The Eastward Enlargement of the Eurozone: Social and Policy Aspects in Portugal Spain and Italy

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The Eastward Enlargement of the Eurozone

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Abstract

This report explores some features of the social dimension of enlargement regarding the Southern EU-Member countries, namely Portugal, Spain and Italy. Economic theory suggests that integration may affect wages, employment and income distribution through changes on trade, FDI and migration flows. By removing all barriers to the free movement of goods and services, capital and labour, Eastward Enlargement will affect the location of economic activities, innovation and technology. Subsequently, the need for economic readjustments will impose extra difficulties at national, regional and sector levels. These aspects have been analysed in several studies, stressing that the regional and social dimension of enlargement as well as the effects on cohesion, have to be taken into account when conceiving EU policies.

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1. Introduction

This paper explores some features of the political and social dimension of enlargement regarding the Southern EU-Member countries, namely Portugal, Spain and Italy. Economic theory suggests that integration may affect wages, employment and income distribution through changes on trade, FDI and migration flows. By removing all barriers to the free movement of goods and services, capital and labour, Eastward Enlargement will affect the location of economic activities, innovation and technology. Subsequently, the need for economic readjustments will impose extra difficulties at national, regional and sector levels. These aspects have been analysed in several studies, stressing that the regional and social dimension of enlargement as well as the effects on cohesion, have to be taken into account when conceiving EU policies.

The paper begins with an analysis of the main characteristics of labour markets in Portugal, Spain and Italy, focusing on the recent developments concerning unemployment. Some aspects related to poverty and inequality will be also analysed in order to outline the key social problems in these countries. Secondly, a brief review of labour market policies and institutions as well as of national security systems will be made. In the next section, some remarks on the political and social attitudes towards enlargement are presented. Finally, the paper gives an overview on the potential impacts of enlargement on Southern EU countries, enhancing those emerging from higher competition levels on the accession to EU markets, production displacement and EU structural funds reduction. Section 6 concludes.

2. Social Problems:

2.1. Unemployment: Recent developments

Several studies have suggested that enlargement will have some possible undesirable effects on the labour markets of the current EU members (see for example Boeri, et al (2002)). Labour markets within the EU are diverse and therefore there are quite different adjustment potentials. As a consequence, there will be higher pressure on countries and regions that are more vulnerable, like several regions in Italy, Portugal and Spain. This section, gives an overview of these countries recent labour market performance, analysing in particular the characteristics of unemployment. In fact, unemployment maybe considered one of the major problems that may affect cohesion within an enlarged Europe.

The analysis of aggregate unemployment in the EU since 1990 (table 1), reveals that while the unemployment rate has increased between 1990 and 1994, it has declined notably after 1997 until 2001. Both the Iberian countries and Italy have followed this trend, but the decline in unemployment has been particularly significant in the case of Spain. In fact, Spain has been consistently the country in the euro area with the highest unemployment rate, but between 1990 and 2000, has been also the country that exhibited a greater decrease in the unemployment rate. On the other hand, Portugal has been one of the countries with lower unemployment rates in the EU. However, there has been a sharp increase in Portuguese unemployment rate in recent months, following the slowdown in the economic activity. As a consequence, the unemployment rate is getting closer from the European average.

Despite the different developments in terms of unemployment, in all the three countries there are evidences of labour market problems, as it is possible to observe several indicators of inefficiency in these countries. In particular, one may identify some important labour market mismatches, that is, situations where the unemployed present different characteristics from the ones required for the jobs available (in terms of education, occupation and region).

In all the three countries (Portugal, Spain and Italy) the unemployment rate is higher for individuals that have low educational attainment and low skills. But, as in other aspects, there are differences among them. Educational mismatch has decreased sharply in Portugal between 1992 and 2000, whereas it has increased in Italy. On the other hand, the employment growth has been bigger for highly skilled occupations, which has originated an increase on the occupational mismatch. In Portugal, according to the European Central Bank (2000), labour demand seems to exceed labour supply in craft and related occupations. In Spain the same situation seems to occur for agricultural and fishery workers besides craft and related trade workers. In terms of sectors, unemployment appears to affect more the services sector in both Portugal and Spain (see OEFP, 2000 and Instituto Nacional de Estadistica, 2002).

Furthermore, unemployment affects more women than men (table 2) and in particular the young individuals (table 3 to 5). Youth unemployment is particularly serious in Spain and Italy, exhibiting much higher unemployment rates among the young individuals than Portugal. In fact, half of the young unemployed within Europe live in Spain and Italy. In Italy, it is particularly striking the high level of unemployment for younger workers in the Southern part of the country. However, in Portugal the rate of youth unemployment is also significant, as it is more than the double of the overall unemployment rate. It should also be mentioned that in Portugal youth unemployment (individuals under 25 years old) is more serious for those with low and average levels of educational attainment. By the contrary, in Spain and Italy the unemployment rate is particular higher among those with an university degree (Dolado et al, 2000 and Kostoris,1999). To this respect, Kostoris(1999) argues that it might be more the type of education than the level of education that influences the probability of employment for young individuals in these two countries.

In terms of unemployment duration all three countries display a higher percentage of long-term unemployment than short-term unemployment. Yet, long-term unemployment declined along the period of 1990 and 2000, especially in Spain and Italy. In Portugal there was a sharp reduction on the share of long-term unemployment between 1997 and 2000 (OECD,2002). As it should be expected, among those with long-term unemployment women are always more affected than men.

One important indicator of labour market efficiency is the regional mismatch. This kind of mismatch may reflect low labour mobility and/or capital mobility as well as imbalances on the regions' level of economic development. In the euro area the regional mismatch seems to have declined between 1990 and 1999, although not for all the countries (European Central Bank, 2002). This aspect is particularly important in the case of Italy, where there are obvious differences between the Mezzogiorno and the North. The differences on the unemployment rates between the regions of Centre North and of the South are well known (table 6). In fact, the regional dispersion on the unemployment rates in Italy is probably the largest among the OECD countries. In the South region there is an abundance of workers and a scarcity of jobs, whereas the state of affairs is the opposite in the Northern regions (see Franzini, 2001). Franzini (2001) also refers that future demographic developments may turn these differences more serious.

Nevertheless, regional differences are also significant in Portugal and specially in Spain. In the case of Portugal, there are clear differences among the several regions, with Alentejo and Lisboa e Vale do Tejo presenting the highest unemployment rates (table 7). Moreover, there is also an obvious disparity in Portugal between the coastal area and the interior of the country, as the interior areas are more affected by unemployment. Yet, Portugal has exhibited a sharp decline on the regional mismatches in recent years. The European Central Bank (2002) indicates that some labour market reforms, demographic developments together with an increase on labour market mobility may be responsible for this strong reduction. As for Spain (table 8), there are clear disparities among regions like Andalusia, Extremadura, Asturias, Cantabria, Galicia and the two Castiles (with unemployment rates above the Spanish average) and Aragon, Balearic Islands, Navarre and La Rioja which presented in 2001 unemployment rates around 5% (much smaller than the average).

