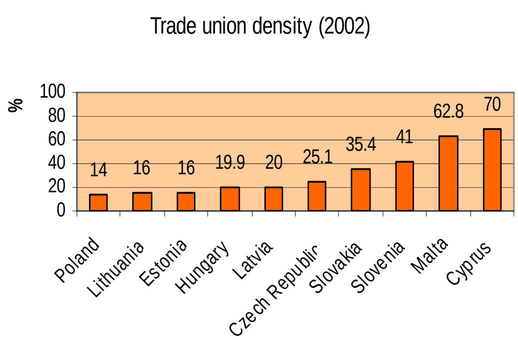
It is worth noting that the World Bank analysis relates primarily to the published labour code rather than to the extent to which the code is effectively implemented. The extent to which employment rigidities are "actually applied" or "technically exist but are not strictly applied" influence the extensive use of temporary and short term contracts in Slovenia for the former reason and on the large relative size of the undeclared labour force in Latvia for the latter.

The social partners and collective bargaining

Trade union membership is at its highest in Cyprus where membership density, at 70%, approaches "Nordic" levels. At the other extreme, density is below 20% in Poland, Lithuania, Estonia, Hungary and Latvia. These membership levels are generally reflected in the coverage of collective bargaining (figure 26). The most interesting feature of collective bargaining in the new member States is that it takes place predominantly at the company level (other than in Slovenia and Slovakia). The "EU15" emphasis on sectoral bargaining is not a current feature of industrial relations systems in the new Member States. In certain countries (Slovakia and Hungary), sectoral social dialogue is increasing in importance and in Estonia, Hungary and Lithuania the national minimum wage is determined as a result of tripartite dialogue at national level.

Relative to membership density, collective bargaining coverage is extraordinarily high in Slovenia. This exceptional 100% figure is due to the recently abolished laws requiring mandatory membership of certain employers' organisations and the national negotiating system. In Poland membership density rates of around 15% translate into an approximated 40% collective bargaining coverage. As in the "EU15", the direct translation of membership density into collective bargaining coverage is affected significantly by national approaches to the extension of collective agreements.

Figure 25



Source EIRO

Figure 26

COLLECTIVE BARGAINING – NATURE & COVERAGE		
	Dominant bargaining form	Estimated coverage
Slovenia	National	100%
Cyprus	Company	70%
Malta	Company	50%
Slovakia	Sector	48%
Poland	Company	40%
Hungary	Company	31%
Czech Republic	Company	30%
Latvia	Company	20%
Estonia	Company	20%
Lithuania	Company	15%

Source ILO

Employers' organisations, in their accepted form today, did not exist in seven of the study countries until the early 1990s. Unlike the case of trade unions, there is no ready and reliable source of data relating to the membership levels of employers' organisations. It is known that membership density is highest in Slovenia (membership of the "chambers" was until very recently mandatory), and generally high in Malta and Cyprus. Density levels are generally low elsewhere and in certain cases (Hungary and Slovakia) there are multiple organisations representing similar populations.

C. *The structure of industry and foreign direct investment;*

Structure of Industry

The following series of "economy cameos" show for each of the ten countries studied, the make-up of GDP between agriculture, industry and services; the split of employment in the same categories and a listing of the five major exports and imports from each country.

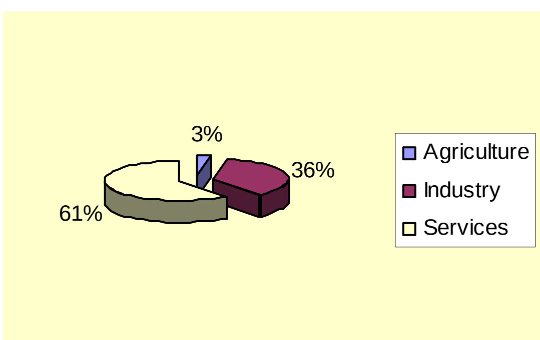
The data show wide variations in the nature of the ten economies. Cyprus and Malta are dominated by the service sector (more than 70% of GDP), with tourism and banking being particularly important. The Czech Republic economy has the highest concentration of GDP and employment in the industrial sector (40%) and Poland has the largest agricultural population by some distance with 19% of the workforce employed on the land.

The data on traded commodities show the importance of the motor industry to the economies of Slovenia, Slovakia, Poland and the Czech Republic. Higher technology exports are more dominant in Estonia, Hungary and Malta and the continuing influence of wood and wood based products on the Baltic States is clear. On the import side, energy and material inputs relating to the economy's most important products dominate. Lithuania's important role as a conduit state for petrol and oil products is clear. The high economic dependence on particular and specific sectors (Slovakia and the motor industry; Slovenia and the motor industry and domestic appliances; Cyprus and tourism) increases the vulnerability of these national economies to "single sector shocks".

Figure 27

SLOVENIA

GDP by major economic sector



Main external trade commodities (% of total) 2000			
Exports		Imports	
Cars	8.6	Petrol/oil	6.4
Furniture	6.7	Cars	4.8
Domestic equipment	5.7	Vehicle parts	3.9
Medicaments	4.3	Telecoms equp't	2.0
Paper & board	3.2	Aluminium	2.0

Employment by major economic sector

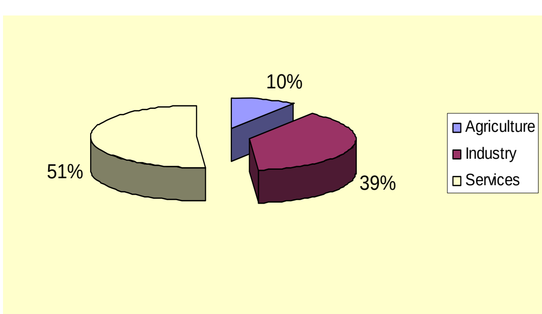
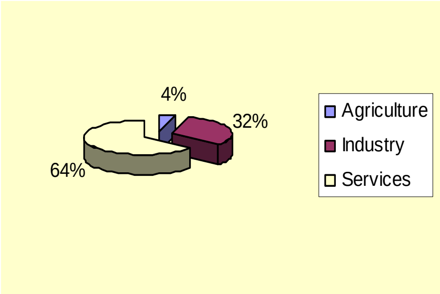
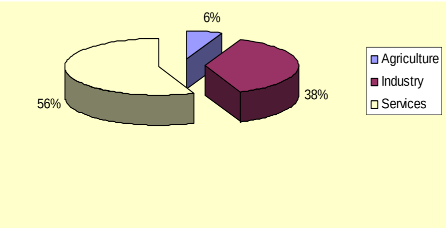


Figure 28
SLOVAKIA

GDP by major economic sector



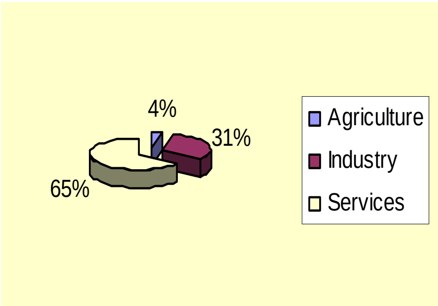
Employment by major economic sector



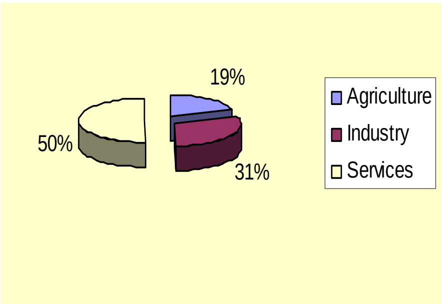
Main external trade commodities (% of total) 2000			
Exports		Imports	
Cars	16.3	Petrol/oil	7.9
Petrol/oil	6.5	Natural gas	6.9
Iron/steel rolled products	5.4	Vehicle parts	6.8
Vehicle parts	3.6	Cars	2.7
Electrical equp't	2.7	Medicaments	2.4

