

What are Common Desired Elements in Labor Market Policies for EU Countries towards 2020?

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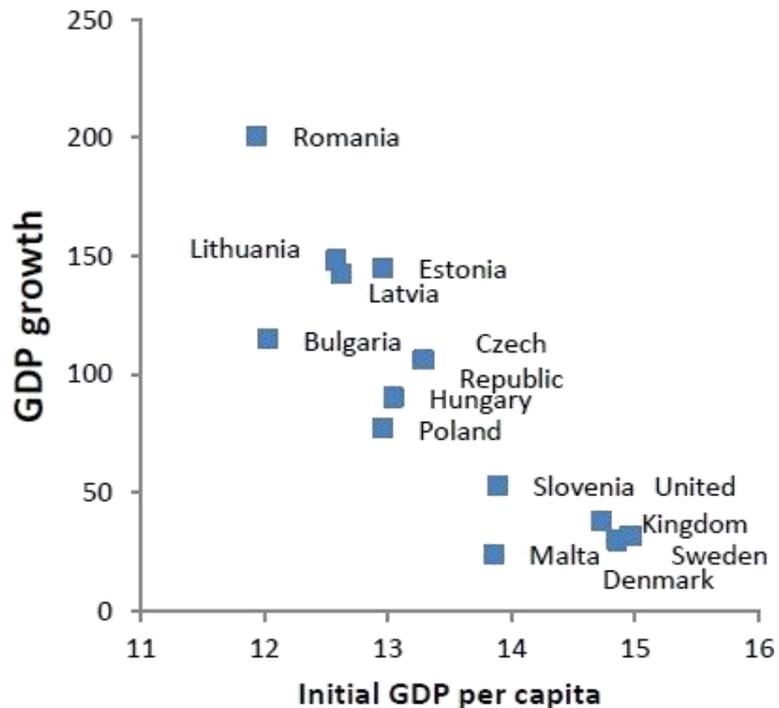
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Common Policies for... Economic Convergence?

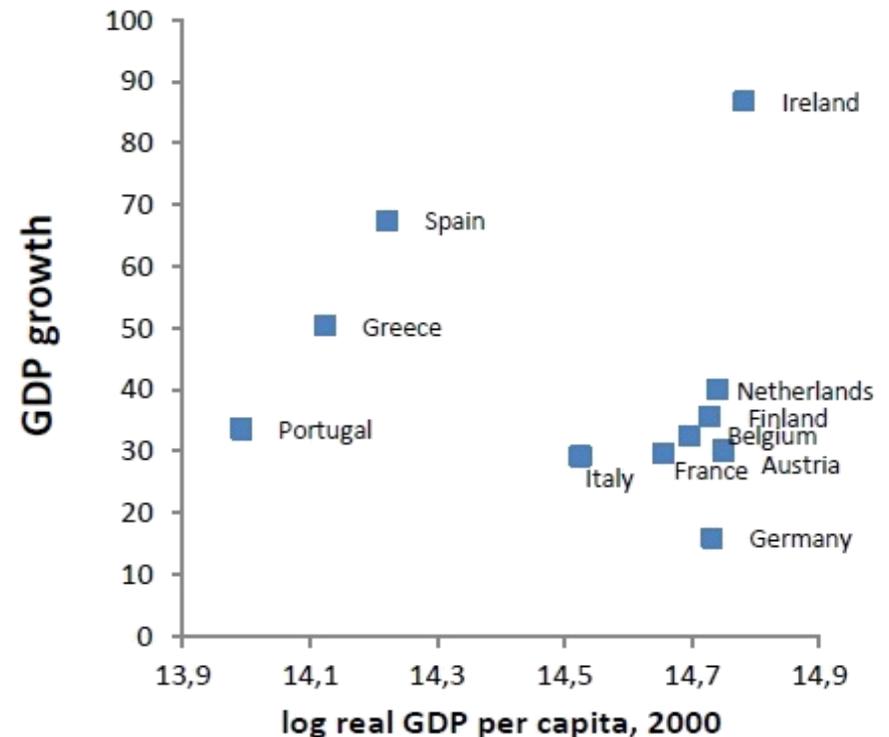
- ▶ One of the main targets of the European Union is to **improve international competitiveness by removing market barriers**
- ▶ Theory predicts that this should result in:
 - a more efficient factor allocation
 - a marginal productivity equilibrium among mobile factors
 - an increased production efficiency
 - and, last but not least, in economic convergence
- ▶ Introducing a **single currency** should be viewed as another step to market integration, suggesting that the 17 states in the Eurozone should converge (even) faster
- ▶ ***What did actually happen before the Great Recession?***