It is important to emphasise that the high unemployment rate in Spain is accompanied by a very low participation rate, much lower than Italy and specially than Portugal. In fact, Portugal displays a higher participation rate than the European average. For both Portugal and Spain, the employment performance was good for along the 1990s, with employment and participation increasing more rapidly than in the EU. However, Spain is the country where the employment growth rate has been higher. In Italy, there is a relatively low level of the participation rate (specially for women), but with marked regional differences, as the level of labour force participation is much higher in the Center and the North of the country (Prasad and Utili, 1998).

For both the Iberian Peninsula and Italy the growth of employment was associated with an increase in part-time employment, mainly in Portugal. In addition, all these countries show a high proportion of other atypical forms of work, like fixed-term contacts, self-employment and even a high rate of employment in the informal sector, mainly in the case of Italy.

2.2 Some dimensions of Poverty and Inequality

Income inequalities and poverty levels within the EU are important aspects of social cohesion. Analysing cross-national differences in terms of inequality of income distribution in Europe, one may conclude that inequality is higher in countries like Portugal, Italy, Greece and Spain as well as Ireland (see for example Fouarge, 2001 and Ardy et al, 2002). This is especially apparent when taking into account total income (that is original income plus social transfers). In fact, before benefits, countries like UK and Ireland reveal higher income inequality than Portugal, Spain and Italy (which has one the lowest rates of inequality before benefits). Yet, when considering total income Portugal stands up as the country with highest income inequality, followed by Greece, Spain and Italy (see Eurostat, 2000).

Previous studies analysing Portugal and Spain (see Jimeno et al, 2000), have concluded that there has been a substantial decrease in income inequality during the 1980s. Nevertheless, income inequality increased in Portugal in the 1990s whereas it was more or less stable in Spain.

As Portugal, Spain and Italy present high levels of income inequality it is therefore expected that these countries show also high levels of poverty. This is confirmed when considering the incidence of poverty after benefits. Indeed, before social benefits, Italy has the lowest poverty rate in Europe whereas Portugal and Spain are among the EU member states where the proportion of the population affected by poverty is around the average (Eurostat, 2002). However, after social transfers all three countries display higher levels of poverty than the EU average. In fact, Portugal and Greece present the highest proportion of population with income less than 60% of the median (Eurostat, 2002 and Ardy et al, 2002). As a consequence, social benefits in Portugal have a very low impact on poverty rates, unlike other European countries. Portugal has one of the highest proportions of beneficiaries of social transfers (around 85% or more) but social benefits other than pensions represent only a fifth of total income (which is less than the EU average). On the other hand, in Spain and Italy the percentage of beneficiaries is around 58% and 51%, respectively, according to Eurostat (2000). These two countries also exhibit low shares of social transfers (without pensions) in total income, specially in the case of Italy (around 3%).

Recent research (for example Cantillon et al, 2002) concluded that there is a very strong positive correlation between the incidence of low wages and the incidence of poverty. Poverty tends to be higher in countries with similar occurrence of low pay. Analysing the wage levels within the

European Union, it is clear that Portugal has the highest incidence of low wages. Labour income is also the most important part of individual income and the factor which has the highest contribution to total income inequality in both Portugal and Spain (Jimeno et al, 2000). It is, therefore, relevant to analyse the evolution of wage inequality. To this respect it seems that in both Portugal and Spain wage inequality has been rising, particularly in Portugal.

Other aspects to consider are the possible differences among the regions and industry sectors. Both Portugal and Spain display regional differences in terms of level of development. Relatively to wage levels there are wide disparities among the regions in both countries, although the differences are much higher for Spain. On the contrary, interindustry differences in wage levels are much smaller in Spain than in Portugal. In Portugal it seems that workers in textile industry endure a high wage disadvantage, which is related with the low wage policy to maintain competitiveness in terms of exports (Jimeno et al, 2000). In Italy, both interindustry and interregional wage differentials seem to be relatively modest when compared to the majority of EU countries (Prasad and Utili, 1998).

3. Policies and Institutions

3.1. Labour Market Policies

Labour market performance is affected by the country's characteristics in terms of wage bargaining systems, employment protection legislation as well as the tax and benefit system. The analysis of these characteristics gives an indication about the ability of the countries to face the challenges of enlargement.

A rigid employment protection legislation might reduce substantially labour market flows and therefore to favour long-term unemployment. To this respect, although several changes in legislation were introduced in the 1990s in Portugal and Spain, both countries have been considered to have (together with Greece) the highest levels of employment protection in the EU (see for example Boeri, 2000). According to Boeri (2000) and Nickell and Nunciata (2002), Italy also presented a high degree of employment protection in the 90's, when compared to most EU countries. However, the Central Bank of Italy (Central Bank of Italy, 2002) argues that these assessments highly depend on the amount of the monetary cost of dismissals in the country. If that aspect is not considered, Italian employment protection laws might be among the least restrictive in the EU.

Regarding passive labour market policies and in particular the strictness of protection against dismissals and functional mobility, legal procedures in Spain and Portugal are considered to be very similar (see Bover et al., 1999). Nevertheless, according to Boeri (2000), despite the fact that employment protection for permanent employees is higher in Spain, and that in Portugal firing restrictions were eased after 1991, Portugal is internationally classified as a country with stricter employment protection. On the contrary, Bover at al (1999) refer that the impact of legal procedures depends on the application and interpretation of legislation and conclude that the Portuguese implementation of its legislation makes the employment protection much moderated.

One response to the rigidities in the labour market in both Portugal and Spain, has been the increased use of fixed-term contracts. Fixed-term contracts were introduced in Spain in 1984, with the purpose of slackening employment protection and reducing firing costs. As a result, fixed-term contracts have become widespread and in the 1990s these type of contracts represented over 30% of total employees (Teixeira ,2001). Moreover, despite government interventions in 1994 and 1997, to increase restrictions on fixed-term contracts and to promote permanent employment contracts, the proportion of fixed-term employment remains considerably high in Spain.

In Portugal, fixed-term contracts have increased considerably, when compared with most EU countries, but they have been much less important than in Spain (Teixeira, 2001). Even though fixed-term contracts were introduced earlier than in Spain (1976), Portugal followed a different path, by approving legislative changes in 1989 that made fixed-term contracts more restrictive and maintained severance payments similar for temporary and permanent contracts. In 1996, however, new legislation allowed a wider use of atypical work contracts. In Italy, according to Boeri (2000), after the reform on employment protection legislation in 1987, fixed-term contracts could be used more extensively, if it was allowed by collective agreements. Nevertheless, the importance of fixed-term contracts in Italy is considerably low when compared with Portugal and specially with Spain (see Central Bank of Italy, 2002).

The rigidity of labour legislation has also contributed to the development of other several atypical forms of employment in all three countries like part-time employment, self-employment or independent contractors (a form of self-employment, where legally the worker is self-employed but in fact he is an employee in the firm. This has been used in Portugal extensively).