Figure 29
POLAND

GDP by major economic sector



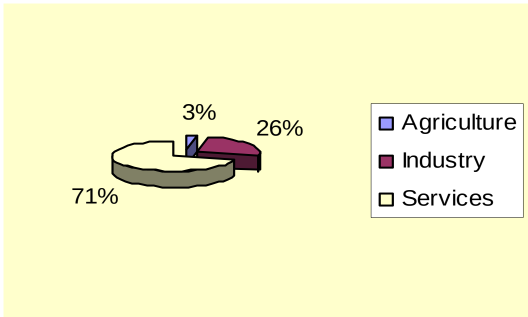
Employment by major economic sector



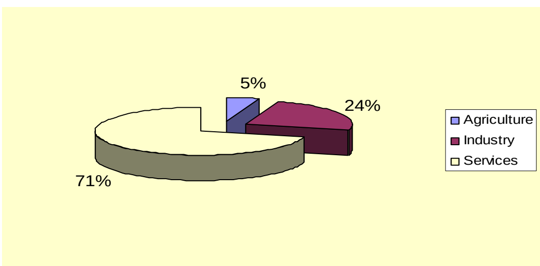
Main external trade commodities (% of total) 2000			
Exports		Imports	
Furniture	6.9	Petrol/oil	7.1
Cars	4.6	Cars	3.5
Engines	4.0	Telecoms equp't	3.4
Ships/boats	3.3	Vehicle parts	3.1
Vehicle parts	2.5	Medicaments	2.8

Figure 30
MALTA

GDP by major economic sector



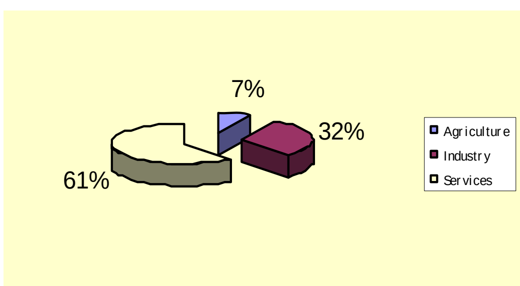
Employment by major economic sector



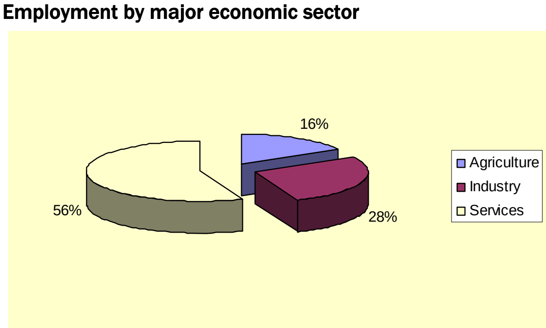
Main external trade commodities (% of total) 2000			
Exports		Imports	
Valves/ transistors	68.1	Valves/ transistors	38.5
Clothes	5.4	Petrol/oil	7.0
Electric c'ct equipment	2.8	Cars	3.0
Toys & games	2.3	Measure/control equp't	2.4
Rubber goods	2.3	Metalworking machines	1.7

Figure 31
LITHUANIA

GDP by major economic sector



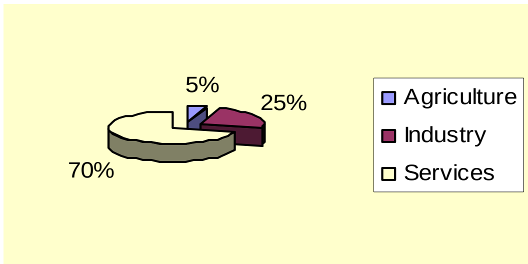
Employment by major economic sector



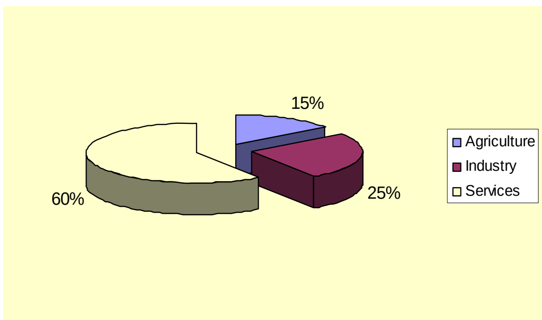
Main external trade commodities (% of total) 2000			
Exports		Imports	
Petrol/oil	17.5	Petrol/oil	16.7
Clothing	5.4	Cars	4.0
Fertilisers	5.1	Natural gas	3.4
Furniture	3.5	Medicaments	3.1
Valves/ transistors	3.3	Special transactions	2.7

Figure 32
LATVIA

GDP by major economic sector



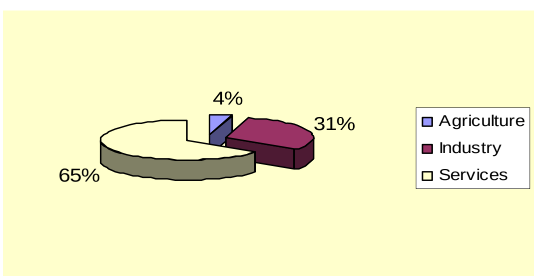
Employment by major economic sector



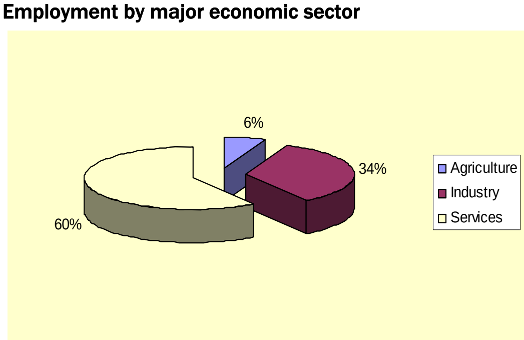
Main external trade commodities (% of total) 2000			
Exports		Imports	
Wood (simply worked)	21.8	Petrol/oil	7.0
Wood (rough)	6.3	Medicaments	3.8
Iron/steel bars	6.3	Cars	3.2
Furniture	4.5	Natural gas	3.0
Veneer/plywood	4.4	Telecoms equp't	2.6

Figure 33
HUNGARY

GDP by major economic sector



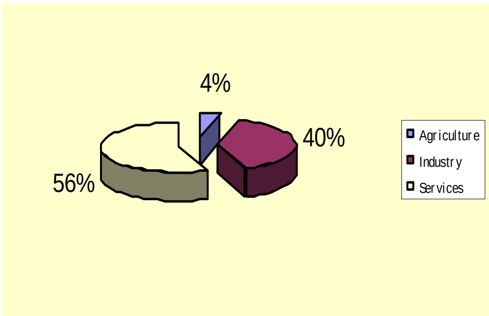
Employment by major economic sector



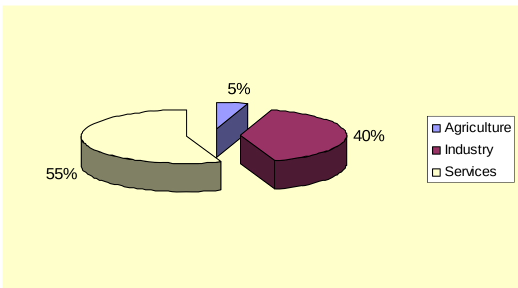
Main external trade commodities (% of total) 2000			
Exports		Imports	
Engines	9.2	Office Equp't	5.6
Computer Equp't	8.4	Valves/ transistors	5.2
Office Equp't	5.4	Telecoms equp't	5.1
Telecoms equp't	5.1	Special transactions	4.3
Cars	5.1	Electric circuit equp't	4.1

