

# LABOR MARKET DEVELOPMENTS IN THE EU

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*Abstract. Labor market performances in the region have further improved with unemployment rates reaching historically low levels and employment rates increasing. Real wage growth is slowing in most countries in the region, but remains strong especially in Latvia and Romania. Despite the wage moderation, unit labor costs continue to rise in much of the region.*

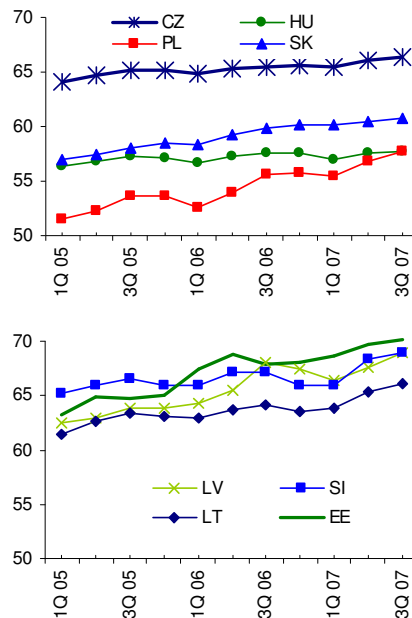
*Keywords: labor market, unemployment rates, real wage growth, regional differences, educational systems.*

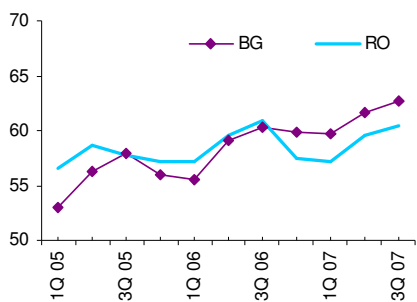
## 1. Unemployment Rates

With the exception of Hungary unemployment rates in the EU8+2 are now at the lowest level since 1Q 2000. While in 1Q 2000 unemployment rates across the region ranged from 7 to 19%, and the average rate was at almost 13%, in 3Q 2007 unemployment rates were in single digits in all countries but Slovakia (11.3%). Poland has made the most significant progress by reducing the unemployment rate by half within the past 3 years.

Lower unemployment rates result mainly from higher demand for labor and go hand in hand with higher employment rates (Chart 1). Still, only the Baltic countries, Slovenia, and the Czech Republic come close to the Lisbon Strategy target of a 70% employment rate. Significantly, three out of these five countries (Estonia, Slovenia, and the Czech Republic) are the best performers in the PISA assessment in the region. Although labor market performance is improving in the remaining countries too, their employment rates remain 10 percentage points or more below the Lisbon target.

Chart 1. Employment rates, %



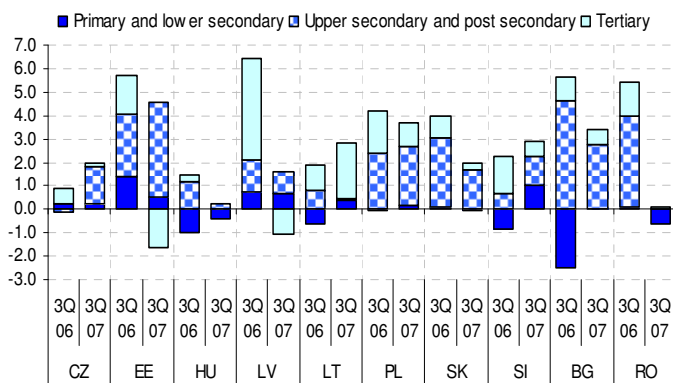


Source: Eurostat, 2007

Educational attainment and quality of education are significant determinants of employment rate differentials within countries. Tertiary education gives at least an 80% guarantee of employment in all EU8+2 while employment rates of those with primary and lower secondary education vary strongly across the region (from 15% in Slovakia to almost 50% in Slovenia). In the Baltic countries, the Czech Republic, Slovenia, and Bulgaria, 70% or more of the labor force with upper secondary and post secondary education is employed (Table 1). People from this category and those with higher education contributed positively to overall employment growth between 3Q 2006 and 3Q 2007 in all countries with the exception of Estonia and Latvia (Chart 2).

PISA 2006 reveals that 15-year old students in the region generally perform below the OECD average. Only young Estonians and Slovenians performed above the OECD average in science, reading and mathematics. The Czechs performed better than the OECD average in two areas, while Poles and Hungarians did in one (reading and science, respectively). The remaining five countries in the region scored below the OECD average in all three areas (Chart 3). The very sizeable gaps for Romania and Bulgaria are particularly disturbing.