During the 1990s both the Iberian countries and Italy have carried out several reforms in their labour market institutions, in order to improve the functioning of their labour markets. The type and scope of the reforms differ among the countries, but most changes were very limited. However, recently all three countries have undergone a process of reform. Some recent initiatives from the governments in Spain and Italy to change legislation, have originated general opposition from both unions and workers. Currently the Portuguese government is trying to introduce some reforms on labour legislation in order to improve flexibility and productivity, arguing that the changes are necessary giving the future enlargement. This has been generating extensive opposition from unions and most workers, causing social turbulence with the occurrence of demonstrations and strikes.

Another important indicator of labour market flexibility is the bargaining structure, which may affect wage levels and macroeconomic performance in several different ways. The bargaining process is characterised in terms of its degree of centralisation and coordination. Spain and Portugal exhibit average levels of co-ordination and centralisation of their wage bargaining process when compared with the other European Union Countries. In both countries the wages are determined by collective bargaining for most workers and unions enjoy bargaining power. Bover et al. (1999) mention that, although the regulations governing collective bargaining are very similar, in practice Portugal shows significant wage flexibility when compared to Spain. This follows in some way from the settling of the minimum wage floors, set at a much lower level in Portugal. On the contrary, Italy appears to have a considerable level of wage rigidity (Kostoris, 1999). Moreover, the bargaining process is not much different from the ones is Portugal and Spain. Since 1987, the EMU objective led to several tripartite pacts in Italy. The 1996 pact focused on income and social policy and labour market measures, covering pay raise ceilings, levels of minimum wages, easing regulations on the organization of work and regulation on working hours.

Tax and benefits systems may also affect labour market performance as they influence both supply and demand of labour. A cross-country comparison of social and unemployment benefit systems is not simple as there are considerable differences regarding entitlement conditions, eligibility criteria, duration and rate of benefits. While in Portugal and Spain both unemployment insurance schemes (UI) and unemployment assistance schemes (UA) are provided, in Italy only unemployment insurance schemes exist. Moreover, the duration of the unemployment benefit is rather short and the replacement ration is very low. According to Franzini (2001), the lack of unemployment assistance is a very serious problem especially due to the rapid expansion of atypical workers with unstable contracts who generally are not eligible for insurance benefits under the current system. In fact, several authors (Franzini, 2001, Boeri, 2000) mention that in Italy generous unemployment benefits have never existed, at least for the great majority of unemployed people.

According to Bover et al. (1999), in Spain there was an increase in the generosity of unemployment benefits between 1984 and 1989 and a reduction after 1992, together with a rise in the unemployment coverage between 1980 and 1992 and reduction after 1992. In Portugal, before the introduction of unemployment insurance benefits in 1985, unemployment assistance benefits were covering only 10% of the unemployed. Even after the introduction of unemployment insurance benefits, eligibility criteria were considerably severe. Only in 1989, the above-mentioned criteria were eased and the maximum duration period was increased for both insurance and assistance benefits and the coverage became wider (around 40%-50%). Although Spain has tightened the eligibility criteria, the qualifying conditions for the unemployment insurance system in Portugal are still stricter. In fact, Bover et al. (1999) consider the Spanish assistance benefits system more generous than the Portuguese. When compared with most countries Spain has with no doubt a generous benefits system. However, the Portuguese benefits system is more generous than the Spanish one in what concerns older people (between 45 and 64 years old), which represents a high share of the workers receiving benefits.

In Italy, eligibility conditions are similar to the ones in Portugal, even though less strict. Boeri (2000) refers to the Italian design of unemployment benefits as "by far the least generous in Europe". In fact, the system of income support appears to be very generous with those workers who risk loosing their jobs when redundancies occur in large manufacturing enterprises, but these represent only a small fraction of the "unemployment pool". Overall, unemployment insurance benefits are unevenly distributed across the different categories of workers.

Referring to tax systems, in general terms over the past few years several countries in Europe have implemented tax cut measures, among those were Italy and Spain. Regarding the composition of the tax burden on labour, Carone and Salomäki (2001) mention that Italy belongs to the group of EU Countries with a particularly high tax burden. From table 9, Italy is ranked 6th with an amount of social contributions of 32,2% of the average wage level and an income tax of

14,2% (above the EU averages). Italy used to be positioned at a much higher level but after late 90's, social contributions for the health service were abolished and a new tax on value added was introduced in their place. In both Spain and Portugal there are lower tax rates than in Italy. Although the tax burden in these two countries is higher than Ireland or UK, they enjoy two of the lowest tax burdens in the EU.

On the other hand, if we analyse the level of tax pressure with reference to workers earning less than the average wage, it is possible to observe that most member states succeeded in reducing the tax wedge on low and middle paid workers. Italy implemented the second highest tax cut, which affected the three categories similarly. In Spain, reductions were slightly greater for the low-paid. As for Portugal, reductions of the tax wedge were more significant for the average paid workers (see graphic 1).

3.2. Social Security Systems

Social security reform is very much on the top of the political agenda in Europe. The major reasons behind it lie on the problems that most countries are facing on financing the welfare state given the demand for social policy and the need to meet the criteria of the "Stability and Growth Pact". In fact, social expenditures represent a significant part of the public budget and it is expected that the demand for social policy will increase with higher unemployment rates, poverty and inequality as well as with the increase on the number of retired individuals.

Up to mid seventies, Southern European social security systems were almost inexistent, given the low level of social expenditure. Since then, these countries' Welfare systems have undergone a deep process of change. For both Spain and Portugal, integration in the EU was the main responsible for the evolution on their social security systems (Guillen et al, 2001).

The level of social expenditures as a percentage of the GDP is very different among the EU states, although differences have been gradually reducing. Portugal, Spain and Italy are among those countries which display lower levels of social expenditure, still below the EU average (table 10). Nevertheless, they were the ones which registered the higher increase in social protection since 1980 (Guillen and Alvarez,2000). It is also worth to note that the evolution of expenditure over GDP was not equal for all the countries. Portugal departed from a lower position than Spain and made a higher effort to approximate the levels of social expenditure to the EU average. Yet, Spain continues to display a higher intensity of protection than Portugal (Guillen et al, 2001).

Concerning the composition of expenditures on social benefits in Europe, expenditure in pensions represents a high share of GDP and also the highest proportion of total social security expenditure (Table 10 and 11). Italian pension expenditure is proportionally higher than all other European countries. In fact, in 1999, according to Eurostat (2002a), Italy was the country with the biggest proportion of pensions expenditure in GDP while Portugal and Spain were the countries with the smallest shares of GDP spent on pensions.

In all the three countries, like in other European states, old-age pensions represent the major part of pensions expenditure and it has been increasing. If we analyse the evolution concerning the weight of old-age pensions in the value of all pensions, Portugal exhibits a higher growth rate than Spain and Italy. Moreover, during the 1990s the old-age pensions expenditure increased in Portugal by 79%, which is the highest growth rate in all Europe (table 11).

In all Europe higher life expectancy together with lower fertility rates have substantially increased the number of retired individuals. To this respect, Italy and Spain display older demographic profiles than most other European countries. These developments are creating huge pressure on the pension systems. As a consequence, the reform of the social security systems and in particular of public pension systems has already started in Portugal, Spain and Italy, although in a different degree. Italy has succeeded in introducing a radical reform whereas Spain and Portugal have carried out only moderate changes.