Figure 34
CZECH REPUBLIC

GDP by major economic sector



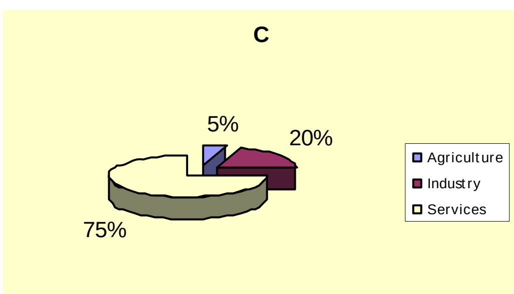
Employment by major economic sector



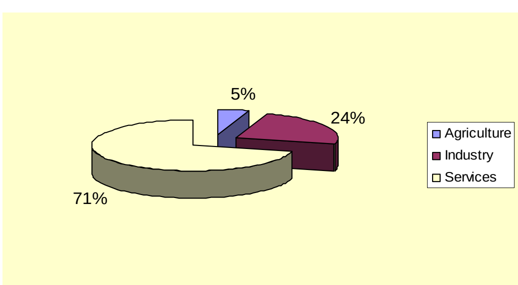
Main external trade commodities (% of total) 2000			
Exports		Imports	
Cars	8.5	Petrol/oil	3.5
Vehicle parts	5.6	Vehicle parts	3.5
Electrical equipment	4.3	Telecoms equp't	3.3
Base metal (manufactured)	3.5	Natural gas	3.1
Electric circuit equp't	2.7	Electric circuit equp't	2.9

Figure 35
CYPRUS

GDP by major economic sector



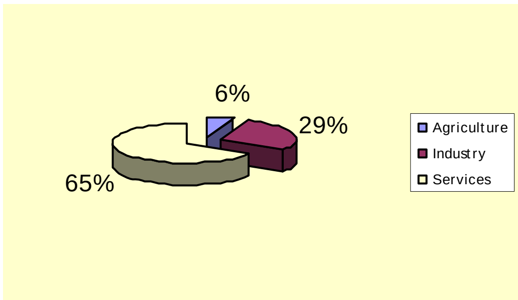
Employment by major economic sector



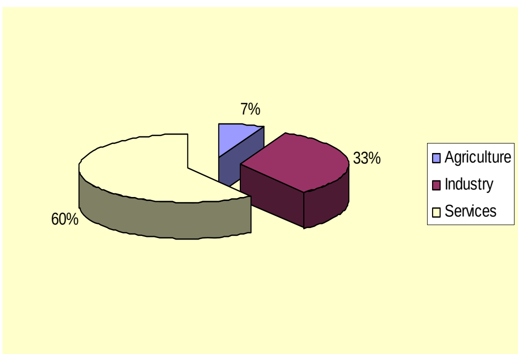
Main external trade commodities (% of total) 2000			
Exports		Imports	
Medicines	12.9	Tobacco (manuf)	8.8
Vegetables	7.1	Petrol/oil	6.2
Tobacco (manuf)	6.8	Petrol crude	6.1
Petrol/oil	6.3	Cars	6.1
Fruit	6.0	Goods service vehicles	3.4

Figure 36
ESTONIA

GDP by major economic sector



Employment by major economic sector



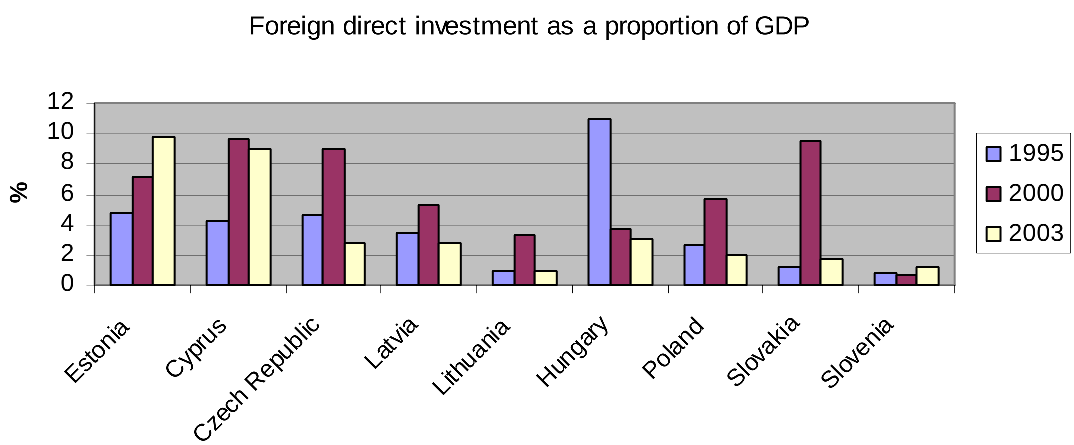
Main external trade commodities (% of total) 2000			
Exports		Imports	
Telecoms equp't	24.4	Telecoms equp't	7.3
Wood (simply worked)	4.2	Electrical equp't	6.6
Furniture	3.8	Petrol/oil	5.9
Wood (rough)	3.5	Electric circuit equp't	4.8
Petrol/oil	3.2	Cars	4.1

Foreign Direct Investment
Foreign Direct investment (FDI) has played a fundamental role in the transition and development of the economies of Central and Eastern Europe. Non nationals have been involved in the direct acquisition of privatised companies; in the "second phase" purchase of ex-state enterprises; and the start up of "Greenfield" investments. The purpose of this section is to give an idea of the volume of FDI entering the new Member States and to indicate which nations it comes from. Both the type of FDI attracted by countries and the reasons investments are made are important factors in judging the sustainability of the investment and the knock-on effect on economic development. It is argued that FDI into Slovenia is based upon know-how and labour quality. Poland, the Czech Republic, Slovakia and Hungary have attracted skilled-labour intensive investments like the motor industry. Questions are raised where investments in "brownfield" operations primarily attracted by tax holidays are long term sustainable as the EU enlarges to the East.

The highest absolute quantity of FDI has entered the largest economy of the ten, Poland. The "big three" of Poland, Hungary and the Czech Republic have absorbed the vast majority of FDI coming into the study countries. In order to understand the real impact of FDI on the economies however, it is necessary to consider indicators like FDI per capita or FDI as a proportion of GDP. Figure 27 below shows FDI in the years 1995, 2000 and 2003 as a proportion of GDP.

Slovenia is the only one of the ten countries that is a net exporter of FDI. Hungary was the prime target of FDI in the early 1990's but has subsequently reduced in popularity. Conversely, the "Baltic tiger" image of Estonia has been rewarded with increasing volumes of foreign investment. Increasingly and encouragingly, FDI is changing its nature toward high value added sectors.

Figure 37



Source Globalis

FDI entering the new member states from the "EU15" has come mainly into Poland (37%), the Czech Republic (24%) and Hungary (22%). The main investor is Germany, which has been responsible for almost a quarter of new Member State FDI. France with 11% has been the main investor in Poland, followed by Austria (10%) and the Netherlands (9%). The major European investors in the Baltic States are Finland, Sweden and Denmark.

