The Growth of Labour Market in Europe

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The EU Employment and Social Situation Quarterly Review provides an overview of developments in the European labour market and the social situation in the EU, based on the latest available data. EU GDP dropped by 0.5% during the fourth quarter of 2012, the largest contraction since early 2009. Among larger Member States, the economy continued to grow in Germany, Poland, and the United Kingdom, whereas it shrank in Italy, Spain and France. Divergence continues to increase across Member States, translating into persistently growing labour market and social challenges, marked by ever higher unemployment at EU level and a deterioration of the situation of many households and of young people in particular (EuropeanComission, 2013).

According to labour force survey (LFS) data, the EU aggregate employment rate remained stable over the year to the third quarter of 2012. This hides major differences across countries (major declines in Greece, Portugal, Cyprus and Spain, vs rises in Latvia, Lithuania, Malta and Luxembourg), genders (rise for women, fall for men) and age groups (fall for youth, rise for prime-age adults). Against this backdrop, the EU job-finding rate has decreased further, from an already low level, to 11.7% in the third quarter of 2012, showing that it is ever harder for an unemployed person to find a job. At the same time, the job separation rate remained relatively unchanged over the first three quarters of 2012 (EuropeanComission, 2013).

Reflecting overall job losses, the employment rate for the working-age population (15-64) fell by 1.6 pps to 64.6% between the third quarter of 2008 and the same quarter in 2012, according to latest LFS data. Compared to the previous year though, that rate did not change. Likewise, a status quo was seen for the 20 – 64 age group in the year to 2012, at 68.9 %, some 6.1 pps below the Europe 2020 target (75%). But this hides major differences across Member States, with major declines in Greece (-4.8 pps in the year to 2012 Q3, at 54.9%), in Portugal (-2.7 pps to 66.6%), in Cyprus (-2.7 pps to 70.0 %) and in Spain (-2.3 pps to 59.4 %), bringing those rates further below the targets set by the governments of those Member States. On the other hand, significant rises were seen in Latvia (+2.6 pps to 69.7 %), Lithuania (+2.3 pps to 69.9%), Malta (+1.9 pps to 63.3%) and Luxembourg (+1.8 pps to 63.1%) (EuropeanComission, 2013).

However, after the evaluation of the 2012’s quarterly report, labour market condition has continued to improve. In 2017, the OECD average employment rate was almost 2 percentage points above its pre-crisis level. Similarly, unemployment rates continue their slow descent, although in a few countries remain somewhat above their pre-crisis levels because employment has not increased enough to fully offset rising trends in participation rates. On the other side, the recent performance of OECD countries as regards job quantity has been quite heterogeneous.

In 2016, employment rates were more than 8 percentages points above their 2006 levels in Germany, Hungary, and Poland. In these countries, these positive employment trends are typically matched by significant reductions in both unemployment and broad labour underutilization. By contrast, contractions of employment rates as large as 2 percentage points or more occurred in this period in a number of countries hit hard by the Great Recession and the euro debt crisis (Greece, Spain, and Ireland) and Denmark. In these countries, negative employment trends are matched by large increases in unemployment trends are matched by large increases in unemployment and broad underutilization (OECD, 2018).

On the other side, another research implements that during economic downturns, labour market mobility is more involuntary and constrained; more generally, recessions might alter employee and employer behavior conducive to educational mismatches (Summerfield, 2014). Employees and job seekers, facing risks of long-term unemployment, might be particularly interested their jobs or seeking work, regardless of the matching quality. For employers, overeducated workers represent an ‘insurance device’ against the productivity losses experienced during a crisis (Bulmahn & Kra¨kel, 2002).

Moreover, the view that structural reforms would increase the efficiency of the labour market, improve the competitiveness of the economy and favour an increase in employment, production and income has in the last twenty years prevailed among policymakers. According to this interpretation, such reforms would even help to reduce internal inequalities in the labour market, between insiders and outsiders. After the Great Recession, the support in favour of the deregulation of the labour market has been enhanced by additional elements, including the need to increase the flexibility of wages and prices in less competitive countries and contribute, in this way, to the absorption of the global macroeconomic imbalances. Important contributions to the achievement of this "deregulatory" vision of the labour market have been made by leaders of main governments and by the most influential international institution (ILO, 2015).