In order to restrain costs, Italy implemented several reforms in 1992: the age of retirement and the minimum number of years of contributions required for receiving old-age pensions were raised, pensions were indexed benefits to prices instead of wages and the reference period used to calculate the value of pensions. Other changes were further introduced in 1995 in order to restrict the connection between pensions and the individual's contributions (Franco, 2000).

Portuguese pension system has two parts: a contributory scheme and a social pension plan for those who never contributed. In the contributory scheme the benefits are indexed to the wage and workers can also make additional contributions to private-sector pension schemes. Recent modest reforms that were introduced comprise changes in the pension calculation formula and the establishment of private pensions. At the moment the Portuguese government is proposing further reforms on all the social security system.

Regarding Spain, there is a general contributory scheme, a non-contributory scheme and a private scheme of pensions. However, this last scheme, which exists since 1987, does not have so far much importance in pension income. Reforms in the pensions system were implemented in 1997 and, among other changes, the indexing of benefits to inflation instead of to wages was established.

Sickness and healthcare has the second highest share of total social protection expenditure as well as the second proportion of GDP (table 10) for the three countries. It should be also mentioned that Spain displays higher expenses on unemployment protection than most European countries. This is of course not surprising given the fact that Spain has been exhibiting the highest unemployment rates in the European Union. Yet, most expenditure on employment policy is directed towards passive labour market policies (Martin, 2002). On the other hand, Italy displays a low proportion of GDP on unemployment benefits, below the EU average and also below Portugal and Spain (table 10).

4. Some Remarks on the Socio-Political Support of Enlargement

Unlike the EU enlargement towards the South (Portugal, Greece and Spain), which remained in the domain of diplomacy, foreign policy and business (Inotai, 2000), the present enlargement is becoming a meaningful discussion issue for public opinion and political parties. However, the situation is not equal throughout the several member states. According to the Eurobarometer surveys (European Commission, 2002), Portugal, Spain and Italy disclose the highest degree of unawareness about the candidate countries. In fact, when asked to mention three of the candidate countries, “none” appears as the category presenting the highest values. Portugal, for instance, exhibits two noteworthy figures (74% in September and 67% in November), followed by United Kingdom (74% and 60%), Spain (69% and 59%) and Italy (64% and 48%). The evolution of the average number of correct answers is also significant as the highest rate of growth was registered in Italy (57,1%) while in Portugal and Spain it did not go beyond 16,7% and 14,3%, respectively.

Regarding public opinion support towards the enlargement process, the Eurobarometer of November 2002 reveals different positions for the Southern European countries. Italy, for instance, emerges as the strongest supporter with 82% of the inquired citizens in favour of the Eastward enlargement. As for Spain, it comes up in third place with 73% in favour. Portugal displays a rather different situation with 62% in favour, which stands well below the EU-average. In fact, only Austria, UK, Sweden and Finland present smaller figures. Therefore, one may assume that there is in fact some support towards the enlargement, although not very enthusiastic, which may implicitly be understood as a sign of outlying or suspicion.

Even though the Southern EU member countries do not express a hostile attitude towards the entrance of the new members in the EU, the perspective of enlargement raises a number of concerns. Among those, the fear of loosing EU structural funds and of facing harmful outcomes arising from the increase in competition and the reallocation of multinationals are the most important. This is particularly perceived in Portugal, where a growing number of enterprises have recently been facing serious difficulties, some of them resulting in bankruptcies and closures, which have registered a very significant rise in the last few months. This has been involving multinational firms in several sectors, which have announced their reallocation to other countries like Hungary and Romania. Similar events have been occurring in the Spanish motor manufacturing sector.

It is, therefore, not surprising that Portugal reveals a high degree of agreement about the fact that enlargement will imply high costs for the country (fourth position concerning the Eurobarometer results for this question among EU countries). As for Italy, it occupies the last position concerning this issue. Nevertheless, while enlargement appears as particularly important for Italy, it assumes a remarkable small degree of importance for Portugal. Spain stands roughly between these two positions. In fact, the Eurobarometer of November 2002 indicates that 76% of the inquired Italian citizens answering positively to this question, which gives Italy a meaningful second position among the EU countries for which enlargement has a high degree of importance, 63% for Spain and 51% for Portugal, which occupies the last position.

The same opinion survey also suggests that Portuguese do not believe on the fact that enlargement represents increased opportunities for national firms to expend their exports while Italian and Spanish express in a quite different position. To this respect, Portuguese newspapers stress out that Portuguese entrepreneurs feel there are more risks attached to the enlargement process than opportunities. The main arguments supporting this view differ across economic sectors. For instance, regarding the construction sector, entrepreneurs are concerned with the possibility of national enterprises not being able to succeed in moving towards CEEC markets due to a greater competitiveness of EU companies and to geographical distance. To the motor vehicles and parts industry' entrepreneurs the critical issue relates to the CEEC labour market features and energy costs. As for the Banking sector, economic agents feel that this is one of the economic sectors that may not be harmfully affected by enlargement, since the wideness of EU frontiers implies an increase on financial flows.

In relation to potential migration towards the national territory in all the three countries there is a higher perception that there will be an increase in the number of migrants entering the country, than among the universe of the EU Member states. This is a very interesting result since it deeply contrasts with the scientific views expressed in the majority of the studies conducted in this particular area, especially in the case of Portugal and Spain. Most studies state that migration flows will not be evenly distributed across the EU and that migration pressure will be experienced mainly by border countries like Germany or Austria (see Heijdra et al., 2002; Boeri and Brücker, 2000; Grassini, 2001).

Different positions among these countries concerning the effects over welfare and unemployment are also observed. Given the previous remarks, it is not unexpected that Portuguese citizens appear as the ones fearing increases in unemployment the most (57% of the inquired citizens believe that enlargement will drive unemployment up). Italy and Spain stand below the European average. In what concerns welfare outcomes, Portugal appears in fourth place among those which agree the most with the possibility of adverse consequences over welfare (58% of the inquired citizens). In Italy and Spain only 31% and 30% (respectively) agree with that possibility.

At a more political and institutional level, Eurobarometer data also shows that Spain and Italy do not believe enlargement will weaken their role in the enlarged Europe. Portugal reveals itself more concerned with this possibility. Nevertheless, risk of EU collapse must be taken into account due to a growing complexity in managing countries' heterogeneity. Moravcsik and Vachudova (2002) refer precisely that the highest costs of enlargement for the EU-15 may be more political than economic. According to the same authors, among some of the EU voters, enlargement is an unpopular issue associated with illegal immigration, international crime and unemployment.

Therefore, even though there is no clear evidence supporting that kind of connection, European politicians have to reassure, al least partly, the restless voters.

Taggart and Szczerbiak (2002) evaluate political parties' positions concerning European integration and formulate some pan-European comparative points about party-based Euroscepticism. Positions of strong Euroscepticism are not identified in any of the three Southern EU Member countries. However, it is possible to find evidence of soft Euroscepticism in some political parties in Italy and Portugal (Northern League and National Alliance – Italy; Communist Party and Greens – Portugal). These parties hold a low vote share and therefore a relatively weak power in the universe of those countries' politics.

