IBSU Scientific Journal 2009, 3(2), 5-18

Integration Aspects of Subsequent EU Joiners

Cicero I. LIMBEREA
Mihaela ONOFREI
Mihaela TOFAN

Abstract
This article aims to analyze the economic policy aspects of the European Union adherence requirements within the specific microeconomic framework of the postcommunist Eastern European countries during their transition to a free markets economic system. The authors observe that the framework for integration has not been separated between the member countries which had functioned as free market economies throughout the post World War II years that had initially formed the Union, and the newer entrants which were mostly still in a postcommunist transition on their adherence dates. They argue that the transition of the labor markets in such countries may require special attention as the free market mechanisms have not yet reached equilibrium levels and the degree of absorption for the labor force in those countries is still low compared to more mature market economies, thus central bank inflation targeting in these countries prior to the long term rate of unemployment reaching the natural rate is not the optimal solution.

Keywords: *EU accession, Maastricht, labor force absorption, migration, tax, uniform integration.*

Cicero I. Limberea, CPA *is a PhD in Finance Candidate at "A.I. Cuza" University, Iasi, Romania.*
Mihaela Onofrei, PhD *is a Professor of Finance at "A.I. Cuza" University, Iasi, Romania.*
Mihaela Tofan, PhD *is an Adjunct Professor of Law at "A.I. Cuza" University, Iasi, Romania.*

Introduction:

As the communist curtain has long been removed in Eastern Europe, one would have expected migration to taper in the medium term (Findlay, 2002). However, 15 years of transition have shown that:

1. migration has hidden under the form of visa overstay or illegal passage, as political persecution was no longer allowable to claim political asylum status in more stable countries.

2. the composition of the population that migrated has changed due to the main reason for leaving one's native country shifting from what were before mainly idealistic and political reasons to now economic reasons affecting primarily the youth.

Part I:

Radical changes in production (Lowell, 2002) from planned stock to demand trends, as well as the removal of government subsidies and the subsequent rearrangement of prices, have caused fast dynamics in the requirements imposed on the Eastern European labor force due to fast dissolution, or rearrangement of companies that only few have anticipated and even fewer have managed perfectly its short term volatility. For example, in Romania, out of all state-owned firms that entered privatization in 1990, 69 % suffered labor force dislocation and restructuring.

The privatization process represented the basic component of the structural reforms in the Central and East-European counties and took place at different paces. Thus, between 1990-1992, more than 80 percent of the state enterprises were privatized in Poland, and more than 59 percent in Hungary. In the Czech Republic or Bulgaria, the most privatizations took place between 1990-1995, while in Romania the privatization process hardly started in 1992.

The privatization process in Romania encountered a series of difficulties related to economic constraints, among which the lack of local capital was the most severe one, technical constraints related to the lack of experience or the lack of accounting regulations, institutional problems regarding the involvement of central and local authorities in this process. Table no. 1 below shows the evolution of the number of contracts in the privatization process between 1992 – 2007:

Table 1. Evolution of the process of privatization in Romania between 1992 – 2007

Year of privatization [1]	Total[2] out of which:	Monitored contracts[3]	Archived contracts[4]	Terminated contracts[5]
1992	1	1	0	0
1993	269	25	239	5
1994	615	152	457	6
1995	682	306	359	17
1996	1.641	767	536	338
1997	1.493	862	338	293
1998	1.694	774	653	267
1999	2.045	938	778	329
2000	1.496	847	473	176
2001	203	90	101	12
2002	287	169	96	22
2003	275	181	81	13
2004	110	84	21	5
2005	18	14	4	0
2006	70	66	4	0
2007	71	65	6	0
TOTAL	**10.970**	**5.341**	**4.146**	**1.483**

1. Year of signing the share sale agreement.

2. Number of contracts undertaking post-privatization monitoring in each year of privatization.

3. Number of contracts in each year of privatization undertaking under post-privatization monitoring

4. Number of contracts in each year of privatization whose post-privatization monitoring ceased beginning with 2001 (the study of the post-privatization monitoring of contracts started in 2001 – archivation – following the fulfilment of the agreement provisions).

