

ECB/CEPR Labour Market Workshop 2005

**Are Labour Markets in the
New Member States
sufficiently flexible for EMU?**

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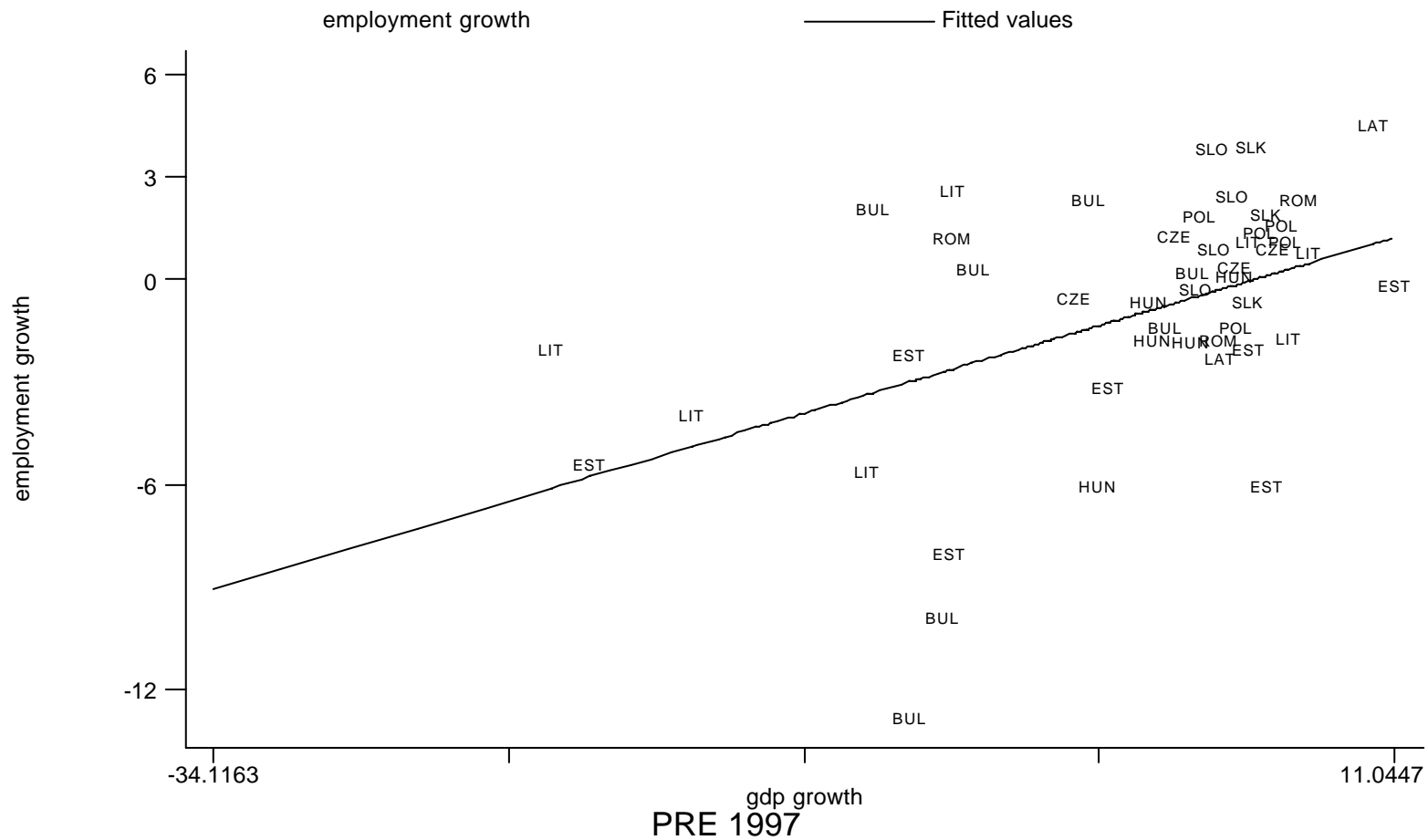
ECB position

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- ECB: **broader assessment** of readiness of NMS to EMU based on “integration of markets, the situation and the developments of the BOP and **an examination of unit labour costs**”
- Rationale in OCA theory: factor markets should absorb potential asymmetric shocks and something seems to be going wrong in NMS labour markets....

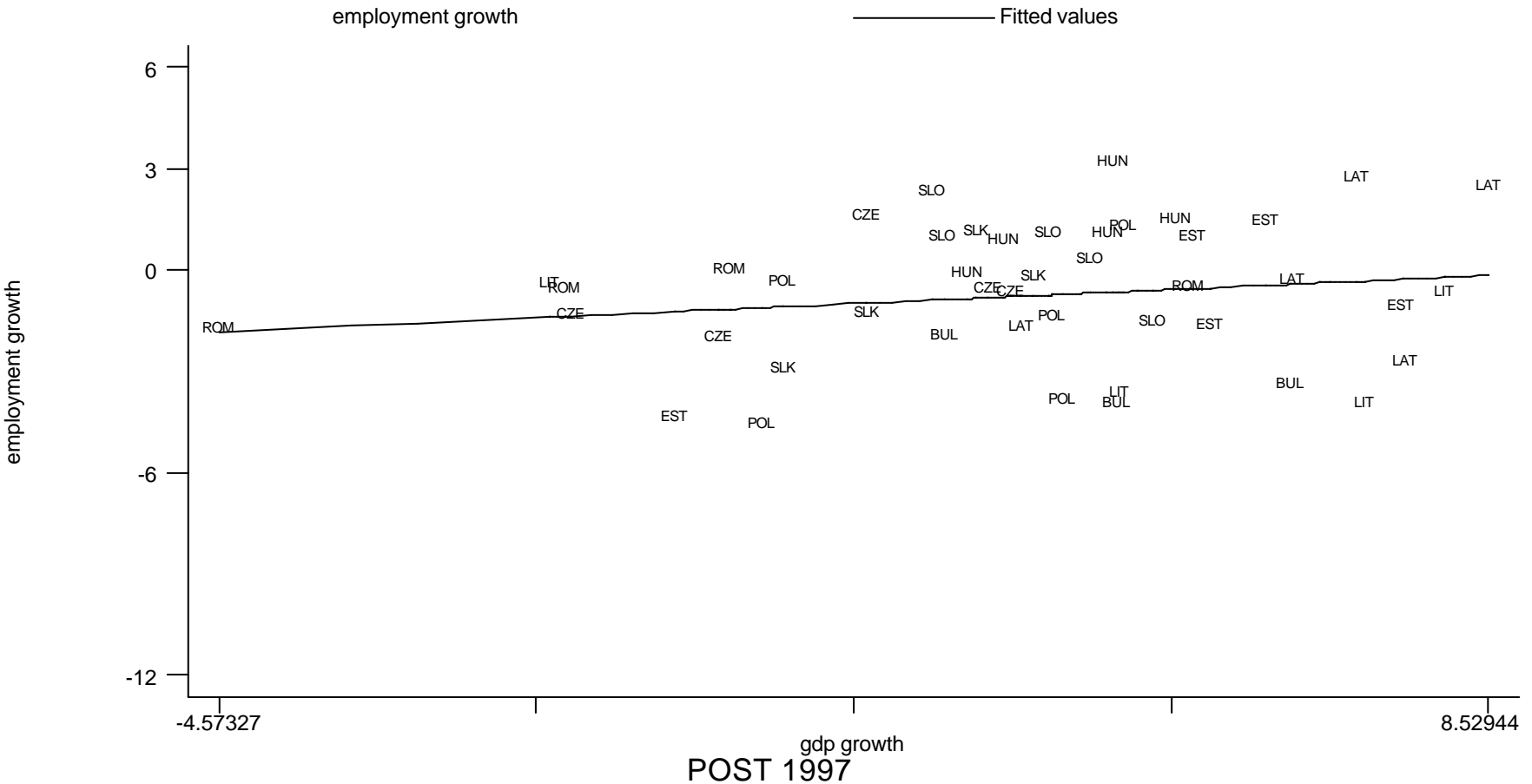
Once upon a time...