Sitter (2002) emphasizes the relationship between Euroscepticism, the politics of opposition and party competition, mentioning that Euroscepticism is a result of parties' strategic choices in the light of survival, ideology, organisation and the pursuit of office. Therefore, on analysing political parties' position towards European Union and the enlargement process, one must take into account the interaction between political parties and their relative position in the political system. Concerning Portugal, for instance, the signs of soft Euroscepticism arising from the Communist Party and the Green Party are mainly related to their ideology. Like most green and "left socialist" European parties, they criticize free market economics and other features implied by the idea of European integration. Therefore, even though a principled objection to European integration is not assumed, these parties show some concern on a number of policy areas and feel that at a number of times national interests may become at risk. Southern European governments and main political parties, on the other hand, support the Eastward enlargement and believe that each one of the candidate countries should be evaluated according to their specific characteristics and economical evolution.

In general, the main source of concern lies on the future financing system of an enlarged European Union, which should be able to promote economic and social cohesion. According to Moravcsik and Vachudova (2002), the conventional view of enlargement assumes that increasing the number of member states will put considerable pressure over the financial transfers and will tailback EU's decision-making process. The authors highlight that the real issue is not the number of members per se, but the increasing diversity of interest and the possible emergence of "an effective block of new states". Furthermore, specific voting coalitions may be strengthened. They refer Poland and France as an example: while they may arise as competitors for agricultural subsidies, Poland may also appear as France's ally in preserving a generous CAP. According to the authors "enlargement is more likely to reinforce current EU trends toward slower legislative and reform output, greater budgetary conflict over structural funding, more pressure to reform the CAP, greater *pollarization* of governance, a stronger Council vis-à-vis the Commission, more recourse to flexibility and coalitions-of-the-willing, a shift in focus from deepening to widening– and, above all, an emergent *constitutional compromise* in which the policing of markets is internationalised but social, cultural, educational, and other policies remain largely national".

5. Possible impacts of Enlargement

Previous research have concluded that there will be important impacts on economic growth and well-being arising from increasing trade and foreign direct investment (FDI) flows between EU and the CEEC (see for example Martin et al., 2002; Belke and Hebler, 2000; Grassini, 2001; Heijdra, 2002; Forum Economique Franco-Allemand, 2001; Lejour et al., 2001). Several studies refer that the border regions will be potentially more affected by enlargement and stress that the direct economic effects of enlargement on the EU-15 will be mainly concentrated in Germany and Austria. However, indirect effects have to be also taken into account, namely the possible negative impacts on cohesion. Kittel (2002) suggests that the enlargement will increase heterogeneity within Europe and that the viability of the so-called European Social Model will depend on the implications for trade and FDI. A deeper economic integration may not necessarily result on further cohesion and diverse effects may occur across different regions and sectors. The Southern EU countries are probably among the least benefited by the enlargement process due to the similarity on export patterns, possible diversion of FDI and reduction of these countries share of EU structural and cohesion support. Subsequently, these countries fear that their economies may be indirectly affected, specially in regions highly dependent on specific industrial sectors that may suffer severe employment and income adjustments.

Geographical and economic factors have to be considered when anticipating the trade impacts of enlargement. Southern EU member states, in particular Spain and Portugal, are apparently in the worst position to take advantage of reciprocal openness not only due to geographical distance but also as a result of these countries' export structures and increased competition in EU markets from the new member states. Portugal does not meet the necessary conditions to gain substantial market shares in the CEEC because of its geographical location and of its export profile. Trade creation effects are therefore not very significant and CEEC' competition in EU markets may also affect seriously the Portuguese economy through trade diversion in some sectors (Caetano et al., 2002). Previous studies have also reached similar results, concluding that Portugal will be the country receiving fewer benefits from the enlargement process (see Emerson and Gross, 1998; Breuss, 2001). To this respect, Heijdra et al. (2002) refer that Portugal reveals the worst results concerning overall welfare effects. Italy and Spain are in a different situation as these countries may be also affected by CEEC competition but they are considered among the beneficiaries of total opening of domestic markets to the CEEC. Concerning Italy, Dohrn et al (2001) detect trade diversion above average but also trade creation above average. For Spain, on the other hand, below average trade diversion and trade creation effects are identified.

In contrast, Boeri and Brüker (2000) suggest that there is no ground for the Southern countries' concerns about the indirect effects of enlargement, since there is no evidence that their exports to the major CEEC' trading partners in the EU have been falling. Moreover, similarity between EU-imports from the CEEC and EU-imports from the Southern countries is no longer apparent when comparing EU-imports from the CEEC and EU-imports from other industrialized countries. The same authors also argue that the CEEC' producers do not compete with producers from the Southern countries in the same market segments. However, recent trends on trade flows show that there is an increasing similarity on the unit values of the EU-CEEC exports.

In order to determine the effects of enlargement over the Southern European countries' labour markets and social environment, it is also important to examine the indirect consequences arising from possible diversion in FDI flows. Caetano et al. (2002) found no evidence of FDI diversion from the Southern countries to the CEEC over the sample period held in the study (1993-1999). Nevertheless, it is also mentioned that those results do not guarantee that FDI diversion will not happen in the future as countries like Portugal may have difficulties in attracting foreign investments or even in preventing previous established firms from reallocating their activities towards the CEEC. Firms may be attracted by location advantages, lower production costs (fundamentally lower labour costs) and higher skilled labour in the CEEC. Kittel (2002) mentions the fear of social dumping, since it is expected that these countries attract substantial foreign direct investment, thereby increasing pressure on the social security systems of the lower-income EU member states. Yet, other studies reach opposite conclusions (for instance Brenton, 1999 and Buch et al, 2001). Before 1990, peripheral EU regions with relatively low labour costs have attracted labour intensive productions. After the opening of Eastern Europe they lost their comparative advantage. Even so, it is admissible that FDI reacts slowly to the deepening of integration with the CEEC.

The possible overall impact of enlargement trough competition for FDI and trade on the economic performance of cohesion countries and regions might to be marginal (see Ardy et al., 2002). Nevertheless, even in this case cohesion countries' concerns about the potential direct and indirect effects of enlargement are expected, as specific regions and sectors are likely to be negatively affected. FDI induced by low labour costs may affect wages and employment of unskilled workers in specific firms and branches, such as clothing, footwear, electrical machinery, rubber and plastic products (Boeri, 2001). Additionally, the accession of the CEEC may reduce by over 2% the production of textiles and leather, according to Lejour et al. (2001). The intensity of these developments on trade and FDI has consequences over the aggregate demand and employments, which depend on how each member country will react to trade and FDI adjustments resulting from enlargement.