5. Number of contracts in each year of privatization, terminated subsequent to the post-privatization monitoring

Source: http://www.avas.gov.ro, annual reports

The unequal change in correlation trends between the house prices in the Eastern European area and the purchase power of individuals, as between 1989 and 2004 in Romania, Slovenia, Bulgaria, Hungary, Lithuania, Estonia, Poland and the Czech republic real house prices grew between a minimum of 82% per annum and a maximum of 8958% per annum faster than the median real wage can be designated as one of the main drivers causing youth displacement and migration, especially in families with numerous siblings that had just left school and were in need of housing. This discrepancy occurred partly due to economic policies that have targeted wage inflation primarily in state-owned enterprises with the subsequent goal of subsidy and loss elimination and privatization. Such, it was viewed that enterprises that got price subsidies in the communist years, had to reduce their labor cost amongst other turnaround policies, or be liquidated.

The personnel cuts that have been normally associated with finding the optimal size for state-owned companies before privatization tenders, have targeted mainly newer employees as well as caused campus recruitment to stop, unequivocally forcing the young to find short term solutions (Werner, 2001), of which an easily perceived opportunity would have been to migrate.

In the Central and East-European countries, the protection of workers employed in privatized companies affected the privatization process to varying degrees and in different ways in the course of time. During the first years of the privatization process, the objective of keeping in place the initial level of employment (or, at least, to avoid significant layoffs) has been indirectly achieved, by the absolute prevalence of MEBO transactions, due to the enhanced job security perceived as arising from the double status of employee and owner. After the MEBO transactions started to fade away, the preoccupation for avoiding the fact that privatized companies generate significant unemployment has begun to be reflected in legal provisions introduced to this effect in the privatization legislation.

As far as Romania is concerned, a first implicit reference to the preservation of jobs can be found in a Government Decree (no.887/1995) issued already in November 1995, according to which special clauses with a view to employees are to be included in share sale contracts whenever the acquisition price represented less than 70 percent of the par value of the shares acquired.

The issue of protecting the employees of privatizable companies received explicit legal consecration in August 1997, when a Government Ordinance (no.48/1997) has been enacted with that end in view. The Ordinance imposed undue straitjackets on new owners, by a set of requirements with a very dubious justification:

- it became mandatory for any privatization agreement to contain clauses "referring to the situation of the personnel, to its maintenance or its dismissal";

- if SOF was negotiating with the potential buyer the subsequent implementation of a restructuring program entailing layoff measures, the representatives of the employees were to be informed about it;

- should the privatization agreement include clauses with regard to collective dismissals, adequate provisions were to be made concerning the compensations awarded to the employees laid off.

It is obvious that not all privatization contracts can reasonably include stipulations about the fate of the employees. Secondly, informing the employees about the prospects of collective dismissals already when these are being only negotiated is the perfect recipe for making sure that the trade unions will do anything in their power to block the privatization deal. And, finally, making mandatory the granting of compensation for the personnel made redundant, without clearly stipulating whose obligation it is to offer this compensation is a political economic-financial blunder which brings about inflation but attracts votes; in other words, the price of keeping the power, miming formal change, but without any substance.

Some of these imperfections were corrected by the Law no 99/27 May 1999, which made clear that the severance payments for employees laid off are to be covered out of the Unemployment Fund. Subsequently, amendments made in June 1999 to the general regime for severance payments introduced a number of new conditions directly linked to redundancies created further to a privatization transaction.

The issue of the protection of employees within the negotiation and conclusion of privatization contracts is a tricky one. On the one hand, it can conceivably be contended that this helps minimizing the subsequent opposition by the employees to the rationalization measures that the new owner intends to take. In a way, it is better for the potential buyer to face the opposition of trade unions before entering a contract, than to be prevented from running the company following its acquisition, because labour unrest becomes endemic. On the other hand, it “freezes” the new owner into a pattern of restructuring measures, agreed upon with the seller, but which reality would not necessarily validate: either because the actual state of the company taken over is different from the one known to the buyer before the conclusion of the contract, or simply because subsequent developments of the market render the implementation of the initial programme inadequate.

