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Pakurár Miklós, Oláh Judit

University of Debrecen, 4032 Debrecen, Böszörményi út. 138, Hungary
pakurar@agr.unideb.hu; olahjudit@agr.unideb.hu

Why do we need a more locally focused rural employment policy in the EU?

Abstract: *In practice the EU suggestions are translated mechanically to national and regional policies, in many instances, without taking into account the real interests and needs of the inhabitants at different regional levels. This way the capitalization of EU policies and funds is not as efficient as it should be since the endogen potentials of localities are not utilized properly. Our hypothesis is that the rural areas of the EU are so diverse that the significant differences in employment, economic, social, educational and infrastructural features of rural regions necessitates a more locally focused policy which could be supported by analyse statistical data. The analysis is based on the Eurostat General and Regional database and on national statistical databases. What are the reasons that one size fits all solutions has to be avoided and has to be changed with locally adapted policies? Probably this question can be answered partly by the facts of statistical data with which the differences, in some cases extremely huge alterations amongst territorial features, can be demonstrated. Differences based on rurality are a common topic of rural policies and rural science in EU countries however the differences in rural features of different countries may be notably important. Analysing the employment-unemployment indicators and those indicators that closely related to employment we found that in many instances the major differences are between the post-socialist new member states (NMS) and the EU 15 countries.*

Keywords: *rural; employment; local policy*

Introduction

Rest on the Lisbon Strategy European Employment Strategy helps to solve the problems of unemployment and creates competitive jobs for EU citizens. Employment Guidelines, National reform Programmes, Joint Employment Report, Recommendations, and EU annual progress report are the bases of the

European Employment Strategy. Eurostat indicators are used for assessment of the performance of European Employment Strategy with the cooperation of DG Employment, Social Affairs and Equal Opportunities (1).

The European Council announced its decision to increase the employment rate to 70% by 2010 (Lisbon European Council 2000). However the Commission of the European Communities expressed in 2004 that it was clear that the EU would not reach the intermediate employment rate target of 67% for 2005 and some other important indexes (labour productivity growth, quality in work, and inclusive labour markets) were also at lower level than expected (2).

The European Employment Policy based on the Treaty establishing the European Community and it is adapted continuously to the changing conditions. High level of employment (Article 2) is a main priority of the Treaty. European Social Fund was established „to render the employment of workers easier and to increase their geographical and occupational mobility within the Community, and to facilitate their adaptation to industrial changes and to changes in production systems, in particular through vocational training and retraining” (Article 123). The Community enhances the cooperation of Member States and improvement of the knowledge (Article 128) (3).

The European Council focused first time entirely on the issue of employment in a meeting (Extraordinary Meeting on Employment) in Luxemburg, on 20 and 21 of November in 1997. There was announced that every effort would be made to reduce unemployment which was a threat to the cohesion of the Union’s societies (4).

As a result of previous efforts to combat unemployment and increase employment in the European Union Employment Guidelines were worked out and accepted by the Council in 1998. The Guidelines facilitated actions of four areas: to improve employability, to develop entrepreneurship, encourage adaptability of businesses and employees, and strengthen the policies for equal opportunities. Detailed employment guidelines were accepted based on the above mentioned four areas. The Council encouraged Member States to apply comparable statistics using common indicators for monitoring and assessment of employment policies taking into account the individual situations of different regions. Member States were urged to develop their first employment plan by 1998 based on the guidelines of the Council (5).

Strategic goals of employment, economic reform and social cohesion were set by the Council in Lisbon in 2000. Building knowledge infrastructures, promoting innovation and economic reform, and modernising social welfare systems were announced at the meeting as the new challenges of the Union. The Council assessed the Union’s strengths and weaknesses. Excellent macro-economic outlook, generally well-educated workforce and a developed social protection system were found the most important strengths of the Union regarding of employment issues. High level of unemployment (15 million Europeans out

