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Emerging Markets Queries in Finance and Business

Labour Markets of EMU Countries in the Context of OCA

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Abstract

High unemployment rates represent one of the most serious current issues in many European countries. As assumed by the OCA theory, mobility of labour force together with high level of labour market integration is likely to help in solving this problem and to offset differences between countries. That is why flexible labour market and high mobility of labour force present an important absorption mechanism especially in case of economies hit by asymmetric shocks. The aim of this paper is to analyse common and distinct features in the labour markets of EMU countries as well as to assess the level of fulfilment in case of OCA criteria.

Keywords: Labour Market; Unemployment; Labour Mobility; OCA

1. Introduction

The beginnings of the Optimum Currency Area Theory can be dated back to 1960s to works of Mundell, McKinon and Kenen. Generally, an optimum currency area or OCA can be defined as a (geographical) group of countries using the same single currency or whose exchange rates are irrevocably pegged to each other but float against other currencies. With no mutual exchange rates serving as an offsetting mechanism between countries, other "mechanisms" are necessary in order to establish macroeconomic equilibrium of monetary union countries or to absorb the various shocks. Logically it is convenient to create such a union (or currency area) only if benefits exceed the costs for every country. There are various criteria used to evaluate the optimality in case of currency areas, namely: the mobility of factors of production (especially of labour), flexibility of prices and wages, economic openness, diversification in production, fiscal and political integration or similarity in inflation rates.

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Similar reaction of countries in case of shocks belongs to one of the newest criteria. (Mongelli, 2002; Ďurčová, 2010)

Price or wage flexibility or mobile labour force can serve as an additional adjustment mechanism in case of negative development that can replace the missing instrument of exchange rate. (Stambøl, 2005) On the other hand, similarity in other criteria should guarantee that in case of such development, there will not be any asymmetric shocks and the reaction of member countries will remain alike. (Raisová and Bánociová, 2012) This paper focuses on the labour markets of EMU countries that are currently suffering from high unemployment. Selected labour markets indicators are used to analyse common and distinct features of these markets.

2. Labour markets and labour force in EMU

European integration and creation of monetary union caused that exchange rates and foreign trade policy have lost their significance as instruments of economic flexibility. As a result, the importance of flexible labour markets has been reinforced. Over the last decade, EMU countries have been becoming more and more alike in many areas, yet it certainly cannot be said about their labour markets. This domain is one of those where the differences are the most accentuated and persistent. The recent economic crisis as well as the following debt crisis deepened the unfavourable conditions in many European countries and revealed others problems. (Nosáľová, 2011; Mirdala, 2013)

In various analyses, European labour markets are often compared to those of United States. (Nickell, 1997) While US markets are viewed as flexible and with a favourable labour environment (and thus low unemployment), European labour markets suffer from many inflexibilities. As a result, problems of high (and persisting) unemployment and shortages of skilled labour in certain domains exist simultaneously. In general, labour markets can be characterised by wide range of indicators, such as unemployment and employment rates, free job vacancies or labour shortages, level of employment protection, level of labour mobility within and between countries, educational attainment of workers, their language skills and various other particularities in national legislatives. Specific features of national markets may significantly improve overall country's economic environment. (Pavliková and Siničáková, 2012)

2.1 Unemployment rates across countries

As mentioned before, EMU labour markets can be characterised by significant differences in national rates of unemployment.

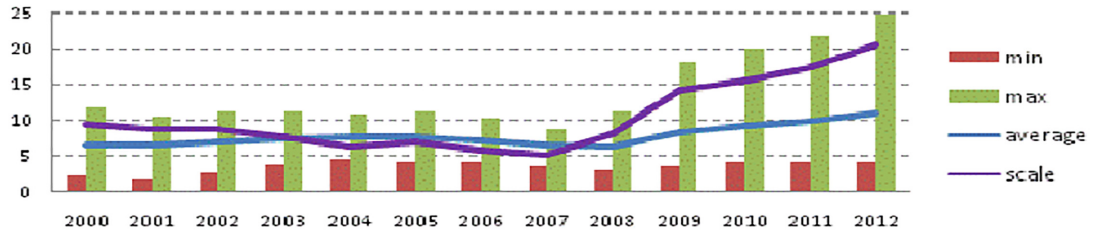

Fig. 1. EMU Labour Markets – Unemployment Rate (%)
Source: Own Calculations, Eurostat