GDP Growth vs. Initial GDP

Non-Eurozone



Eurozone

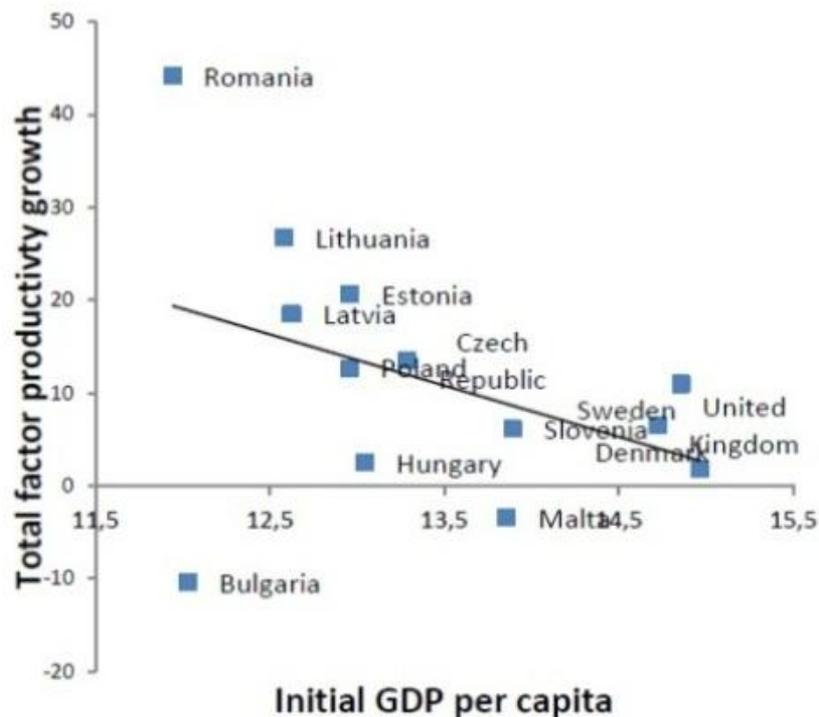


Note: Percentage GDP growth between 2000-2007 relative to initial GDP in 2000.

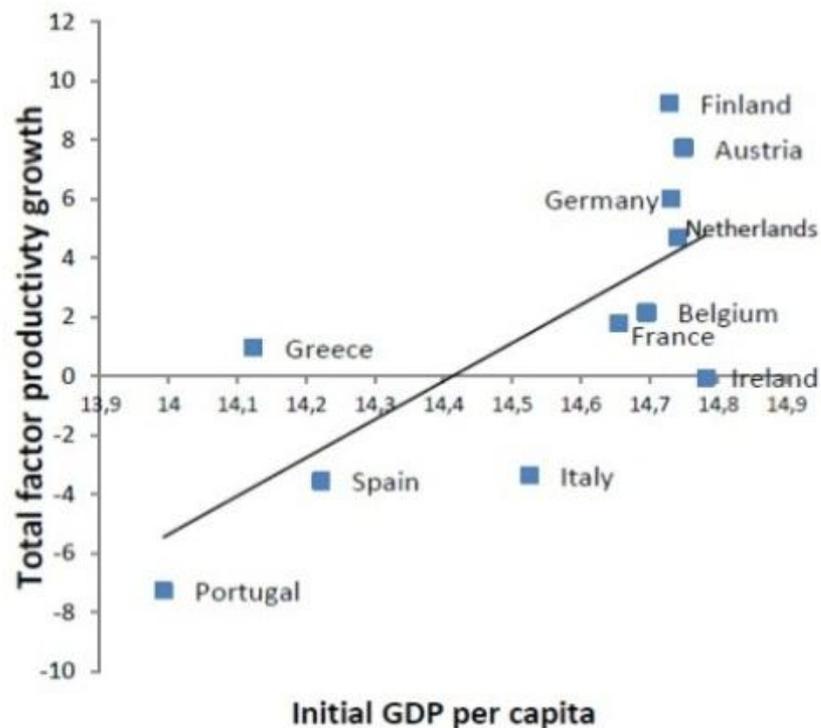
Source: Bertola (2013): Policy Coordination, Convergence, and the Rise and Crisis of EMU Imbalances, p.17