In Portugal, for instance, it is not surprising that there is a general apprehension about negative effects steaming form Enlargement. In fact, the country has been facing a worrisome situation as, in the last year and over the last few months, several multinational firms have been announcing dismissals and ceasing their activities, choosing other countries to allocate their production, not only in traditional sectors such as textiles, clothing and footwear, but also in motor manufacturing, metallurgy, electric components and food industry. These had severe impacts on unemployment in specific regions in Portugal. Recent regional unemployment statistics from the National Statistics Office of Portugal (December 2002) reveal an increase of 31,5% in the unemployment rate for Vale do Ave and of 28% for Beira Interior, both important cores of textiles and clothing industries. Even though a recently released study on the Portuguese textiles sector does not find evidence that firms whose products compete with Portuguese textiles are located in the CEEC or Asia, but rather on high-wage countries such as Germany or Denmark (see Bessa and Vaz, 2002), enlargement is seen as a source of pressure since several companies in the sector have been closing. Meanwhile, there are also examples of reallocation processes taking place in Spain mainly in the motor manufacturing sector (Artiles, 2003).

Portugal, though, faces the additional challenge of competition from Spain, as multinational firms are going through a process of reallocation across the Iberian area. This situation was triggered in 1986 and has become progressively more pronounced (see Caetano, 1998). Not only does

Portugal has to face the negative impact on employment related to the reallocation of production activities towards the CEEC, but also the loss of important decision centres on national territory related to the displacement of certain services and high skilled workers to Spain.

The effects of structural funds over cohesion should also not be neglected, in particular for poor regions in Portugal, Spain and Italy. Enlargement will imply a reduction in the EU average GDP and, as a consequence, a rigorous interpretation of the criteria used for designating Objective 1 regions would mean the loss of Objective 1 status for some regions in all cohesion countries. Ardy et al. (2002) mention that the increase of structural expenditure in the new member states is likely to cause reduced expenditure on poorer EU-15 member states and regions which will result on problems for cohesion in Europe. Since the major revision of EU structural funds in 1989, Spain has been one of the main beneficiaries of these funds in absolute terms. Davies and Hallet (2001) refer that almost the whole country is eligible for assistance for lagging regions (Objective 1), industrial regions (Objective 2) or rural regions (Objective 5b, now under Objective 2). Martin et al. (2002) state that maintaining the present eligibility criteria for receiving structural funds under Objective 1, would mean a decrease on the eligible regions from ten at the moment to three in 2007 (Andalucia, Extremadura, and Galicia). Likewise, for Portugal, the de-designation of the Lisboa e Vale do Tejo region from Objective 1 is a serious problem, which has been temporally solved by changing the scope of the regional administration's intervention area (the regions' distribution through the different coordination organisms has been altered through an arrangement aiming to form smaller regions in order to retain Objective 1 designation). As for Italy, it remains the second largest recipient after Spain, receiving significant funds for the Southern Objective 1 regions (*Mezzogiorno*) and also additional EU structural aid for areas in the Centre-North under Objective 2, as well as finance for labour market programmes under Objective 3 (Davies and Hallet, 2001). However, Martin et al. (2002) argue that the essence of structural support is that it should be lost once the economy grows and indeed, many regions are expected to loose their classification as "objective 1" after 2007, independently of enlargement, due to their economic growth.

The introduction of the Euro brings additional challenges, which have to be taken into consideration together with the enlargement process. The process of adaptation to the new policy regime is raising further difficulties to some countries and regions, which turns the context of enlargement more complicated. Considering again the example of Portugal, in order to meet the conditions of the Stability and Growth Pact, the government has been undertaking several measures to deal with a high budget deficit and this is revealing itself extremely costly in terms of unemployment and economical growth.

Moreover, there is also a political issue on the line. Enlargement may challenge European Welfare States in several ways concerning coverage and financing. The EU member states which emerge as the ones with the highest potential economic and political benefits from enlargement, seem to be unwilling either to increase their budgetary contributions or to have their revenues from CAP (Common Agriculture Policy) reduced. This may be problematic for the necessary political support concerning the enlargement process. Furthermore, the EMU enlargement poses additional problems and one may ask whether cohesion may be maintained and improved in a Union that becomes inevitably more heterogeneous.

6. Concluding Remarks

The Eastern Enlargement brings about important impacts on economic growth and well-being on both the CEEC and the current EU members, raising concerns about cohesion within an enlarged Europe. The intensification and diversification of goods, services, capital and labour flows, together with the broadening and full liberalisation of the internal market, will lead to structural changes in specific sectors and regions. Most fears are experienced by the least developed countries in the EU like the Southern European countries. This paper focuses on some aspects of the social and policy dimension of enlargement regarding Portugal, Italy and Spain.

Although these countries present different economical characteristics there are some important features that are common to all of them. Indeed, all the Southern European countries reveal inefficiencies in their labour markets and display high levels of inequality and poverty when compared with the EU average. Both Iberian countries and Italy stand up by the strictness of the employment protection legislation as well as by relatively under-developed active labour market policies and social security systems. As a consequence, in these three countries there is the feeling that comprehensive strategies for ensuring the sustainability of pension systems and public finances as a whole, as well as for increasing labour market flexibility have to be put in place. In fact, these countries are already engaged in a process of reforms in these areas.

This new phase of the EU enlargement will have distinct repercussions in each of the current EU member countries, including Southern members. Therefore, for these countries, an important issue is how labour, trade and direct investment flows will evolve. In fact, several studies have concluded that the Southern countries will be the least benefited by the enlargement process and there are indications that some sectors and regions might be negatively affected in these countries. Most uncertainties relate to possible trade and FDI diversion as well as reduction on the level of EU financial support by Structural Funds, which will have important impacts on production and employment in specific regions and sectors. Concerns are especially apparent in Portugal given recent economic developments: there has been a significant rise in the number of firms' bankruptcies originating a sharp increase on the unemployment rate and stagnation of GDP.

Given its potential effects, it is therefore not surprising that the Eastern Enlargement is becoming an important issue for public opinion and political parties discussion. Nevertheless, European opinion surveys suggest that attitudes towards enlargement are diverse, with Portugal emerging as the country where public opinion perceptions regarding the possible economical impacts are the least positive. In addition, in political terms there are some concerns related with the future politic power within the new Europe. There is the possibility that enlargement will shift the centre of decision in the EU further North and East, resulting in reduced voting power to the smaller countries in Europe.

Risks for both the current EU members and the accession countries will be always present following the increase in the degree of exposure of their economies to the rest of the world. In order to minimise these risks, significant adjustments on some EU policies, such as the agricultural and cohesion policies, as well on the European institutions are required. However, it is also important to note that many of the negative effects are closely linked to the specific dynamics of each country, which will determine different economic developments. To tackle the challenges of enlargement, Southern countries have to find strategies to enhance their competitiveness within a larger economic space. In order to accomplish this objective, these countries have to continue to promote suitable policies to improve crucial areas such as training, productivity, long-term domestic savings, R&D and technology, public sector as well as regulation of labour and product markets. Such efforts will minimize the inevitable risks associated with the process of supranational construction. In any case, it must be borne in mind that, in global terms, this process might be positive for the EU economy as a whole if the existent opportunities are seized.