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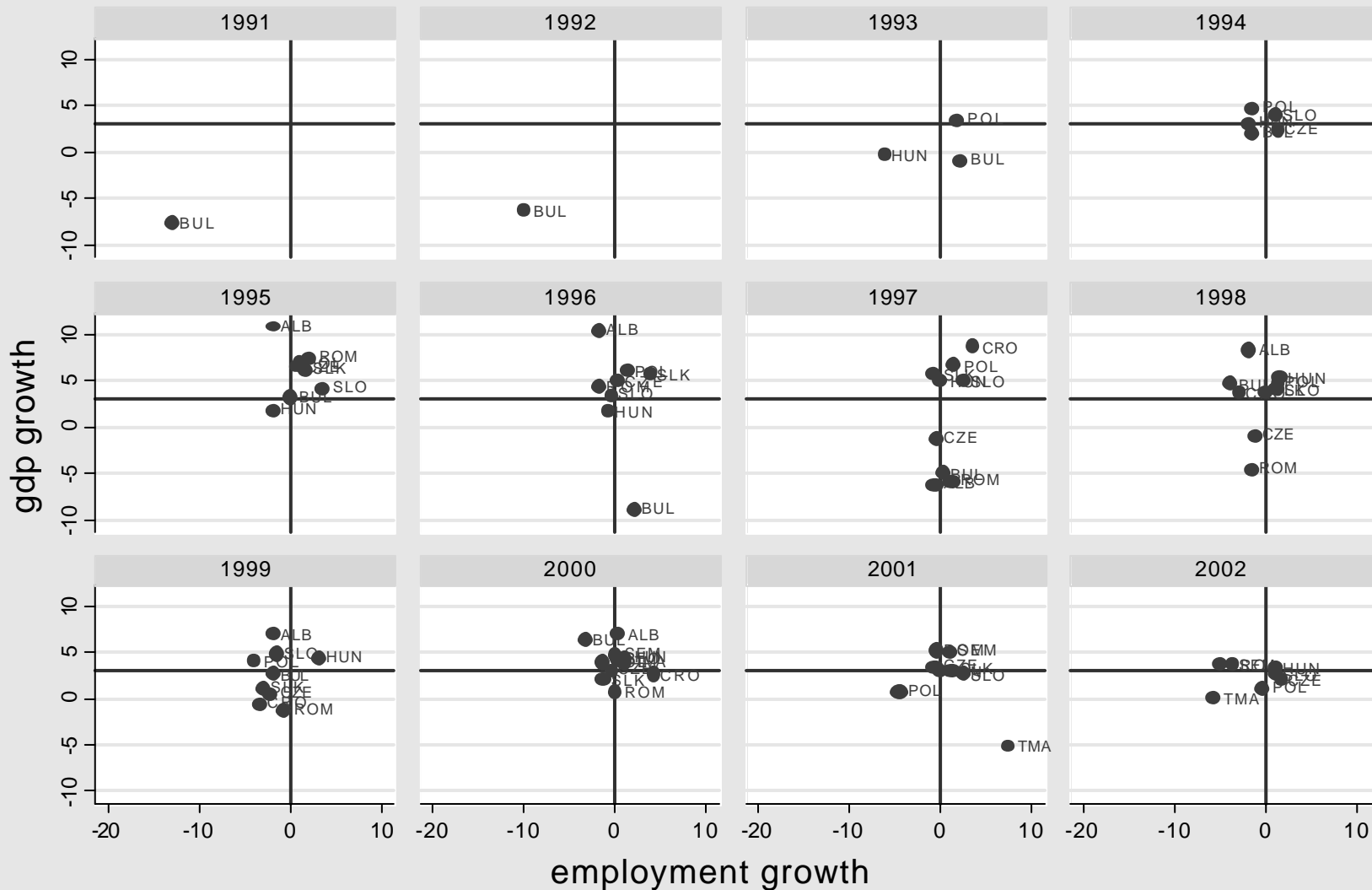
....but now jobless growth

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Jobless Growth

f R
D B



Graphs by year

Large LTU rates also among young people

	2000	2001	2002	2003	2004
EU15			26.1	26.9	25.1
Czech Republic	38.2	38.6	33.5	30.9	37.1
Hungary	37.2	35.3	35.7	33.8	34.2
Poland	35.2	40.9	47.4	45.9	43.9
Slovenia	46.9	45.9	44.1	52.9	45.1
Slovakia	43.7	48.9	53.9	55.4	53.1
Bulgaria	52.1	51	54.7	54.4	46.7
Croatia			16.2	15.4	
Romania	39.4	36.3	48.4	51.1	46.4

40 - 59

	2000	2001	2002	2003	2004
EU15			49.9	51.6	52.1
Czech Republic	57.4	59.1	60.5	57.9	59.1
Hungary	52.8	50.5	51.5	47.3	51.3
Poland	50.6	56.7	60.7	61.6	61.3
Slovenia	78.4	77.4	69.9	64.4	64.2
Slovakia	60.8	65.1	69.3	71.5	69.5
Bulgaria	60	66.9	71.2	71.4	61.2
Croatia			20.7	22.3	
Romania	53.6	61.3	66.3	68.2	65.7