Further research was conducted in the term of investigate the interaction between unemployment and labour market policies. The potential mediating efect of labour market policies on unemployment and the impact of this effect on far-right party support. The logic was the following: unemployment is often understood as one of the key drivers of economic insecurity. In turn, economic insecurity is often expected to be a key driver of far-right party support. Therefore, policies that mediate the efect of unemployment on economic insecurity are likely to have an indirect impact on far-right party support (Vlandas & Halikiopoulou, 2018). After reviewing this, how about the impact of the wage growth?

A burgeoning literature has been triggered by the secular slow down in wage growth experienced by the industrialized world in the period from 2012 to 2016. This includes a lot of research with a decidedly European focus. The impact of labour market segmentation on aggregate wage growth, though, has thus far not been assessed. It is here where the two streams of literature intersect and where the research by Paul Ramskogler (2021) intend to contribute. This research investigated whether labour market stratification can have an impact on wage setting and whether this contributed to the puzzling lack of wage growth after the crisis and the answer is – to be explicit – yes. While inflation and unemployment still explain a good proportion of wage growth considering the structure of labour markets adds additional insights about the dynamics of wage setting processes (Ramskogler, 2021).

Using an encompassing estimation approach it was identified that the labour market dualities – more precisely the incidence of temporary contracts – as an important explanatory variable for wage growth. Further finding showed that labour market dualities appear to have contributed to the slow down of wage growth after the crisis. This might be due to the specific dynamics introduced by a stratified labour market structure. The presence of a subordinated job segment can have a systematically dampening effect on overall wage growth arguably increasing the ’firing threat’ of any given rate of unemployment. This effect has increased considerably since the crisis and this helps to understand the irritating behaviour of the wage growth unemployment nexus. It is possible that one important driver of this development have been changes of national collective bargaining systems and their hybridization since the crisis (Brandl & Bechter, 2019).

However, the main interest of research on employment in EU regions has been to test convergence theories and assess how change in economic structure and sectoral specialization affects regional employment or to link unemployment to increasing regional polarization. The determinants of long-term unemployment in European regions have, by contrast, attracted much less attention. Over the past 15 years, the EU workforce has become both more specialized and more prone to risks of labour market exclusion. Human capital has been at the heart of new job creation for the most skilled. A better capacity to absorb new workers, however, has not necessarily implied a decrease in the number of disadvantaged workers (Cataldo & Rodríguez-Pose, 2017).

The present work examines how the four different development axes associated with European regional intervention affect employment promotion in EU regions and contribute to social inclusion or exclusion, long-term unemployment, and to change in labour market disparities. In order to test the effect of growth determinants on labour market outcomes, empirical models of employment and long-term unemployment change, including traditional labour market determinants as controls, are developed. However, the low degree of labour mobility across EU countries as compared with US states can be linked to language and cultural differences, largely heterogeneous policy contexts, notably concerning the labour market and fiscal and social welfare policies. Some reasons underlying reduced labour mobility within Europe were considered to be linked to persisting legal and administrative barriers to the single market ensuing notably from limited portability of welfare rights, recognition of qualifications and access to regulated professions. Despite being a relevant adjustment channel, there are limits to what labour mobility can achieve in terms of shock absorption and there are costs that need not be neglected (Arpaia, Kiss, Palvolgyi, & Turrini, 2016).

However, since the pandemic strikes, it also impacts the growth of labour market not only in EU but also any country in the world. The post-COVID-19 scenario projects the labor demand effects of pre-COVID-19 trends and three COVID-19 trends such as increased remote work and virtual meetings, shift to e-commerce, and other virtual transactions, and faster adoption of automation and Artificial Intelligence. For both pre- and post-COVID-19 scenarios, the steps in estimating final labor demand at the occupation level are first, creating a 2018 employment baseline with standard occupation taxonomy. Then second, construct a baseline of employment in 2030. Then, size the jobs lost and jobs gained effects of each trend (in the case of the post-COVID-19 scenario, including COVID-19 trends), and last but not least, subtract or add job losses and gains from the 2030 employment baseline and scale employment proportionally to return to full employment.

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