Tables and Graphics

Table 1. Overall Labour Market Indicators

		1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Unemployment Rate*	Portugal	4,2	4,3	5,7	6,9	7,3	7,3	6,8	5,2	4,5	4	4,2
	Spain	16,4	18,4	22,7	24,1	22,9	22,2	20,8	18,8	15,9	14,2	12,9
	Italy	8,6	8,8	10,2	11,1	11,6	11,7	11,7	11,8	11,3	10,5	10
	EU	8,2	9,2	10,7	11,1	10,7	10,8	10,6	9,9	9,2	8,4	7,8
Labour Productivity (annual growth, %)**	Portugal	1,5	2,8	0	2	5,1	-	2,2	1,8	1,6	1,8	0
	Spain	1,6	2,5	2	2,9	0,9	1,2	0,9	0,5	0,5	1	0,3
	Italy	0,6	1,4	2,2	3,2	2,9	0,8	1,6	0,8	0,8	1,1	0,2
	EU	1,6	2,5	1,5	2,9	1,7	1,4	1,5	1,2	1,1	1,6	0,4
Participation Rate (% active pop. 15-64)**	Portugal	71	69,3	68,5	68,2	67,7	68	69	70,2	70,7	71,3	71,9
	Spain	58,9	58,8	59,1	59,5	59,7	60,3	60,9	61,6	62,5	63,9	64,7
	Italy	-	-	58	57,6	57,6	57,9	58,1	58,9	59,5	60,1	60,6
	EU	67,7	67,4	67,2	67,2	67,2	67,4	67,7	68,1	68,6	69	69,2
Total Employment (annual growth, %)**	Portugal	2,8	-0,9	-1,9	-0,2	-0,7	0,5	1,7	2,7	1,7	2,0	1,6
	Spain	1,2	-1,4	-2,8	-0,5	1,9	1,3	2,9	3,6	3,5	3,1	2,5
	Italy	1,9	-0,5	-2,5	-1,5	-0,1	0,6	0,4	1,0	1,1	1,9	1,6
	EU	-	-	-	-	1,0	0,6	0,9	1,7	1,6	1,8	1,2

Source: *Eurostat (2001a), *European Economy 2000* (Statistical Appendix), **European Comission (2002a), *Employment in Europe 2002.*

Table 2. Unemployment rates by gender

Portugal*

	1996	1997	1998	1999	2000	2001
Total	7,3	6,7	5,0	4,4	4,0	4,1
Men	6,5	6,1	3,9	3,9	3,2	3,2
Women	8,2	7,6	6,2	5,1	5,0	5,1

Spain**

	1996	1997	1998	1999	2000	2001
Total	22,2	20,8	18,7	15,7	13,9	10,5
Men	17,5	16,0	13,7	11,0	9,6	7,5
Women	29,7	28,3	26,6	23,1	20,5	15,2

Italy***

	1996	1997	1998	1999	2000	2001
Total	11,5	11,6	11,7	11,3	10,4	9,4
Men	8,9	8,9	9,0	8,6	8,0	7,3
Women	15,9	16,1	16,1	15,5	14,3	12,9

Source: *Central Bank of Portugal, *Annual Reports*; **INE, *EPA*;***Eurostat (1998), *Labour Force Survey.*

Table 3. Unemployment rates by age group - Spain

	1996	1997	1998	1999	2000	2001
From 16 to 19	50,9	51,0	44,5	37,8	34,3	28,7
From 20 to 24	39,3	35,7	32,7	27,0	23,6	18,9
From 25 to 29	29,2	26,9	24,3	20,3	17,5	13,2
From 30 to 34	21,6	20,7	18,7	15,4	13,6	10,1
From 35 to 39	17,1	16,9	15,7	13,4	11,9	8,6
From 40 to 44	15,5	14,7	12,9	11,3	10,3	7,7
From 45 to 49	13,4	12,7	11,9	10,0	9,3	7,1
From 50 to 54	13,6	12,1	10,8	9,2	8,2	6,6
From 55 to 59	13,8	13,9	11,9	11,0	10,1	6,8
From 60 to 64	8,4	7,3	7,5	7,3	8,1	5,4
From 65 to 69	1,8	2,4	1,4	1,4	2,4	1,7
70 and over	0,1	1,0	0,1	0,4	0,7	0,3

Source: INE, *EPA.*

Table 4. Unemployment rates by age group - Portugal

	1992	1993	1994	1995	1996	1997	1998	1999	2000
From 15 to 24	10,0	12,7	14,7	16,2	16,7	14,8	10,2	8,7	8,6
From 25 to 34	4,6	6,3	8,2	8,6	8,0	7,2	5,5	4,8	4,0
From 35 to 44	2,7	3,8	5,2	5,2	5,5	5,4	3,8	3,6	3,2
From 45 to 54	1,9	3,2	4,3	4,9	5,3	5,0	3,4	3,7	3,5
55 and over	1,6	2,7	3,2	3,1	3,4	3,7	2,1	1,7	2,2

Source: INE, *Statistical Yearbooks;* OEFP (2000), *Evolução e Situação no Mercado de Trabalho.*

Table 5. Unemployment rates by age group - Italy

	1990	1998	1999	2000	2001
From 15 to 24	31,5	32,1	31,1	29,7	27
From 25 to 54	7,3	9,1	8,9	8,3	9,6
From 55 to 64	1,8	3,8	4,2	4,1	4,4

Source: OECD (2002), *Employment Outlook 2002* (Statistical Appendix).

Table 6. Regional Unemployment Rate - Italy

	1998*	1999**	2000**
Piemonte	8,4	7,88	6,74
Valle d'Aosta	-	5,62	4,52
Liguria	10,2	10,79	9,37
Lombardia	6	4,94	4,48
Trentino-Alto Adige	3,7	3,86	3,06
Veneto	5,1	4,92	4,20
Friuli-Venezia Giuglia	5,1	5,58	4,25
Emilia-Romagna	5,6	4,84	4,71
Toscana	8,3	8,18	6,74
Umbria	9,2	7,15	6,73
Marche	5,3	6,52	5,44
Lazio	11,8	13,18	11,85
Abruzzo	9	10,62	7,64
Molise	16,9	16,61	13,59
Campania	24,8	23,67	23,60
Puglia	19,8	19,82	17,56
Basilacata	18,7	17,31	17,41
Calabria	27,4	28,68	27,73
Sicilia	24,3	24,76	24,22
Sardegna	20,5	21,88	20,47

Source: *Eurostat (1998), *Labour Force Survey*; Eurostat, *Regions: Statistical Yearbook (2001 and 2002b).*

Table 7. Regional Unemployment Rate - Portugal

	1998	1999	2000	2001
Madeira	3,5	2,8	2,5	2,6
Açores	4,5	3,3	3	2,4
Centro	2,5	2,1	2	2,5
Lisboa e Vale do Tejo	6,1	5,5	5	5,4
Alentejo	8,1	6,7	5,7	6
Algarve	2,5	2,1	2	3,9
Norte	4,9	4,4	4,1	3,7
Portugal	5	4,4	4	4,1