Figure 38

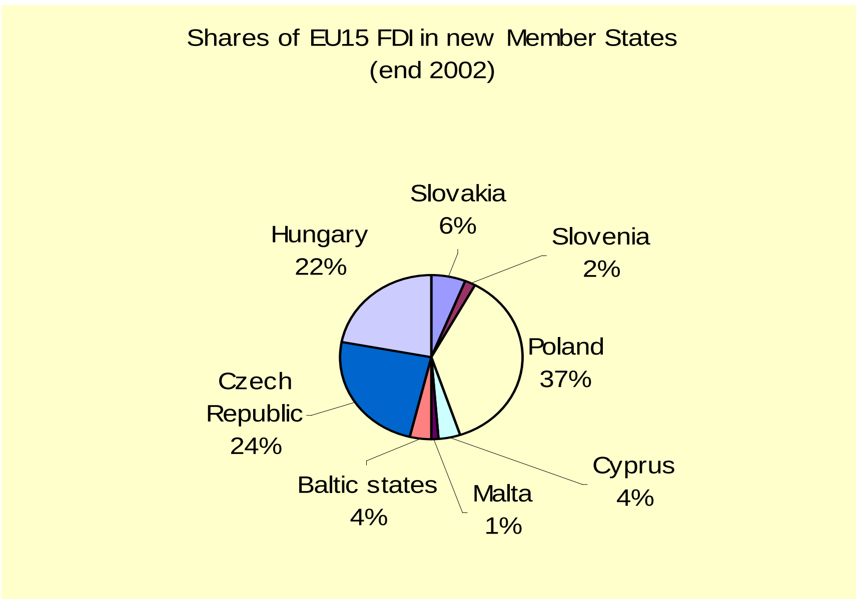
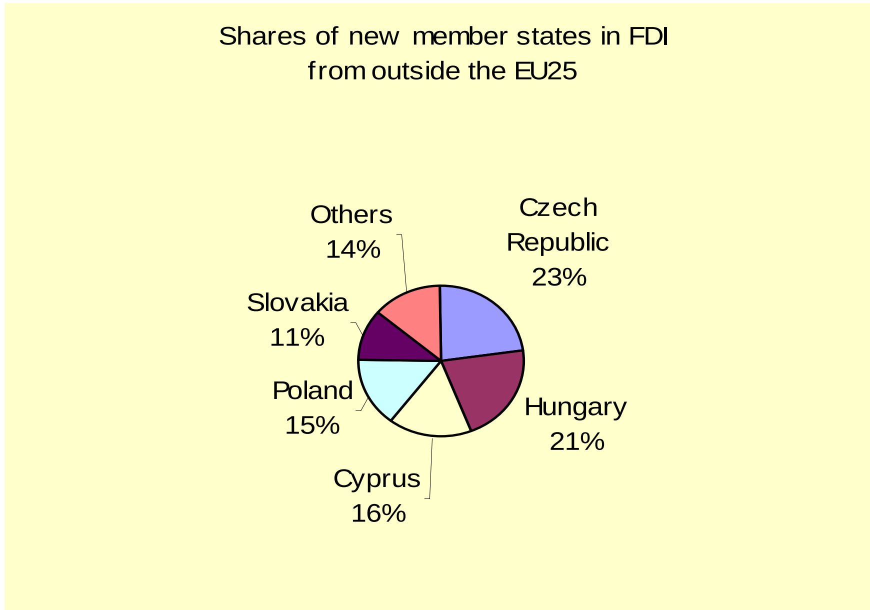


Figure 39



FDI entering the new member States from outside of the EU 25 has a different complexion, Cyprus and Slovakia take large slices of "non-EU" FDI at the relative expense of Poland. Hidden in the "other" category is the proportionally very significant "non-EU" investment in the Baltic States.

4. The Background to change

Before undertaking a more detailed analysis of the issues raised in the national dossiers and discussed in the seminars, three preliminary points need to be made;

◊ The special case of Central and Eastern European countries;

◊ Absence of information on "silent restructuring";

◊ The danger of negativism.

The special case of Central and Eastern European countries
When considering restructuring in the ten countries studied, it is important to keep in mind the difference between the CEEC states and the "EU15", or other modern market economy comparators. It is true to say that many of the determinants of change noted over the last 30 years or so in the "EU15" are the same as those faced by the ten countries covered by this project. Privatisation; outsourcing; relocation; technological change; increasing international competition; expansion of the international footprint of major multinational companies; and the growing influence of global brands affect most economies in the world.

The fundamental differences however between the study group and other Western European countries are overwhelming. Most significant is the "non market economy" start point from which eight of the ten countries began in the early 1990's. Privatisation has taken place at different speeds in each of the CEEC countries and the extent to which privatisation has taken place varies widely today. Nonetheless the enormity of the change affected in each country is impressive. Other issues arising from this unique point of departure are the extent and pace of the extensive economic restructuring that has taken place since the early 90's; the ability, and preparedness, of governments to inflict often brutal short-term change-related consequences on their populations; and the absence of well established legal and social institutions to regulate and influence the change process, often including the absence of effective social partner organisations. The experiences of Cyprus and Malta are very different to those of the eight Central and Eastern European countries studied. The problems of Cyprus and Malta are more closely related to their position as micro economies in need of significant modernisation and facing global economic trends that their countries are too small to influence.

All ten countries had to deal in a relatively short space of time with the impact of implementing the EU *acquis communitaire* that had been built up and implemented gradually over many years by the existing "EU15", and assuring the economic disciplines and controls involved in preparing for a mandatory entry into the euro zone. It should be recalled in a report dealing primarily with social issues, that the EU acquis touches all aspects of doing business; from advertising, packaging and labelling to Directives dealing with energy and transport liberalisation.

In this context it would be amazing if a conclusion were to be drawn that the social partners in the ten countries had excelled either in anticipating and handling restructuring at the company level, or in predicting and coping with the regional, social and macroeconomic effects of change on the labour market … the subjects of sections five and six below.

Absence of information on "silent restructuring"

Before moving into the specific issues of anticipating and handling change at the micro, sectoral, regional or macro levels, it is important to note a limitation in the project findings. In identifying the extent of restructuring, the national dossiers rely virtually exclusively on mass redundancies as indicators of restructuring. Each of the case studies considered in the dossiers deals with the lay-off of a significant proportion of the workforce in a substantial enterprise or enterprises. Even within this narrow definition, in the study countries themselves there were differing understandings of what the term "restructuring" covered. Restructuring was often defined as being synonymous with bankruptsy. For the social partners in Estonia and Cyprus, restructuring in the narrow definition within which it is construed is barely on the agenda.

This is, to an extent, understandable. Major restructurings of this nature are relatively easy to identify. They attract the attention of the media, are readily recalled by the social partners and are recorded in official statistics as companies are generally required to "report" significant numbers of dismissals within a limited and specified period of time. What the report does not cover is *"silent restructuring"*.

"Silent restructuring" is an important phenomenon in the study countries and takes a number of forms;

i) It takes place in small and medium sized enterprises. Small firms can reduce their labour force by enormous proportions, or even close completely, without drawing significant attention. This is a concern in each of the countries studied due to the size of working population employed in small and medium sized enterprises. A good example of silent restructuring in the countries studied is the "retail revolution". Major international retail players enter the market using the hypermarket concept and change shopping patterns away from small businesses with resulting job losses. The widespread discussion of this issue in the CEECs today mirrors that which has taken place over a number of years in the EU15.

ii) Where there exists a large informal sector, or grey economy, changes in a workforce that essentially "does not exist", are impossible to track. The problem of undeclared work emerged to a greater or lesser extent in each of the countries studied, but particularly so in Poland, Hungary and Latvia where the size of the informal sector is reported to have significant and perverse labour market effects;

iii) Certain industries are extremely seasonal in nature and the majority of employees are therefore on short term and seasonal contracts. Changes that take place season by season are dealt with through increased or decreased hiring rather than through dismissals in the conventional sense. The domination of the Cypriot economy by tourism, for example, makes even significant economic restructuring difficult to identify;

iv) Some of the most positive examples of dealing with change are where large scale restructuring takes place within an existing workforce as markets or technologies change. Although many employees are affected by major changes in the work that they do, the absence of dismissals makes this kind of restructuring hard to track.

