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Effects of the Southward Extension on the EC – Labour Market

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The European Community will be enlarged in the next few years by the accession of Greece, Portugal and Spain. Which will be the consequences for the labour market of the EC and the Federal Republic of Germany in particular?

The European Community will be enlarged in the next few years by the accession of three South European countries: Greece, Portugal and Spain. All three have applied for full membership of the European Community. The treaty of accession of Greece has already been signed; the accession is to take place on January 1, 1981. The negotiations with Portugal began in October 1978, those with Spain in February 1979, but it is not likely that these two countries will be able to join together on January 1, 1981.

Turkey will probably not apply for admission to the European Community in the near future because it has become apparent that the EC will not allow free movement of Turkish workers in the Community, and this has removed the main attraction of full EC membership from the Turkish point of view. Turkey has been an associate of the European Community since 1963 and secured preferential treatment for Turkish workers compared with those from third countries in the association negotiations when they were resumed at the end of 1976. However, once Spain, Greece and Portugal have joined the EC, Turkey will no longer derive any major advantages from this.

The European Community, the Federal Republic of Germany and the acceding countries themselves are likely to face a number of problems as a result of the EC extension because the labour markets and economic structures of the new members differ from those in the Community. The consequences of these differences for the labour market of the EC and the Federal Republic in particular are pointed out in this article. Turkey is included in the presented labour market data although not joining the EC in order to indicate the especially striking differences between this country and the Community.

It is evident from Table 1 that the population of the acceding countries will increase considerably up to the end of this century although at decreasing rates except in Portugal. In the Federal Republic on the other hand the population is declining, and in the EC it is stagnant. Turkey will probably have almost twice as many inhabitants in 1990 as there were in 1963, and the annual growth rate will still be over 2 % after 1990.

In view of the forecast population trends and increase in gainful activities it is to be expected that the manpower potential will rise very strongly in all the acceding countries until 1990. Between 1976 and 1990 the number of gainfully employable persons will increase by about 2,800,000 (= 14 %) in the three acceding countries and by about 7,800,000 (= 17,5 %) in Turkey.

In the Federal Republic and in the EC the number of persons available for gainful occupation is also expected to go on rising considerably until 1990 so that, irrespective of the acceding countries, many more jobs will have to be created in the countries of the EC until the end of the next decade. If provisions for free movement of workers from acceding countries were to be given immediate and general effect after the accession, the labour market problems in the existing EC would be aggravated because the income differentials would induce more workers in the new EC countries to move away. France and the Federal Republic have the largest numbers of guest workers from the acceding countries and would be affected most by increased migrations.

Lack of Employment Opportunities

The scarcity of employment opportunities is generally a major problem in the labour markets of the acceding countries. Another problem is the shortage of jobs outside agriculture, for agriculture dominates the employment patterns in the acceding countries. In

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1976 agriculture accounted for about 34 % of all gainfully occupied people in Greece, about 27 % in Portugal and about 22 % in Spain; in Turkey the share of agriculture was about 63 %. Not only will more people in these countries need gainful occupation but many of those now following agricultural pursuits will want to move into other sectors. There will be a more or less marked decline of agriculture's share of the labour force until 1990, especially in Greece and Spain, albeit from very different starting levels. The share of industry and the services sector will increase over the same period, and Spain in particular will by 1990 approach close to the EC average.

At a first glance unemployment does not seem to be particularly high in the acceding countries but the statistics probably do not reflect the actual unemployment adequately. One reason for this is that the labour administration and unemployment insurance systems have not yet been developed very far. Another reason is that many people are engaged in agriculture only because there are no other jobs for them. The (under-) employment in agriculture is in many cases tantamount to unemployment. Greece for instance has according to OECD estimates four times as many unemployed as are registered, even leaving the underemployment or hidden unemployment in agriculture out of account.

Economic Trends

The economic indicators (see Table 2) confirm that the acceding countries are in a difficult situation. The gross domestic product grew in these countries between 1970 and 1976 at a distinctly higher rate than in the EC as a whole but the per-capita GDP, used as a prosperity index, is definitely below the EC average.

Besides, GDP growth has slowed in the acceding countries during recent years.

The differences in the economic structures and trends are reflected by the contributions of different sectors to the gross domestic product. Agriculture is still of major importance, in Greece and Portugal at any rate, even though its share is declining continuously.

The international competitiveness of the economies of the acceding countries is also problematic. The labour productivity – insofar as it can be regarded as an indicator of competitiveness – was in the Federal Republic in 1976 more than twice as high as in Spain and more than four times as high as in Portugal. This statement needs qualifying however as far as industry and the services sector are concerned because although the agriculture of the acceding countries could – at least in theory – achieve the same production results with much smaller labour forces, the large numbers of persons actually engaged in agriculture enter into the overall productivity calculations.

