A Labour Mobility as an Adjustment Mechanism

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Abstract
The aim of the paper is to analyse labour mobility as an effective adjustment mechanism in the European Union. According the optimum currency area theory a labour mobility plays an important role in elimination of negative effects of an asymmetric demand shock and is able to offset the macroeconomic imbalances. The migration trends are analyzed in the pre-crisis and post-crisis period in the European union with emphasis on the peripheral economies and the new EU member states. The empirical evidence confirms that degree of labour mobility is not high enough to act as a sufficient adjustment mechanism.

Key words: *labour mobility, theory of migration, monetary union, the European Union*

Introduction

The global financial crisis has affected the economic development in the European Union with a strong impact on the national labour markets (decline in economic activity and a high unemployment rate). It is obvious that in Europe the change in the employment can be considered as an adjustment mechanism in the short term. In the USA it is a labour mobility between regions that contributes to elimination of asymmetric shocks. It is important to study if the labour mobility in the Eurozone is a high enough to counteract the negative effects of asymmetric shocks and thus if a labour mobility has been accepted as an adjustment mechanism. The paper deals with the polemic issues related to the labour mobility as an adjustment mechanism in Eurozone countries. The paper is structered as follows: Section 1 focuses on the theoretical approaches to labour mobility, section 2 investigates the relevant migration trends in Europe and section 3 analyses a pre-crisis and post-crisis period. Last section outlines labour mobility trends in Slovakia as one of Central and Eastern European Countries (CEEC).

Theoretical approaches to migration

Migration (or labour mobility) plays a vital role in increasing the efficiency of the labour markets. International labour mobility is a multidisciplinary phenomenon, which could be analysed by economics, geography, anthropology, demography, history and sociology. A migrant is defined as any person who changes his or her country of usual residence. An international migrant who changes his or her place of usual residence for at least one year is defined as a long-term migrant while a person who changes his or her place of usual residence for more than three months but less than one year is considered to be a short-term migrant. Under such a definition, those travelling for shorter periods as tourists and businesspersons would not be considered migrants. The UN classification distinguishes the purposes of migration as follows: education, training, work, settlement abroad, forming a

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family or join their immediate relatives abroad, forced migration including asylum seekers and refugees, illegal migration and people returning back to the country of origin (UNITED NATIONS, 1998).

The economic theory pays much attention to the problem of labour migration Currently, there is no one specific theory of international migration. The interesting theoretical concepts can include "push-pull" theory, the theory of cumulative causes, life-cycle model and the neoclassical approach to migration. "Push-pull" theory explains the causes of migration at the micro level (decision about migration is based on individual comparison of benefits and costs associated with migration). Cumulative causation theory is based on the proposition that propensity to migration in the country of origin is increasing with each act of migrant. In this way, international migration keeps herself in motion and stimulates further migration. Each individual migration contributes to the further decision about migration. There are six socio-economic factors, that are potentionally affected by migration in the cumulative way: the distribution of income, the distribution of land, the organization of agriculture, culture, the regional distribution of human capital and the social meaning of the work (Massey et al., 1993, p.451).

Return migration is considered to be part of the life-cycle plan of individual migrants and usually takes place before retirement (Dustman, 2001). This type of migration occurs in the case where the marginal benefits of consumption are higher in the country of origin than in the country of destination. Decisions about return migration are influenced by several factors: subjective assessment of quality of life, social atmosphere and social ties in the particular location or region, higher yields of human capital in the country of origin and higher purchasing power in the country of origin in comparison with the host country.

According to the neoclassical approach, the main reason for labour migration are the differences in wages between countries. Labour migration contributes to convergence of real wages between economies and to the overall production growth. On the other hand, there are some negative effects of migration as well. These stem from the fact that some groups of the population get lower real wages due to the labour in-flow compared with the previous period without migration. The empirical studies confirm the real wages convergence hypothesis in the selected countries (Williamson, J.G., 1995) suggesting that migration actually did move the countries toward wage equalization.