The danger of negativism
In any study of this kind there is a danger of focussing on problems and ignoring achievements. It should be recognised that what has been achieved in most of the countries studied since 1990 is nothing short of remarkable. Democracies have been established, economies have been transformed. The lives of many people, and the future prospects for many more, have improved. Economic growth in Central and Eastern Europe is at levels that are the envy of most of the "EU15" and investment both from within and outside Europe is shifting east into Central Europe and the Baltic states. By many measures certain new Member States have overtaken the performance of some of the original "EU15".

More optimistic commentators will suggest that the issues raised in sections five and six below are inevitable problems associated with the rapid growth and change associated with wholesale economic restructuring, and that continued growth, more active labour market policies and social dialogue will promulgate its own solutions to the more significant problems. Those less optimistic will see some of the issues listed below as potential brakes on future development and see the current levels of growth as a passing wave that will continue eastward into Romania and Bulgaria, primarily to the detriment of Poland, the Czech Republic, Hungary and Slovakia. The truth is probably somewhere between.

5. "Anticipating and handling restructuring"

The material in this section of the report, with the exception of the description of the privatisation processes, is drawn more from the discussions in the national seminars than

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from the content of the published dossiers. At each of the national seminars the issues of anticipating change and managing restructuring projects was discussed at length. Almost without exception the social partners had found it difficult at any level to discuss in constructive terms, either amongst themselves or with Government, important changes that were inevitable in the relatively short term. At the national and sectoral levels discussion is limited, and practical action is rare. When restructuring issues emerge at the company level, discussions are commonly limited in duration and restricted to the financial considerations surrounding compensation for job losses.

A number of common issues and reasons for the failure of the social partners to be more proactive emerged;

i) The manner and extent of privatisation;
ii) The lateness of informing and consulting workers and their representatives and the subsequent speed of carrying out restructuring;
iii) Differing standards of national behaviour by international companies;
iv) Thinking beyond financial compensation;
v) Predicting future problems;
vi) Effectiveness of the social partners.

i) The manner and extent of privatisation

For the eight CEEC countries the privatisation of previously state controlled enterprises that commenced in the early 1990's was the signal for continuing economic restructuring on a massive scale. Whilst this is true for each of the economies, not all of them approached privatisation in the same manner, nor did they pursue it at the same speed. Consequently they are not today in the same position vis à vis the remaining challenges of privatisation.

Privatisation can rarely be regarded as a "one-time" restructuring exercise. Progressive waves of restructuring and job loss take place as state owned enterprises move through one or more stages of restructuring including "preparation for sale", "business failure and bankruptcy", "transformation related post privatisation restructuring" and "market related restructuring". Today it is the latter form of market related restructuring that is most common in the "EU15".

Slovenia is regarded as having taken a "measured" or "soft landing" approach and has generally managed the negative consequences of change well. Privatisation has consequently been a slow process and much remains to be done. By contrast, Estonia pursued a rapid and radical privatisation programme with a growing private sector taking up the displaced employees from previously state owned enterprises. Poland has undertaken privatisation on a massive scale with resultant high unemployment and still has a number of difficult problems to address. Précis extracts taken from the national dossiers relating to the extent and success of privatisation programmes follow;

◊ *Privatisation in Estonia has been decisive and its privatisation programme has been among the most ambitious of those adopted by the states in Central and Eastern Europe. Over 80% of formerly state owned enterprises have been privatised and almost two thirds of the nations GDP comes from the private sector. Only the power industry and the Port of Tallinn remain in possession of the state;*

◊ *Although the Polish government has completed the privatisation of 8,500 state-owned enterprises, 1,800 firms remain in state hands. Privatisation is almost* *complete in some sectors, such as consumer goods and services. In others—especially large, politically sensitive sectors such as public utilities and some portions of heavy industry—it has barely started. These companies account for almost 30% of economic activity. The pace of privatisation has been slowed as many of the more attractive companies in the state-owned sector have already been sold, while those remaining are, to a significant extent, in financial difficulties and in need of restructuring;*

◊ *Hungary has made sound progress in privatization. In the 10 years from 1992 to 2002 state ownership of capital reduced from 56% to 13%;*

◊ *In Latvia between 1992 and early 1995, just 47 large enterprises were entirely privatised. The remaining around 200 enterprises were all "corporatised". "Leasing" has been the major technique to take forward the restructuring process. To date 78% of "quasi privatisation" has been carried out through a process where private individuals, often managers, agree long-term lease contracts with the state;*

◊ *The privatisation of Slovenia's economy is not yet complete. The State, according to the Reform Programme for Achieving the Lisbon Strategy Goals (October 2005) is a significant direct and indirect owner of prominent Slovenian companies through several parastatal funds such as KAD and SOD. These means that many Slovenian companies organised as private firms still have significant state ownership, and this may lead to concerns with EU competition policy, equal opportunity and transparency. Future major privatisations are inevitable, as are the restructuring programmes that will follow.*

ii) The lateness of informing and consulting workers and their representatives and the subsequent speed of carrying out restructuring;

The volume of privatisation and Government's general reluctance either to engage with the social partners or to manage the pace of change typically did not allow discussion of anticipatory measures to mitigate job losses nor to permit more sensitive approaches to dealing with those made redundant.

Consistently the trade unions expressed the view that the need for change was not discussed early enough, alternatives were not examined with them and consequent restructuring was undertaken too quickly. This was less pronounced in Slovenia, Malta and Cyprus where there are strong traditions of social dialogue and in Estonia and Latvia where restructuring is not seen to be high on the agenda of the social partners. Laws already exist relating to managing change and the timing and extent of consultation through European Directives on "collective redundancies", "transfer of undertakings" and "information and consultation obligations at the national and international levels". However, lack of widespread understanding of the rights and obligations contained in them, and patchiness of application on the ground, mean that they have not yet influenced behaviours in the way they might. It is unclear from the dossiers or the national discussions whether the situation is gradually improving as new laws take effect.

It is notable that the questions of anticipating change and early social partner engagement were important issues for attendees at the synthesis seminar.

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iii) Differing standards of national behaviour by international companies
Frequently multinational companies were accused by the trade unions of adopting different standards relating to the handling of restructuring in the new Member States to those they adopt as a matter of course at home. Examples were quoted of “learned behaviour” whereby international companies begin to follow the established practices of national employers rather than the letter of the law. This issue was raised most frequently in the Baltic States with reference to the behaviours of Nordic companies. On the more positive side, in many of the national seminars the importance to trade union representatives of the recently acquired opportunity to engage in the work of European Works Councils was seen to be very positive.

iv) Thinking beyond financial compensation
Throughout the national seminars, the main emphasis in dealing with redundant staff focussed on financial compensation. Success or failure for those negotiating change related to the multiple of the state guaranteed minimum payment that was attained for staff. In certain countries the failure of national compensation laws to embrace employees in small companies was criticised. In these cases laws on redundancy apply only to companies above a certain size, and hence significant numbers of employees remain uncovered.