A comparison of the distribution of gainfully occupied persons by economic sectors with the contributions of these sectors to the gross domestic product confirms the discrepancy in per-capita production between agriculture and the other two sectors. In Greece for instance 34 % of all gainfully occupied persons are engaged in agriculture but its contribution to the gross domestic product is only 21 %.

Export Patterns

Employment problems may arise in the EC or the Federal Republic in the event of a southward enlargement of the Community if domestic firms are exposed to stronger competition by imports from the

Table 1
Population and Gainful Occupation in the EC Accession Countries (including Turkey), the Federal Republic of Germany and the EC of the Nine in 1970, 1976 and 1990

	Greece			Portugal			Spain			Turkey			Federal Republic			EC of the Nine		
	1970	1976	1990	1970	1976	1990	1970	1976	1990	1970	1976	1990	1970	1976	1990	1970	1976	1990
Population ('000)	8,793	9,167	9,890	9,014	9,694	10,487	33,779	36,240	39,500	35,321	41,039	56,785	60,651	61,531	58,300	251,491	258,715	261,260
Share of 15-64 year-olds (%)	64.3	63.9	66.7	61.9	62.2	65.6	62.5	62.5	63.3	53.9	55.6	59.8	63.6	64.3	69.7	63.7	63.9	67.0
Persons in gainful occupation ('000)	3,321	3,321	3,747	3,611	3,783	4,355	12,732	13,356	15,117	15,119	16,455	24,273	26,817	26,148	27,168	105,302	107,423	112,670
Gainful occupation rate (%)	37.8	36.2	37.9	40.1	39.0	41.5	37.7	36.9	38.3	42.8	40.1	42.7	44.2	42.5	46.6	41.9	41.5	43.1
Unemployed ('000)	102 ^a	133	—	—	276	—	193	706	—	700	1,215	—	149	1,060	—	2,030	5,242	—
Unemployment rate (%)	3.1 ^a	4	—	—	6.6	—	1.5	5.3	—	4.6	7.4	—	0.6	4.1	—	1.9	4.9	—
Share of sectors in gainful civilian occupation (%)																		
Agriculture	40.3	34.4	17.5	29.9	27.4	19.8	27.2	21.5	13.1	70.5	63.1	40.0	8.5	7.1	4.6	10.5	8.4	5.2
Industry	25.3	28.9	82.5	32.7	33.2	80.2	35.5	37.1	38.9	13.4	15.5	60.0	48.5	45.1	44.6	43.9	40.9	40.1
Services	34.4	36.7	—	37.4	39.3	—	37.2	41.4	48.0	16.2	21.4	—	42.9	47.8	50.7	45.6	50.7	54.7

^a1971.

Sources: OECD: Labour Force Statistics 1978; OECD: Migration, Growth and Development, Paris 1979; Prognos-AG: Prognos-Euro-Report 1979; EC Economic and Social Committee: Document CES 787/77 (final); own calculations.

Table 2
Selected Data on the Economies and the Foreign Trade of the EC Accession Countries,
the Federal Republic of Germany and the EC

	Greece		Portugal		Spain		FR Germany		European Community	
	1970	1976	1970	1976	1970	1976	1970	1976	1970	1976
Gross Domestic Product (EUA mn) ¹	9,747	19,897	6,055	14,147	35,979	93,645	181,417	399,787	605,200	1,249,700
Per-capita GDP (EUA)	1,109	2,170	669	1,464	1,069	2,612	2,991	6,497	2,406	4,830
GDP per gainfully employed person - Productivity (EUA)	3,074	6,160	1,801	4,314	2,869	7,364	6,828	15,970	5,824	12,112
GDP share of sectors (%):										
Agriculture	20	21	20	18 ^a	13	11 ^a	4	3	-	-
Industry	34	33	46	49	43	44	66	57	-	-
Services	46	46	34	34	44	46	41	47	-	-
Export share of GDP (%)	8	13	20	14	8	10	20	25	22	28
Exports (EUA)	789	2,684	1,185	2,046	2,917	9,470	36,877	101,167	133,100	344,100
of which to EC (%)	52	50	42	52	46	46	46	46	50	52
Imports (EUA)	1,739	5,073	1,736	3,609	4,908	16,393	32,603	88,160	128,800	341,600
of which from EC (%)	50	40	48	42	40	33	50	48	51	51
Export share of sectors (%):										
Agriculture	37	22	4	3	18	12	1	1		
Mining	7	5	7	3	3	1	3	2		
Manufacturing Industry	56	73	89	94	79	87	96	97		
of which: foodstuffs	14	14	18	15	18	12	3	4		
textiles	11	22	27	29	12	13	7	6		
chemicals	9	13	11	8	12	13	15	16		
metal processing	2	8	12	18	25	31	55	55		

¹European Unit of Account (EUA) in 1970 = DM 3.74, in 1976 = DM 2.86. ^a1975.