Productivity Growth vs. Initial GDP

Non-Eurozone



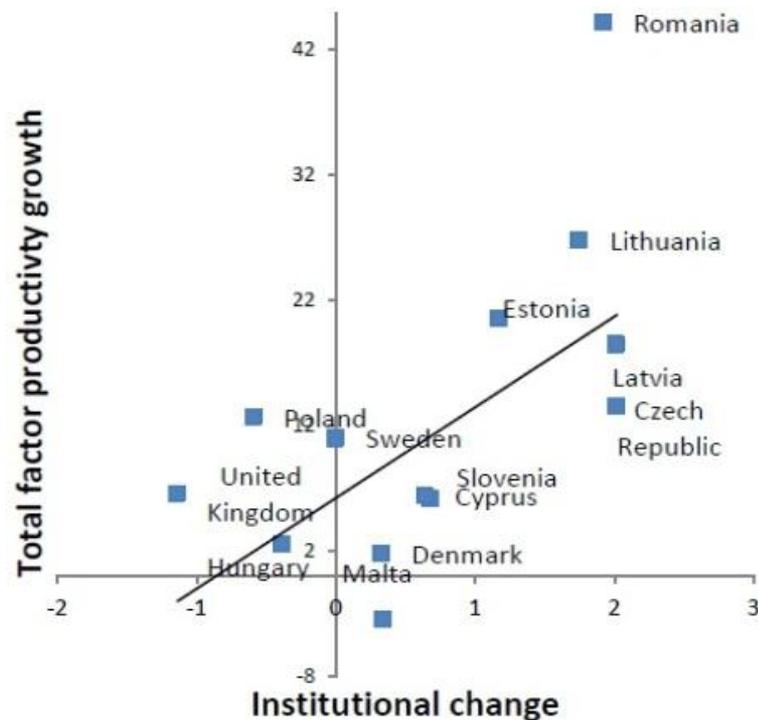
Eurozone



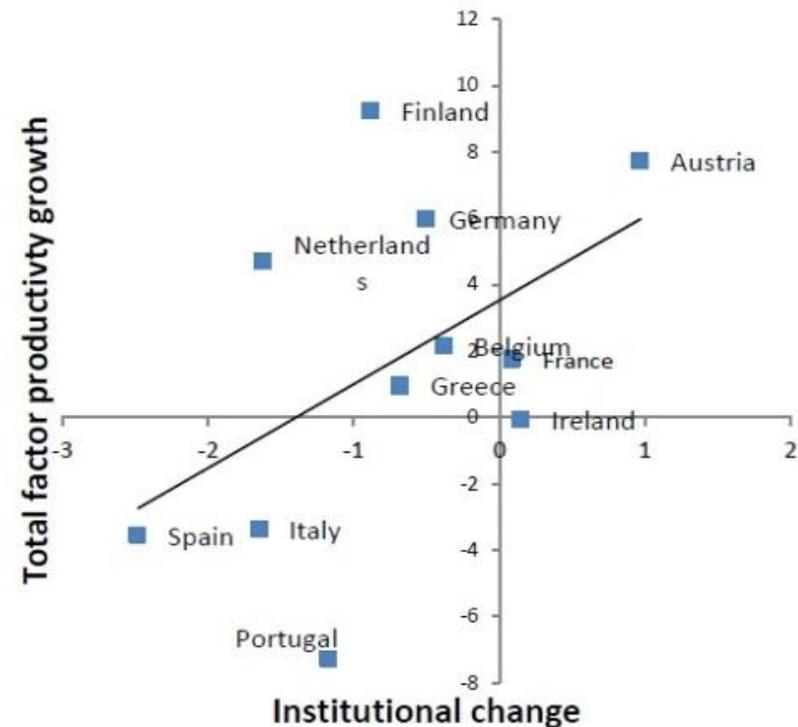
Note: Percentage productivity growth in the EU27 between 2000-2007 relative to initial GDP per capita in 2000. **Source:** Bertola (2013), p.19