Concentrated among the unskilled

15 – 24

	2000	2001	2002	2003	2004
EU15	19.5	17.7	18.2	19.6	21.5
Czech Republic	44.2	41.1	40.6	48.7	53.8
Hungary	21.3	19.3	21	26.4	25.6
Poland	37	38.2	43.2	38.7	41.6
Slovenia	26.2	25.2	25.8	26.1	18
Slovakia	77.2	80.3	75.1	69.6	73.7
Bulgaria	44.7	59.5	51.9	41.4	37.5
Croatia			34.1	42.2	
Romania	11.6	12.1	18.2	15.3	20.9

40 – 64

	2000	2001	2002	2003	2004
EU15	8.7	7.3	7.8	8.1	8.7
Czech Republic	16.6	15	14.7	15.8	19.2
Hungary	8.4	7.3	8	8.4	8.5
Poland	17.2	19	21.6	21.4	23
Slovenia	8.5	6.7	5.8	9.3	7.8
Slovakia	31.4	32.3	36.2	37.6	43.1
Bulgaria	20	26.6	24.1	20.9	16.9
Croatia			10.2	10.9	
Romania	2.7	2.8	4.2	3.5	4.6

Do we need a broader assessment?

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D B

- Yes because labour markets in NMS are not creating jobs in spite of strong output growth; large LTU rates notably youth LTU
- And NMS with the largest structural unemployment have large structural deficits to absorb just while making the most radical adjustments to the new monetary policy regime (they come from floating or managed float regimes). Double hurdle

Outline

- Is the labour market an additional obstacle to Euro adoption? Do NMS have flexible factor markets?
 - a closer look at institutions
 - evidence on wage flexibility
 - evidence on employment flexibility
- Why jobless growth?

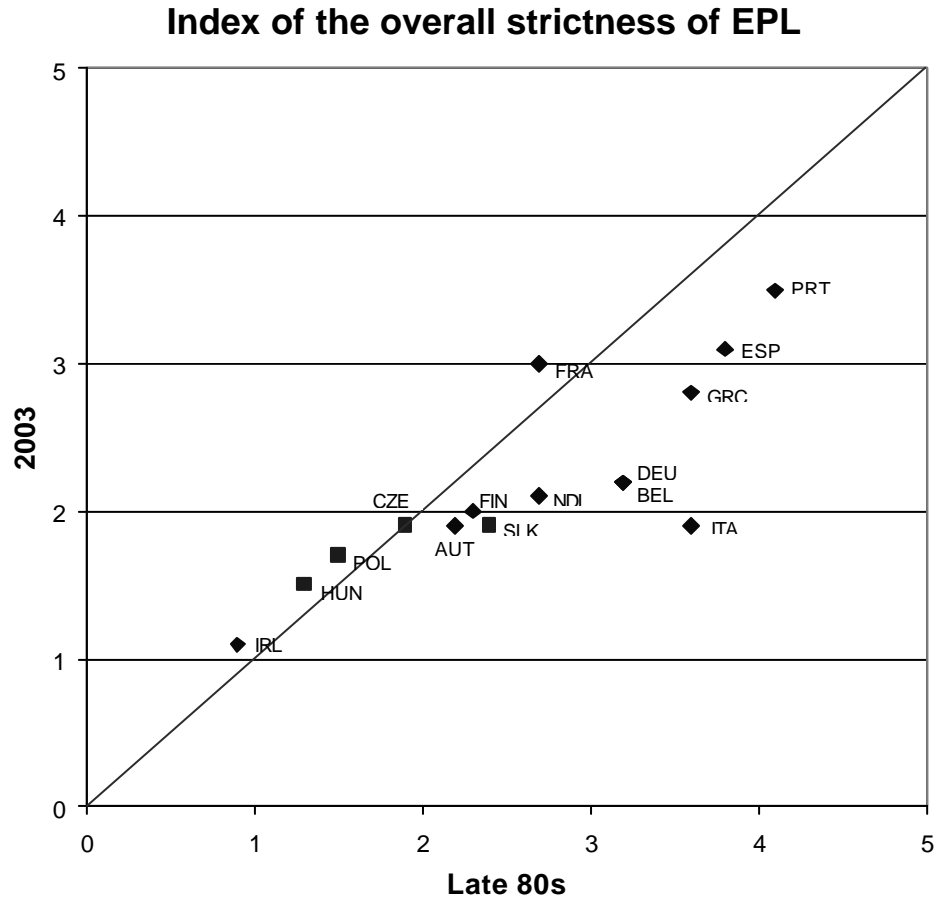
Minimum wages and collective bargaining

	Minimum wage	Minimum wage	Collective bargaining	
	(Euro p/month)	(% of av. wage)	Union density	Union coverage
Czech Republic	198	34	27	25
Estonia	138	30	-	-
Hungary	202	42	20	30
Latvia	112	35	-	-
Poland	191	33	15	40
Slovakia	134	32	36	50
Slovenia	448	45	-	-
<i>NMS average</i>	<i>203</i>	<i>30</i>	<i>25¹</i>	<i>36¹</i>
Belgium	1175	46	56	90
France	1164	61 ²	10	90
Greece	605	51 ²	27	-
Ireland	1073	50	38	-
Luxembourg	1369	50	34	60
Netherlands	1257	49	23	80
Portugal	416	43	24	80
Spain	526	36	15	80
<i>EMU average</i>	<i>948</i>	<i>48</i>	<i>29</i>	<i>80</i>