As can be seen on the Fig. 1, covering the period of 2000-2012, the maximum unemployment rate in EMU countries stayed slightly above 10.0 % level with only small variations until 2007 where we can observe a one year decrease to 8.9 %. Later on, the unemployment rates started to increase and the maximum value soared up to 25.0 % in 2012 (Spain and Greece). On the other hand, minimum rate of unemployment almost doubled, yet it stayed below 5.0% level. As a result, scale curve for EMU coutries is increasing, reflecting the significant growth of rates

starting around the time of global economic crisis. However, when we look at the average level of unemployment, the values increased from 6.6 % in 2000 to 11.0 % in 2012.

It is obvious, that existing differences deepened over the surveyed period with the highest values accounted for 2012. That is why we looked more closely at the extent of this variation. Matrix (Table 1) shows that current imbalances in unemployment rates across EMU are large. We can see, they are the most prominent in case of Spain and Greece that had to settle up with unemployment rates more than five times higher than e.g. Austria, country with the lowest unemployment rate (more than 10 pp. differences are highligted by bold, and more than 15 pp. differences are also underlined).

Table 1. Unemployment Rate Differences in Percentage Points – 2012

	AT	**BE**	**CY**	**DE**	**EE**	**EL**	**ES**	**FI**	**FR**	**IE**	**IT**	**LU**	**MT**	**NL**	**PT**	**SI**	**SK**
AT	0.0	-3.3	-7.6	-1.2	-5.9	**-20.0**	**-20.7**	-3.4	-5.9	**-10.4**	-6.4	-0.8	-2.1	-1.0	**-11.6**	-4.6	-9.7
BE		0.0	-4.3	2.1	-2.6	**-16.7**	**-17.4**	-0.1	-2.6	-7.1	-3.1	2.5	1.2	2.3	-8.3	-1.3	-6.4
CY			0.0	6.4	1.7	**-12.4**	**-13.1**	4.2	1.7	-2.8	1.2	6.8	5.5	6.6	-4.0	3.0	-2.1
DE				0.0	-4.7	**-18.8**	**-19.5**	-2.2	-4.7	-9.2	-5.2	0.4	-0.9	0.2	**-10.4**	-3.4	-8.5
EE					0.0	**-14.1**	**-14.8**	2.5	0.0	-4.5	-0.5	5.1	3.8	4.9	-5.7	1.3	-3.8
EL						0.0	-0.7	**16.6**	**14.1**	9.6	**13.6**	**19.2**	**17.9**	**19.0**	8.4	**15.4**	**10.3**
ES							0.0	**17.3**	**14.8**	**10.3**	**14.3**	**19.9**	**18.6**	**19.7**	9.1	**16.1**	**11.0**
FI								0.0	-2.5	-7.0	-3.0	2.6	1.3	2.4	-8.2	-1.2	-6.3
FR									0.0	-4.5	-0.5	5.1	3.8	4.9	-5.7	1.3	-3.8
IE										0.0	4.0	9.6	8.3	9.4	-1.2	5.8	0.7
IT											0.0	5.6	4.3	5.4	-5.2	1.8	-3.3
LU												0.0	-1.3	-0.2	**-10.8**	-3.8	-8.9
MT													0.0	1.1	-9.5	-2.5	-7.6
NL														0.0	**-10.6**	-3.6	-8.7
PT															0.0	7.0	1.9
SI																0.0	-5.1
SK																	0.0

Source: Own Calculations, Eurostat

Based on the observed differences in unemployment rates, it is also interesting to look at employment possibilities for surveyed countries. When we compare total stocks of unemployed (U) for EMU countries with stocks of free job vacancies (V), we obtain an Unemployed - Vacancies Ratio (UVR), i.e. a number of unemployed persons corresponding to single job vacancy (Table 2). It is evident, that overall national markets show no shortages of free labour force. Nevertheless, comparisons across sectors would certainly present different results with simultaneous lack of skilled workers in certain domains and surpluses in the others.

