

# Labour market, skill demand and supply, and effective labour market policies enhancing competitiveness

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WP4

## GRINCOH Papers for WP 4

- Bönisch, Peter - Schneider, Lutz- Hyll, Walter (2013): Social Capital and Migration Preferences - An Empirical Analysis for the Case of the Reunified Germany. GRINCOH Working Papers WP4.3.2
- Csillag, Márton - Samu, Flóra – Scharle, Ágota (2013): Job Search and Activation Policies in Central and Eastern Europe GRINCOH Working Papers WP4. 5.1.
- Herbst, Mikolaj - Anna Wojciuk (2014): Common origin, different paths. Transformation of education systems in Czech Republic, Hungary, Poland, and Slovakia. GRINCOH WP4.
- Hermann, Zoltán (2014) :The impact of tracking on skill maintenance and employment of low-skilled workers GRINCOH WP4. 6.
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- Varga, Júlia (2014): The effects of policy changes on teacher quality, teacher sorting and students' outcomes GRINCOH WP4. 9.
- Varga, Julia (2014): How to achieve complementarity between economic and social cohesion in the labour market?; WP4 Policy Note.
- Vidovic, Hermine (2013) Labour Market Developments and Social Welfare GRINCOH Working Papers WP4. 1.

# Main tasks of WP4 within the GRINCOH project

- Labour market research aimed at supporting a growth and modernisation strategy in CEECs
- Focus on:
- Labour market policies aimed at much better utilisation of potential labour force:
  - address problem of very low activity and employment rates of the low-skilled and the young:
    - successful activation strategies
    - quality of labour market policy design
    - effective education and training policies
    - issues of social integration of marginalised groups
- Human capital/educational policies more generally

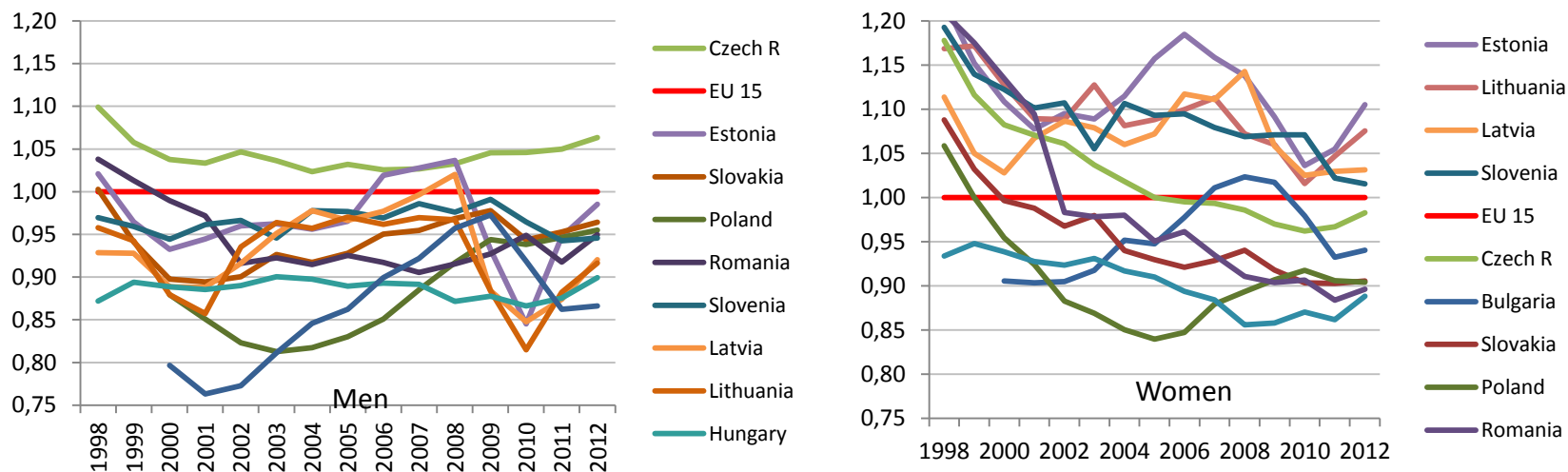
# Outline

- Short overview of labour market developments (employment, unemployment, activity)
- Determinants of success of activation strategies
- Measuring quality of labour market policy design
- Reasons for the extremely low employment rates of the undereducated
- Issues of migration, mobility and reducing brain drain
- Effective education and training policies in separate presentation by Julia Varga