There were certain individual cases where a more proactive approach to retraining and assistance with job search featured in change plans and the cases of the Eesti Polevkivi oil shale mining company in Estonia; Gorenje in Slovenia; Ignalina in Lithuania; Matador in Slovakia; and the shipyard industry in Gdansk, Poland are good examples. These cases can be read in the relevant national dossiers. Only in Slovenia however did it appear to be common restructuring practice to develop social plans that routinely consider issues beyond financial compensation.

v) Predicting future problems
The national dossiers in every case provoked discussion on the sectors likely to be subject to further restructuring in the near future. There are a variety of good examples;

- ◊ Current and planned restructuring of the European motor industry with consequent potential effects on Slovakia, Hungary, Poland, Czech Republic and Slovenia;

- ◊ Sectors under acute threat from international competition and the changing nature of competitiveness in the world today. The European textiles industry’s difficulty in dealing with Chinese competition was a continuing, albeit not isolated, theme. Cyprus’ attempt to rebrand its tourism as a “high quality – high price offering” is a nation-specific example. Related to this are measures taken in certain countries to sustain domestic sectors and companies, often textiles and un-privatised heavy engineering operations, that cannot hope to win the international competitiveness battle rather than focus on areas where the country can build a sustainable long term competitive advantage;

- ◊ Sectors not yet privatised in countries like Poland and Slovenia are clearly on the future change agenda. This is particularly true of enterprises that remain in the state sector because they are seen as unattractive commercial propositions. In Poland many large socially sensitive or politically powerful state-owned enterprises (in coal, steel and chemicals) or financial firms (the rural bank, the housing and savings bank and the national insurance company) have avoided major restructuring. Slovenia's largest firms have significant state ownership either directly at the Republic level, like Telekom, or through the state pension fund and compensation funds;

◊ Throughout the national seminars, concerns emerged that the public sector had not undergone a parallel efficiency improvement programme to private sector privatisation. The state remains too big, inefficient and in some cases too highly paid relative to the private sector. The kinds of public sector efficiency improvement and outsourcing initiatives that are commonplace in many economies are notable by their absence in the study countries. In Malta the state employs 40% of the working population. The social partners explained that wage levels in the civil service in many countries attract good candidates away from the private sector and discourage entrepreneurialism. The need address this issue was clearly on the table, but there seemed little evidence of the various Governments preparing longer term strategies for change and discussing them as fully as they might with representatives of labour. This issue will become even more challenging as a consequence of EU Directives on transport and energy liberalisation.

These general themes emerged across the board, and there are many country and region specific examples in the national dossiers. The issues were debated at length in the national seminars and there was a general consensus that they are problems that will need to be addressed in the short to medium term. Despite this, there is little evidence of the social partners working together or with Government to establish national labour market strategies to deal with them. Improving social partner capacities to anticipate change was a recurring theme during the synthesis seminar discussions.

vi) Effectiveness of the social partners.
Concerns with social partner effectiveness are not limited to one side. Other than in Cyprus, Malta and Slovenia there is no recent history of employer solidarity through voluntary employers' organisations. Prior to the early 1990's the state was the nation's primary employer in Central and Eastern European countries and employers' organisations as we know them today did not exist. The focus of collective bargaining, where it exists, is at the enterprise level. Multi-employer bargaining, the most important driver of the growth and capacity of employers' organisations, is absent in most Central and Eastern European countries. In almost all cases employers' organisations have funding and staffing problems.

In six of the ten states studied (the exceptions being Cyprus, Malta, Slovenia and Slovakia) trade union membership has fallen to around or below the 20% level and is focussed on larger enterprises in the state sector and "heavier" industries. In virtually every country, the trade unions spoke of the difficulties of organising in the workplace and finding a parallel social partner at the sectoral level. Like the employers, they commonly mentioned funding and staffing issues.

In most countries the social partners have found it difficult to establish meaningful bipartite dialogue on issues of national or sectoral interest. There were said to be many reasons for this including the lack of space left for meaningful dialogue by Government regulation; lack of employer enthusiasm for sectoral or national dialogue with trade unions; inability to deliver on agreements without the cooperation of the state due to issues of representivity;

the unwillingness of the state to foster bipartite dialogue; and the adversarial attitudes generated between employers and trade unions by the tripartite form of dialogue.

It is quite clear that the economic and political history of the Central and Eastern European countries from the Second World War to 1990 left the new Governments and the social partner organisations ill equipped to deal with the social and labour market consequences of rapid and fundamental change. One national seminar participant explained

> "…. *you have to understand that for us the Second World War only ended in 1992."*

It is clear, with the probable exception of Slovenia, that since the early 1990's the extent and pace of change have left little room either to build the capacities of the social partners beyond reactivity or to encourage them to engage in more reflective discussion.

In the synthesis seminar a number of contributors suggested that employers need to be more positive, and trade unions more realistic, about social dialogue.

6. "Predicting and coping with the labour market effects of restructuring"

Section five has already highlighted certain issues at the micro level related to the inability of the social partners to predict and handle change. This section takes the discussion to a higher level and focuses on the macroeconomic labour market issues identified in the national dossiers. It covers the following issues;

i) The education system – delivering the skills in young people that the workforce needs;
ii) Staying in work for life – the role of lifelong learning;
iii) Economic migration and labour shortages – the "brain" and other "drains" … and the ways the holes are filled;
iv) Regional differences – encouraging mobility of work and people;
v) The informal economy – "dealing with the grey army";
vi) Embracing small enterprises as engines of growth.

i) The education system – delivering the skills in young people that the workforce needs

All of the national dossiers discuss the strengths and deficiencies of the education system in terms of its ability to deliver first time job seekers onto the market with the skills and aptitudes companies are looking for. It is a disturbing fact that in every one of the study countries youth unemployment is double the adult average rate and exceeds 30% in Slovakia and Poland.

The general picture in the study countries is of a well educated workforce with improvement indicators moving in the right direction. The numbers of young people emerging from the education system with relatively high levels of qualification is both high and rising. In Poland between the years 1988 and 2002 the number of people in higher education increased by 150%. The opening section of the Czech Republic national dossier states;

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"The comparison of foreign investor opinions or matter of fact statistics … reveal quite clearly that the Czech workforce is of a high level and that the standard of the Czech education system is generally good."

Most impressively Lithuania has the highest level of education in Europe with higher education participation of double the European average.

As an isolated "contra exemplar", the high school drop out rate in Malta is described in the national dossier as "catastrophic". Another particularly acute problem in the country is the failure of the tertiary education system to produce scientists and engineers.

The dossiers, supported in the national and synthesis seminars by social partner comment, were however extremely critical of the employment readiness of school and university leavers and the relevance of their formal qualifications. In Latvia it was suggested that many school and university leavers lack the skills necessary for work in the fields that are in the highest demand in the workforce – information technologies, communications, marketing and entrepreneurship. Estonian employers commented that a complete lack of labour market analysis prevents the tailoring of the education system to the labour market needs. The effect is a continuing mismatch of acquired skills and labour market needs, compounded by a continuing lack of anticipatory measures. In Poland the point was made that this mismatch does not occur only at the graduate level. One of the most difficult professions to hire into is that of certified welders.

ii) Staying in work for life – the role of lifelong learning

A closely related subject to the mismatch between the skills and aptitudes gained by those leaving education and the demands of the labour market is that of ongoing or "lifelong learning" for those already in the labour market. The Lisbon target for adults participating in continuing vocational education is 12.5%. The highest rates in Europe today are in Demark with 18.9% and the UK with 21.3%. The ten countries studied cluster around or below the current EU average of 9.5%.

The national dossiers in each country were again somewhat critical of the absence of adequate provisions for lifelong learning in a group of countries suffering variously from the problems of older workers leaving the workforce prematurely as their skills become redundant; economic restructuring and new investment leading to differing skill demands from workers; the incidence of long term unemployment; and the need to continue to improve productivity.

Lifelong learning was without question the most important issue for participants in the synthesis seminar.