Table 2. UV Ratio and Unemployment Rate – 2012

	AT	**BE**	**CY**	**DE**	**EE**	**ES**	**FI**	**FR**	**EL**	**IE**	**IT**	**LU**	**MT**	**NL**	**PT**	**SI**	**SK**
UVR	3.3	4.9	47.0	2.3	11.0	**70.2**	6.5	49.3	**1083.4**	**65.6**	**224.3**	5.3	21.9	5.0	**84.2**	23.0	28.6
UR %	4.3	7.6	11.9	5.5	10.2	**25.0**	7.7	10.2	**24.3**	**14.7**	10.7	5.1	6.4	5.3	**15.9**	8.9	**14.0**

Source: Own Calculations, Eurostat, Ameco

As expected, Table 2 confirms that five countries with the highest UVR have also the highest UR %. However, there are significant differences between these countries. They can be probably explained by imbalances between supply and demand sides of labour market. Different skills offered by unemployed and demanded by potential employers point out to structural nature of unemployment in some countries. More detailed statistics of job vacancies by sectors confirm there are important cross-countries differences for some professions. (European Vacancy Monitor, 2013) In countries such as Greece, Spain, Portugal or Ireland high unemployment rates as well as high UV ratio are mirroring the overall unfavourable economic situation.

2.2 Employment protection - factor decreasing labour market flexibility

The goal of the labour law or legislation connected to labour market is usually to protect the employees from unfair or discriminatory actions on the part of the employers. The theory associates high unemployment rates with lower levels of labour market flexibility (or higher rigidity). (Siebert, 1997) Even though there is no direct indicator of labour market flexibility, it can be expressed indirectly e.g. by indicators of employment protection, power of unions or the share of total country's labour force covered by collective bargaining. It means, the stricter the employment protection is, the less flexible (or more rigid) the labour market would be, creating the inflexible environment with persisting high unemployment rates.

OECD measures rigidity (or flexibility) of labour market by Employment Protection Index (EPI). It comprises indicators such as protection of workers against individual dismissal, regulation of temporary forms of employment and specific requirements for collective dismissal. The overall index of EPI is scaled from 0 to 6, with 0 corresponding to least restrictions and 6 meaning most restrictions. (OECD, 2013)

The following figure (Fig. 2.a) depicts the mutual relationship of market inflexibility (measured by EPI) and unemployment rate for EMU countries. It shows that the "latest" EMU members (accessed in 2007 or later) belong to countries with lower EPI (2.0-2.5), while the "original" members indicate stricter protection of employees (2.5-3.0). Combination of high level of employment protection and high level of unemployment rate can be seen in case of Spain and Greece. However, country with the highest EPI, Luxembourg, shows one of the lowest unemployment rates.