Productivity Growth vs. Institutional Change

Non-Eurozone



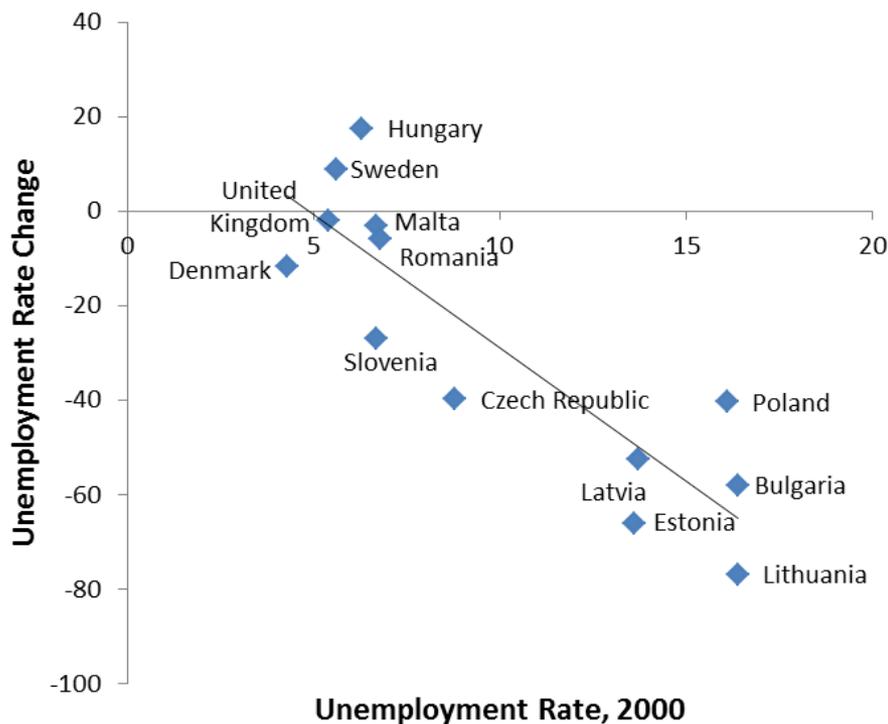
Eurozone



Note: Percentage productivity growth in the EU27 between 2000-2007 relative to quality of institutional change (variation in the OECD indicator). **Source:** Bertola (2013), p.23