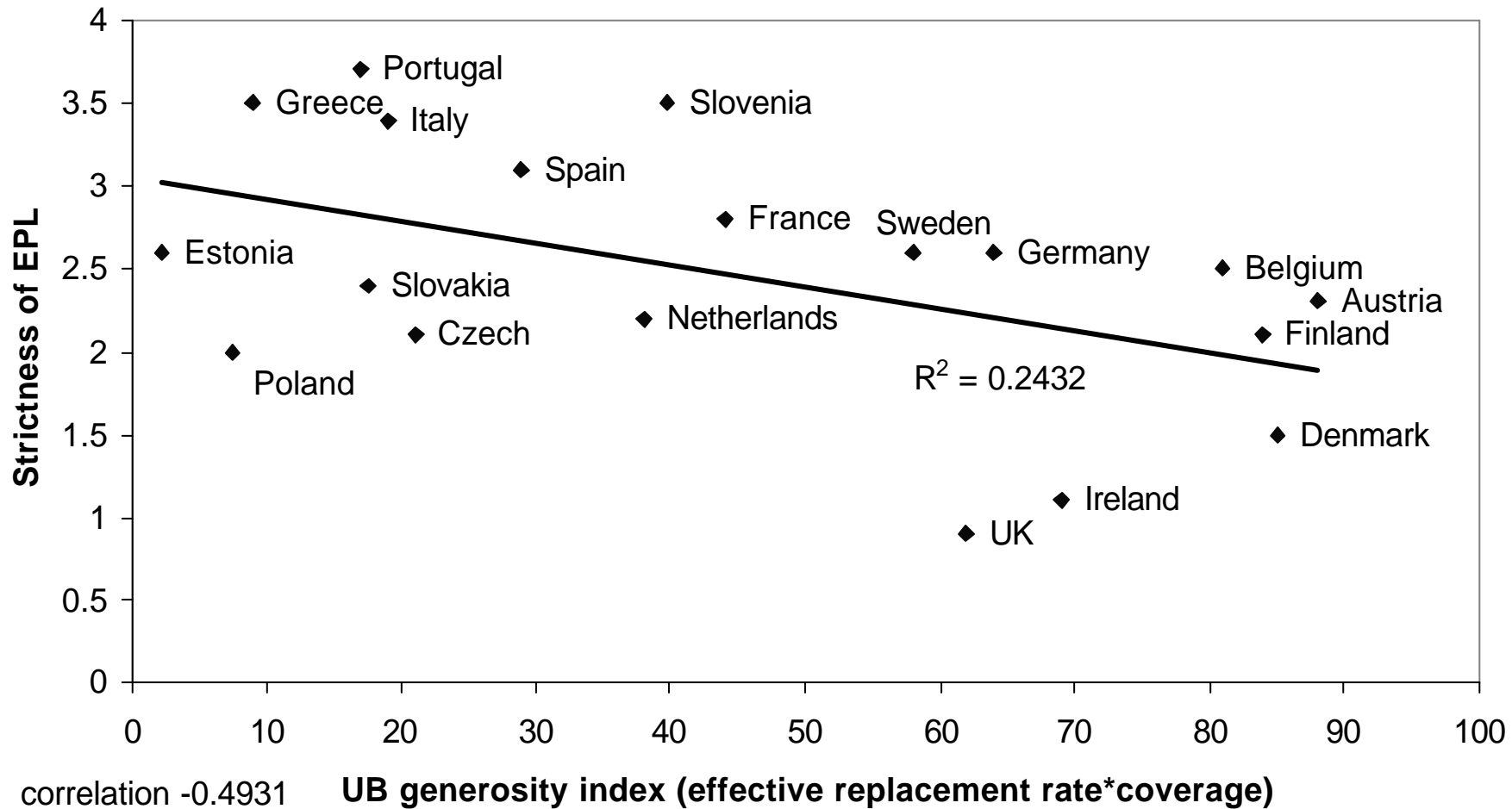
Unemployment benefits and taxation

	Unemployment benefits (100% of APW)		Marginal Effective Tax Rates (Single without children)		
	first month	60 th month	67% of APW	100% of APW	167% of APW
Czech Republic	50	31	44.9	48.1	51.4
Hungary	64	24	55.3	55.3	76.3
Poland	40	30	45.5	45.5	45.5
Slovak Republic	60	42	43.1	49.4	49.4
Slovenia	63	0	-	-	-
Estonia	50	0	-	-	-
Latvia	50	0	-	-	-
Lithuania	25 ³	0	-	-	-
<i>NMS average</i>	<i>50</i>	<i>16</i>	<i>47.2</i>	<i>49.6</i>	<i>55.7</i>
Belgium	66	55	69.8	66.4	69.8
France	71	41	56.6	52.5	53.8
Greece	46	0	34.4	34.4	54.1
Germany	61	61	59.7	65.2	67.4
Ireland	29	51	30.0	33.2	50.0
Italy	52	0	52.7	58.0	66.8
Luxembourg	85	50	36.5	44.4	53.8
Netherlands	71	58	54.3	50.4	52.0
Portugal	78	24	37.8	39.4	47.5
Spain	70	27	49.4	45.5	48.4
<i>EU average</i>	<i>63</i>	<i>37</i>	<i>48.1</i>	<i>48.9</i>	<i>56.4</i>