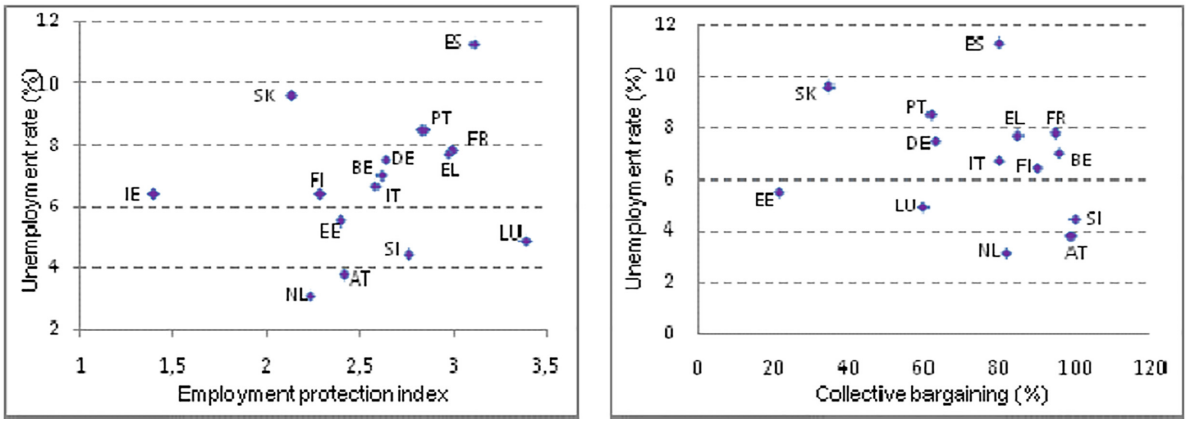

Fig. 2. (a) Employment protection index and unemployment rate; (b) Employment protection index and collective bargaining -2 008 (Latest EPI data from 2008, no data available for Ireland)
Source: Eurostat, Venn (2009)

Apart from the legislation (labour law), there may be other possibilities assuring protection of employees, such as collective agreement or individual contracts. Power of unions and collective agreement coverage can be various in different countries. According to OECD study it ranges from less than 20.0% of the workforce in countries such as Japan or United States to 90.0% or more for some European countries. (Venn, 2009) As for the EMU countries, Fig. 2.b shows relationship of collective bargaining coverage and unemployment rate. Here again, we can see lower coverage for new member countries, namely Slovakia and Estonia. However, wide collective bargaining coverage as a measure of employees' protection (and thus the labour market inflexibility) is not necessarily accompanied with high unemployment. As can be seen for the EMU countries, those having 100% or almost 100 % coverage had at the same time the lowest unemployment rates.

3. Geographic Mobility and Labour Market Barriers

Economic theories suggest that free mobility of production factors improves the allocative efficiency of the particular market. Same can be applied for labour and labour markets. Thus, free circulation of workers between EMU countries should help to offset possible disequilibria, i.e. shortages or surpluses of labour force. For example, Zimmerman (Zimmerman, 2009) sees labour migration as favourable as it leads to better deployment of economic resources and increases production.

As already mentioned, EMU labour markets are characterised by persisting high unemployment as well as significant variation of unemployment rates. These differences in rates exist, sometimes even for the neighbouring states (see Table 1) what would suggest that the cross-border flows are low. According to Bonin's analysis (Bonin et al., 2008) the level of geographical mobility is indeed low in Europe (cross-border flows account for significantly less than 1.0% of population compared to 2.0-2.5% in case of United States). Countries showing the highest mobility are Denmark, Netherlands and Sweden (northern countries); the lowest levels of mobility are typical for Italy, Spain or Greece (southern countries). What is more, this type or pattern of behaviour seems to be relatively stable, which would make it more difficult to achieve important changes just by promoting geographical mobility by using policy interventions. This study confirms a well know and interesting European paradox; skill shortages and bottlenecks coexist with areas of persistent high unemployment.

Generally, mobility or migration decisions are basically dependent on both benefits and costs, as perceived by individuals. A person will probably decide to migrate if the expected utility of moving is higher than the expected utility of staying. However, benefits and costs can be viewed differently by each individual. As a result, different individuals in the same country may show different propensity to migrate and even prefer different receiving countries. Theories explain migration flows as a result of push factors (at the country of the origin) and pull factors (receiving country). Push factors act as triggers to migration flows. They usually include lack of economic opportunities. Pull factors comprise better economic opportunities with more jobs or better working conditions, cross-country or regional differences in levels of expected income, public transfers and taxes (Pedersen, 2004 in Bonin et al., 2008) high levels of per capita growth in the receiving country, access to welfare payments or better public services, lower costs of living, as much as cultural or linguistic similarities. (Zimmerman, 2009; European Commission, 2010) However, the impacts of these factors will not be same for different conditions; they will depend strongly on the geographical, linguistic, and cultural distances between the sending and receiving countries (Kahanec, 2010), as well as on the age, skills and capacity to adjust to the life in the host country. (Bonin et al., 2008; Zimmerman, 2009) These authors especially stress insufficient language skills and cultural differences as one of the greatest obstacles to geographical mobility in case of EU.