Examples can be drawn from the national dossiers relating to each of these issues;

- ◊ A major challenge for the Polish economy is the high rate of unemployment of people over the age of 55. The number of unemployed in this category has been rising steadily since 1998. This problem is not limited to Poland. The general steep drop off in activity rates for those over 50 is highlighted in section three of this paper;

- ◊ In the Banska Bystrica and Kosice regions of Slovakia, intense restructuring in the previously state owned and dominant iron and steel, mining and timber processing

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industries has not been supported by vocational training or retraining for displaced workers.

◊ As the Czech Republic moves gradually toward a more service based economy an important constraining factor is seen to be the lack of provision of learning opportunities for workers to build new skills and competencies and to cope with new forms of work organisation and methods of management;

◊ In Latvia the share of people looking for jobs for more than a year is 45% of job seekers. The main cause of this chronic long term unemployment is said to be the failure of retraining systems to renew outdated work skills and to offer relevant work experience;

◊ In Cyprus the issue of lifelong learning needs to target productivity improvement. Training programmes are required for managers to help them adopt and implement innovative practices. Similar efforts are required to help more vulnerable groups like young people, immigrants and women currently inactive in the workforce to strengthen their position in the labour market.

Certain actions are noted in the dossiers to address this issue. The Maltese Employment and Training Corporation has an objective of training and retraining for the changing labour market. The Cypriot Human Resources Development Authority has similar objectives and is funded jointly by a 0.5% payroll levy and assistance from the European Social Fund. At the time of writing the national dossier, the government of the Czech Republic was preparing an "Act for Further Education". The consistent view of the social partners however is that Government activity in this area does not meet the needs associated with long term unemployment, frequent exits from the labour market after the age of 50, the need to improve productivity and the continuing need to retrain workers from restructured and declining sectors.

iii) Economic migration and labour shortages – the "brain" and other "drains" ... and the ways the holes are filled;

Inward and outward migration flows are important for the labour markets of each of the new Member States. Section three describes the way large wage and standard of living differences in narrow geography combine with more open borders drive a variety of migration flows. The national dossiers describe a series labour movements that can be characterised as "Brain drain"; "Muscle drain"; "Youth drain" ; and in the opposite direction "Extra EU infill". Whilst most of the moves are from "new Europe to old" with a consequent infill from the non European ex Soviet countries into the EU, there are significant movements across borders within the new Member States themselves e.g. Motor workers crossing the border from Slovakia to the higher paying Czech Republic and Hungary.

Whilst these moves are essential drivers of future pay and conditions levelling, they have a series of negative short term effects that manifest themselves in skills shortages and growth of the informal sector. These effects can be seen from the following illustrations of migration flows taken from the dossiers;

◊ Poland suffers, despite its high levels of unemployment, from a loss of specific types of worker. This includes a "brain drain" of medical staff and a "muscle drain" of construction workers primarily to the UK and Ireland;

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◊ As the lowest paying country in the study group, Latvia loses workers from across the spectrum of the labour market. It is estimated that 23,000 Latvians are working legally in the Republic of Ireland and that a further 30,000 are working there in the grey economy. Inflows to Latvia are from Belarus and Russia, primarily into the grey economy;

◊ The Estonian health service is the victim of professional migration of nurses to Norway and the UK and doctors to Finland. Large numbers of Estonian construction workers find it easy to make the short trip to Finland. They are replaced by workers from neighbouring Russia, Ukraine and Belarus;

◊ The prime destination for Czech workers is to Germany whilst Slovakian auto workers cross the border to find employment in Czech car assembly plants. In a similar manner Slovakian auto workers also cross the border to Hungary to work in the Györ Audi plant ;

◊ Officially recorded high levels of unemployment amongst young Lithuanian workers is blamed on young people leaving the country for the UK and Ireland whilst remaining on the unemployed register at home;

◊ Cyprus is a special case with almost zero real unemployment and a need for significant numbers of foreign workers to fill essential vacancies in the tourism and “low skill” areas of the economy. During the three year period from 2000 to 2003 the number of foreign workers increased by almost 18% annually. Just under a half of the new entrants were from EU or accession countries and the remainder were from “third” countries.

The subject of migration gave rise to a series of animated debates around levels of pay and conditions of employment, minimum wages, taxation rates, lack of control of the informal economy and the loss of the most motivated workers, at all skill levels, in the economy.

iv) Regional differences – encouraging mobility of work and people

Whilst there would seem to be no shortage of individuals prepared to cross borders to find work, all of the larger countries (and many of the smaller ones) reported huge variations in regional economic wealth and unemployment and an acute lack of labour mobility from poorer to more wealthy regions. Those already employed and typically working in the more dynamic areas of the countries seem more prepared to move abroad than are unemployed people in depressed regions.

Regional disparities are most frequently associated either with the restructuring of declining industries and/or a shift in the focus of trade from the former Soviet Union to the West. For example, operations servicing Russian military establishments close to national borders have been closed and the local infrastructure has contracted with them. Products previously supplied “on command” by state owned enterprises to the former Soviet Union proved impossible to sell in the West. Plants close to markets in the “East” are today badly located for trade with the “West”.

The reasons given for the lack of mobility vary but include lack of transport infrastructure, the costs of commuting not being reflected in pay differentials, the high cost of rent and housing in the more dynamic areas often surrounding the national and regional capitals, poor communication of job vacancies, the costs of job seeking and quite simply the fact that people simply do not want to move from their homes. Whist there are clearly two potential solutions to the issue of labour mobility – take the people to the jobs or the jobs to the people – it seems that regional disparities are generally getting worse over time rather than better.

A few examples from the national dossiers illustrate the extent of regional disparities;

- ◊ Overall GDP per capita in Slovakia is 51% of the EU average. In Bratislava it is 120% with an accompanying unemployment rate of 8%. In Eastern Slovakia it is 31% with an accompanying unemployment rate of 24%.

- ◊ Unemployment of 4.7% in Budapest contrasts with 12.6% in the North East of the country;

- ◊ In the Czech Republic, unemployment differences of 15% are not enough to motivate people to move in what is essentially a small and densely populated country. The current internal migration rate of 20 cases per 1,000 inhabitants is said not to have changed over 30 years;

- ◊ Even in small and booming Estonia a zero unemployment rate combined with acute labour shortages in Tallinn contrasts with unemployment in the South of the country of 8%.

At the synthesis seminar, particular emphasis was placed on the important role of public authorities in assuring the levels of transport, housing and education infrastructure necessary to encourage greater mobility.

v) *The informal economy – "dealing with the grey army"*
Every national dossier and every national seminar debate touched, to a greater or lesser extent, on the informal sector or the grey economy. The issue was particularly acute in Poland, Hungary, the Czech Republic and Latvia but permeated every country. The problems associated with a large informal sector are obvious. The state loses tax and social security payments; it pays out unemployment or other social benefits to people that are working; foreign workers live outside the law; published levels of wages are typically understated; workers are not represented by trade unions and are not protected by the provisions of the labour code. Resolution of the problem would provide an enormous boost to the national treasuries of each of the study countries.

The scale of the grey economy is difficult to assess, but estimates in both Poland and Hungary put the number at around one million workers in each country. Some estimates put the value of the grey economy in these two countries at more than 25% of GDP.