of work), too low employment rate, with low level of participation of women and older workers, long term structural unemployment, and regional unemployment imbalances were stated to be as main weaknesses of the time being. The areas of telecommunication, the Internet were having problems of underdevelopment and these areas had unfilled jobs because of the lack of skilled people. On the Lisbon meeting new strategic goal was set for the following ten years “to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion”. To reach the strategic goal the following main tasks were aimed: preparing the transition to a knowledge-based economy, modernizing the European social model, and sustaining the healthy economic outlook and favorable growth prospects. The European Council set the goal of full employment in the European Union. The Council opined that an average growth rate of 3% was a realistic prospect for the following years. Decision was made to increase employment rate from an average of 61% (2000) to as close as possible to 70 % by 2010 and to increase the employment rate of women from 51% to more than 60% by 2010. A new “open method of coordination” was suggested as a mean to facilitate the implementation of Union’s strategic goal. The open method of coordination was planned to fix guidelines with timetables, to establish quantitative and qualitative indicators and benchmarks, to use European guidelines to form national and regional policies, and to monitor and evaluate the process periodically. Preparation of an annual synthesis report was recommended for Member States to follow up the implementation of the strategy (6).

In December 2000 the rate of economic growth was on a ten years high. Unemployment rate was 8.7% after four years of decrease. In the same three years the employment rate increased from 60.7% to 62.1%. The European Council noted that the Commission proposal on the employment guidelines for 2001 made improvements by increasing the quantified objectives (7). Economic growth had been experienced for four years it was about 3.5% in 2000, employment increased (2.5 million new jobs) mainly due to jobs taken up by women, and unemployment was on the lowest level for ten years. Intermediate targets of employment rates were set by the Council for January 2005 at 67% overall and 57% for women. Employment rate target was also agreed for elder people (55-64) to increase to 50% by 2010. The Council issued that there was an opportunity to solve the demographic challenge of the ageing Community by rising employment rates (8).

The Barcelona European Council evaluated the European Employment Strategy and found that the Luxembourg Employment Strategy had helped to solve the problems of employment and unemployment in the Union. Evaluating the achievements of European Employment Strategy, involving the targets and goals issued in Lisbon, the Council suggested changes in the Employment Strategy (reinforced Employment Strategy). First of all the Employment Strategy had to be simplified by reducing the number of guidelines. Before the Lisbon deadline of 2010 an intermediate evaluation was suggested in 2006.

The role of social partners was reinforced in realization and monitoring of guidelines. Increasing employability and removing obstacles to have a job were suggested as means of creating higher level of employment. Improvements in the areas of lifelong learning, quality in work, and gender equality were advised to enhance employability. The decrease of the tax load on low-wage earners and creation of tax and benefit system to make work pay and support people to find a job were addressed. Differences in productivity and skills should affect the evolution of wages. To increase the employment rate of women disincentives should be removed and childcare capacity should be increased. Target was set to provide child care by 2010 to at least 90% of children between three years old and the mandatory school age and at least 33% of children under three years of age. It was agreed that early retirement should not be promoted and the effective average age at which people stop working should be increased by five years by 2010. The Council suggested measures to remove barriers of labour market in the European Union by 2005 (9).

The European Council announced that the gap between education and training and the employment market was an obstacle to occupational and geographic mobility. Lifelong learning was introduced as a promoter of mobility and means to reduce unemployment. Increasing investment in education and training, cooperation of mutual recognition of qualifications, and enhancement of coordinated strategies in training were the Council's proposals. Member States were addressed to monitor geographic mobility and skill gaps to help uncover the trends in time (10).

At Brussels European council, March 2003 a slowdown in growth and job creation was announced and short-term recovery seemed to be uncertain. The unemployment had declined by two million people since the start of the Lisbon strategy. Sustainable growth and continuously increasing employment were in the centre of the Union's politics. Enlargement of the European Union was mentioned as a potential for growth and an increased possibility to reach the Lisbon goals. The European Council determined the priorities of reforms for the following period. Four priorities were agreed: raising employment and social cohesion, giving priority to innovation and entrepreneurship, connecting Europe and strengthening the internal market, and providing environmental protection for growth and jobs.