Unemployment Change vs. Initial Value

Non-Eurozone



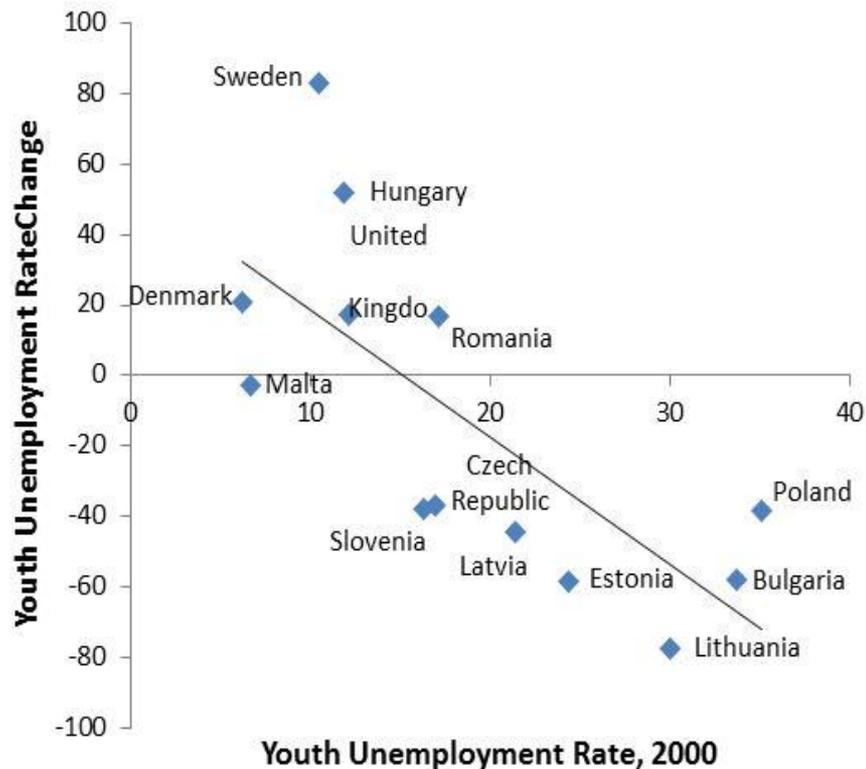
Eurozone



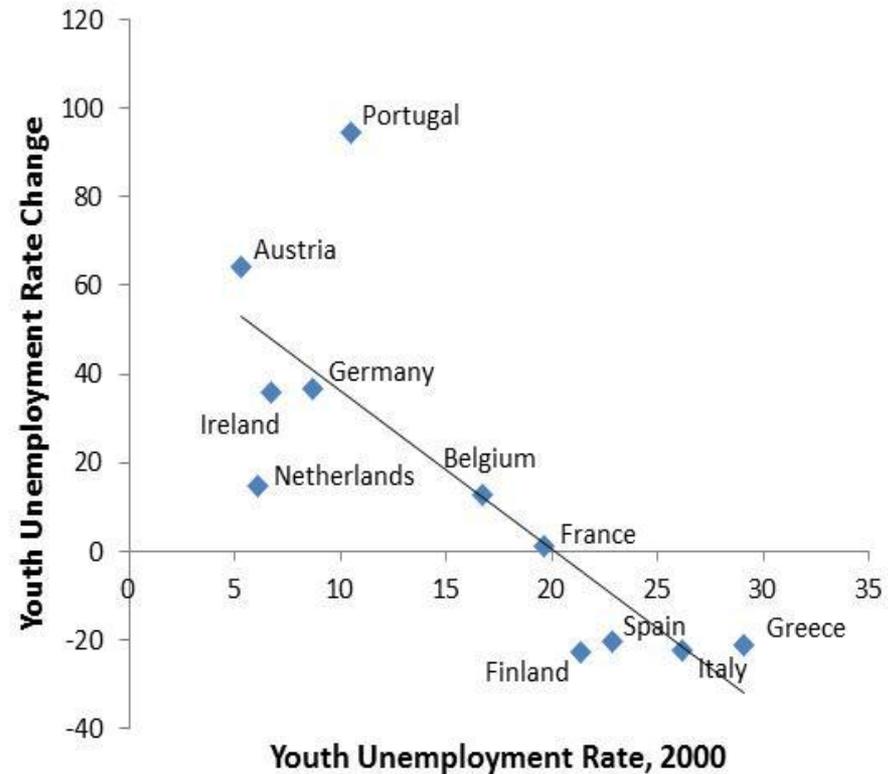
Note: Percentage change in unemployment rate between 2000-2007 relative to initial unemployment rate in 2000. **Source:** Eurostat (2013), own calculations.

Youth Unemployment Change vs. Initial Value

Non-Eurozone



Eurozone



Note: Percentage change in youth unemployment rate between 2000-2007 relative to initial youth unemployment rate in 2000. **Source:** Eurostat (2013), own calculations.

Economic Convergence in Europe?

▶ Before the Great Recession:

- Some economic convergence present, but generally stronger convergence in non-Eurozone countries
- This was particularly the case with respect to productivity

▶ During the Great Recession:

- If anything, “weak” economies more strongly hit by the crisis (e.g., youth unemployment; Eichhorst, Hinte and Rinne, 2013)
- “Strong” economies affected to a smaller extent or hardly affected (e.g., Germany; Rinne and Zimmermann, 2012, 2013)
- Certainly, the Great Recession did not contribute to economic convergence in Europe