# What are the common labour market problems in CEE countries ?

- low level of labour supply - activity rates of men are well below the EU15 average in all CEE countries
- low employment rates of men and extremely low employment rates in population with low levels of education
- challenges of quality and underdeveloped public administration services in the CEEs
- social and labour market integration issues interrelated

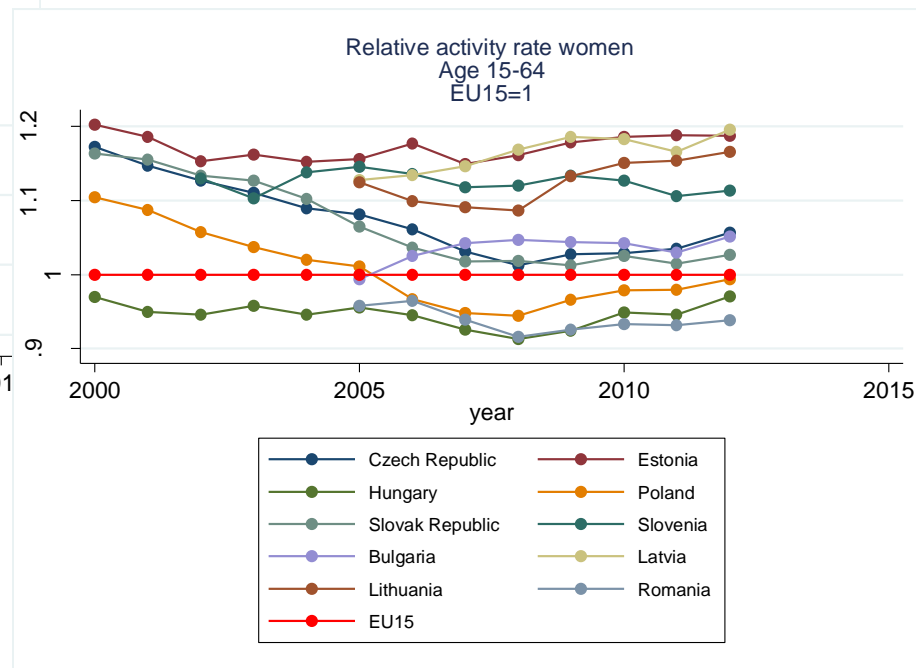
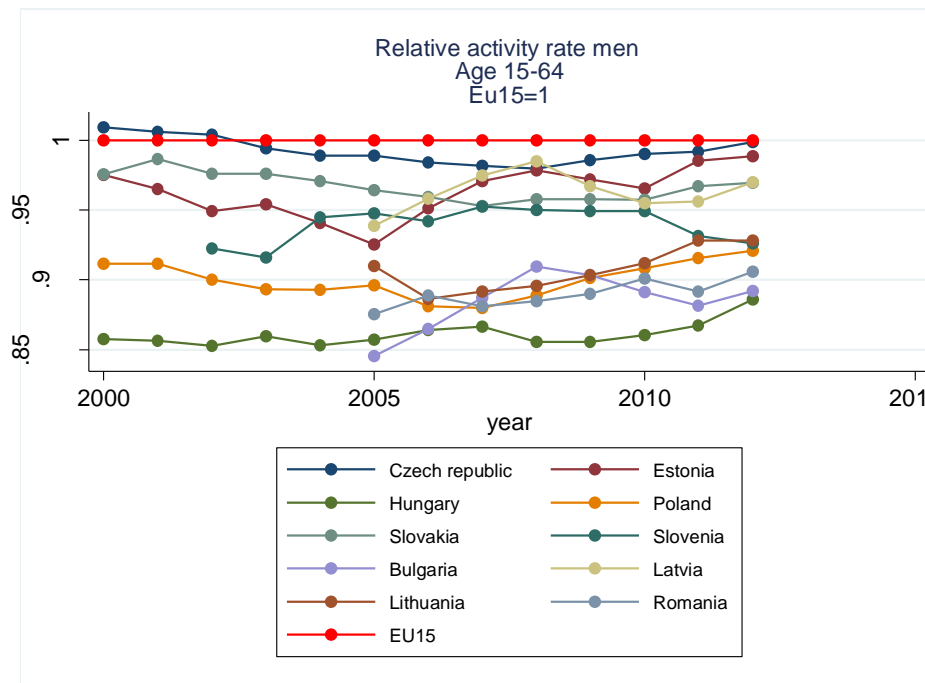
## Relative employment rates in post socialist Member States by gender, EU15=1