In the last couple of years it has been shown how serious the buyer's bad faith proves to be when the reason behind his wish to acquire the majority of the stock in a state-owned enterprise is just the price of its ground. It is about the so-called commitments of the future owner to mend the activity of the enterprise, when in fact the first measure to take is to cause the company incapacity of payment, opening a new range of opportunities for real estate business.

Of course, the problems entailed by the preservation of the workforce are not similar for all privatized companies. Their manifestation crucially depends on the performance of the company itself. Yet, as the pool of companies easy to sell continuously shrinks, the marginal impact of employment factors becomes more important, the more so that it comes on top of other objective constraints to privatization. The obstacles to privatization engendered by the preservation of employment display elements of a vicious circle, the breaking of which is not obvious.

A first such element derives from the moral hazard generated by state ownership. The collision between insiders (managers and employees) which occurred in almost all state-owned enterprises, coupled with the excessive involvement of politicians whenever labour unrest erupts in state enterprises, has led to a situation whereby *jobs in the state sector have come to be regarded as more secure than in the private sector.* The inter-linkage between privatization and employment preservation can also be regarded from the perspective of the "policy-assignment" theory (instruments of economic policy). In fact, the recent developments concerning the treatment of the workforce within privatization transactions show an increasing tendency for using privatization as an employment policy tool.

In their turn, wages were the main instrument of the negotiations between authorities and trade unions, often times the wages rise having no connection with the increase of labour productivity, the left governments preferring to accept ungrounded premium rates, at the cost of remaining in office. During 1991-2008 (until August), the net incomes grew from 4.038 lei to 12.770.000 lei in Romania, while the gross incomes grew from 4. 769 lei to 17.280.000 lei.

The national currency of Romania – the leu – suffered serious depreciation in 1994, 1999 and 2000, as shown in Table no 2:

Table 2. Evolution of the national currency exchange rate

Year	USD	EUR
1989	14,92	N.A.
1999	21,56	N.A.
1991	76,47	87,81
1992	307,95	400
1993	760,01	884,6
1994	1655,09	1967,14
1995	2033,28	2629,51
1996	3082,60	3862,90
1997	7167,94	8090,92
1998	8875,55	9989,25
1999	15332,93	16295,57
2000	21692,74	19955,75
2001	29060,86	26026,89
2002	33055,46	31255,25
2003	33200,07	37555,87
2004	32636,57	40532,11
2005*	2,9137	3,6234
2006*	2,8090	3,5245
2007*	2,4383	3,3373
2008*	2,5188	3,6827

Source: www.bnr.ro/Ro/Info/Istoric/Curs_a.asp

For the transitioning countries, an enticement to lure the migrants back would have been the persistence of a low exchange rate environment, which would have permitted the migrants to bring home the savings at gain and participate in the privatization process in their own country.

However, we observe that in all 8 transitioning countries, the low exchange rate environment throughout has only remained on during the hyperinflation adjustment period, which in all 8 cases ended after the first 5 years from the communism overthrow, once the foundation to market economics has been laid, after which a domestic currency appreciation process started, although expected: as the hyperinflation has been reined in, the increasing opportunities perceived by investors with respect to the newer stock exchanges, as well as the need of those countries to open the capital accounts for want of international integration of the banking systems, have for all 8 country caused large foreign currency inflows, which in turn have caused the domestic currency appreciation. During this time the majority of privatizations had been completed, thus the migrants contemplating return would have faced stronger domestic currencies and an ending privatization process. In the majority of cases, except for a duty free status for return goods including capital goods used in start-ups, there were no on-going privatizations tender subsidies for returning immigrants.

However, a notable favorable phenomenon occurred in this process: the labor skills picked up by the migrants that have found longer stints of steady employment in more mature economies became highly valued in the transitioning countries (Reynieri, 2001). As those countries were starting to compete with the more mature market economies in the international trade space, an opportunity arose for these individuals to return home and replicate the more efficient processes which they learned abroad.

