

The impact of the current financial and economic crisis on the European labor market – an approach based on a new paradigm in the labor field

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Abstract. *In this article I followed two directions simultaneously. The first direction analyzes the structure of the European labor market, the evolution of the unemployment and the relationship between the labor market and globalization in the economic downturn context. The second one evaluates the financial and economic crisis's consequences on international migration to and from Europe and on occupational mobility within the European Union. Overall, while taking advantage of free movement, migrants appeared from extension of the European Union represent a flexible and valuable resource that can act as a buffer during economic imbalances. Repeated migration is expected to reduce the negative impact of the crisis, leading to brain circulation rather than brain drain and a more efficient allocation of resources within the European Union. Labor market starts to recover slowly after a huge drop in economic activity, but yet in the context of economic growth, the unemployment rate remains low (especially among youth) compared to pre-crisis level of this indicator.*

The purpose of this paper is to highlight the need for improved employment policies, by creating more and better jobs, while providing an appropriate response to the challenges of demographic aging and of the intensified global competition within a new paradigm of the economy of knowledge.

Keywords: EU labor markets, EU enlargement, labor mobility, economic crisis, migration, youth unemployment.

JEL Classification: J21, J61, J62, J64, F66.

REL Classification: 12G .

1. Introduction

The labor market in a broad sense includes problems as employment, unemployment, work quality, productivity, earnings and labor cost. This makes the labor market to be among the key topics in social and political debates in the European Union. Not coincidentally, Europe 2020 Strategy use as the main indicator the employment rate.

The economic and financial crisis that started in 2008, as opposed to Asian crisis or the oil crises, had spread globally and had serious consequences in areas such as construction, manufacturing, financial services and tourism. Consequently, both developed and developing countries had faced and continue to face major changes in the labor market due to the increasing number of unemployed and a high level of poverty. A negative and persistent evolution of the unemployment, along with the reduced chances for an unemployed person to find a job could lead to a harsh period of time, characterized by a high unemployment rate on long term. Another important aspect is the lack of opportunities for young people regarding their entry into the labor market. Looking ahead, the lack of work experience or the mismatch between skills and jobs for young people will inevitably lead to a future workforce with low skills and low productivity levels.

The professional mobility in the European Union has increased slightly over time, but it still remains a phenomenon that influences only a minority of the population. The number of working age native Europeans living in another EU country was about 10 million in 2012, an increase of more than 50% (3.8 million), compared to 2005. In addition to the two recent waves of enlargement, the crisis had a profound impact on emigration trends and has generated new models, which had a double effect: the creation of a new corridor (South–North) and the appearance of new destinations outside Europe.

2. The structure and size of the European labor market in the crisis context

Unemployment rate

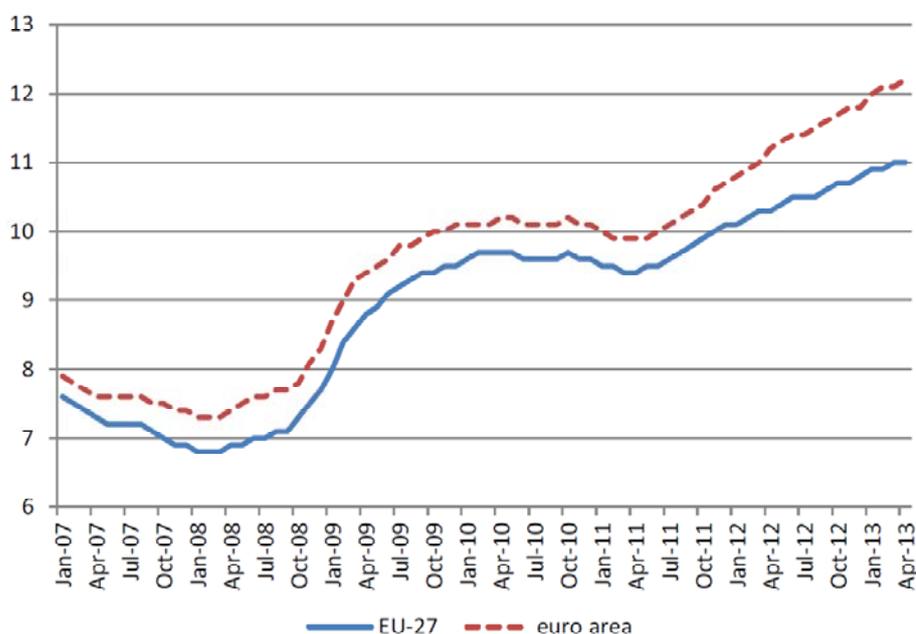
Until the crisis the European labor market had a relatively well evolution, especially for the new member states. For example, in 2007 the number of employed persons increased by 3.5 million from 2006. Also, the reduction of the unemployment rate has not led to an acceleration of inflation, because the level of unemployment at which the wage pressure is produced had decreased. In 2008, the unemployment rate was below 10% for all member states, except for Spain (11.3%). The lowest unemployment rates were in Poland (2.5%), Denmark (3.3%), Cyprus (3.6%) and Austria (3.8%).