Methodology

The analysis is based on the NUTS 2 and NUTS 3 regional data of the Eurostat. The Eurostat data from the general and regional statistics was chosen to have comparable data of regions however the big ratio of missing data makes the analysis cumbersome and in some instances the EU level analysis is simply impossible. The examined time period was from 2000 to 2006, the end was determined by the availability of data on the Eurostat database when the report was prepared. Tendencies were evaluated by comparing the data of the first year and the last year of the examined period. NUTS 3 levels were preferred in

index selection however a big number of important indexes are available only on NUTS 2 level in the Eurostat general and regional statistics. In some cases the indicators are not available on NUTS2 or NUTS3 levels but if there are major differences at country level, we would anticipate, major differences that this probably also applies at (rural) regional level. The selection of indexes are based on the results of EU and national research projects (11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, and 25) and the available data from the Eurostat general and regional database (26). Taking into account rurality the regions were divided into three groups: predominantly urban regions (PU), intermediate regions (IR) and predominantly rural regions (PR). The categorisation of rurality based on the methodology of the Organisation for Economic Co-operation and Development which method uses population density as the criteria of rurality.

Results and discussion

Area and population characteristics

Area and population characteristics of a region greatly influence the formation of a locally focused rural employment policy. Regions having relatively low rural population face fewer difficulties in financing and executing rural development policies than regions where the portion of rural population is more significant. The population density affects employment many ways mainly through the accessibility and the cost of infrastructure.

The area and the population data of regions have had an outstanding importance in the typology of regions especially to determine the rural and urban areas since the most widely applied OECD typology uses population density to distinguish rural and urban areas. Although many typologies have been developed to determine rural and urban areas the population density indicator remained indispensable in the definition of regions. The population is determined by the number of birth and death of a region and the migration characteristics of the area.

The average areas of PU, IR and PR regions were 921 km², 3464 km² and 5757 km² respectively. Since the population density increases in opposite direction transportation time and cost is the highest in PR regions and the quality of transportation infrastructure affects greatly the prospects of the rural population. The average area of PU, IR and PR regions change was small from 2001 to 2006. More than half of the EU area (53.6%) is predominantly rural 37.1% of the land is intermediately rural area and only 9.3% of the area is predominantly urban. Most countries have PU, IR, and PR regions, two countries have two types of regions and three have only one type of regions on NUTS3 level. The average areas of similar types of regions differ greatly country by country. The average sizes of PU regions are smaller in every country than the average size of IR and PR regions with two exceptions of Belgium and Greece.

In studying the complex determinants of human fertility, social scientists have given little attention to population density, although reproduction has been shown to be density-dependent for a wide variety of other species (Lutz et al., 2006). Using fixed effects models on the time series of 145 countries and controlling for key social and economic variables, we find a consistent and significant negative relationship between human fertility and population density. Moreover, we find that individual fertility preferences also decline with population density. These findings suggest that population density should be included as a variable in future studies of fertility determinants.

The population density of former socialist countries (Bulgaria, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia and Slovakia) decreased in PR regions and it decreased also in the majority of PU and IR regions. In other countries the population density increased in all region types except in PR regions of Denmark, Germany, Greece, Netherlands and Portugal. The concentration of the population continued in the examined period PU and PR regions' population increased and the source of the increase was partly from PR areas.