EU 2020: Common Policies vs. Competition

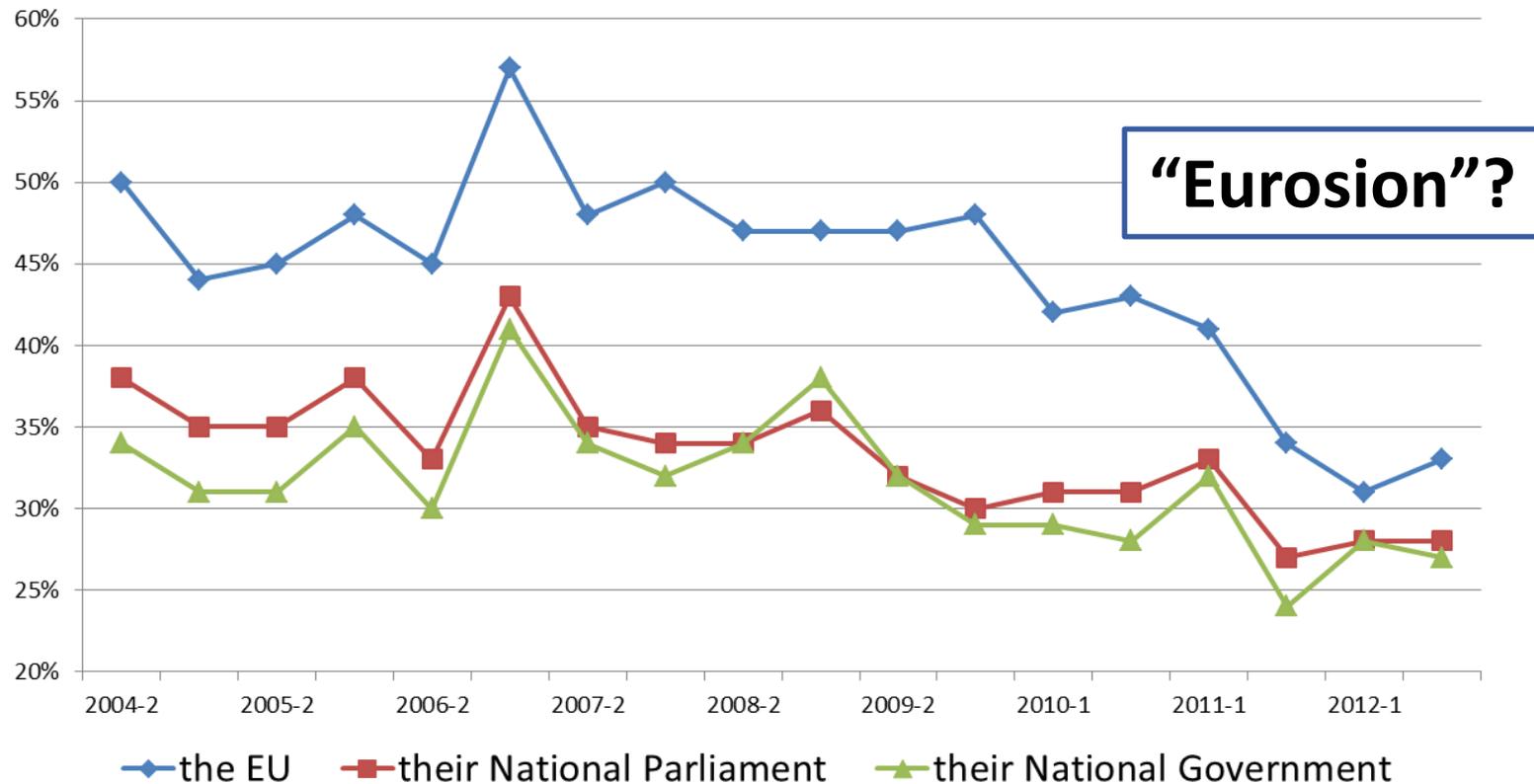
- ▶ **Potential areas for (more) common (labor) policy in the EU:**
 - Migration
 - Employment Protection Legislation
 - Minimum Wages
 - Welfare State and Social Security
 - Income Inequality
 - Education
 - (Fiscal Policy)
- ▶ **General trade-off: Common policies (or common minimum standards) vs. competition in policies on the national level**
- ▶ ***Can common policies rely on political convergence?
(or: Does current competition lead to political convergence?)***

Challenges of Political Convergence

- ▶ **Cultural differences** are unlikely to vanish completely
- ▶ **Different preferences** across member states
 - Different institutional approaches and historic paths make national legislation indispensable – this is a strong argument in favor of the **principle of subsidiarity**
 - **Self-enforcing political convergence** and market integration through competition in reforms on the national level?
- ▶ **Trust** in EU varies between member states and is decreasing
 - **Acceptance of EU-wide policies appears limited and declining**

A Major Challenge of Political Convergence

Trust of EU-27 citizens in...