Since 2008, the economic and financial crisis has passed from the collapse of the US financial sector to a slowdown in economic activity, with a significant impact

on labor markets in Europe. Increasing uncertainty and rapidly changing economic conditions had become the basic European labor market environment. The economic crisis has affected all major economies simultaneously, which made the recovery to become more difficult. The significant impact of the crisis which began in 2008 on labor markets in developed economies intensified in 2009 and has spread to emerging markets and developing countries, mainly due to strong contraction of international trade. European labor market began to weaken considerably in the second half of 2008 and continues deteriorated during 2009. In 2009, the labor market situation has changed considerably, seven Member States recorded unemployment rates above the target of 10% – Spain, Latvia, Lithuania, Estonia, Slovakia, Ireland and Hungary (European Commission, 2013).

The EU unemployment rate has risen steadily over the past two years to April 2013 and it rose to 11.0% (Figure 1)⁽¹⁾. This increase comes after the one during the financial crisis, when the 25 months between March 2008 and April 2010 saw 7.3 million more people in the EU who have lost their jobs. The current increase is less pronounced than the previous one, but is a persistent one and it is continuing the one which began in early 2008 (EPC Issue Paper, 2013).

Figure 1. *The evolution of unemployment rate in the EU and in the euro area*



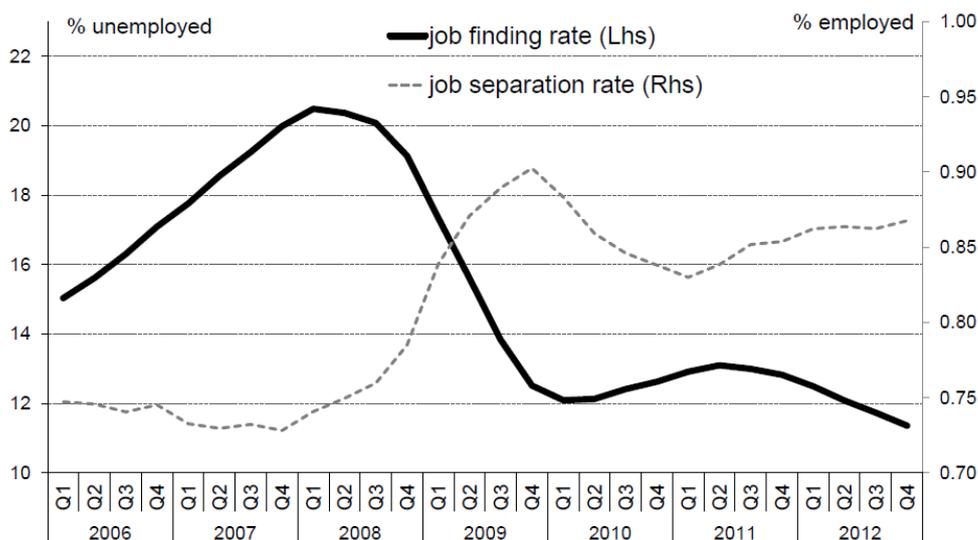
Source: Eurostat.

Finding rates and job loss

With the start of the crisis and to date, the rate of finding a job in the EU has been a downward trend. This indicator fell below 12% in the third quarter of 2012,

from an average of over 20% five years ago. The rate of job losses in the EU remained high in 2009, rising to 0.87% moderate in the fourth quarter of 2012, with 0.14 percentage points more than five years ago.