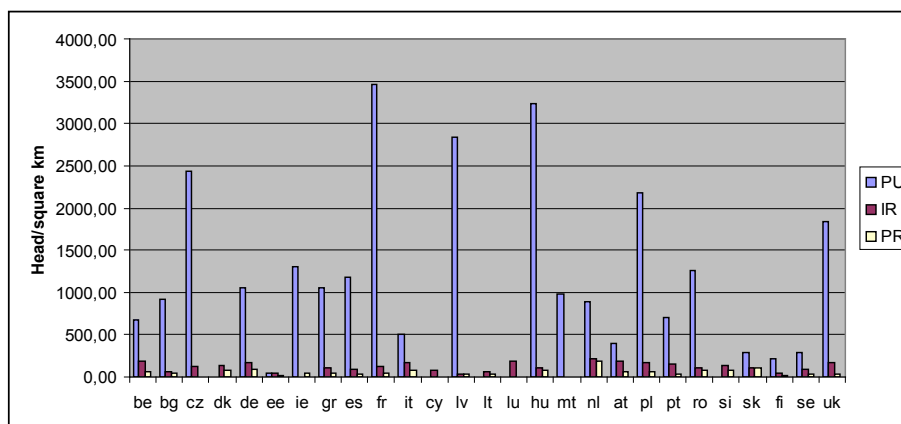


Figure 1. Population density (head/ square km) NUTS 3, 2006

Source: Eurostat General and regional statistics

The average of population density was the highest in PU (1216.0 heads per km²) and the lowest in PR (59.9 heads per km²) regions in NUTS3 regions of the EU (Figure 1) in 2006 and the ratio of population density of PR, IR, and PU regions was 1:2.5:21. On NUTS 3 level PU regions had greatly higher population density than IR and PR regions. The differences between the population density of IR and PR regions were smaller in each country than the differences between PU regions and IR or PR regions.

Results and discussion

Differences in economic activities by rurality

Economic development is generally characterised by the measure of national income and output of a country or region. In the most common method Gross Domestic Product is equal with the sum of consumption, gross investment, government spending and the difference of exports and imports (exports minus imports). Kranendonk and Verbruggen (2008) suggested using an alternative methodology to calculate GDP in which imports were allocated to all expenditure categories. With this method “the contributions of the expenditure categories to GDP growth provide a better understanding of why GDP growth decelerates or accelerates”. In international relations GDP comparisons are commonly made on current currency exchange rate or on purchasing power parity exchange rate.

GDP is a general measure of the economic development however Filc and Se-hovic (2006) cautioned that the high level of national deficit would jeopardise the economic stability and advised to work out appropriate policy initiatives to correct the USA’s external imbalances. There are other methods than comparison of GDP values when people’s wellbeing is analysed. Murias et al. (2006) estimated synthetic economic wellbeing index with Data Envelopment Analysis. Assessing the synthetic economic wellbeing index of fifty Spanish provinces it was found that the ranking of provinces was similar with the ranking on per capita income but notable differences were experienced.

A permanent question in regional development is what activities to improve to enhance the economy of the area. A viable answer is to improve the most productive businesses which will increase the wellbeing of the region. Regional economic performance was evaluated in association with economic structure, employee training and technology adaptation, and transport infrastructure by Deichmann et al. (2004). They established that micro enterprises with low productivity were dominated in the Southern Mexico which structure differed greatly from the rest of the country. The econometric analysis diagnosed that employee training, technology adaptation and improvement of transport infrastructure to get easy access to urban areas positively affected productivity.

Regional development, level of education in a region and demography are related factors of population economics. In geographically favourable regions parents invest relatively more in the education of their children that results in a more educated population of these regions that ensure the circumstance of sustainable economic growth (Iyigun 2005).

Transformation of the economy to a more competitive direction and knowledge as a driving force are in a plausible relationship however capitalization of this correspondence in less developed areas is an arduous task. Ylä-Anttila and Palmberg (2007) assessed the new industrial policies of Finland. In the 1990’s the main focus of policy making started to be on education, R&D and

innovation and these changes lead to high rankings of young people's learning skills and educational attainment according to OECD's PISA studies.

Gross domestic product per inhabitant at current market prices increased continuously by 17.9% from 18995,9 euro in 2000 to 22400,2 euro in the EU27 in 2005. GDP per inhabitant in percentage of the EU average was the highest in PU regions (129.2%), in IR (84.4%) and in PR (76.4%) regions an inhabitant contributed less to the EU GDP in 2005.

The contribution of inhabitants to the GDP dynamically increased in the former communist, eastern EU countries in the period of 2000-2005. The development was especially high in Romania, Bulgaria, Slovakia, Estonia, Hungary, Latvia and Lithuania however the GDP per capita values were the lowest in the beginning of the period and even with these intensive tendencies these countries have a long way to get closer to the EU average.