The informal economy takes on a variety of guises, all of which were described in detail in the national seminars;

- ◊ *The grey worker* – a worker who simply does not exist on the books of the enterprise and who is paid in cash. Often these workers are foreigners who enter a country illegally or who initially have a right to work that expires. They are often found in construction, hotels and restaurants, child and elder care, security services

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and cleaning. Most frequently, but not exclusively, they are found in small businesses;

◊ *The moonlighter* – a worker who has two jobs, one in the formal sector where s/he pays tax and social contributions, and a second "deduction free" shadow job;

◊ *The envelope worker* – has a single job but receives two salaries. The first salary is often close to the minimum wage or the lower limit for taxation and social security payments. The second is in cash and does not attract deductions. Often the envelope element relates to overtime working;

◊ *The selective accountant* – runs a small business or enterprise and under-records income so that only a proportion of the revenues earned are in the formal economy. This kind of under-recording is often tied in with envelope salaries to workers.

A wide variety of reasons are given for high levels of informal working.

The state regulation of taxes, social security payments, business bureaucracy, employment laws and inefficient supervision.
Where marginal tax rates are high, it is clearly more beneficial to enjoy some or all of income tax free. The levels of marginal taxation on the study countries vary widely, but the high levels seen in Poland, Hungary and the Czech Republic are said to provide an incentive for the informal economy. This incentive is multiplied where the chances of getting caught are low as a result of inefficient or corrupt supervision of the labour market. The minimum and maximum tax rates of a selection of the study countries are below;

Figure 40

Tax rates (%) – selected countries (Jan 2005)		
	Personal income tax	
	Minimum	Maximum
Czech Republic	15	32
Poland	19	40
Hungary	18	38
Slovakia	19	19
Estonia	24	24
Latvia	25	25
Lithuania	33	33

Source: KPMG, Deloitte HVG 6. August, 2005.

It is argued that the difficulties of setting up a new business and the rigidities of the national labour code encourage small business managers to work in whole or in part in the grey. In the case of Latvia it was suggested that the high incidence of whole or partial informal sector work makes what appears to be a rigid labour code both un-enforced and un-enforceable.

Labour shortages and cross border working
Where cross border work is undertaken without an appropriate permit or registration it is clear that the workers concerned will be in the grey economy. From the workers point of

view this is a particularly precarious form of employment as they exist outside not just of labour laws but the general laws of the land. Where potentially dangerous occupations are involved, like the construction industry, the problems are more acute. These workers are also particularly susceptible to coercion through fear of being reported to the authorities.

Cultural reasons
Coming from a history of state control, many workers quite simply see entering the grey economy as a "normal way of coping" rather than something "dishonest". This is particularly true of moonlighting and envelope practices.

vi) Embracing small enterprises as engines of growth
For most developed economies, an important engine of economic growth is the small enterprise sector. The economies of Cyprus and Malta are to a large extent built on a large and thriving small enterprise culture. Whilst the numbers of small enterprises are growing in the Central and Eastern European Countries, representatives of small business owners and managers attending the national seminars were generally critical of the lack of Government encouragement and support for small enterprise. They also noted the absence of an entrepreneurial spirit in the population, where individuals were often reluctant to take the risks involved in a small business start up. The trade unions raised concerns that certain individuals were "forced" to start their own business in order to circumvent employment laws and that much small business activity takes place wholly or partially in the "informal" sector.

General criticisms of state bureaucracy relate to the difficulties and costs of starting a business, the frequency and complexity of mandatory returns, the applicability of the same labour code provisions that apply to large companies – particularly when they relate to payment for sickness absence and hiring and dismissal processes, the pace of legislative change and either penal or non-preferential tax treatments.

Some of these points are supported by the available evidence. Using the data produced by the World Bank ("doingbusiness.org"), the time taken to start up a new business ranges from a low of 16 days in Latvia, through 25 in Slovakia, 26 in Lithuania, 31 in Poland, 35 in Estonia, 38 in Hungary, 40 in the Czech Republic and 60 in Slovenia. These compare with just 5 in Denmark, 8 in France and 18 in the UK. When the relative cost of business start up is considered, all of the CEEC countries are more expensive than France, the UK or Denmark and the costs involved in the Czech Republic and Hungary are close to prohibitive.

There are good examples of schemes designed to encourage small business start ups. The national dossiers for Estonia and Cyprus point to relatively sophisticated small enterprise support systems aimed particularly at young entrepreneurs. They would however appear to be rather isolated initiatives.

The role of SME's, not just as engines of growth but as economic "shock absorbers" of the negative effects of restructuring was particularly emphasised at the synthesis seminar.

7. Concluding issues and questions

The prime purpose of this paper is to raise common issues and questions for discussion rather than provide solutions. The points below serve to highlight matters that seem to be of general concern and relate them to the current and past work programmes of the European level social partners.

i) From the debate in the national seminars certain contextual points can be made;

- ◊ The background to the issues raised in almost every country is one of economic growth through a period of radical economic and social change;
- ◊ Particularly in the 1990's, survival was for many more important than anticipating or dealing proactively with a change agenda that no-one was in control of;
- ◊ The problems encountered at the enterprise, region and national levels in each country were frequently similar in nature;
- ◊ Some progress has been made over time in the management of restructuring and the influence of the social partners despite the many problems and constraints that remain; and
- ◊ Some examples of genuine leading edge restructuring practice have begun to emerge. The case of the Eesti Polevkivi oil shale mining restructuring programme in Estonia is an example that would sit comfortably with the "best in class" in Western Europe.

ii) During the synthesis seminar there was a very clear clustering of discussion around the following major themes;

- ◊ The crucial importance of retraining and lifelong learning to equip people to cope with permanent change;
- ◊ The need for the education system at all levels to deliver the skills needed in the labour market;
- ◊ The importance of anticipating change to effective social dialogue;
- ◊ The establishment of positive partnerships between employers and trade unions based upon mutual respect and trust;
- ◊ The important role of SMEs as engines of growth and "shock absorbers" in periods of change;
- ◊ The role of public authorities in providing the infrastructure to help reduce regional disparities.

iii) This report suggests a number of key questions that should be put on the table;

- ◊ Will continued economic growth promote solutions to the problems identified or will the problems become a brake on economic success?

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◊ Is the "CEEC boom" sustainable or is it a transient wave of growth that will continue eastward with the entry into the EU of Romania and Bulgaria?

◊ How can the national social partners at all levels improve their performance in identifying future restructuring issues and engaging together in a shared agenda that goes beyond financial compensation for job losses? It is clear already that restructuring will continue through ongoing privatisation, capacity reductions in declining sectors, international sectoral restructuring in industries like motor vehicle manufacture, technological change, the need to continue to improve competitiveness and public sector efficiency reforms;

◊ What more can the social partners do to engage with Government and other agencies to discuss and address macroeconomic issues that affect the performance of the labour market? This paper identifies the work preparedness of those leaving education, lifelong learning, increasing regional mobility, international migration flows, the informal economy, the prevalence of early retirement in ageing economies and the promotion of small business development;

◊ How important is it to identify the extent and practice of silent restructuring and how can this be done?

◊ How can the social partner organisations throughout Europe work together to improve their representivity, capacity and effectiveness in dealing with economic and social change?

It is interesting to note that previous work undertaken by the European level social partners has focussed on the issues of best practice change management ("Orientations for reference in managing change and its social consequences" – 2003), European Works Council effectiveness ("Lessons learned on European Works Councils" – 2005), lifelong learning ("Framework of actions on the lifelong development of competencies and qualifications" – 2002) and capacity building for the social partners in new member States and accession countries ("Social partners work programme 2003 to 2005") . These documents and activities echo many of the issues raised in this paper and propose solutions.

The 2006 to 2008 work programme of the European social partners proposes, amongst other things, to continue work on best practice restructuring, to continue assistance to social partners in terms of capacity building and to address, through an agreement, either the issue of lifelong learning or the integration of disadvantaged groups. Are there pointers that emerge from this project that will help further refine and shape that agenda?

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List of graphs and tables

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