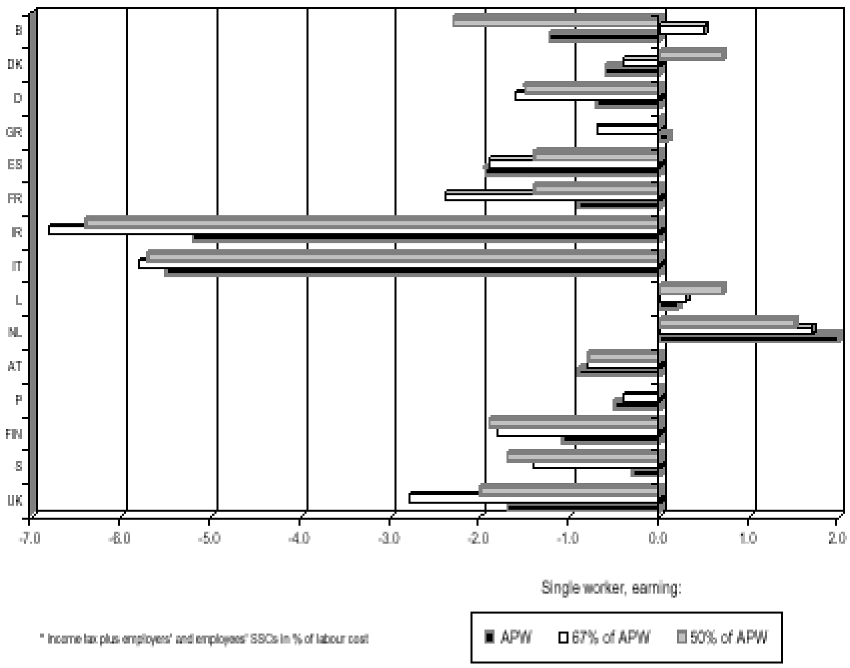
Source: INE (2001), *Statistical Yearbook 2001*; OEFP (2000), *Evolução e Situação no Mercado de Trabalho.*

Table 8. Regional Unemployment Rate - Spain

	1998	1999	2000	2001
Andalucía	29,4	26,6	24,3	18,8
Aragón	11,4	9,0	7,2	4,8
Asturias (Principado de)	19,1	18,1	17,1	7,8
Baleares (Illes)	11,1	8,1	6,4	5,9
Canarias	18,5	14,4	13,4	10,7
Cantabria	17,9	15,6	13,6	8,8
Castilla y León	18,2	15,4	13,8	10,0
Castilla - La Mancha	16,9	15,0	12,6	9,3
Cataluña	14,2	10,6	8,7	8,4
Comunidad Valenciana	16,6	13,7	11,5	9,3
Extremadura	29,0	25,2	23,8	14,5
Galicia	17,5	16,4	15,0	11,0
Madrid (Comunidad de)	16,8	12,9	11,4	7,2
Murcia (Región de)	17,3	13,8	12,7	10,5
Navarra (Comunidad Foral de)	10,2	8,1	5,6	4,6
País Vasco	17,0	13,9	12,1	9,7
Rioja (La)	11,4	8,2	8,1	4,4
Ceuta y Melilla	24,6	23,5	22,7	5,1

Source: INE, *EPA.*

Graphic 1. Tax Wedge* - average rate (changes over 1997-2000)



Source: Carone and Salomäki (2001).

Table 9. The structure of the tax wedge (1)

	Income tax		Social security contributions						Total		Ranking position
			Employee		Employer		Total SSC's				
	2000	1997-2000	2000	1997-2000	2000	1997-2000	2000	1997-2000	2000	1997-2000	2000
Belgium	21,4	-0,6	10,5	0,5	24,7	-1,1	35,2	-0,6	56,6	-1,2	1
Denmark	32,4	-2,6	11,7	1,7	0,4	0,4	12	2	44,4	-0,6	9
Germany	17,3	-0,7	17	0	17	0	34	0	51,3	-0,7	2
Greece	1,8	-0,2	12,4	0,4	21,9	-0,1	34,3	0,3	36,1	0,1	11
Spain	9,3	-1,7	4,9	-0,1	23,4	-0,1	28,3	-0,2	37,6	-1,9	10
France	10,4	3,4	9,6	-3,4	28,1	-0,9	37,7	-4,3	48,1	-0,9	4
Ireland	13,6	-4,4	4,6	-0,4	10,7	-0,3	15,2	-0,8	28,8	-5,2	15
Italy	14,2	1,2	6,9	0	25,3	-6,7	32,2	-6,7	46,4	-5,5	6
Luxembourg	11,2	-0,8	12,1	1,1	12	0	24	1	35,2	0,2	12
Netherlands	5,3	-0,2	25,3	-4,7	13,9	6,9	39,2	2,2	44,5	2	8
Austria	7,4	-0,6	13,8	-0,2	24	0	37,7	-0,3	45,1	-0,9	7
Portugal	5,4	-0,6	8,9	-0,1	19,2	0,2	28,1	0,1	33,5	-0,5	13
Finland	21,4	-0,6	5,6	-0,4	20,6	0	26,2	-0,4	47,5	-1,1	5
Sweden	19,5	-1,5	5,3	1,3	24,7	-0,1	30	1,2	49,5	-0,3	3
United Kingdom	14,5	-0,5	7,2	-0,8	8,5	-0,5	15,8	-1,2	30,3	-1,7	14
EU-15(2)	14	0,1	11,4	-0,9	19,6	-0,8	31	-1,7	45	-1,6	

Source: OECD, Taxing wages 1999-2000; in Carone and Salomäki (2001)

(1) Single person at the APW (Average Production Worker) wage level, no children.

(2) Weighted average (real GDP)

Table 10. Current expenditure on social protection by function (1999)

	% of total expenditure				% of GDP			
	Portugal	Spain	Italy	EU-15	Portugal	Spain	Italy	EU-15
Sickness	1,9	4,8	2,7	3,9	0,4	1,0	0,7	1,1
Healthcare	27,3	23,5	20,1	21,7	6,2	4,7	5,1	6,0
Disability	10,5	7,6	6,0	7,9	2,4	1,5	1,5	2,2
Old age and survivors	38,1	44,9	61,8	44,0	8,7	9,0	15,6	12,1
Family and children	4,5	2,0	3,5	8,1	1,0	0,4	0,9	2,2
Unemployment	3,3	12,5	2,1	6,2	0,7	2,5	0,5	1,7
Housing	0,0	1,2	0,0	2,1	0,0	0,2	0,0	0,6
Social Exclusion	1,5	0,7	0,1	1,6	0,3	0,1	0,0	0,4
Administration	3,7	2,4	2,6	3,3	0,9	0,5	0,7	0,9
Other	9,1	0,4	0,9	1,3	2,1	0,1	0,2	0,4
Total Expenditure	100	100	100	100	22,9	20,0	25,3	27,5

Source: European Comission (2002b), *Social Protection in Europe 2001*.

Table 11. Expenditure on Pensions - 1999

	Total Pensions		Old Age Pensions	
	As % of GDP	As % of Social Expenditure	% total pensions	Change 1990-1999
Portugal	10.1	51.3	65.4	79.0
Spain	9.9	50.8	74.7	16.0
Italy	15.1	62.0	74.8	13.0
EU-15 (3)	12.7	47.9	75.3	14.0

Source: Eurostat (2002a), *Statistics in Focus*.

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