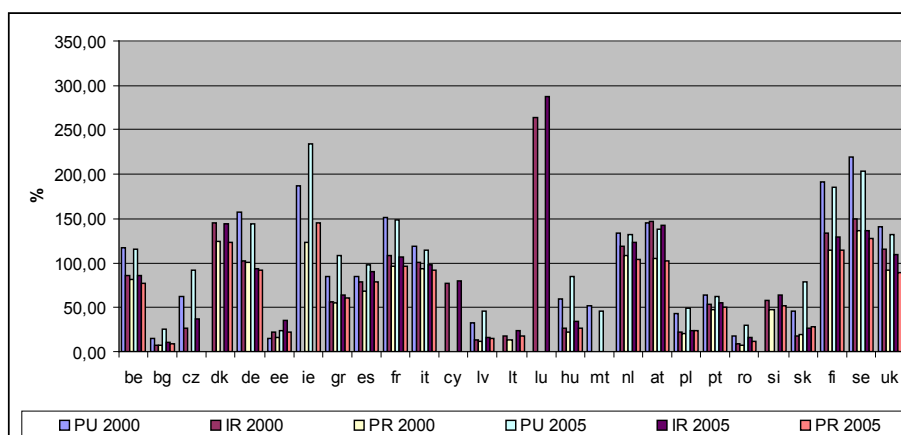


Figure 2. Euro per inhabitant in percentage of the EU average. Gross domestic product (GDP) at current market prices at NUTS level 3, 2000-2005

Source: Eurostat General and regional statistics

The ten countries that accessed the EU in 2004, Bulgaria and Romania had the lowest level of GDP per inhabitant in percentage of the EU average in 2000 and in 2005 (Figure 2) where the euro per inhabitant in percentage of the EU average ratio was lower than 100% in each PU, IR and PR region averagely. Euro per inhabitant in percentage of the EU average developed most intensively in less developed countries the ratio of development was generally the most intensive in PU regions, lower in IR and PR regions. In the economically most developed countries the contribution of the inhabitants to the GDP stagnated or slightly decreased except in Ireland and Luxemburg where significant increases were realised.

The disposable income of households grew notably in PU, IR and PR regions during the examined time period. The disposable income of households per inhabitant was more than the highest in PU (15010 euro) and IR (11095 euro) regions than in PR (10295 euro) regions in 2006. From the point of view of PR

inhabitants the tendencies were unfavourable since the differences between the income of PR, IR, and IR areas increased.

Disposable income of households in euro per inhabitant increased similarly in PU (13.5%), IR (15.8%) and in PR (15.44%) regions. Generally the formerly communist Eastern European countries experienced the highest rates of increase in disposable income of households being the most intensive in predominantly urban area of Romania (96.3%). Based on the income of households European countries can be divided into two groups, the group of the EU15 with a relatively high income per inhabitant and mainly the previously communist countries with a moderate income (Figure 3). In spite of the missing countries the difference in disposable incomes are enormous, e.g. the disposable income of households was 9.68 times higher in the IR region of Austria than in the IR regions of Romania.

The economic position of an area calls for different regional policies. In a relatively high income society the distance they can afford to travel to work is longer than it is in a low income area. A part time job can be a suitable choice for a mother with young children in a high income region however this solution is not for mothers of a low income area since even the full job does not provide enough income to live on.

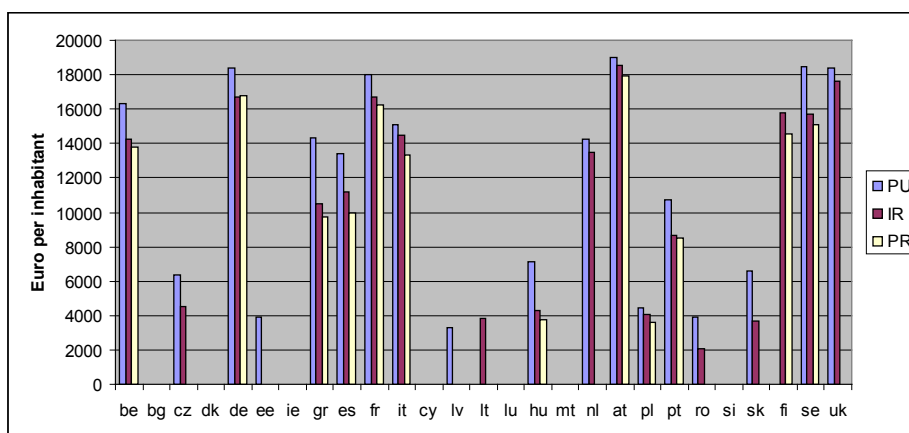


Figure 3. Income of households at NUTS level 2, Disposable income, net (uses), Euro per inhabitant

Source: Eurostat General and regional statistics

Features of employment-unemployment in different region types

There are many preconditions of employment development. Labour market mobility was greatly related to institutional developments in Great Britain for two decades previous to 2002 nevertheless employment had been increasingly tied to economic development (Hillmert 2002). Studying the regions of the EU to compare the employment of economically advanced and underdeveloped areas similar conclusion can be drawn since prosperous regions have higher employment status than economically stranded areas.