Figure 2. *The evolution of finding rates and job losses in the EU*



Source: Eurostat.

Maintaining a high and constant level of the difference between finding rates and job losses with continuous upward trend in the unemployment rate indicates that it will be increasingly difficult for an unemployed person to find a job. This can be extremely dangerous, given the fact that the productivity and the knowledge for the potential employees tend to decrease in proportion to the period of inactivity. An indicator that highlights these imbalances is long-term unemployment.

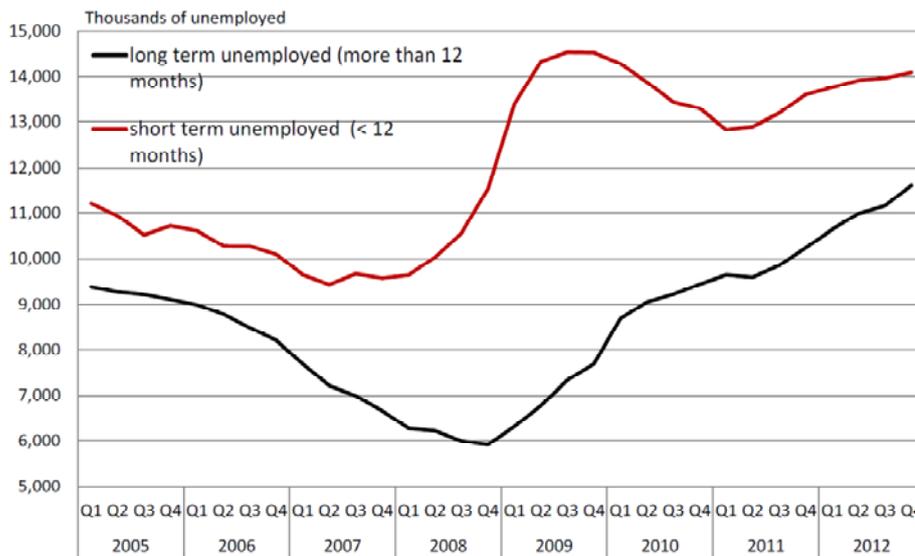
Long-term unemployment

Long-term unemployment in the EU has risen sharply, reaching the last quarter of 2013 a record of 11.6 million unemployed, more than 13.5 % (or 1.4 million more people) to the same period in 2011 (Figure 3). This number is almost twice as high as four years ago, it is a record (European Commission, 2013).

Long-term unemployment situation worsened again in most Member States, at the end of 2012. The long-term unemployment rate increased in 19 Member States in 2012. It was a particularly dramatic growth in Greece, where the rate increased to 16.8 % (+5.9 percentage points). Also increased in Spain to 12.2% (+2.3 percentage points), in Cyprus, to 4.4 % (+2.2 percentage points), in Portugal, 8.8 % (2.1 percentage points) and Italy 6.4% (+1.5 percentage points). The number of

people in the labor force who were unemployed for more than a year has reached or exceeded the highest in the EU and the euro area, since the year 2000 in eight Member States: Greece, Spain, Portugal, Italy and Cyprus, but also Slovenia (4.7%), France (4.2%) and Luxembourg (2.1%). Among the EU, Austria has the lowest rate of long-term unemployment (1.1%).