Notes: EU-27 average trust in the EU and national representatives, 2004-2012.

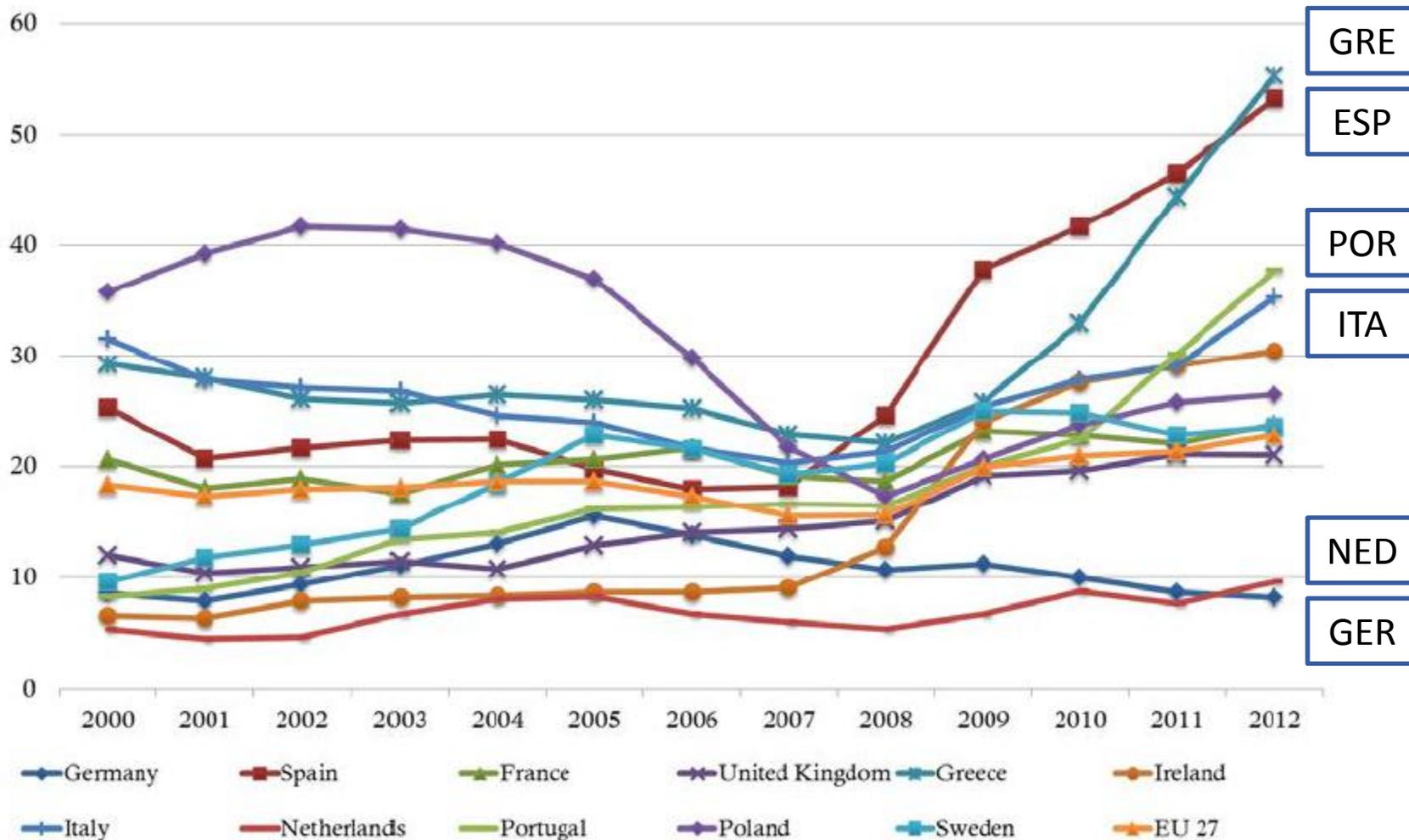
Source: Eurobarometer 78 (2012), p.14

YOUTH UNEMPLOYMENT: A CASE STUDY

Potential areas for common labor policy in the EU are certainly important factors in the current “youth unemployment crisis”:

- Migration
- EPL and Minimum Wages
- Welfare State and Social Security
- Education and VET

Youth Unemployment Rate (2000-2012)



Source: Eurostat.