Employment Protection Legislation (EPL) in NMS and EMU countries



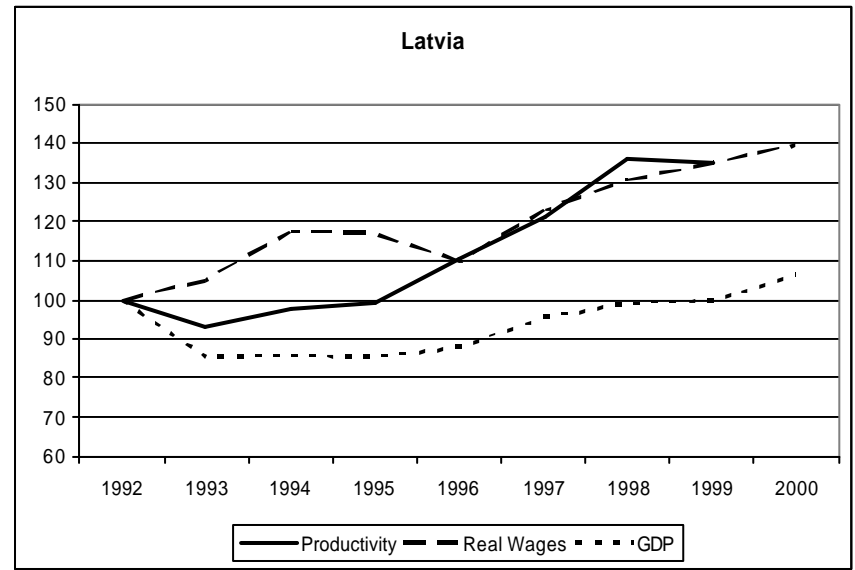
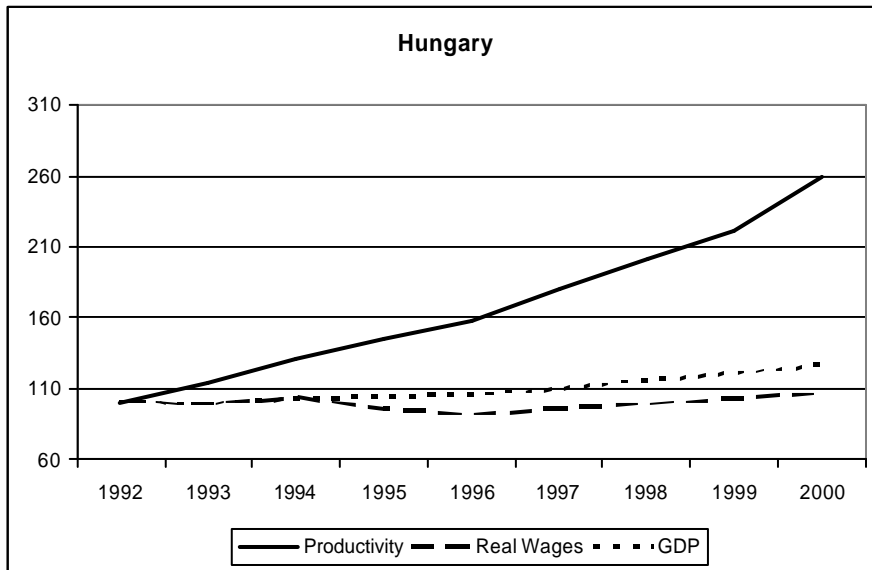
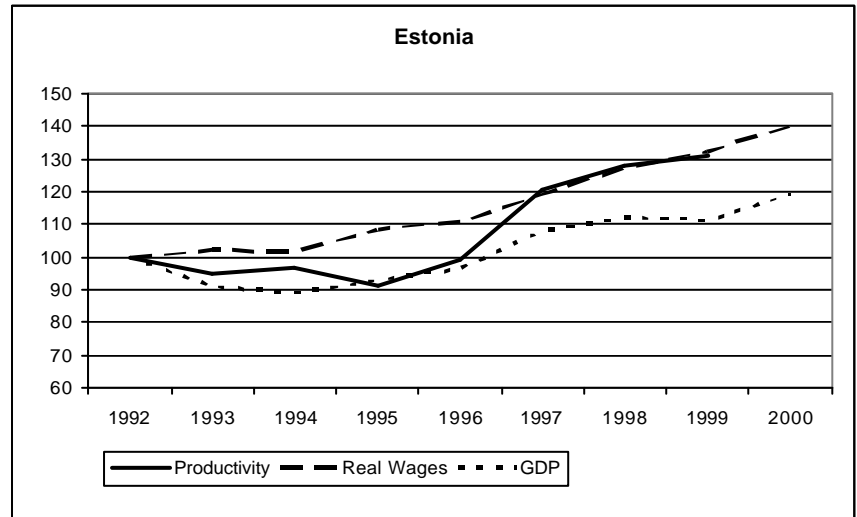
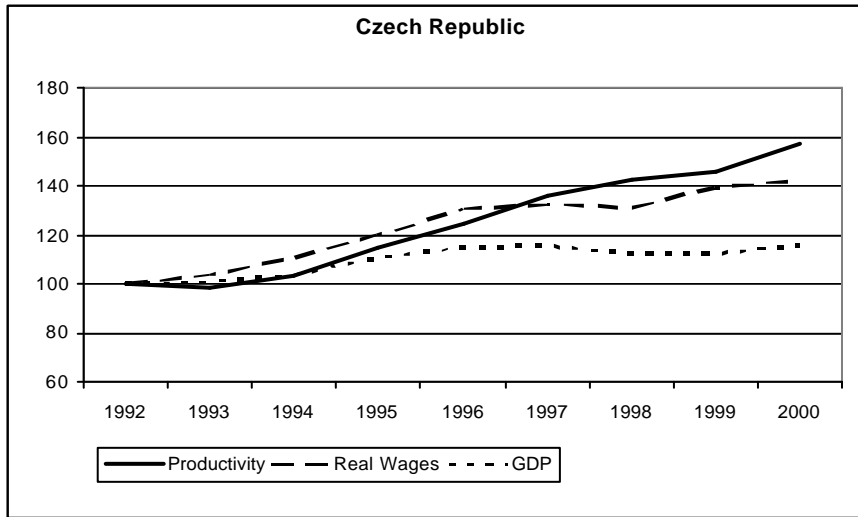
The Trade-off between UB and EPL (late 1990s)