The importance of the labour market and labour mobility for the successful functioning of the monetary union was presented in the economic theory during the 1960s of the last century. Canadian economist Robert A. Mundell focused on the ability of the countries (of the region) to adjust to the shift in demand for the products of one country to the demand for the products of another country (so called asymmetric demand shock). If countries have their own currency an independent monetary policy can be implemented in order to eliminate the negative impact of the asymmetric shock. The elimination can be simply reached by a change of the exchange rate. If the countries are linked by common currency, it is not possible to use the exchange rate anymore as a tool in a given situation. In the case that there is a high mobility of factors across countries, the prosperous areas (regions) have the ability to attract the production factors from declining areas (regions) in order to resolve the unemployment problem and inflation too. It means that the unemployed labour force is moving from the country hit by negative asymmetric shock to the country with economic boom.

There have been a certain amount of criticism raised toward a labour mobility as a criterion of optimum currency area (OCA) theory. It was emphasized that the mobility of

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labour is never perfect. The labour mobility is often connected with the high costs in terms of social problems, the cost resulting from new housing, infrastructure and on the other hand, the deterioration of living conditions in declining areas is expected. A sceptical view on the labour mobility as an adjustment tool was presented by Corden (1973, p.168). Corden drew attention to the fact that the problem of lagging regions in the UK can be hardly solved by the high rate of migration ("Can it really be imagined that a UK depressed-area problem could be solved by the large-scale migration of British workers to Germany? British are reluctant even to move from Scotland to south though the language is almost the same, it takes some imagination to conceive of labor mobility solving the central problem of monetary integration").

The literature distinguishes between economic and non-economic causes of the labour mobility (Zanker 2008; Massey, 2003). The economic factors consists of wage differences between countries, searching for free agricultural land, work experience and skills gaining. Political, military, racial, religious, ethnic aspects belong to the non-economic factors.

Migration in the Europe - a historical outline

What is the historical experience of migration in Europe? After the end of the WWII there had been a wave of migration from developing countries to the Western European countries. Some European economies needed to supplement inadequate capacity of the workforce to restore the destroyed industry. The low and insufficient volume of the workforce has been caused by low birth rates during the economic crisis in the interwar period and higher mortality during WWII.

The labour market in Europe is less integrated in comparison with the one in the USA where inter-regional and sectoral labour mobility is a very important adjustment mechanism. Labour mobility between European countries has reached only one-third of mobility in the U.S. (OECD, 2008). In 2011 2.7% of Americans migrated between states in comparison with 0.2% of Europeans (Economist, 2014). Americans, usually without hesitation, are moving from the Ohio and Massachusetts to Arizona and California, while Germans are not willing to travel from one part of Germany to the second part (Feldstein, 1997). Low labour mobility in Europe is a result of language barriers, cultural differences, institutional, social and administrative obstacles e.g. the lack of available information, recognition of diplomas, the heterogeneity of tax and social systems, accommodation, employment for the partner /spouse etc. It is interesting that the countries with the large regional disparities (such as a northern and southern part of Italy, West and East Germany) have experienced a low degree of labour mobility although there is no language barriers.

Migration of the workforce can be also seen as a problematic phenomenon, mainly if it regards an outflow of highly qualified workers from the country of origin. The migration of high-qualified workforce brings a heavy burden on the country of origin in terms of educational and training costs. In many cases, a brain-drain has been supported by national immigration laws of the host country (U.S., United Kingdom, Canada and etc.) to facilitate the immigration of qualified and skilled labour, but at the same time the immigration of unskilled workers has been restricted. Global financial crisis leads to dismissal low-qualified labour force that had no contract with the employers or was organized through agencies. The position of unemployed migrants is more flexible, usually they have lower wage demands and thus the labour market adjustment can be complicated.

Migration of the labour force in pre-crisis and post-crisis period in the EU

During the 1950s and 1960s the workers migrated from the peripheral economies (Spain, Italy and Portugal) to the core of the EU (Germany, France, Benelux). Since the1980s Spain, Italy, Portugal together with Greece and Ireland became the target countries for migration. These countries evolved from traditional outward countries to the inward migration countries. It was affected by the dynamic economic development in the economies and their effort to join Economic and monetary union. The countries benefited from the favorable interest rates and capital inflow. Economic growth was driven by the sectors such as construction, services and tourism, which require low-skilled workforce and therefore these countries were more attractive in terms of migration flows. In particular, Spain has become a major destination for migrants. During the period 2000 – 2007 more than 730,000 migrants were settled in this country per year and one third of them came from the EU countries (IOM, 2010). In Ireland the share of migrants relative to total population reached 3.2% in 2000 and 12,5% in 2008. The migrants in Ireland have been characterized by higher qualification and education and 72% of immigrants came from the EU.