Figure 3. *The Evolution of the long-term unemployed in the EU*

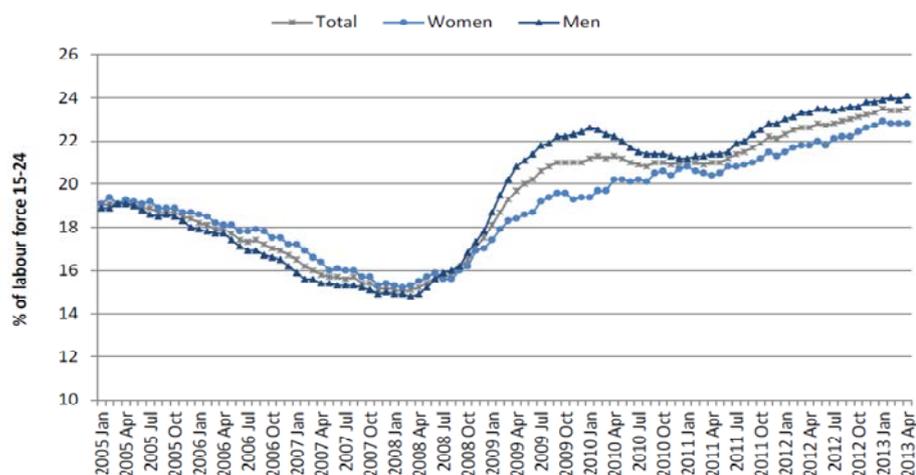


Source: Eurostat.

Unemployment among young people

Economic crisis may have severe consequences on young people who face a lack of opportunities in terms of entering the labor market. Almost all EU members recorded high levels of unemployment among young people. Young people are far more affected than those over 25 years. Rising unemployment for youth category is alarming, considering that before the crisis the number of unemployed youth was already 2.8 times higher than for older people in Europe.

Figure 4. *The evolution of EU youth unemployment rate (15-24 years)*



Source: Eurostat.

3. The consequences of the crisis on mobility in the EU

Assessing the impact of the crisis on mobility from an network-economics perspective

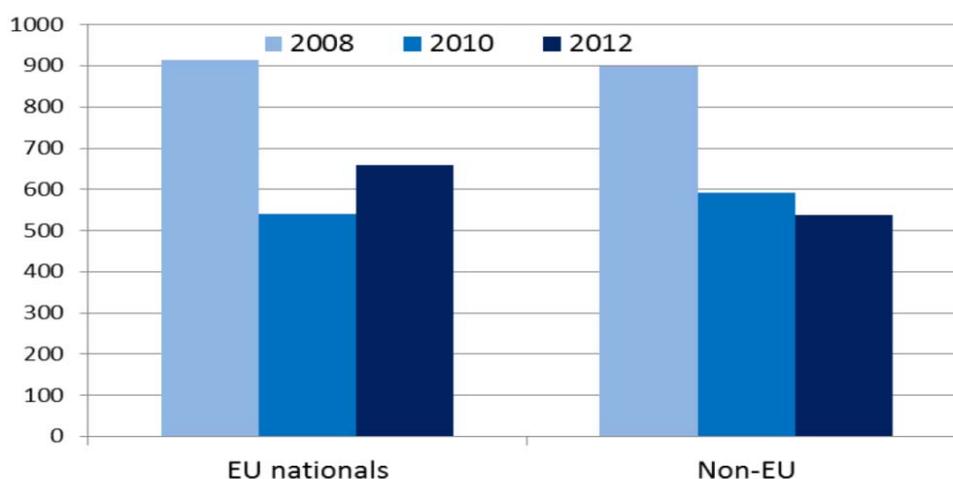
Network perspective seeks dynamic networks migration and the main migration corridors. Mobility of EU citizens has increased slightly over time, but still remains a phenomenon that implies only a minority of the population. The number of working age people that were born in EU, living in another EU country was about 10 million in 2012, an increase of more than 50 % (3.8 million), compared to 2005. In addition for the two recent waves of enlargement, the crisis has had a profound impact on mobility trends and has created new models, which take the form of a double effect on mobility, the creating a corridor south-north and the emergence of new destinations outside Europe.

I will examine the impact of the crisis on mobility, considering the two phases of the economic crisis, the first one that had duration of two years, from 2008 until the end of 2010 and the second one beginning in 2011 and continuing to the present. The crisis had a dual effect on mobility trends.

On the one hand, there was observed a reduction of migration flows during the symmetric phase of the crisis, between 2008 and 2010, when all European countries were hit simultaneously by the economic storm (Zaiceva and Zimmermann, 2013). There are two reasons for the decline in migration during the symmetrical crisis. First, Europe as a whole suffered from the crisis, including countries that were characterized as host, which saw declining their comparative

advantage. Second, the crisis has significantly affected the revenue of the potential mobile workers, who have become more reluctant to assume the risk and therefore postponed the decision to work in another country (Figure 5). However, even if the marginal rate of those who chose to work in a foreign country, an EU member in the periods 2008-2010 and 2010-2012 is lower than before the crisis, the absolute level of migration flows continued to grow continuously over the last decade.