3.1 Language skills in EMU countries

The following figure (Fig. 3) presents language skills of EMU citizens in 2012. It compares percentages of citizens that are able to speak one or more foreign languages. As we can see, 7 out of 10 citizens of current EMU (or EA-17) are able to speak at least one foreign language well enough to hold a conversation. The percentages are even higher in case of small countries such as Netherlands, Luxembourg, Malta, Slovenia, Estonia and Slovak Republic. They show high percentages also in categories of two and more foreign languages. All of them are countries with "minority" languages what may explain the motivation of their citizens for further learning. Except for Slovak Republic and Estonia, these countries do not have problems with high unemployment. On the other hand, in big countries like Spain, Greece or Italy, the percentage shares are lower. In this case, weaker language skills coincide with higher unemployment. This would suggest that it can be one of the obstacles holding back the cross-country mobility of these nations. Citizens of the countries where one of the world languages is spoken as a mother tongue tend to be less motivated for learning of foreign languages and thus less skilled in this area. Fig. 3 confirms this fact for people living in Ireland (also United Kingdom), France or Spain (five most widely known languages in EU are English, French, German, Spanish and Russian – European Commission, 2012).

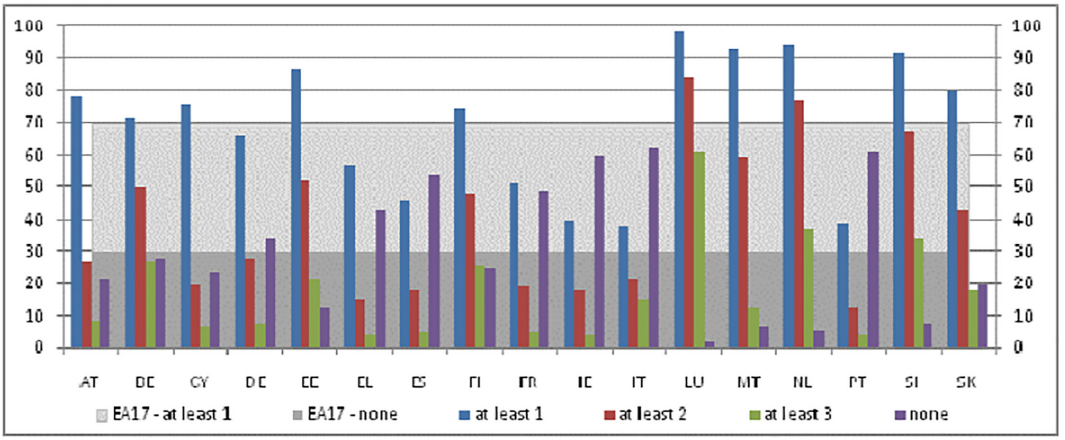

Fig. 3. Number of foreign languages that citizens are able to speak well enough to hold a conversation (% of citizens)
Source: Own calculation, Eurobarometer

According to various studies (Bonin et al., 2008; European Commission, 2010), work and income related motivation is one of the strongest, especially in new EU member states. In case of these countries, 60 % of past movers moved for job related reasons. What is more, 80.0 % claim that work and income related factors would encourage them to move in the future. However, in EU15, only 40.0 % of past movers mentioned this factor as a past motivation. As for a future move, it was confirmed by 50.0 % of respondents in this category. (European Commission, 2010) In regard to high unemployment and the fact that work and income seem to be a strong motivation for majority of the European movers, educational attainment can be considered as one of the important factors. Logically, we can expect that higher skills create better potential for finding a job. As a result, countries with higher shares of skilled labour force are likely to have fewer problems linked to labour market. This category of workers is usually able to communicate in one or more foreign languages and may be more inclined to look for job vacancies abroad. Certain groups of low skilled workers may be mobile but they tend to search for temporary or short term vacancies.