Nevertheless, this category was not predominant, since the real wage differentials between "home" and "abroad" for skills in demand on the labor market have remained high: Slovenia was the minimum at 565% in PPP-adjusted terms. This differential furthermore generated a later wave of migrants: people with marketable skills, but which have not lacked employment at home or had been displaced. They would choose to migrate to maximize their earning capability. Spoofing French fears about a mythical Polish plumber who would move to France and steal jobs before the European Constitution referendum was due was impossible. The fears that under a tighter Union, people from poorer European nations will take jobs away in France or elsewhere where one in 10 is already unemployed, have lead to passage of laws that would prevent labor movements between the new accession countries and the former members for a number of years after accession.

As the wage differential is unlikely to cause one to become an illegal immigrant, the lack of a legal possibility to work in the European Union for skilled workers from the Eastern countries is likely to cause keener competition in those countries for the former illegal migrants that would have desired to return. As many of the countries that have barred legal migration are the actual recipients of the former illegal migrants, if we assume that the wages made by the new entrants on the labor market are quasi-constant in the 2 situations (i.e. people that would have entered legally would have made as much money as the ones that stay in illegally), we see that this law has an insidious effect of depriving the countries preventing migration of receiving the wage tax revenues generated by the respective labor if it were documented.

Fears of company dislocation from the old EU member countries to the new entrants would discourage accession candidates from having lower corporate tax rates. This would likely impact migration, as the job creation in the accession countries is likely to be slower as multinational companies would have lesser incentives to migrate to the accession countries if no tax incentives are offered, all else equal. Lack of jobs at home will likely create an additional incentive for additional migration, or for extended stay of the initial migrants, to remain undocumented in their adoption countries.

The solution to this situation was the implementation of a voluntarist policy in the filed of employment. Consequently, new instruments to reduce the unemployment rate were created based on political administrative measures, to increase the management quality and the level of professional training, tax and social security measures. By virtue of the subsidiary principle, these measures were adopted in each Member State. The competences at the European level regarded the following aspects: a consultation forum, the development of a global strategy, the setting up of the Social Fund (which represents 13 percent of the engaged expenses by all member States in the active employment policy).

The tax policy plays an important part in achieving the objectives of the employment policy, through its two instruments – duties and expenses. As a matter of fact, the European Council in Amsterdam[1] recommended the following:

- reduction in the overall tax burden in most Member States, in particular the tax burden on labour;

- a restrictive restructuring of public expenditure is called for to encourage investment in human capital, research and development, innovation and the infrastructure essential to competitiveness;

- tax and social welfare systems should be further reviewed in order to enhance employment opportunities, and more active labour market policy measures should be implemented;

- efficiency and equity gains are to be improved by using social transfers in a more active way and by transforming benefit systems into proactive systems to improve the employability of workers.

The resolution adopted in Amsterdam totally changed the concept

[1] European Council meeting in Amsterdam on 16 and 17 June 1997 adopted the resolution EMPLOYMENT, COMPETITIVENESS AND GROWTH whose aim is the economic growth and eradication of unemployment

of tax burden, infringing on its evolution tendencies in the last couple of decades. This way, in the filed of tax policy the following tendencies could be noticed[2]:

- reduction of the progressiveness of the direct tax system;

- reorientation of subsidies and tax facilities from labour to capital, from consumption to production, from request to offer;

-increasing the tax basis in the indirect tax system which is considered to be just and voluntary;

- partial tax elimination with an incidence on external commerce.

These changes are meant to solve the problems of emerging countries facing the loss of markets, the lack of financial resources and state's growing debt.

Contrary to the official rhetoric (which can be noticed both in the European Union and the United States), the emerging countries have experienced an increase in the tax burden which was not correlated with the social and collective interest; the tax burden increased to get the necessary financial resources to cover the costs of public debts. “Cancellation of the strategic public investments, reduction in the social expenses, liquidation of the public systems of social insurance are elements entailing the disintegration of the society, the encouragement of violence, and revenue concentration”.[3]

We consider these changes in the tax policy strategy are normal, when the GIP has decreased at European level in almost all Member States, as shown in Table no 3.