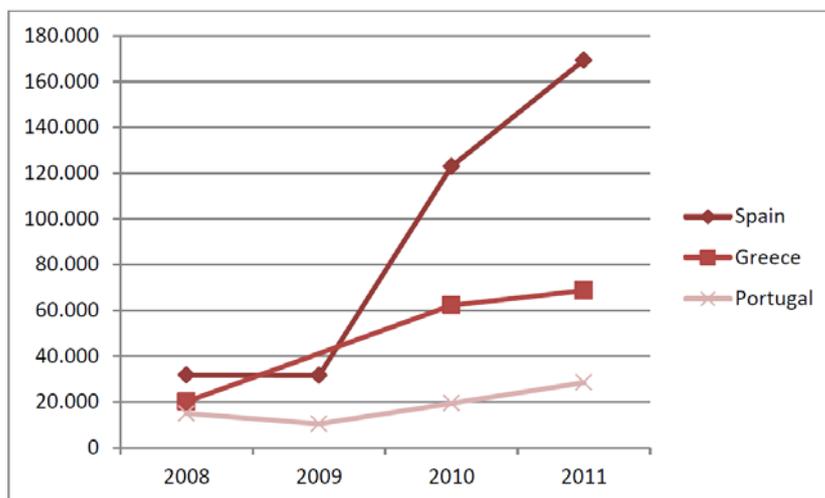
Figure 5. *The evolution of foreigners from the EU and outside the EU working in the EU up to 2 years*



Source: Eurostat

On the other hand, a general increase in mobility has taken place since 2010, when the asymmetric phase of the crisis started. During this period, the intense economic divergences between member states and the new mobility models began to appear. Therefore, some countries, like Germany, have found a way out of recession and returned to growth, while many others have fallen back into recession, with a huge impact on unemployment. For example, Spain and Ireland are the main host countries where the flow of immigrants has decreased substantially with economic downturn. These differences in labor market performance shown by a significant difference in unemployment explained the increased mobility during the asymmetric phase of the crisis. In this context, some previous trends such as the EU2⁽²⁾ to Italy or the EU8⁽³⁾ to UK continued, even if at a lower level compared to the previous 2007-2009 period. The asymmetric economic recovery some states has led the mobility of “southern economies affected”⁽⁴⁾ to the “Nordic economies recover”. The asymmetric phase of the crisis led to the creation of a migration corridor called third corridor “north-south”.

Figure 6. *The evolution of migration flows from Spain, Greece and Portugal*



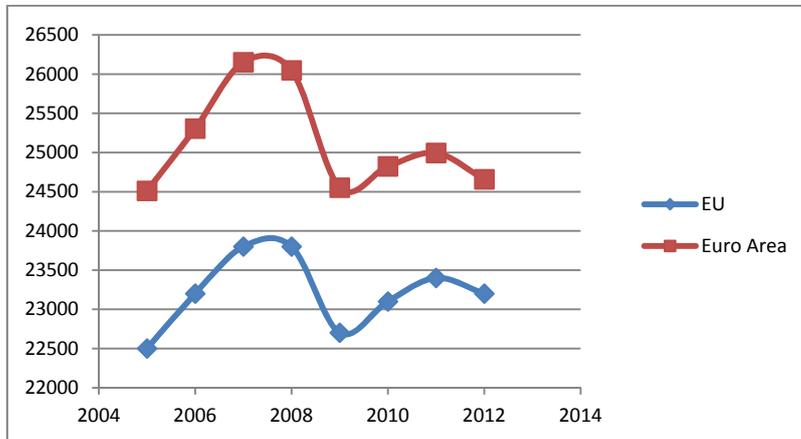
Source: Eurostat.

The crisis has affected not only the nature of the flows within the EU, but the role that non-European destinations have in the field of migration. Recent data have shown that European residents began to emigrate to countries outside Europe whose economies are booming. The trend is especially evident in Portugal, where the National Statistics Institute reported a significant increase in immigration from Portugal to non-EU destinations. The institute indicates an increase of over 3.5 times between 2010 and 2011, i.e. from 4342 to 15507 Portuguese people leaving the country for a destination outside Europe.