The significant impact of the financial and economic crisis was reflected in the labour markets of peripheral economies. The unemployment rate was higher in the peripheral economies than in the core countries such as Germany (Figure 1). The unemployment problem was compounded by the fact that the highest proportions of the unemployed were young people, low-skilled workforce, men and migrants from non-European countries and new EU Member States. The impact of the crisis on migrants was extremely hard. In Ireland and Spain many citizens of the new EU Member States remained without jobs. One of the reasons is the fact that immigrants are often employed in sectors which are most affected by the crisis, such as construction, production sector, hotel services and others. It was confirmed that the less educated people are more at risk in terms of unemployment.

In the pre-crisis period the Eurozone population did not consider Germany as an attractive destination in terms of labour mobility, the USA and Australia attracted more immigrants. It is associated with a relatively high tax and contribution burden in Germany compared to the other countries. At the same time in Germany the level of wages has been lower and many professions are regulated such as medicine doctors and teachers and the official qualification must be recognized by professional association. However the new EU Member States population preferred Germany and the Great Britain, Austria, Italy and the USA as well as a country of destination.

Figure 1 The unemployment rate in the euro area
Source: Eurostat

A turning point was 2010 year when Germany attracted a net migration of 130,000 (DBR, 2011) and Spanish, the Greeks and the Irish were interested in getting job in Germany. Empirical studies and statistics in the post-crisis period confirm that the young and higher educated Europeans have been more willing to consider to migrate and work abroad.

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Figure 2 Net migration in the peripheral countries

Source: Eurostat

Figure 2 shows the net migration trends in peripheral economies during the period 2000-2013. The data are based on the indicator of crude rate of net migration plus adjustment per thousand of inhabitants. Until the year 2007 the increase of migration is evident in Spain, Portugal and Ireland. Consequently under the impact of global crisis, a significant decline of migration is observed during next few years with negative net migration.

Table 1 Net migration in the Central and Eastern Europe countries

	2000	2001	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bulgaria	0	-26,7	0	0	-2,3	-2,4	-2,5	-2,4	-0,7	-0,3	-0,2
Czech Republic	-2,7	-1,4	3	2,9	7,7	6,5	2,4	1,4	1,6	1	-0,1
Estonia	-2,3	-2,4	-3,8	-4	-2,1	-1,5	-1,6	-2,8	-2,9	-2,8	-2
Croatia	-11,7	4,3	2,5	2,3	2,1	1,4	0,2	-1	-0,9	-0,9	-1,2
Latvia	-6,9	-8,2	-4,9	-4	-3,6	-10,3	-16,1	-17	-9,7	-5,8	-7,1
Lithuania	-5,8	-6,7	-15,4	-7,5	-6,7	-5,1	-10,1	-25,2	-12,6	-7,1	-5,7
Hungary	1,6	1	1,7	2,1	1,4	1,6	1,7	1,2	1,3	1,6	0,6
Poland	-0,5	-0,4	-0,3	-0,9	-0,5	-0,4	0	-0,1	-0,1	-0,2	-0,5
Romania	-0,2	-25,2	-4	-4,1	-21,9	-8	-5,4	-2,4	-2,4	-1,1	-0,3
Slovenia	1,4	2,5	3,2	3,1	7,1	9,2	5,6	-0,3	1	0,3	0,2
Slovakia	-4,1	0,2	-0,1	-0,1	0,4	0,4	-0,1	-0,9	0,5	0,6	0,4

Source: Eurostat

The majority of the Central and Eastern Europe countries (CEEC) have had a negative net migration resulting from labour outflows from the countries (Table 1). The most significant outward migration flows are in the case of Romania and the Baltic countries, mostly due to economic factors.

Migration in the CEEC – the case of Slovakia

Trends in migration of labour force in Slovakia have deepened after 2004 when several countries of the EU15 opened their labour markets for the Member States of Central and Eastern Europe. Although in following years number of emigrants from Slovakia decreased, there is evident a rising trend in 2006, 2007 and 2008 after the initial drop in 2005 (Figure 3). It can be explained by positive economic performance of destination countries and increasing demand for relatively cheap and well-educated labour force from new Member States.