Notes: In percent of youths aged 15 to 24 years.

Youth Unemployment: What to Do about it?

- ▶ Youth unemployment has become a **severe economic and societal problem** in many European countries
- ▶ **Important areas for policy action:**
 - intra-EU mobility of young workers
 - effective vocational training systems
 - employment protection legislation
 - activating labor market policies
- ▶ However, **short-term remedies are not available**, despite the fact that the EU has announced massive European initiatives
- ▶ Rather, European countries should take the opportunity of the crisis to implement **forward-looking structural reforms**

Mobility and Vocational Training

► Stronger intra-EU mobility (for younger workers)?

- Temporary intra-EU migration for the purpose of training or work by improving the availability of relevant information
- EU: legal harmonization, establishment of a genuinely European labor market and expansion of programs to promote mobility within Europe

► Dual apprenticeships system as the best training strategy?

- Medium and long term modernizations of training systems similar to the successful German model of dual apprenticeships
- More general recommendation: bring vocational education and training closer to labor market needs
- To achieve this, employer participation (i.e., private sector labor market experience) is crucial

EPL and ALMP

▶ **Labor market institutions to increase job transitions?**

- Elements of “flexicurity” and the not only in Germany successfully established concept of “promoting and requiring” can provide stronger incentives for increased job search efforts
- An extension of temporary employment is no option
- New transitions from temporary into permanent contracts by, for example, providing increasing employment protection over the course of the job duration

▶ **Reform process to be accompanied by short-term measures**

- No option: job creation schemes or early retirement schemes
- Temporary wage subsidies combined with training requirements most likely able to lead to positive effects in the short run

The European “Youth Guarantee”

- ▶ **“Youth Guarantee” raises expectations the EU cannot fulfill:**
to guarantee employment, training, or qualification will bind resources, entices to mismanagement, and distracts from core tasks
 - But forces government authorities in many countries to cooperate more closely with public and private placement services, schools, universities, vocational training providers, employers and unions
- ▶ **Instead: pursue key features of “Youth on the Move”**
 - improve general education, vocational training, higher education, mobility of apprentices and job seekers, support start-ups and facilitate labor market entrance of young people
 - strengthen the recognition of informally acquired qualifications, dually modernize training systems and specifically offer internships to push early acquisition of labor market experience

CONCLUSIONS



Summary and Outlook

- ▶ Economic **convergence** in Europe far from being completed
- ▶ Example of **youth unemployment** crisis: mainly due to national labor policies and institutions (e.g., labor market segmentation, vocational education, minimum wages etc.)
- ▶ Does this imply a need for **more common policies**?
 - **All or nothing?** (institutional interactions, path dependence)
 - **Minimum standards?** (welfare, minimum wages)
- ▶ How can national and European institutions regain **trust**?
- ▶ Which common policies are needed/desired and at the same time not slowing down the process of **policy competition**?
 - Important: migration, mobility, and the welfare state



References and Further Reading

Ulf Rinne & Klaus F. Zimmermann (2012):
Another Economic Miracle?
The German Labor Market and the Great Recession
IZA Journal of Labor Policy 1, Article 3.
 (available at <http://www.izajolp.com/content/1/1/3>)



Ulf Rinne & Klaus F. Zimmermann (2013):
Is Germany the North Star of Labor Market Policy?
IZA Discussion Paper No. 7260.
 (available at <http://ftp.iza.org/dp7260.pdf>)



Werner Eichhorst, Holger Hinte & Ulf Rinne (2013):
Youth Unemployment in Europe: What to Do about It?
IZA Policy Paper No. 65.
 (available at <http://ftp.iza.org/pp65.pdf>)



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