Source: Csillag – Samu- Scharle (2013) Based on EU LFS

- a marked drop in employment during the transitional recession in the 1990s , large variation in the recovery of the labour markets – what is the role of labour market institutions vs. macroeconomic policies in those differences?
- relative employment of men is below EU15 average in all countries (exception Czech Republic)
- after long-run improvements pre-crisis male employment rates dropped between 2008 and 2010 in almost all countries to mid-2000 levels (exceptions Czech Republic and Poland), female employment rates also dropped (exception Poland)

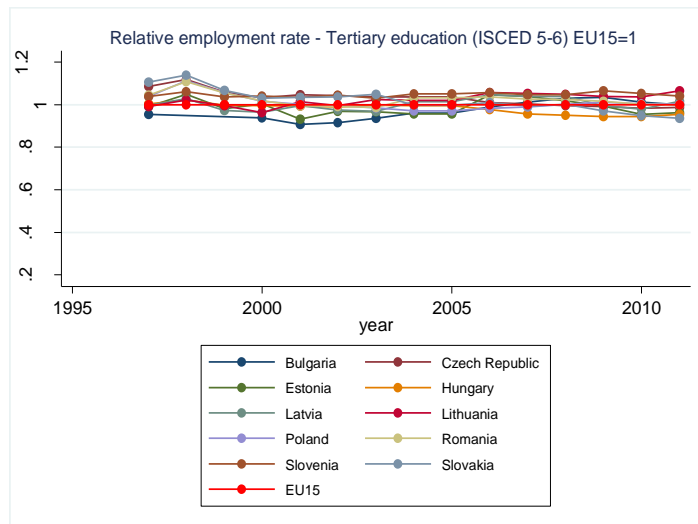
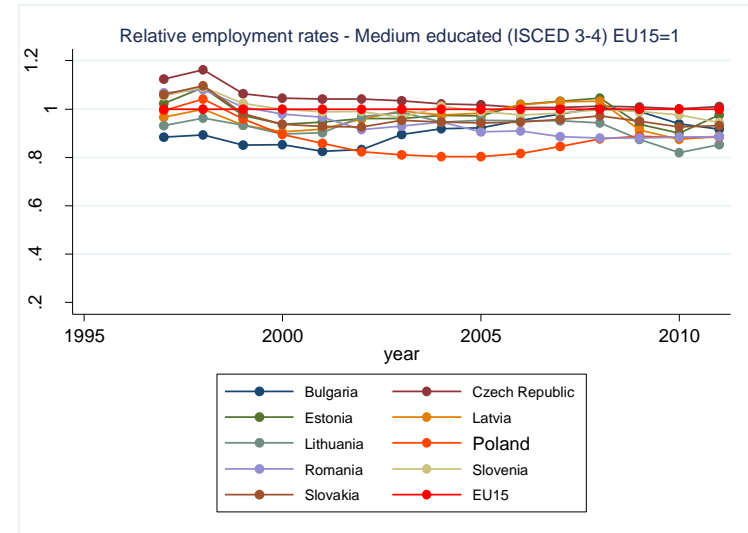
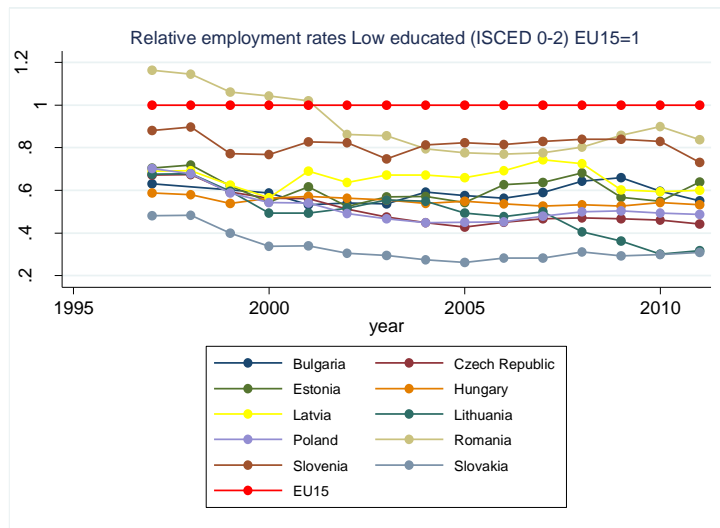
# Activity rates