Chart 2. Contribution to employment growth by educational attainment, %



Source: Eurostat, 2007

Table 1. Employment rate by educational attainment, %

		Total	Primary and lower secondary	Upper secondary and post secondary	Tertiary
CZ	3Q 06	65.4	24.0	71.7	83.0
	3Q 07	66.3	25.1	72.6	83.3
EE	3Q 06	67.9	32.0	72.6	87.0
	3Q 07	70.2	34.9	75.4	87.3
HU	3Q 06	57.6	28.1	65.3	80.8
	3Q 07	57.7	28.3	64.9	79.6
LV	3Q 06	68.0	38.0	73.4	88.1
	3Q 07	69.0	39.5	74.8	87.9
LT	3Q 06	64.2	25.2	68.5	87.0
	3Q 07	66.1	27.4	69.5	88.2
PL	3Q 06	55.6	25.1	59.2	82.2
	3Q 07	57.8	26.4	61.6	82.1
SK	3Q 06	59.9	14.8	67.9	83.3
	3Q 07	60.7	15.2	68.7	81.8
SI	3Q 06	67.2	43.7	69.8	87.3
	3Q 07	69.0	47.5	71.5	86.5
BG	3Q 06	60.3	31.7	69.0	82.0
	3Q 07	62.7	33.6	71.0	83.8
RO	3Q 06	60.9	43.1	66.1	86.5
	3Q 07	60.5	43.4	65.0	85.8

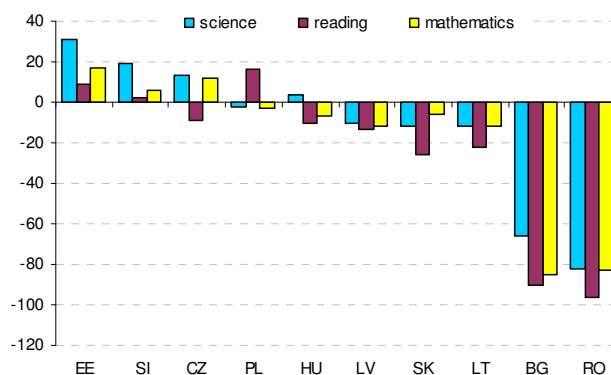
Source: Eurostat, 2007

## 2. Performance of the EU8+2 and Croatia in PISA 2006

PISA (Program for International Student Assessment) was launched in 1997 by the OECD. It represents a commitment by governments to monitor the outcomes of education systems in terms of student achievement on a regular basis and within an internationally agreed common framework. PISA has now become the most comprehensive and rigorous international program for assessing student performance and providing data on the student, family and institutional factors.

The first PISA survey was conducted in 2000 and focused on reading literacy. PISA 2003 focused on mathematics and PISA 2006 focused on science, but also examined student attitudes towards science and their awareness of the opportunities that science competencies may bring, and of science learning opportunities and environments offered by their schools. It also placed student performance in the context of other factors, such as gender, socio-economic background and school policies and practices, providing insights into how they influence the development of knowledge and skills at home and at school and analyzing what the implications are for policy development.

Chart 3. A distance of the national score from the OECD average, points



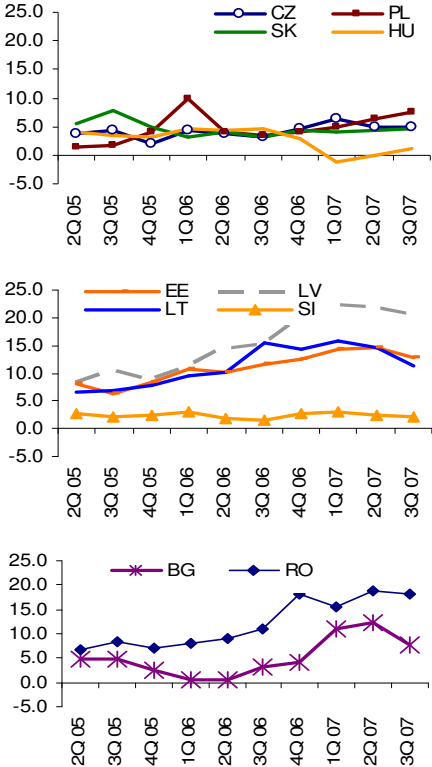
Notes: Positive distance stands for better than OECD average performance.

Source: OECD (2007).

Labor markets are tightening as labor shortages become more evident. The resulting increase in real wages in 3Q 2007 varies considerably across the region. Wage pressure remains high in the EU8+2, and even the where there has been some moderation of real wages (Baltic countries, Bulgaria, and Romania) it results largely from an acceleration of inflation rather than deceleration of nominal wages. Unit labor cost dynamics in the Visegrad countries and Slovenia still remain moderate as compared with the Baltic

countries, Bulgaria, and Romania (Chart 4). The persistence of wage pressure may undermine countries' competitiveness and weaken their prospects for high and sustainable economic growth.