Falzone (2000) states part time employment as a transition between non-employment and full-time employment or as an alternative to full employment. Part time employment can be a viable solution for married women with young children to build a carrier and to be a devoted family member.

Women's employment is becoming growingly important the reason is not only to reach the desirable equal work – equal payment idea but there are many practical issues as well that force females to be employed. Holst and Schupp (2001) found that employment of women in Germany has become more important recently because of more single-person households and high divorce rates. Even in married-couple households women's earning is a significant part of the family budget in many German families. It was difficult for women to get a job in the well developed Western regions but the situation was "persistently precarious" for women of economically less developed Eastern regions.

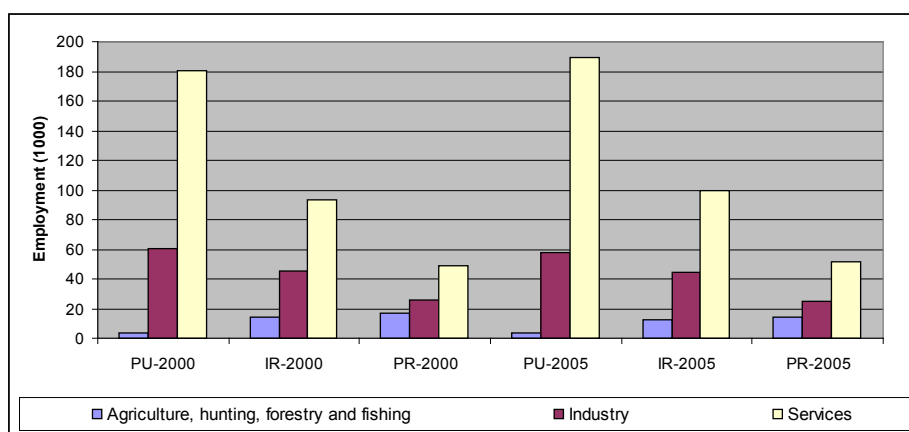


Figure 4. Total Employment, EU 27, at NUTS levels 3, average of PU, IR and PR regions
Source: Eurostat General and regional statistics

Employment (as average of NUTS3 regions) in agriculture, hunting, forestry and fishing was the lowest in PU regions, more people was employed in IR regions and the higher number of inhabitants was employed in PR regions in the EU (Figure 4). Employment in the industry and services showed an opposite tendency than employment in agriculture, hunting, forestry and fishing since the most people were employed in PU regions and the smallest number of employees worked in PR regions. The structure of economic activity was different in an average PU, IR and PR region. Comparing the ratio of employment in services, in agriculture, hunting, forestry and fishing and in industry it was found that the ratio of people employed in services PU or IR regions was significantly higher than it was in PR regions. This huge difference in employment in services suggests that rural people's access to various services is very limited in comparison with the possibilities of inhabitants in PU and IR areas which is an important disadvantage of the rural life. Enhanced service activities may directly increase the employment and may provide a more attractive situation in rural regions

One possibility to decrease unemployment in a locality is to use employment services by the individuals of the area. Joassart-Marcelli and Giordano (2006) analysing the unemployment through employment services (One-Stop Career Centers) in Southern California stated that access to employment services decreased unemployment mainly in areas with limited employment possibilities.

Age, economic disparities and unemployment

An important aspect of regional disparities in unemployment is urban rural differences. Buettner (2007) diagnosed essential regional disparities in unemployment for pre-accession and accession EU member countries. However the accession countries had more flexible regional wages and less persistent unemployment disparities which peculiarities enable them a greater adaptation to changes.