Table 3. Educational attainment (%) - 2012

	AT	BE	CY	DE	EE	EL	ES	FI	FR	IE	IT	LU	MT	NL	PT	SI	SK	EA17
Pre-primary, primary and lower secondary education	22	31	26	20	17	**36**	**47**	22	30	29	**44**	28	**57**	31	**61**	19	15	**33**
Upper secondary education	**61**	37	39	**56**	**51**	41	24	**45**	42	37	42	38	28	40	22	**58**	**68**	**43**
Tertiary education	17	31	**35**	24	**32**	23	**30**	**33**	**28**	**35**	14	**33**	15	**29**	17	23	17	**24**

Source: Own Calculations, Eurostat

Table 3 compares shares of educational attainment in EMU countries (values in bold and underlined indicate higher than EMU average values). Here we can see that some of the countries with the share of low skilled labour force exceeding average of 33.0 % are also the ones with the highest unemployment rate (Spain, Greece, and Portugal). But there is also a paradox: even countries with highly educated citizens like Estonia or Ireland (more than one third of population have tertiary education) can suffer from high unemployment.

3.2 Labour Markets Legislative Barriers

Apart from the insufficient language skills, labour mobility in general, as well as in EU countries can be held back by other various barriers that are preventing the movements of workers from one country to another. Without these barriers, workers would be able to move between countries, based on their skills, countries' labour shortages or free job vacancies in other regions or states. Existence of barriers also prevents a better synchronisation of national labour markets. As a result, high levels of unemployment persist despite a free movement of citizens guaranteed by EU law. Nevertheless, the reality is still a bit different and the actual mobility is limited mainly by various administrative obstacles and possibly by the countries diversity.

One of the most important mobility hurdles is the lack of system providing for mutual recognition of official documents as well as lack of pension transferability or loss of pension entitlements. The main problem is that pension rights and entitlements are often not portable between schemes or across EU countries' diverse pension systems. Then there are also delays and variation in the level of payments of social security benefits or incomplete transferability of (supplementary) pensions, wide variation in health care systems as well as legal and administrative problems caused by different taxation systems of the Member States. Problematic and lengthy recognition of professional qualification across countries represents another obstacle. Nowadays, an automatic recognition of qualification applies only to 7 out more than 800 professions, namely: architects, doctors, dentists, nurses, midwives, pharmacists and veterinaries (diplomas are recognized without any test or probation period). (Bonin et al., 2008; OECD, 2012)

As for the public sector jobs, they remain mostly closed for non-nationals even though according to European law, EU citizens should have similar access to public sector job as nationals. However, existing regulations close these posts for people from other EU countries and prevent them from accessing some of public sector jobs.

What is more, cross-country information about job vacancies is still scarce and assistance of national employment agencies for unemployed from other EU countries is low. Linguistic diversity, cultural barriers and housing market regulation and taxes on property transactions in some countries add up to barriers. (OECD, 2012) All of these factors increase the mobility costs for the individuals and reduce migration propensities. With respect to their diversity these factors are not going to be analysed in more details in this paper but they are left for future study.

4. Conclusions

This paper presents an overview of the current situation on labour markets of EMU. It confirms that opposed to similarities in other domains, national labour markets remain different. Theory of OCA suggests that high unemployment can be simply solved by flexible markets together with the higher mobility of labour force. We analysed relationship of indicators of labour market flexibility and unemployment rate; nevertheless no obvious dependence was confirmed. Language skills and educational attainment were compared as well, so as to analyse potential of workers for their future move to another country. Here again, it was confirmed, that countries having the highest rates show also the worst result for these indicators. Insufficient language skills and education (in some countries) act as one of the main factors holding back the mobility of labour force. Unfavourable current situation tells us that countries should be more interested in eliminating existing imbalances and deficiencies that nowadays characterise labour markets in EMU. It would also mean that EMU countries would get more close to a goal of being an optimal currency area.

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