Table 3. Evolution GIP/inhabitant. From a Europe of 15 to a Europe of 25

Country	GIP/inhabitant (2001)	GIP/inhabitant (2004)	GIP/inhabitant (2006)
Germany	29.668	25.200	22429
Austria	29.360	26.100	23544
Belgium	27.979	24.800	21219
Cyprus	-	14.800	14764
Denmark	37.489	33.200	33286
Spain	15.831	16.500	15714
Estonia	-	4.500	13011
Finland	28.253	26.100	24071
France	28.032	24.800	19714

[2] Ceci Vieira, Jurná-Politique fiscale: impôt, répartition du revenu nationale et assurance social; http:/fiscal.socioeco.org/

[3] idem

Greece	12.989	12.400	15055
Hungary	-	5.800	11876
Ireland	23.467	30.000	21142
Italy	23.409	21.100	19071
Latvia	-	3.600	2104
Lithuania	-	3.600	6000
Luxembourg	49.262	50.100	47729
Malta	-	10.500	13787
The Netherlands	28.278	26.800	21008
Poland	-	5.100	11352
Portugal	12.269	12.300	14766
The Czech Republic	-	6.200	13920
Great Britain	27.120	27.100	25036
Slovakia	-	4.200	6646
Slovenia	-	10.500	13571
Sweden	30.356	27.600	22571

NB: In 2006, GIP/inhabitant in Bulgaria was of 6857 Euro, while in Romania it was 7251 Euro

Source: Local Finance in the twenty five countries of the European Union, Edition Dexia Paris, France, 2004, 2007

According to the data presented in Table no 3, we notice that the biggest cut offs of the GIP/inhabitant were recorded in France and Germany, which were once considered the real engines of the European economic growth; the situation is even the more tricky as the present financial crisis coincided with the moment of the biggest enlargement of the European framework. On the other hand, it is natural for the volume of financial resources collected as duties and taxes to decrease along with the national welfare and accumulation.

Therefore, the Member States of the European Union can no longer take upon themselves the total or majority funding of the social security programmes, no matter how harsh this decision might look, because of the lack of financial resources. Accordingly, already since 2003, the reform of medical insurance services has ratified terms like: privatization of funding (the Netherlands, Germany and Finland), co-payment (France) and private insurance services (Luxembourg, Sweden, Germany and Spain). At the same time, the incurrence of social insurance risks and expenses was now the employees' and employers' responsibility.

Thus in Belgium and Germany[4], employers incur the most part of the contribution to the social security fund. In France, employers incur more than 50 percent to secure for their employees the entitlement to social

[4] Bulletin d'info MISSOC, 2004, http://europa.eu.int

benefits (employees by 25%, the state by 25%). We also observe that in Luxembourg and Germany the social security is covered mostly by enterprises and employees. Similarly, in Spain, Italy and the Nordic Countries enterprises incur more than 50 percent of the social contributions. At the opposite end we see Greece where medical assistance is free of charge and Portugal where the employees' social contributions go under the European average.

The present European reality makes us see the erosion of the traditional tax payer, i.e. the state, and appreciate that the future of social security funding is in the hands of the market. At the same time, the necessity for social policy needs to be interpreted neither as a continuous evolution of the state wealth inspired by humanist ideals, not as the politicians' conspiracy on mass manipulation in order to gain election votes while promising subsidies and encouraging unemployment.

On the other hand the best social security is still since under the conditions of a competitive economy the state cannot promote generous social policies in the absence of devices which should stimulate employment and produce welfare. That is why the new social European model is based on employment and social cohesion. Subsequently, already since 1997, the heads of states and governments of the European Union set out the European Employment Strategy also known as the "Lisbon Strategy"[5]. In February 2005 the European Council set out a new document entitled "Working together for growth and jobs. A new start for the Lisbon Strategy". In the new agenda, the focus lies on supporting small and medium size enterprises, by granting tax facilities, achieving an internal market (especially for services), as well as improving the Community acquis, so that it should not be a burden for companies.