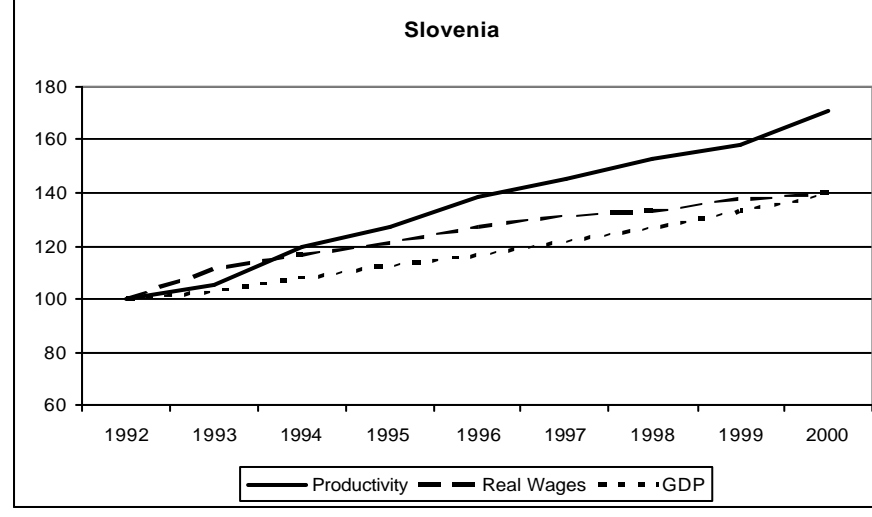
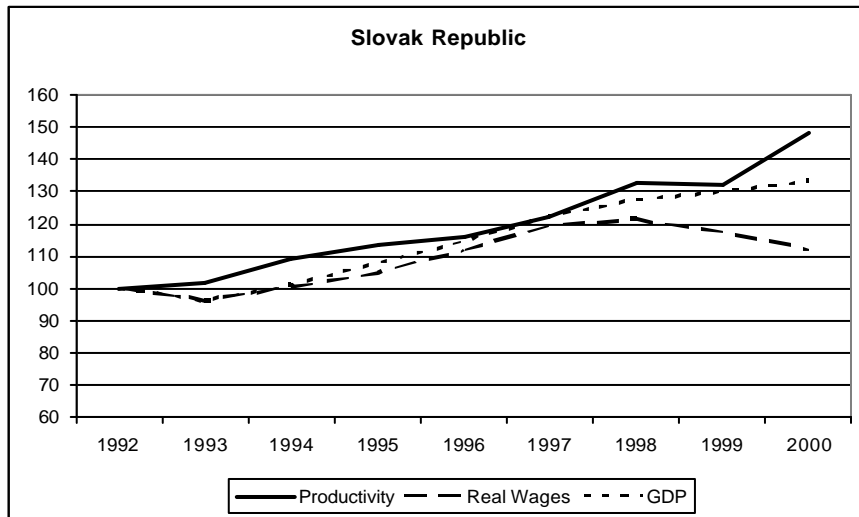
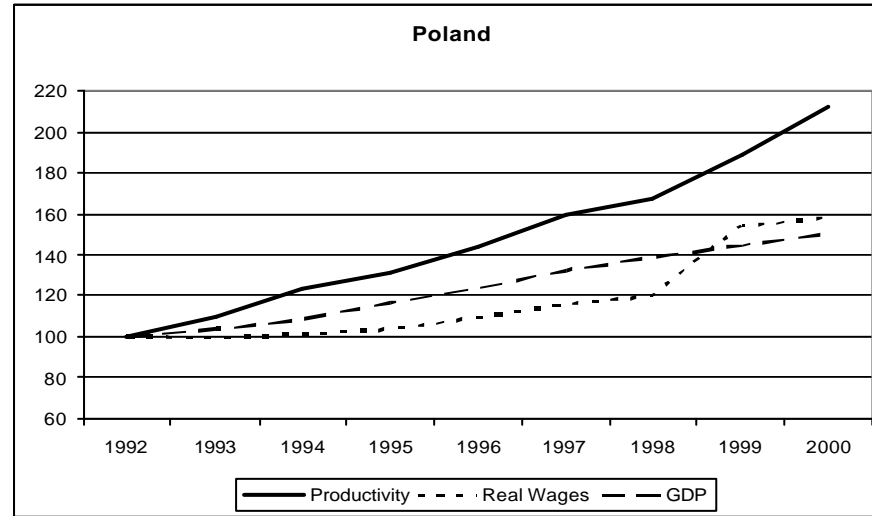
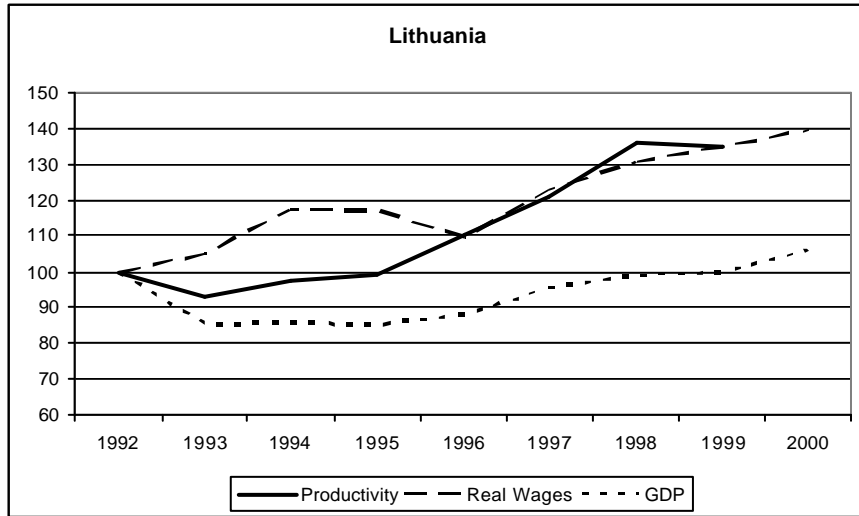
Preliminary assessment

- Relatively low Kaitz indexes
- Low coverage of collective bargaining
- EPL not particularly strict
- And possibility to exploit the UB/EPL tradeoff to develop even more mobility friendly institutions
- Measurement problems though: how about the outcomes?

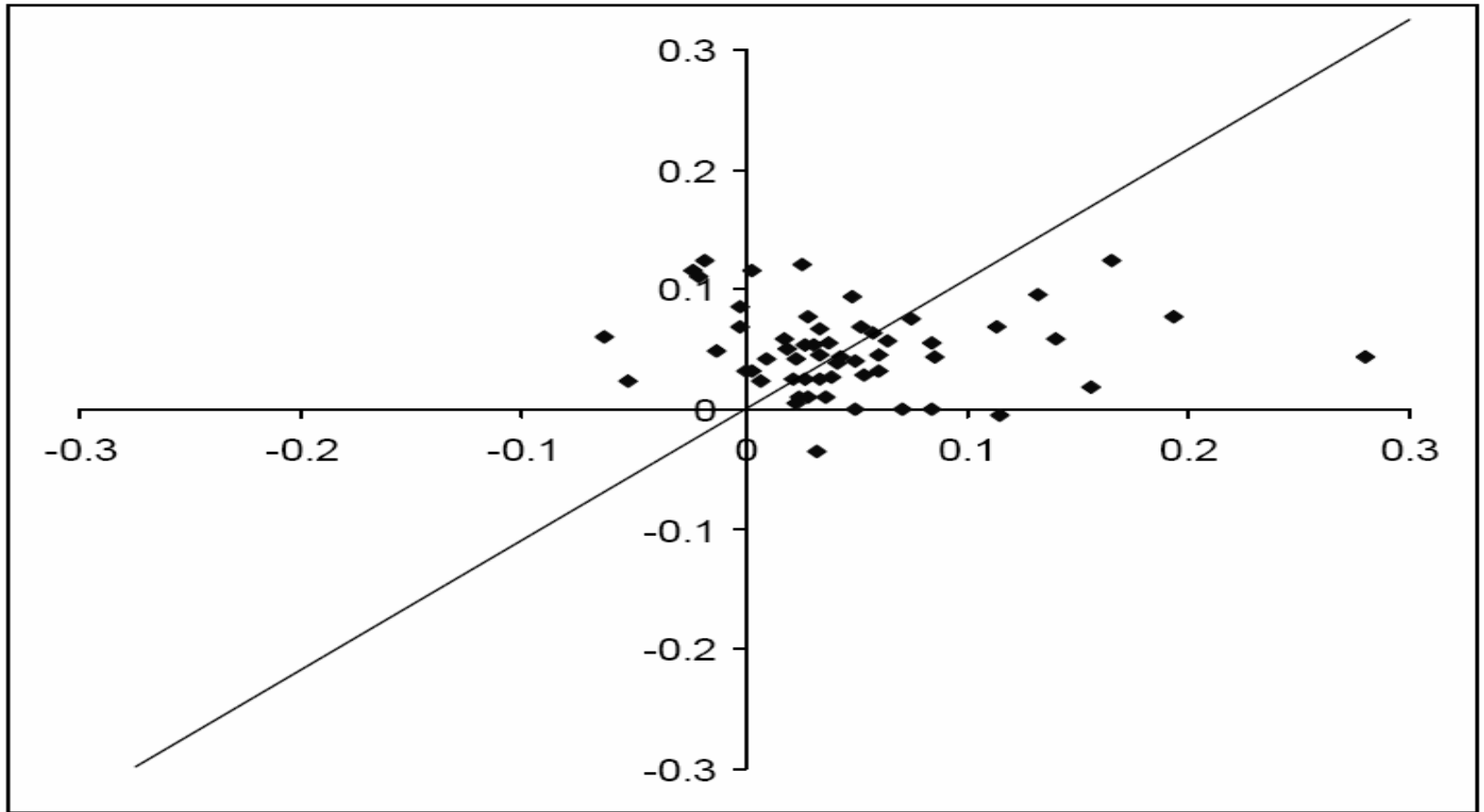
Wages, Productivity and Unit Labour Costs in the NMS (1992=100)



