

Box 2

**LABOUR MARKET MOBILITY IN THE CENTRAL AND EASTERN EUROPEAN EU MEMBER STATES,
COMPARED WITH THAT OF THE EURO AREA, DENMARK AND SWEDEN**

This box looks at labour mobility in central and eastern European EU countries (CEECS) using evidence for labour mobility in the euro area, Denmark and Sweden as a benchmark (for an analysis of the same phenomenon in the euro area, please see Box 8 of the March 2011 issue of the Monthly Bulletin).

In particular, this box presents alternative measures of labour market mobility for the period 1998-2008, based on microeconomic data obtained from Eurostat's Labour Force Survey.^{1, 2} To illustrate the ease of transition between employment, unemployment and inactivity, measures of the probability of moving from or remaining in each status over a given two-year period are constructed.

The results show that the average probability of remaining employed in a given two-year period is broadly similar in the CEECs, Sweden and the euro area and is higher than in Denmark (Chart A (a)). The probability of remaining inactive is also similar in the CEECs and the euro area, but higher than in Denmark and Sweden (Chart A (b)).³ Chart A also shows that in the CEECs and in the euro area the probability of moving from unemployment to employment is much lower than in Denmark and Sweden (panel c),⁴ while the probability of remaining

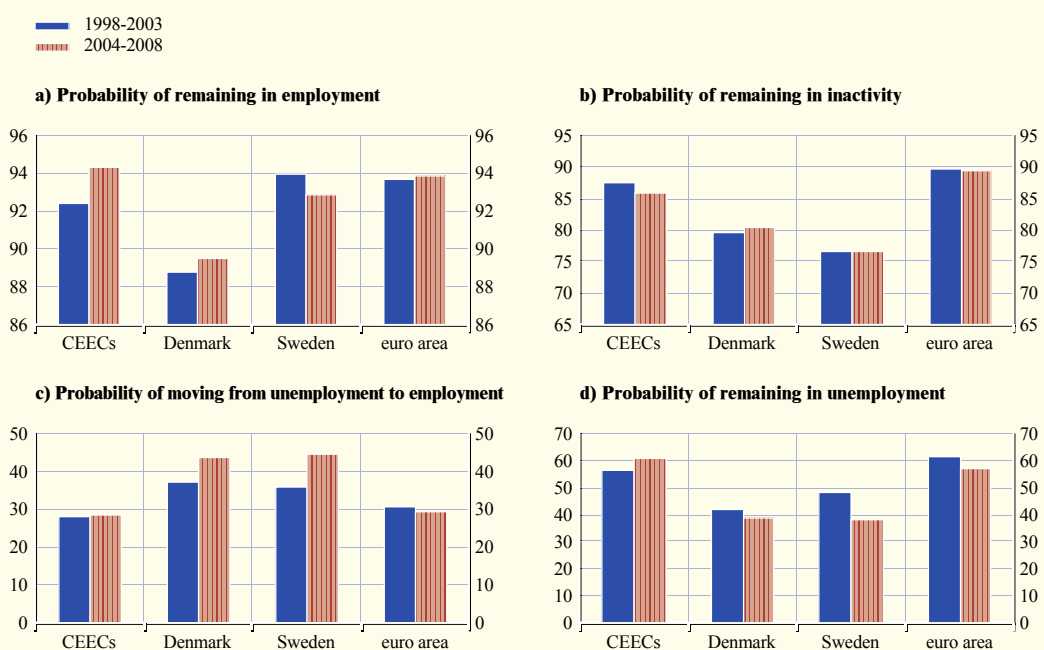
1 This box focuses on EU Member States that were not in the euro area in 2008, i.e. the Czech Republic, Denmark, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia and Sweden. The United Kingdom and Bulgaria are excluded owing to a lack of data. For Latvia, Lithuania and Slovakia, data prior to 2001 are not available; for Romania and Hungary, there are no data for the period prior to 1999. For Sweden, data for 2005 are not available. For the purposes of this box, data for the euro area exclude Germany, Malta, Ireland, Spain and the Netherlands. For these countries, information is available only from more recent waves of the survey or no data are available. Among euro area countries, data are not available for France for the period 2003-05 or for Luxembourg and Slovenia prior to 1999 and 2000 respectively.