Several Member States tried to accelerate the economic growth by increasing the employment rate, adopting packages of active measures, as follows:

-*Germany* modified its system of unemployment assistance benefits in order to increase the offer on the labour market. To increase the request the country adopted a series of reforms to diminish the cost entailed by the social security legislation on the labour market;

- *the Netherlands* made progress regarding the valuing of work by limiting the maximum period for unemployment subvention and combining the process of job-seeking with establishing the unemployment

[5] The guidelines of the Strategy are: improve the employment capacity, develop the entrepreneurial skills, promote the adaptability of enterprises and employees, ensure equal treatment of women and men

subsidy. The country also implemented new measures to promote and encourage the relationships between the academic and economic environment by setting out contracts between higher education institutions and companies to get part-time jobs for students;

- some later accession Member States introduced reforms meant to improve competences; for instance, Hungary implemented measures to develop the vocational training system, Lithuania to improve its primary education system, Portugal to improve its education and vocational training system, whereas France completed a new plan for social inclusion;

- other later accession Member States simplified the regulation in the business field; the Czech Republic and Slovenia set up the unique offices ("one-stop-shops"), as well as business information centres. In their turn, Italy launched new reforms to facilitate the access to business funding. The Italian Parliament passed and ratified a new law by increasing the state pension age and introducing stimuli to put off retirement and promote private pensions.

Conclusion

In all EU accession countries, a widespread suboptimal allocation of the labor force still persists, as the new economics need more time to find optimal equilibrium levels. As further realignment of the respective economies within the EU, after accession, will occur, the tremors in the labor market are likely to persist.

For such reasons, government expenditures required in the need to reabsorb and reorient the labor force affected by the transition of the accession countries could be excluded from the budgetary constraints set by the Maastricht Treaty, as migration caused by joblessness or perceived lack of job security are primary effects associated with the given post communist transition; besides, the original Maastricht Treaty was addressed at the transitionless, mature economies that had formed the initial Union, without foreseeing at the time the second accession wave of post-communist European countries.

If the later accession countries would not increase expenditures aimed at labor force integration in their own economic structure, the labor conversion burden (Khadria, 2002) is likely to be passed onto the receiving countries, as the displaced categories are likely to never go back for lack of opportunity.

Thus inflation rate targeting by the central banks of the respective countries prior to full labor force integration will force a perceived natural rate of unemployment too high. Thus monetization of domestic debt with the aim of full labor force integration while limiting imported inflation based on production capacity optimization is the desired outcome for such economies.

References

Jurná Ceci Vieira -Politique fiscale: impôt, répartition du revenu nationale et assurance social; http:/fiscal.socioeco.org/

Alan Findlay – From brain exchange to brain gain: Policy implications for the UK of recent trends in skilled migration from developing countries, 2002

Augustin Fuerea - Drept comunitar al afacerilor (Business Legislation of the European Union), Universul Juridic Publishing House, Bucharest, 2003

Ray Jureidini – Women migrant domestic workers in Lebanon, International Migration Paper, the International Labor Organization, 2002

Binod Khadria – Skilled labor migration from developing countries: Study on India, International Migration Paper, the International Labor Organization, 2002

B. Lindsay Lowell and Alan Findley – Migration of highly skilled persons from developing countries: Impact and policy responses, International Migration Paper, the International Labor Organization, 2002

B. Lindsay Lowell – Policy responses to the international mobility of skilled labor, International Migration Paper, the International Labor Organization, 2002

B. Lindsay Lowell – Some developmental effects on the international migration of highly skilled persons, International Migration Paper, the International Labor Organization, 2002

Octavian Manolache, Drept comunitar (Legislation of the European Union), ALLBECK Publishing House, 3rd Edition, Bucharest, 2001

Sabika al-Najjar – Women migrant domestic workers in Bahrain, International Migration Paper, the International Labor Organization, 2002

Mihaela Onofrei - European Social Protection between the Ideals of Welfare and Fiscal Constraints , Fiscal Courier Journal no.5/2006

Emilio Reynieri – Migrants in Irregular Employment in the Mediterranean Countries of the European Union, International Migration Paper, the International Labor Organization, 2001

Heinz Werner – From temporary guests to permanent settlers? A review of the German experience, International Migration Paper, the International Labor Organization, 2001

Bulletin d'info MISSOC, 2004, http://europa.eu.int

15.Local Finance in the twenty five countries of the European Union, Edition Dexia Paris, France, 2004, 2007

www.lefo.ro/carmensylva/BĩrzeaPoliticiinstitEu.pdf

www.ier.ro/Tratate/Tratat%20aderare%20RO%20BG.pdf