- activity rates of men are below the EU15 average in all CEE countries
- activity rates of women are above EU15 average (exception Romania, Hungary and after 2010 Poland)

Source: EU LFS

# Employment by educational attainment



- tertiary education - employment rates in CEEs are similar to average employment rate of EU15
- upper secondary education - slightly lower
- low educated – large and persistent lag

lack of preparedness for the job market (supply side)?

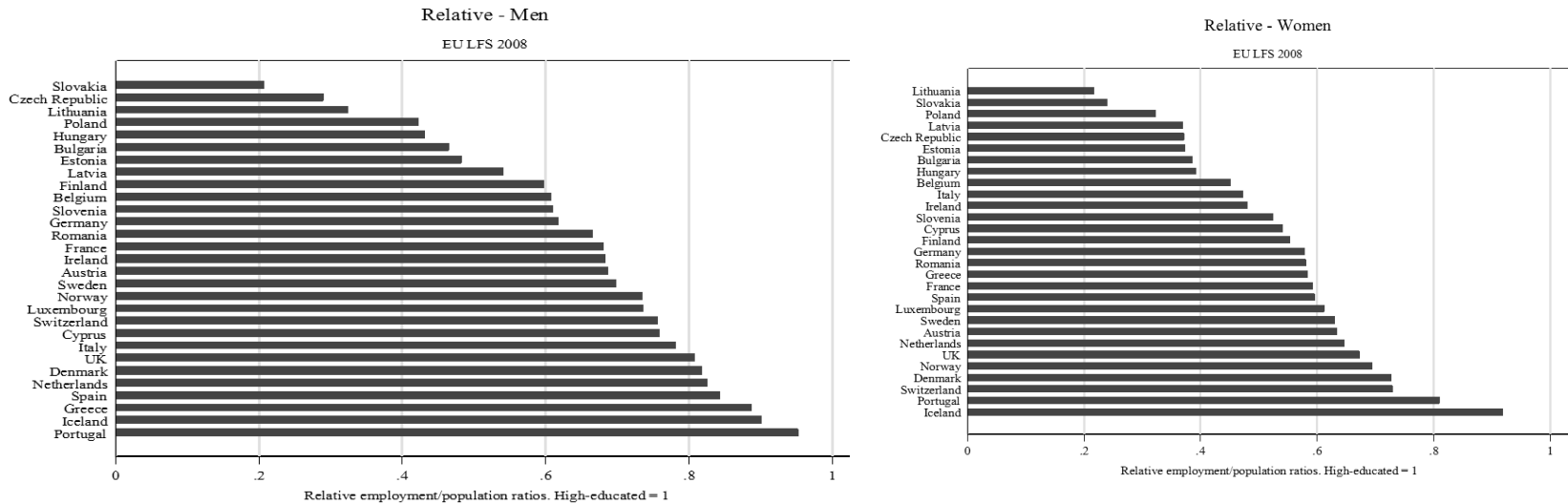
are there simply not enough jobs available (demand side)?