**Chart 4. Real wage growth, yoy, %**



*Note: Data in line with CSO methodology*

*Source: CSOs*

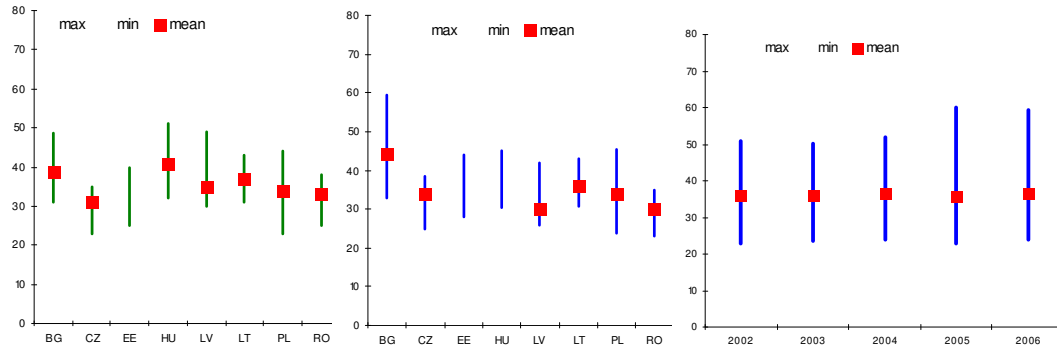
**3. The minimum wage may be too high for unqualified workers in lagging regions**

Regional differences within individual EU8+2 countries are considerable and may interact with country-wide minimum wage rates. These regional differences are also related to educational attainment as people with lower education levels are overrepresented in lagging regions. Hence, uniform economy-wide minimum wages may prevent the local labor market from clearing at a lower level of wages.

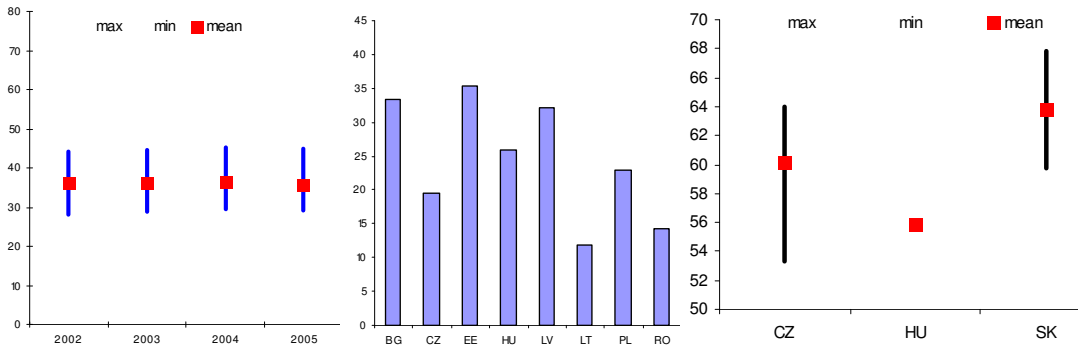
Twenty EU member states have a statutory national minimum wage despite the potentially negative impact on employment. While on average the minimum wage is too low – compared to the average wage – to affect a significant number of workers in the economy as a whole, it could affect unqualified workers in lagging regions.

*Chart 5. The minimum wage for unqualified workers*

**Minimum to average wage, 2002**      **Minimum to average wage, 2006**      **Minimum to average wage, whole region, 2002-06, extreme values**



**Minimum to average wage, whole region, 2002-06, averages**      **Variance of minimum to average wage, 2006**      **Minimum to average wage, unqualified workers, 2006**



Source: CSOs,

Note: in %. Romania only 2002-05, Lithuania 2003-2006. Source: Eurostat, CSOs and WB staff.

Regional data for EU8+2 from 2002-2006 indicate that the ratio of the minimum to the average wage is low in the regions surrounding capital cities, but is as high as 59% in some regions of Bulgaria. The ratio is falling in almost all countries, but especially in Hungary and Latvia. Bulgaria, is one of a few countries where the ratio increased, on average by 3.4 percentage points every year. More importantly, the variance of regional ratios has fallen in half of the countries – in Estonia, Hungary, Latvia, Romania and Slovakia.

The ratio of minimum to average wages for unqualified workers is much higher than the economy-wide average. It reached 64% in the Czech Republic in 2006 and 68% in Slovakia in 2005. Unfortunately, regional figures are not available for more countries, but it seems reasonable to assume that the ratio for unqualified workers could be at about 60 to 80% of the economy and nation-wide average. This could drive unqualified workers in lagging regions out of the formal labor market.

## Conclusions

Frequently less than a fifth of public spending on active labour market programmes is in programmes targeted specifically at youths facing difficulties in the labour market, but partial data for EU countries suggest that up to two-fifths of participants in these programmes, including subsidised apprenticeships, are aged under 25. Strategies of early intervention and diverse pathways in education and training are described, and recent labour market policy experience is reviewed under headings of activation strategies; broadly-targeted employment programmes; dual systems; and “safety nets” for school leavers. New or greatly expanded youth programmes, introduced by a number of countries since the mid-1990s, have had a

visible impact on youth unemployment rates in some cases. Youth labour market outcomes are sensitive to general economic conditions, but additional structural features that are often associated with good outcomes in international comparative terms include active public management of the transition-to-work process, involving youth unemployment benefits combined with activation measures and backed up by a “safety-net” approach, and early contact with the world of work through apprenticeships or student jobs.

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