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Czechoslovakia has been a country of emigration traditionally. During the interwar period of 1918-1938 the combination of unemployment, social conditions and subsequent political and ethnic factors gave rise to emigration to neighbouring countries (Horáková, 2000). Movements of people during and soon after the WWII were the results of persecution, deportations, splitting of Czechoslovakia, occupation and afterwar arrangements in the region. As Horáková stated (2000), it is estimated that in 1950s two hundred twenty-two thousand Slovak and Czech emigrants returned to new formed state.

Figure 3 Emigration in Slovakia, real GDP growth and rate of unemployment in the EU15

Source: Eurostat
Note: Emigration in number of people (right axis); rate of unemployment and real GDP growth in % (left axis).

Historical evidence of net migration in Slovakia in 1960-2013 offers an interesting view in the most significant trends of labour force movements in this region. First of all we can observe a permanent negative indicator of net migration since 1960 to 1993 which means that during more than thirty years the migration in Slovakia was represented by higher numbers of emigrants than incomers. This status of economy with „one-way flow“ might be explained by official state policy based on a centrally planned economy.

Figure 4 illustrates three important periods of changes in net migration. First period was the time of late 1960s when net migration in Slovakia reached the lowest level. This trend occured in 1964, by the next five years almost fourty-five thousand people left Czechoslovakia legally. Political uncertainity in 1970s encouraged emigration that returned to normal levels soon when the authorities officially restrained emigration by closing the country borders. Therefore this period of migration in Slovakia might be a result of social and political changes in the country. Until 1989 immigration was at relatively low levels and strictly controlled. The period of higher immigration were 1960s, the time of political release (Prague Spring), when about nineteen thousand foreigners moved in to the region. The second most important cycle in migration might be considered the period after a centrally planned economy came to an end in 1989 when changes in political system and opening the borders led to significant decrease in net migration indicator (Figure 4).

The last important migration wave occured in so called „reforming period“ after 1998 that brought the change of economic policy in Slovakia from demand to supply-side oriented. This turn has required reforms in several areas which led to decent recession (-0,2 per cent of real GDP in 1999) but highest level of unemployment (18,9-19,5 per cent in 2000-2001). These changes in macroeconomic conditions were accompanied by higher migration that was based on social and economic incentives.

Figure 4 Net migration in Slovakia (1960-2013)

Source: Eurostat
Note: The value of net migration expressed per 1000 persons as the ratio of net migration (including statistical adjustment) during the year to the average population in that year.

Focusing on the third period of migration in Slovakia (figure 5), net migration indicator was increasing with higher rate of unemployment. Paradoxically net migration was lower in 2000 comparing to relatively stable level of migration after joining the EU in 2004. As we stated above the reasons might be macroeconomic conditions in the past with almost 20

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per cent of unemployment. With lower level of unemployed after 2004 there was evident growth in net migration that has been reversed since the Great Recession in 2008.

The relation between unemloyment and migration might be supported by data of Statistical Office of the Slovak Republic (SOSR) from 2014. Short-term migration of labour force from Slovakia to foreign countries represented 135,4 thousand people, among them 26,5 per cent from Prešov region, the region with the highest rate of unemployment in Slovakia.

Figure 5 Net migration and rate of unemployment in Slovakia (1994-2013)

Source: Eurostat
Note: The value of net migration expressed per 1000 persons as the ratio of net migration (including statistical adjustment) during the year to the average population in that year. Unemployment rate in % (right axis); net migration in % (left axis).

Conclusion

Labour mobility should play an important role as an adjustment mechanism, especially in the event of negative demand shocks. The mobility of labour in the European Union and the Eurozone is still extremely low in comparison with the USA. Although the migration processes were revealed as a response to the crisis, it is clear that labour migration is not sufficient adjustment factor in the case of asymmetric shock and does not offset the imbalances at the labour market. The higher migration rate in the Eurozone is not the result of migration within the Eurozone itself, but occurred especially due to inflow from the Central and Eastern European countries. The relation between unemployment rate and labour mobility was confirmed in the case of Slovakia.

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