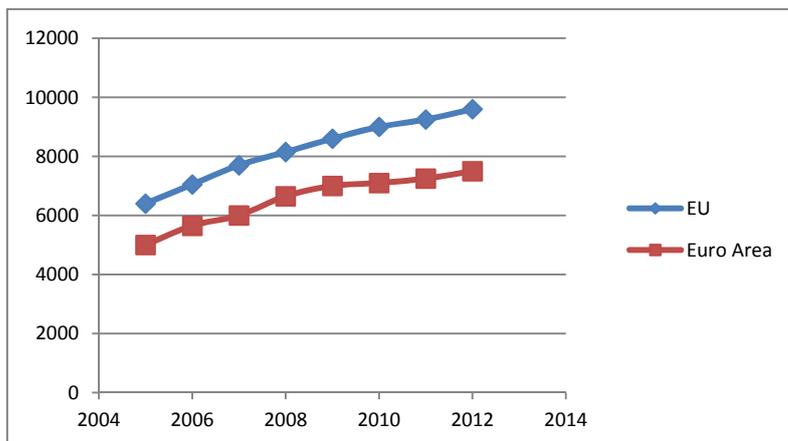
Assessing the impact of the crisis on the mobility from a macroeconomic perspective

This approach sees the European labor market as a whole. The mobility analysis is done on the whole, taking into account only the evolution of the stock of European Union citizens living and working in another EU country.

In order to study the impact of the crisis on mobility in the European Union, I have developed two econometric calculations, the first one⁽⁵⁾ to highlight the relationship between economic activity and mobility within the European Union and the second one⁽⁶⁾ to highlight the relationship between economic activity and mobility within the Euro Area. For this, I used as a data source two indicators showing economic activity and degree of mobility within the European Union/Euro Area, real GDP per capita and that the evolution of stocks of European citizens living in another European country.

Figure 7. *The evolution of real GDP per capita*

Source: Eurostat.

Figure 8. *The evolution of stocks of European citizens living in another EU country (million)*

Source: Eurostat.

The correlation coefficient between the two indicators for the European Union is 0.24. This result shows that the link between the two indicators is a weak one. So, we can say that business cycle fluctuations, including the current recession did not have a significant impact on the evolution of migration flows in the European Union.

Conclusions

The economic and financial crisis from 2008, unlike the Asian or the oil crisis, had spread globally and had serious consequences in areas such as construction, manufacturing, financial services and tourism. Consequently, both developed

countries and developing ones have faced and continue to face major adjustments in the labor market due to the increasing unemployed and to a high level of poverty. The negative and persistent trend unemployment rate, along with reducing the chances of unemployed people to find a job could lead to a tragic period, characterized by high levels of long term unemployment.

Another important aspect is the lack of opportunities for young people for entry into the labor market. Looking ahead, lack of work experience or mismatch between skills and jobs for young people will inevitably lead to future workforce lacking skills and low productivity levels.

Regarding migration flows, things are not as bad as in the labor market. There were two stages of crisis, which have influenced the migration differently. In the first phase, the symmetric crisis, there was a general brake on EU migration flows as a result of the economic downturn in all member states. In the second phase, the anti-symmetric, the migration phenomenon had resumed due to the emergence of differences between countries that have experienced economic growth and those that have deepened the recession. On the whole, the phenomenon of migration has undergone continuous development, especially with the recent enlargements of the European Union.

Occupational mobility, especially referring to people with a high level of training, is a process relevant to the European labor market structure. The proportion of potential migrants is higher in countries hit harder by the crisis. Repeated and circular migration is expected to reduce the negative effects of the crisis, leading to a more efficient allocation of resources within the European Union.

The research within this article has shown that the business cycle fluctuations have a limited impact of migration. Therefore, when considering occupational mobility, we should take into account a broader range of factors in the decision to emigrate, as the influence of social networks, personal preferences or the current institutional framework on the labor market.

Labor market policies should play a complementary role in response to the crisis, along with other macroeconomic policies to maintain labor demand by creating new jobs, retaining existing ones and improve employment opportunities for the unemployed, increasing compatibility between demand and labor supply.