Source: Vidovic, 2013 - based on EU LFS



# The problem of low educated

## The relative levels of unskilled (ISCED 0-2) employment (High educated=1)



- the gap between high and low educated people in terms of job prospects is nowhere as wide as in the CEEs
- East-West mean differential in the unskilled employment to population ratios is significantly larger than the within-region variance
- the persistent failure to provide its unskilled population with work poses the risk of destructive social fragmentation, erosion of the legal and market institutions and slower growth

Source: Köllő (2013)

*Study by Leitner and Stehrer (2014): “Labour market transitions in the EU before and during the economic crisis with a view on youngsters in the new EU member states”.*

Analysis of **transition probabilities between labour market states: employment, unemployment, inactivity, education**; particularly **pre-crisis to crisis**

Some interesting results:

- Differentiation men vs. women (unemployment vs. inactivity); by educational groupings (as expected); loss of jobs higher for young but also re-entry into jobs; danger of U-to U transitions (differentiation by skill groups); also some differentiation by country groups (CEE-3, Baltics, Poland, BG-Ro)
- Transition from and into education of young: again differentiation by education levels, by gender (male advantage); education allows to bridge time spans of labour demand productively.
- Policy implications from inter-country differentiation of behaviour during crisis: differences in transition probabilities for different groups (young, old; male; female; differently educated).

# Common problems

- low employment rates of men
- extremely low employment rates of the low educated
- low activity rates of men
- vulnerability of particular groups to business cycle shocks

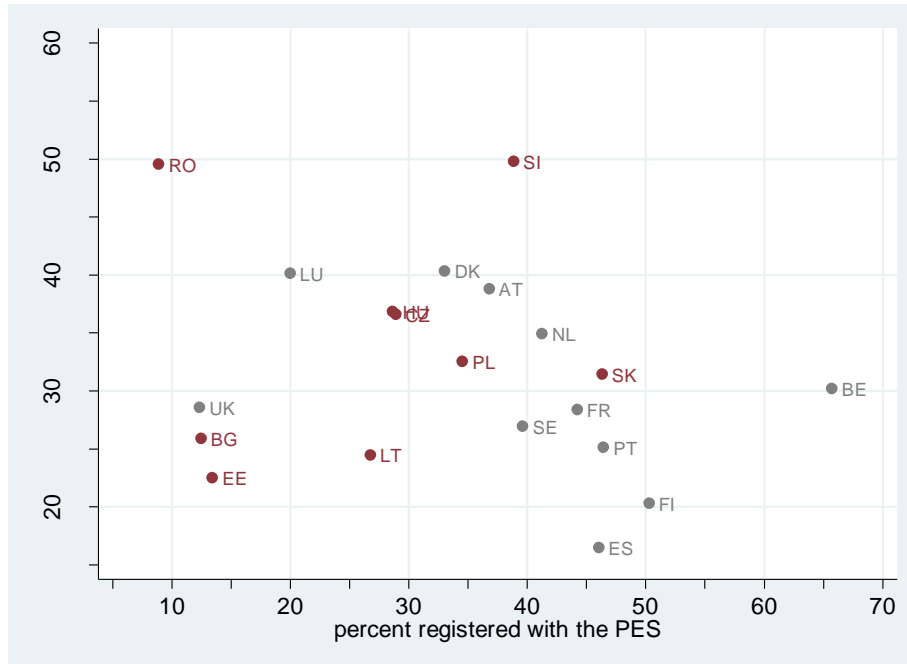
# How successful are alternative strategies of activation?