Sources: Statistical Office of the European Communities: National Accounts 1960-1977; UN: Yearbook of International Trade Statistics; UN: Yearbook of National Accounts Statistics.

acceding countries. This may happen insofar as industries in these countries are strongly export-orientated or concentrating on products in which they enjoy a competitive advantage.

A glance at Table 2 shows that the acceding countries are producing mostly for their domestic markets. The GDP share of exports is between 10 % (in Spain) and 14 % (in Portugal). The corresponding figures for the European Community and the Federal Republic are considerably higher, partly no doubt as a result of Common Market integration.

Surprising is the extent of export orientation to the European Community in all three acceding countries. About half of all exports is already going to EC countries. The larger part of the imports on the other hand come from countries outside the Community of the Nine which is in part to be attributed to the fact that the import duties for goods from these countries are already at a low level while the import duties on goods of EC countries are still a more formidable barrier. An accession which involves a removal or reduction of import duties will pose adjustment problems for the domestic industries in the acceding countries.

As regards the pattern of exports the three acceding countries show wide differences between the contributions of the individual sectors of the economy. Agriculture still occupies a major place in Greek exports but plays no great role in Portugal's foreign

trade. There are no significant differences between the acceding countries as far as processed agricultural products – i. e. foodstuffs – are concerned; these account for between 12 and 15 % of the total exports.

Danger of Protectionism

The enlargement of the EC will result in a noticeable increase of production capacity in sectors which are even now facing cyclical and structural difficulties. Spain has for instance large steel and shipbuilding capacities, and the textile industry is strongly represented in all three acceding countries. Their exports of textiles have increased in relation to their home market sales. The textile industry is important for the three acceding countries under production and employment aspects but will be exposed to increasing competitive pressure by products from developing countries especially in South-east Asia. The southward extension will not trigger any fundamentally new developments in the existing Community or in the Federal Republic but tend to reinforce restructuring processes already under way. Before this background both the present EC member countries and the acceding states may well feel that they have to make increased use of protectionist devices.

The EC enlargement will expose the agricultural industries of France and Italy to increasing competition in regard to wine and Mediterranean fruit in particular. In industrial manufactures the competitive pressure will

Table 3

Foreign Workers in Western Europe by Countries of Origin and Employment in 1977

Country of origin	Country of employment	Austria	Belgium	France	FR Germany	Luxembourg	Netherlands	Sweden	Switzerland	Gr. Britain & N. Ireland ¹
Algeria		—	2,400	331,100	—	—	—	200	—	500
Austria		—	3,700	—	75,000	—	—	2,400	24,100	3,000
Finland		—	—	—	2,900	—	—	103,000	—	24,000
Italy		2,100	106,400	199,200	281,200	10,800	10,000	2,800	253,100	10,500
Morocco		—	22,200	152,300	15,200	—	29,200	600	—	56,500
Greece		—	9,600	—	162,500	—	1,900	9,200	4,800	1,000
Portugal		—	3,900	360,700	60,200	12,900	5,200	1,000	4,800	500
Spain		—	27,300	204,000	100,300	2,200	17,500	1,900	62,700	3,000
Turkey		27,000	17,000	31,200	517,500	—	42,400	4,200	14,900	4,500
Yugoslavia		131,000	—	42,200	377,200	600	8,000	25,800	25,400	8,500
Tunisia		—	1,900	73,000	—	—	1,100	400	—	—
Others		28,800	111,900	190,600	296,600	22,600	21,000	73,800	103,000	753,500 ^a
Total		188,900	306,300	1,584,300	1,888,600	49,100	136,300	225,300	492,800	865,500

¹1976. ^aIncluding 293,500 from the Republic of Ireland.

Sources: OECD: SOPEMI Report 1978, page 3.

be concentrated on areas where an increased international division of labour between industrialized and developing countries is already causing shortfalls. The adverse effects of increased competition with the acceding countries on employment will therefore probably be held in limits as far as the existing Community countries are concerned but have a rather strong impact on employment in the acceding countries and quite likely exert an additional though indirect pressure on the labour markets in the Federal Republic and France in particular.

Free Movement of Labour

A common market implicates free movement of labour as well as goods and capital. Free movement of labour means according to the EEC Treaty "the abolition of any discrimination based on nationality between workers of the Member States as regards employment, remuneration and other working conditions"¹. This principle was implemented by Order No. 1612/68/EEC of October 15, 1968 concerning the free movement of labour inside the Community. The labour market is thus one of the areas in which substantive advances towards integration have been achieved through removal of the formal impediments to migration.