Wages Productivity and Unit Labour Costs in the NMS (1992=100)



Changes in Real Wages and Productivity in Manufacturing



Declining regional mismatch in selected NMS and years

Year	Czech Republic	Poland	Slovakia	Slovenia
1993	0,11	0,20	-	0,29
1996	0,08	0,03	-	0,22
1999	0,05	0,05	0,20	0,21
2002	0,06	0,06	0,07	0,16

$$M2=1-S (u_i.v_i)^{1/2}$$

Job Reallocation in selected NMS and EMU countries

	Job turnover	Excess job reallocation	Lilien Index
Bulgaria	25.77	30.56	-
Estonia	13.93	15.13	.04
Hungary	23.75	21.55	.02
Latvia	24.74	20.92	.07
Slovenia	19.60	18.16	.06
<i>NMS average</i>	<i>21.56</i>	<i>21.26</i>	<i>.05</i>
Belgium	15.2	20.4	.01
Germany	17	21.15	.01
France	24.5	30.8	.01
Ireland	21.7	41.95	.03
Italy	21.4	25.51	.01
Netherlands	15.5	23.2	.02
Finland	22.5	29.48	.02
<i>EMU average</i>	<i>19.92</i>	<i>26.72</i>	<i>.01</i>

Why then Jobless Growth?

- Economies coming from central planning were characterised by large labour hoarding
- Possible that jobless is the byproduct of productivity enhancing job destruction
- Look at employment adjustment during expansions and contractions. Estimating

$$\Delta \ln e_{it} = \alpha_i + \beta_1 \Delta \ln y_{it}^+ + \beta_2 \ln y_{it}^- + \gamma X_{it} + \varepsilon_{it}$$

	I	II	III	IV
(positive) gdp growth	0.31** <i>0.14</i>	0.35*** <i>0.15</i>	-	-
(negative) gdp growth	0.10 <i>0.67</i>	0.04 0.08	-	-
(positive) gdp growth after 1996	-	0.02 0.13	-	-
(negative) gdp growth after 1996	-	0.69*** 0.20	-	-
fitted (positive) gdp growth \1	-	-	0.19* <i>0.11</i>	0.11 <i>0.19</i>
fitted (negative) gdp growth \1	-	-	0.07 <i>0.10</i>	0.68** <i>0.34</i>
fitted (positive) gdp growth after 1996 \1	-	-	-	0.07 <i>0.16</i>
fitted (negative) gdp growth after 1996 \1	-	-	-	- <i>1.01***</i> <i>0.37</i>
primary surplus	0.19** <i>0.11</i>	0.11 <i>0.10</i>	0.27** <i>0.11</i>	0.21** <i>0.11</i>
Observations	89	89	89	89
R^2				
FIXED Effect	Yes	Yes	Yes	Yes
Years	92-02	92-02	92-02	92-02

A pivotal role of public sector wages?

Fiscal policies and public sector wages

(contemporaneous correlation coefficients)

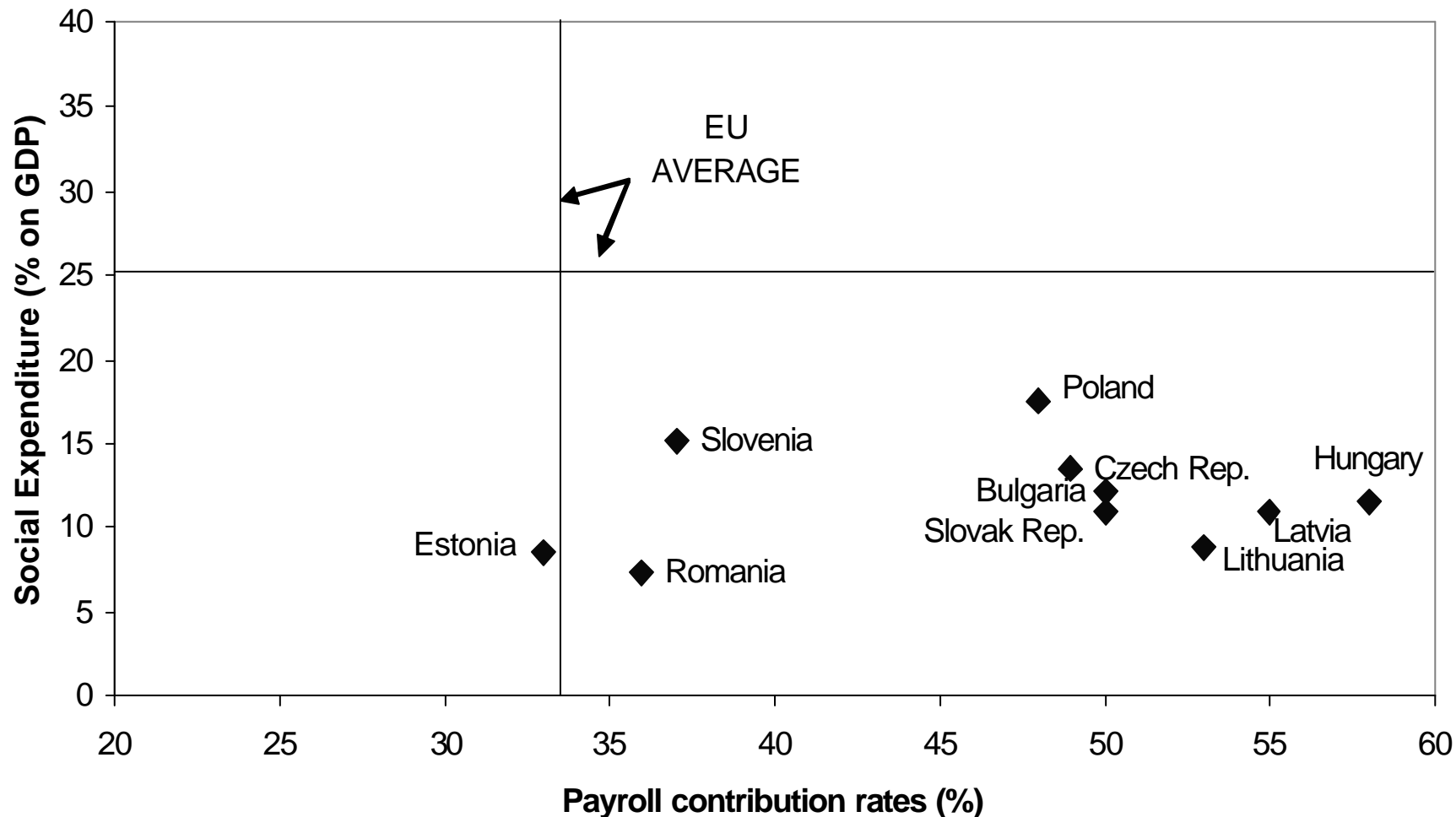
Correlation between public sector wages and...	Real wage growth in manufacturing	Primary surplus
Czech Republic	0,54	-0,82
Estonia	0,55	-0,64
Hungary	0,44	-0,90
Latvia	0,53	0,42
Lithuania	0,53	-0,31
Poland	0,45	0,15
Slovak Republic	n.a.	-0,05
Slovenia	0,92	0,36