Youth unemployment rates are generally higher in every region than prime-age unemployment rates therefore a notable part of the potential of the most active group of the workforce is not utilized. Riphahn (2002) studied some features of youth unemployment and established that youth unemployment was centered partly in high unemployment states.

Examining unemployment trends from the point of view of rural development, a disadvantageous process has been realised recently in many countries. The trends are that the difference in unemployment rates between developed regions and less developed regions have increased, getting lower in developed regions and increasing in less developed regions. Similar tendencies were published, by López-Bazo et al., (2002), establishing that spatial dependence of the distribution of regional unemployment rates increased in Spain in the decade of pre-2002.

Adequate wages for employees' qualification would be an ideal condition on the labour market. However unemployed people can not have the possibility to apply for a job with adequate to their qualification and the wage is appropriate to the qualification. Ahn and Gracia-Pérez (2002) found that the willingness to work for reduced wages increases when the duration of unemployment increases and people do not have access to unemployment benefits. Young and less educated unemployed workers are more willing to accept reduced wages.

Unemployment rates was higher in the age group of 15-24 years than in the age groups of 25 years and over in PU, IR and PR regions on EU level in 2000 and in 2006 (Figure 5). Unemployment rate of the age group between 15 and 24 years ranged from 12.9% (PR) to 25.5% (IR) in 2000 that slightly decreased to 2006. Unemployment rates of age group of 25 years and over were notably higher than in the age group of 15-24 years in each region type. Unemployment rate was the lowest in the age group of 15-24 years and the highest in the age group of 25 years and over in predominantly rural areas. The gap between the younger and older age groups was significantly smaller in PR regions than in IR and PU regions.

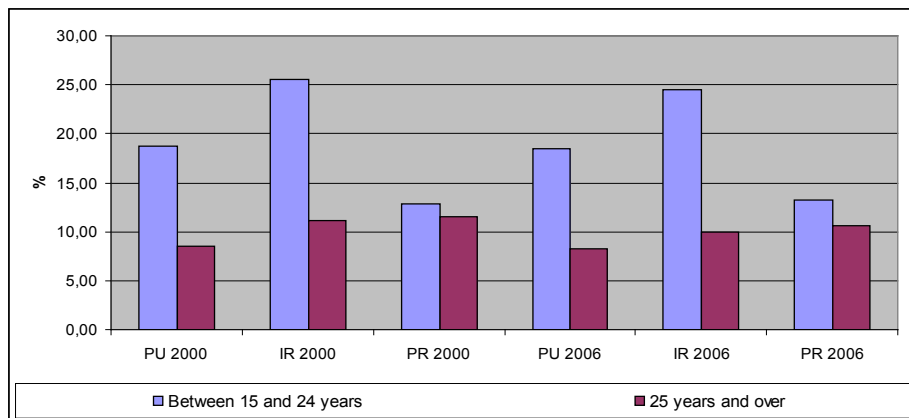


Figure 5. Unemployment rates by age, at NUTS levels 3

Source: Eurostat General and regional statistics

Long-term unemployment rate decreased significantly in PU and PR regions but it remained on similar level in IR regions. In 2006 the long term unemployment rate was 39.1% in PU regions, 42.1% in IR regions and 37.7% in PR regions.

Human resources working in science and technology

Growing differences in different groups of the society has been a concern in many countries. In the USA high technology employees earn relatively much more than employees of other sectors (Cozzens and Bobb 2003).

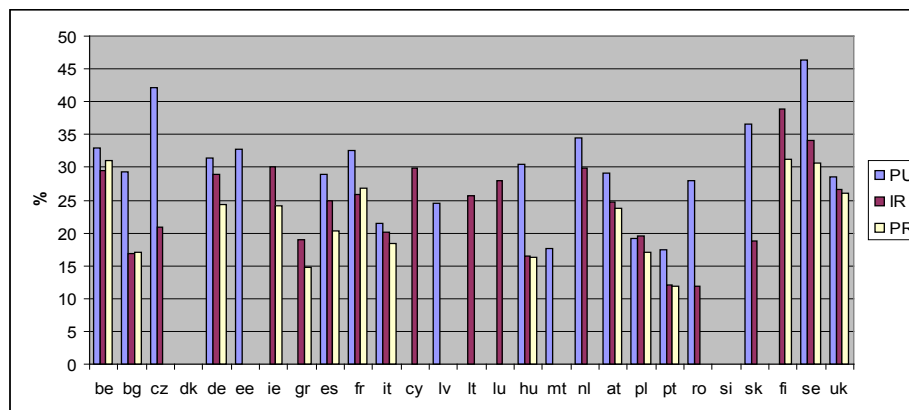


Figure 6. Annual data on Human Resources in Science and Technology aged 45-64 NUTS 2, Percentage of total population