The most important occupational policy objective should be the creation of more and better jobs, while providing an appropriate response to the challenges of demographic aging and intensifying global competition in the knowledge economy.

Notes

- ⁽¹⁾ In this article I did not take into account the economic evolution of Croatia because it is irrelevant for the crisis impact on the European labor market analysis.
- ⁽²⁾ EU2 represents the group of countries formed by Romania and Bulgaria.
- ⁽³⁾ EU 8 represents the group of countries formed by Czech Republic, Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia and Lithuania.
- ⁽⁴⁾ The most affected countries by the crisis are: Spain, Greece and Portugal.
- ⁽⁵⁾ The used database for the calculation and the calculation itself can be found in Appendix 1.
- ⁽⁶⁾ The used database for the calculation and the calculation itself can be found in Appendix 2.

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Appendix 1. Econometric calculations for the European Union

Year	X	Y	$x - \bar{x}$	$(x - \bar{x})^2$	$y - \bar{y}$	$(y - \bar{y})^2$	$(x - \bar{x})(y - \bar{y})$
2005	6400	22500	-1818,75	3307851,56	-712,5	507656,25	1295859,38
2006	7050	23200	-1168,75	1365976,56	-12,5	156,25	14609,38
2007	7700	23800	-518,75	269101,56	587,5	345156,25	-304765,63
2008	8150	23800	-68,75	4726,56	587,5	345156,25	-40390,63
2009	8600	22700	381,25	145351,56	-512,5	262656,25	-195390,63
2010	9000	23100	781,25	610351,56	-112,5	12656,25	-87890,63
2011	9250	23400	1031,25	1063476,56	187,5	35156,25	193359,38
2012	9600	23200	1381,25	1907851,56	-12,5	156,25	-17265,63
Total	65750	185700		8674687,5		1508750	858125

$$\bar{x} = 8218,75$$

$$\bar{y} = 23212,5$$

X – the stocks of European citizens living in another EU country (mil.)

Y – real GDP per capita in EU

$$R(x, y) = \frac{\Sigma(x - \bar{x})(y - \bar{y})}{\sqrt{\Sigma(x - \bar{x})^2} \sqrt{\Sigma(y - \bar{y})^2}}$$

$$R(x, y) = \frac{858125}{\sqrt{8674687,5} * \sqrt{1508750}} = \frac{858125}{2945,28 * 1228,31} = \frac{858125}{3617716,87} = 0,24$$

Appendix 2. Econometric calculations for the Euro Area

Year	X	Y	$x - \bar{x}$	$(x - \bar{x})^2$	$(y - \bar{y})$	$(y - \bar{y})^2$	$(x - \bar{x})(y - \bar{y})$
2005	5000	24511	-1518,75	2306601,56	-619,3	383470,56	940485,94
2006	5650	25305	-868,75	754726,56	174,8	30537,56	-151814,06
2007	6000	26152	-518,75	269101,56	1021,8	1043973,06	-530032,81
2008	6650	26047	131,25	17226,56	916,8	840430,56	120323,44
2009	7000	24552	481,25	231601,56	-578,3	334373,06	-278282,81
2010	7100	24823	581,25	337851,56	-307,3	94402,56	-178589,06
2011	7250	24994	731,25	534726,56	-136,3	18564,06	-99632,81
2012	7500	24658	981,25	962851,56	-472,3	223020,06	-463395,31
Total	52150	201042		5414687,5		2968771,5	-640937,5

$$\bar{x} = 6518,75$$

$$\bar{y} = 25130,25$$

X – the stocks of European citizens living in another EU country from Euro Area (mil.)

Y – real GDP per capita in the Euro Area

$$R(x, y) = \frac{\Sigma(x - \bar{x})(y - \bar{y})}{\sqrt{\Sigma(x - \bar{x})^2} \sqrt{\Sigma(y - \bar{y})^2}}$$

$$R(x, y) = \frac{-640937,5}{\sqrt{5414687,5} * \sqrt{2968771,5}} = \frac{-640937,5}{2326,94 * 1723} = \frac{-640937,5}{4009317,62} = -0,16$$