Policy conclusions

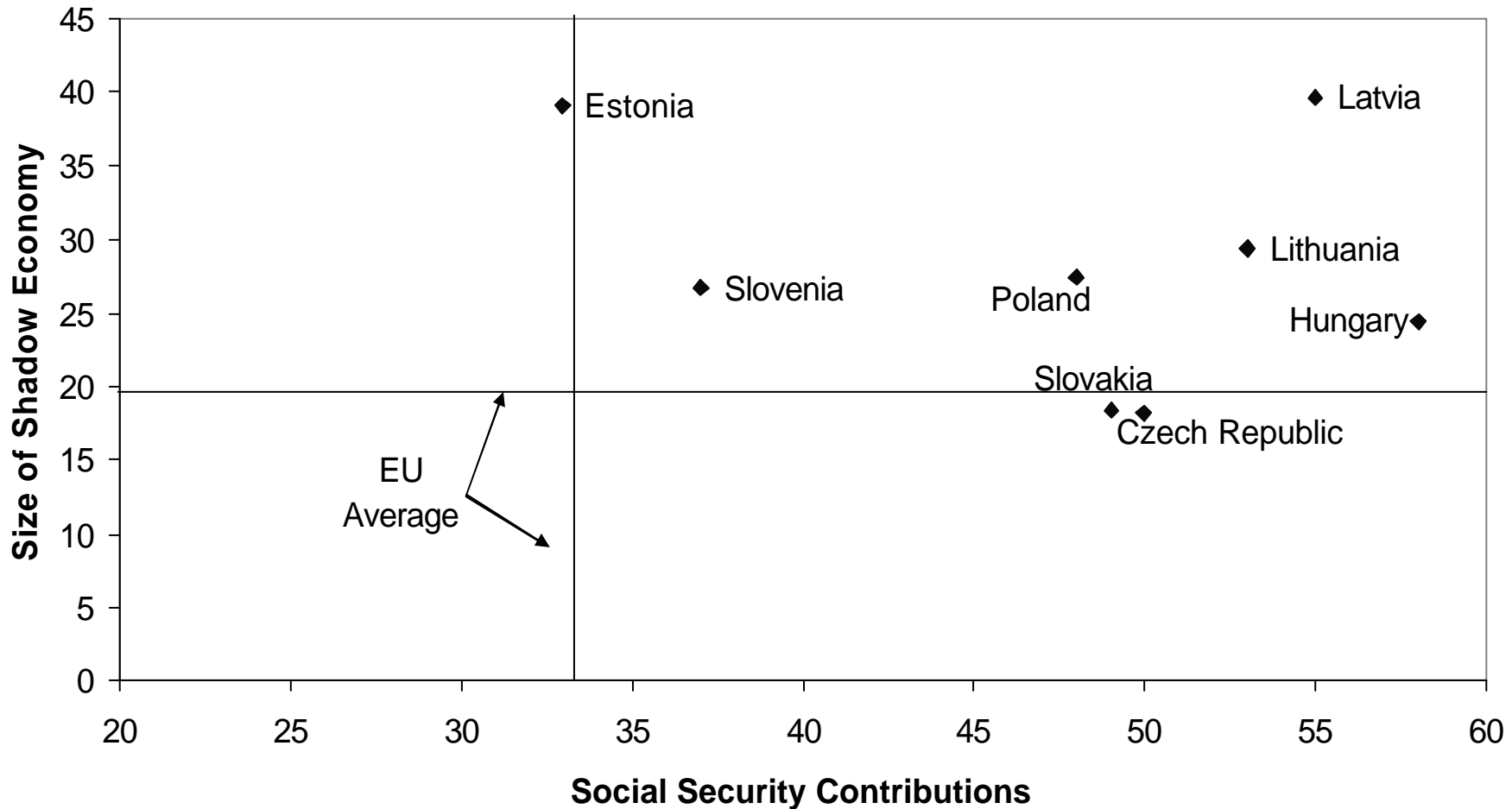
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- Labour markets do not seem to be an additional hurdle on the way to Euro
- Tight fiscal policy not necessarily bad for employment growth
- Little need for Social Pacts: would centralise wage setting: not good after EMU
- And Euro adoption could reduce migration!

Social expenditure and social security contributions in the NMS



Informal sector and social security contributions



	Number of procedures	Time (days)	Cost (% of income per capita)	Min. capital (% of income per capita)	GNI per Capita (US\$)
Czech Republic	10	40	10.8	44.5	6740
Estonia	6	72	7.5	49.7	4960
Hungary	6	52	22.9	86.4	6330
Lithuania	8	26	3.7	62.8	4490
Poland	10	31	20.6	237.9	5270
Slovak Republic	9	52	5.7	46.1	4920