Source: Eurostat General and regional statistics

The development of human resources in science and technology (age group of 45-64) was rather intensive. The human resources in science and technology as the percentage of total population was the greatest in PU regions (29,5%), and smaller in IR (22,5%) and PR (20,8%) regions in 2006.

There were notable differences between countries in human resources in science and technology (HRST) as a percentage of total population (Figure 6). The smallest ratio of 11.9% was found in the PR region of Portugal and highest of 46.3% in the PU region of Sweden. The rate of HRS was the lowest in PR regions than in PU or IR regions with two exceptions of Belgium and Bulgaria. In former socialist countries, except Poland, PU regions had much more higher rate of HRST than IR and PR regions mainly as a consequence of the centralised economy, they inherited.

Main reasons for a more locally focused rural employment policy in the EU

The main reason that a more focused rural employment policy is needed in the EU is that, as the statistical data show, the position of rural areas worsened and the differences between rural and urban areas increased which suggests that without a more targeted policy this trend will not change.

Analysing employment and employment related data it was pointed out that indicators of EU localities differs greatly in many instances. Economic indicators like GDP and income of households showed great fluctuations from region to region, the income of households was nine times higher in the highest income NUTS2 IR region than in the lowest income NUTS2 region. Long term unemployment was about seven times higher in a PR region than in another PR region on NUTS2 level. Three times more people was in human resources in science and technology as a percentage of total population in the leading PR NUTS2 region than in the lagging PR NUTS2 region.

Some significant proves of deteriorating circumstances in rural areas that affect rural employment are as follows:

- The tendency of natural population change increased the disadvantageous position of rural areas. The urbanisation process continued and the gap in population density increased between PR and PU regions and between PR and IR regions. The ratio of females became more significant mainly because the longer life expectancy of women.
- Employment had been increasingly tied to economic development and the economically leading regions have higher employment rates than economically disadvantaged regions.
- Women's employment has become a must even in many economically well developed countries, because of the growing number of single-person households and high divorce rates. Furthermore even in married-couple households women's earning is a significant part of the family budget.
- Rural people's access to various services is very limited in comparison with the possibilities of inhabitants of PU and IR areas which are an important disadvantage of the rural life. The employment increase in the service sector was generally the most intensive increase in PR areas.

- Total employment generally increased in PU, IR and slightly decreased in PR regions in the EU from 2000 to 2005. The ratio of employees was the highest in PU regions and the lowest in PR regions in 2000 and also in 2006.
- Further decrease of employment in agriculture, changes the structure of employment in rural areas rapidly. Employment in agriculture, hunting, forestry and fishing decreased greatly in PU, IR and PR regions of the EU the most significant decline happened in PR regions.
- The unemployment gap between rural and urban areas increased since unemployment rates getting lower in developed regions and increasing in less developed regions.
- The economy was more developed in urban areas than in rural regions since the GDP euro per inhabitant in percentage of the EU average was the highest in PU regions, less in IR and the lowest in PR regions.
- Comparing the European PU, IR and PR regions the less disposable income of households in euro per inhabitant was earned by the inhabitants of rural population and the relative position of rural regions decreased in the examined period.
- The ratio of human resources in science and technology was the lowest in rural areas. The development of human resources in science and technology was rather intensive.
- Comparing the three region types based on the selected indexes it was found that in the majority of cases PU regions differs more greatly from IR and PR regions than IR regions differ from PR regions which was proved by the results of the analysis.
- The most significant differences between EU-15 and post-socialist NMS were in population density, contribution of inhabitants to the GDP, increase of output in total GVA, productivity of agriculture, and increase in disposable income rate of HRST.

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