- the generosity of benefits is lower in CEEs than in the EU15
- the eligibility conditions are slightly stricter
- CEE countries spend on PES services less than half of what EU15 countries do

*Source: Csillag - Samu - Scharle (2013): Job Search and Activation Policies in Central and Eastern Europe*

# How successful are alternative strategies of activation?

## Registration rates and proportion of the non-employed who left their job due to disability or early retirement



- large variation in registration rates
- registration of non-employed is at a lower level in CEEs (median registration rate 29 % in EU15 countries 44 %)
- in CEE countries a relatively large proportion of those who have not retreated from the labor force via disability/early retirement benefits are not in contact with PES

Source: Csillag – Samu- Scharle (2013)

# How successful are alternative strategies of activation?

## PES strategies and expected outcomes

Registration	PES spending	Search monitoring	Examples	Expected outcomes
Low	Low	Lenient	BG, CZ* Hu, PL*	Low search activity
Low	Low	Strict	RO, EE, LT	Low search activity
Low	High	Lenient	DK	Low search activity, counselling
Low	High	Strict	AT, UK	Search intensity increases
High	Low	Lenient	BE, FI	Search via PES increases Independent search might decrease
High	Low	Strict	SI, SK	Search via both PES and independent methods increase, no increase in search intensity
High	High	Strict	NL	Search via both PES and independent methods increase, higher search intensity

Source: Csillag – Samu - Scharle (2013)

# How successful are alternative strategies of activation?

- Results:
- limited registration requirements and low spending on PES yield low search activity, even if job search monitoring is strict
- in countries that opted for no/or lenient activation (Bg, Cz, Hu, Pl), the first step should be an increase in the coverage of registration, not the tightening of job search monitoring or increased spending on PES services
- for those countries that combine low spending on PES with limited registration coverage and strict monitoring, an increase in PES spending may be effective, especially if they are able to prevent outflows into other welfare benefits
- a combination of high spending on PES and strict monitoring of job search yield a high search intensity - effective strategy *if high search intensity yields high reemployment rates*

Source: Csillag – Samu- Scharle (2013)

# How can we measure the Quality of Labour Market Related Decision-Making and Policy Design ?

Country_name	Number of ALMP reform measures	Ex-post evaluation foreseen	As % of measures adopted
Bulgaria	14	1	7.1
Czech Republic	11	0	0.0
Estonia	22	1	4.5
Hungary	14	0	0.0
Latvia	21	9	42.9
Lithuania	19	6	31.6
Poland	23	4	17.4
Romania	8	0	0.0
Slovakia	8	0	0.0
Slovenia	12	1	8.3
CEE All	152	22	14.5
EU27	538	101	18.8

ALMP spending as a % of GDP	
Country name	Average 2007-2010
Bulgaria	0.11
Czech R.	0.26
Estonia	0.23
Latvia	0.21
Lithuania	0.26
Hungary	0.23
Poland	0.57
Romania	0.07
Slovenia	0.22
Slovakia	0.24
EU (27 countries)	0.63

*Source: Váradi (2013): How can we measure the quality of labour market related decision-making and policy design in Central- and Eastern European EU member states and what are its structural determinants?*



## Four rankings of LMP quality

Country_name	ALMP spending 1	ALMP spending 2	Number of measures	Proportion of Evaluations planned
Bulgaria	9	9	5	5
Czech Republic	2	2	8	7
Estonia	5	3	2	6
Hungary	8	8	5	7
Latvia	4	5	3	1
Lithuania	7	7	4	2
Poland	1	1	1	3
Romania	10	10	9	7
Slovakia	6	6	9	7
Slovenia	3	4	7	4

*Source: Váradi (2013): ALMP spending measures spending/GDP; ALMP spending 2 corrects for actual spending of ESF funded measures and relates it to the proportion of the population they are targeted to (in this case the male adult unemployment rate). Váradi*