2 Data on labour market status are based on self-assessments by survey respondents of their current and past working status.

3 As inactivity includes retirement and education, the probability of remaining inactive is reduced by about 8-10 percentage points on average, after education and retirement flows are controlled for.

4 In Denmark and Sweden, stronger labour demand conditions are explained by active labour market policies, but also by more generous employment benefits and long-term job security programmes (e.g. "flexicurity" in Denmark).

Chart A Probability of remaining in each labour market status over a two-year period and probability of moving from unemployment to employment (1998-2008)



Sources: Eurostat's Labour Force Survey and ECB calculations.
 Note: Observations are weighted according to the labour force share (people aged 15-64) in each country over the CEECs' aggregate. The same weighting is applied to euro area countries.

unemployed is much higher in the CEECs and the euro area than in Denmark and Sweden (panel d). Thus, overall, the CEECs share many similarities with the euro area and both regions appear to have lower labour market mobility compared with that of Denmark and Sweden.

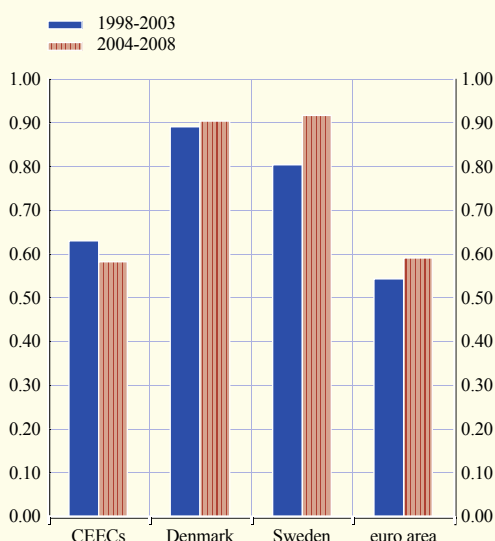
The Shorrocks index, a summary measure of mobility,⁵ indicates that labour market mobility in the CEECs has decreased over time (see Chart B). By contrast, in the euro area, Denmark and Sweden, mobility rates tended to increase between 1998 and 2008. The decrease in labour market flexibility in the CEE countries is also evident when looking at labour transition probabilities over time. Compared with 1998 to 2003, the number of people remaining in unemployment in the CEECs increased between 2004 and 2008, whereas it decreased in Denmark, Sweden and the euro area over the same period (Chart A (d)).

The observed decrease in mobility in the CEECs since 2004 is in line with the stabilisation of the labour market in the region, possibly reflecting strong economic growth as well as policies which supported the lengthening of average job tenures (especially for young people and highly educated people). That said, these policies also increased labour market inefficiencies, as evidenced by the increase in the probability of remaining unemployed in the CEECs.

Overall, however, the results for the CEECs do not differ greatly from the aggregate results for the euro area, with labour market flexibility in terms of ease of hiring (and firing) still being relatively weak compared with Denmark and, in particular, Sweden. This points to a need for further efforts to implement labour market reforms, to increase labour market flexibility and to achieve a better match of skills to job vacancies in the CEECs and the euro area, thus increasing labour market participation and reducing the cost of long-term unemployment.

5 See Shorrocks, A.F. (1978), "The measurement of mobility", *Econometrica*, 46, pp. 1013-34. The Shorrocks index captures changes in the probability of moving between employment, unemployment and inactivity between the previous and the current period. The index is bounded between zero and one, where a value of zero implies a zero probability of mobility and a value of one implies full mobility.

Chart B Developments in labour market mobility indices



Sources: Eurostat's Labour Force Survey and ECB calculations.
Notes: Observations are weighted according to the labour force share (people aged 15-64) in each country over the CEECs' aggregate. The same weighting is applied to euro area countries. See also footnote 5.