When the EC was enlarged for the first time by the accession of Denmark, Great Britain and Ireland these

countries adopted the arrangement concerning free movement of labour but this did not result in significant migratory movements. The countries which will now join the EC are however far less industrialized, and a large number of workers from them are already working in EC countries. For this reason an increase of the migratory movement must be expected to occur if, as was the case after the previous EC enlargement in 1973, the free movement of labour is extended to the new member states immediately on accession.

About 5½ million foreign workers were employed in the industrialized states of Western Europe in 1977 (see Table 3) — about one million fewer than in 1974. About four-fifths of the foreign workers were in the Federal Republic, France and Great Britain. The composition of the foreign labour forces by countries of origin varies: North Africans, Portuguese and also Spaniards are employed mainly in France, Turks and Yugoslavs chiefly in the Federal Republic. Italians are still met in fairly large numbers in almost all countries.

The year 1974 was a turning point in the employment of foreign workers: almost all host countries imposed recruitment stops or restrictions on the employment of additional workers from third countries. As a result the accessions of foreign workers decreased considerably but they did not cease. The foreign workers were tardy returning to their native lands as they realized that once they left their host countries it might be difficult for them to come back. The employment of foreign labour therefore still

¹ Art. 48 (2) of the Treaty establishing the European Economic Community.

plays an important role even though it carries less weight, at least in the major host countries.

Influx of Labour

To go by the past trends and present state of the foreign manpower in the Community, France and Germany are the countries most likely to attract Greek, Portuguese and Spanish workers. The fear that implementation of the Community regulations on free movement of labour in the course of the enlargement of the EC may trigger a large influx of workers from the three candidate countries for accession is not entirely unwarranted:

□ In view of the demographical trend in the acceding countries it must be expected that the number of job-seekers will increase in the future, and it is doubtful in the light of the pace of development to date and the comparatively low wage levels in these countries whether enough jobs can be provided for them.

□ The enterprises in the acceding countries are for the most part small or medium-sized. Many of them, especially in Greece, are family operations. Inclusion of these countries in the Community customs union may expose many small and medium-sized firms to more severe competitive pressure, with closure of enterprises and redundancies of workers as a consequence. Until now their domestic industries have been protected by import duties.

□ In addition to competition from members of the present Community the acceding countries will have to cope with competition by the developing countries which are EC associates and were hitherto kept out by tariff walls. "Sensitive" consumer goods like textiles and leather goods are among the principal exports of the applicant countries; there are no great opportunities for stepping up their sales which moreover depend on price.

On the other hand there are factors which will ease the labour market situation in the applicant countries after their accession to the EC:

□ Adoption of the common agricultural policy and compliance with its support mechanisms will at first save the agricultural enterprises from severe competitive pressure. Redundancies must be expected as hitherto and over the long term because so many people in all three countries are still earning their living in agriculture, but they will be kept down by the support mechanisms.

□ The enlargement of the EC which gives easier access to larger markets also to the acceding countries

may be expected to stimulate economic activity. The demand for labour will increase in the course of industrialization though possibly only after a relatively long interval for readjustment.

To sum up, the present EC countries, especially France and the Federal Republic, must expect to come under considerable migratory pressure if the workers in the three new EC countries were given the right to free movement immediately on accession. In view of the prevailing demographical trends and the increasing number of women seeking gainful occupation it is to be expected that the working population will increase considerably in the present EC countries during the coming decade (see Table 1). With six million unemployed in the European community in 1978 great efforts will in any case be required in the field of employment policy. It is therefore unlikely that the new members will be granted full freedom of movement from the date of accession by the community because this would aggravate the employment problems further.

Transitory Arrangements

According to the results of the negotiations which have become known the right of free movement in the EC will become effective for Greek workers only after a transitional period which is to last seven years. Greek workers will however right from the beginning be given preferential treatment in regard to the issue of work permits as compared with workers from third countries. The members of their families will be given access to employment gradually during the transition period. Similar results may be expected to ensue from the negotiations with the two other applicant countries.

The transitory arrangements will delay the possible labour influx until the increase of the potential labour force due to demographic factors in the present EC member states has come to an end. How many people in the new EC countries will by that time still wish to migrate to other EC states will depend on the success of the acceding countries in linking up with the development level of the economically stronger countries. Attainment of this aim seems more feasible in Spain, which is by far the largest of the applicant countries, than in the other two but will necessitate considerable restructuring processes for which the creation of more competitive larger operating units is indispensable. The economic and social repercussions of processes of this kind for the national economies in which small and medium-sized enterprises have hitherto predominated are incalculable.