# Determinants of effectiveness of ALMP

Varadi (2013) - Results:

Careful measurement of intensity and quality of ALMP

Most important determinants of quality of labour market policy design and decision-making:

- quality of public administration and government in general (WB measure)
- levels of long-term unemployment ('demand')
- economic growth ('ability to finance')

Different paths to good labour market policies:

- If general gov. effectiveness low, develop good institutions in this specific field of action
- In Baltics lack of growth generated good labour market policies, in Visegrad the opposite
- serious challenge of long-term unemployment generates response of improved quality of labour market policy

*Source: Varadi (2013)*

# What are the reasons for the East-West differential in the unskilled employment to population ratio ?

- not skill-biased technological change – SBTC alone can hardly explain the region-wide collapse of demand for low educated workers
- the post-communist transition destroyed a large number of simple jobs, domestic privatization and FDI had detrimental effect on the share of blue collars
- the traditional small (micro) firm sector was destroyed in all communist countries (exception private farming in Poland and Slovenia - low self-employment rates but relatively high small-firm density) - the efforts to rebuild a traditional economy have failed
- the *relative* demand for primary degree holders within blue collar jobs is further reduced by substitution with workers of uncertified vocational qualification
- CEEs jointly lag behind Western and Northern Europe in terms of participation in civil activities and adult learning

*Source: Köllő (2013): Patterns of integration: low educated people and their jobs in Norway, Italy and Hungary*

## What are the reasons for the East-West differential in the unskilled employment to population ratio ?

- many low educated Norwegians attend complex jobs: their share in employment exceeds their population share in the domain of 0-8 literacy tasks
- in Italy and Hungary low educated people are under-represented in jobs requiring more than 3 tasks. Compared to Hungarians, low educated Italians have a higher probability of being employed in all categories of jobs

*Source: J. Köllő (2013)*

## What are the reasons for the East-West differential in the unskilled employment to population ratio ?

- Norway and Italy different but successful models of providing the low-educated population with work
- low-educated Hungarians lack a series of basic competencies, which allow unskilled Norwegians to work in skill-intensive jobs
- a dramatic degree of social isolation further deteriorates their skills and jobs prospects.
- skills deficiencies occur even more frequently in Italy, but the country's sizeable small-firm sector provides a shelter for the unskilled.
- insufficient skills (relative to Norway) and having an undersized and skill-intensive small-firm sector (relative to Italy) significantly contributes to non-employment among low-educated Hungarians.

# What are the reasons for the East-West differential in the unskilled employment to population ratio ?

## SUMMARY:

- insufficient skills and having an undersized and skill-intensive small-firm sector significantly contributes to non-employment among low-educated
- explain why the post-socialist countries as a group fail in integrating their low educated populations

## **From this follows → Structural limitations in CEECs:**

- well-designed employment policies, cautious minimum wage practices and a reasonably planned welfare system cannot solve the problem alone
- better schools, intense adult training, provision of access to the means of informal learning and support and autonomy for the civil organizations working in the field are all required as well

*( Further discussion of educational issues in presentation of Julia Varga)*

Bönisch – Schneider – Hyll study:

Careful study of the role of formal and informal social capital as determinants of mobility:

- high amount of informal social capital (social networks – spatial aspect) are less mobile
- mobile individuals invest less in informal social capital but more in formal networks
- people in shrinking regions do not invest less in informal relationships – (although this would have been one of the hypotheses)

*Bönisch – Schneider- Hyll: Social Capital and Migration Preferences – Empirical Analysis for the Case of a Reunified Germany*



## Topics covered in WP4 relevant for policy - summary

- Careful cross-country comparisons of labour market developments (employment, unemployment, activity, training/education)
- Determinants of success of activation strategies
- Measuring quality of labour market policy design and its determinants
- Reasons for the extremely low employment rates of the undereducated
- Issues of migration, mobility and implications for brain drain and brain gain
- **Effective education and training policies in separate presentation by Julia Varga**

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