

Box 6

THE EFFECT OF THE CRISIS ON EMPLOYMENT AND WAGES IN NON-MARKET SERVICES

Consolidation efforts to bring public finances in euro area countries onto a sustainable path have also had an impact on public sector wage bills in recent years. In the period ahead these consolidation measures may imply some containment in terms of overall employment growth in the expected recovery of output in the euro area. Against this background, this box reviews the adjustment of employment and wages since the start of the financial crisis in 2008 in non-market services, defined here as public administration and defence, compulsory social security, education, human health and social work activities.¹ In the euro area as a whole, these activities account for almost a quarter of total employment, but the degree to which they are publicly or privately provided differs across countries. General government more narrowly accounts for about two-thirds of employment in non-market services in the euro area.

¹ This corresponds to the sum of sectors O to Q of the NACE Revision 2 breakdown. Quarterly national accounts data used in this box are only available for the sum of these sectors.

Employment adjustment in non-market services

During the first three years of the crisis in 2008-10, employment in non-market services in the euro area continued to increase. In fact, it has only displayed signs of downward adjustment in the past two years (see Chart A). By contrast, in the remainder of the economy, employment started to fall around the time that the recession began in the first half of 2008.

A more muted adjustment of employment in non-market services is a stylised fact of the business cycle and reflects the provision of essential services in areas such as law enforcement, education and health, independently of fluctuations in general economic activity. The intensification of the crisis in the autumn of 2008 prompted most EU Member States to adopt stimulus measures, partly in the context of the European Economic Recovery Plan. Consequently, the delay in the adjustment in employment in non-market services compared with the remainder of the economy may also partly be the result of government decisions to carry out fiscal expansion in this period.

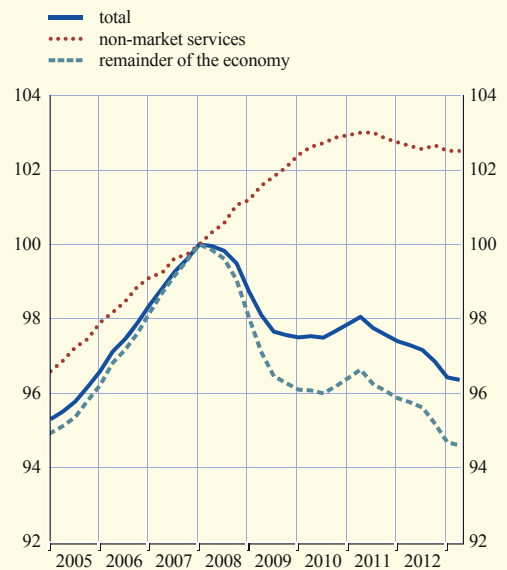
The more muted adjustment of employment in non-market services relative to employment in the remainder of the economy in the crisis period is a pervasive feature across euro area countries (see Chart B). With the exception of some countries under market stress, such as Greece, Spain, Italy and Portugal, employment in non-market services was characterised by positive average annual growth in most euro area countries in the period from mid-2008 to mid-2013. This was also the case in some countries where employment in the remainder of the economy posted a sharp average decline, such as in Ireland and Slovenia.

Wage adjustment in non-market services

Wage bills can be managed in adjustment periods via changes in both employment and

Chart A Evolution of employment in the euro area

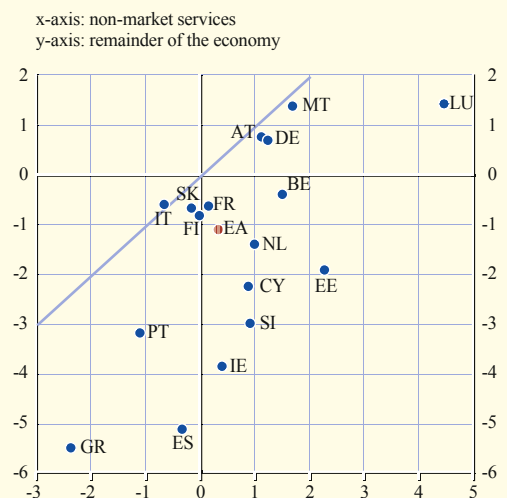
(index: Q1 2008=100; working day and seasonally adjusted data)



Sources: Eurostat and ECB calculations.
Note: Employment in the remainder of the economy is defined as total employment minus employment in non-market services.

Chart B Employment adjustment in euro area countries

(annual average percentage changes from Q2 2008 to Q2 2013; seasonally adjusted data)



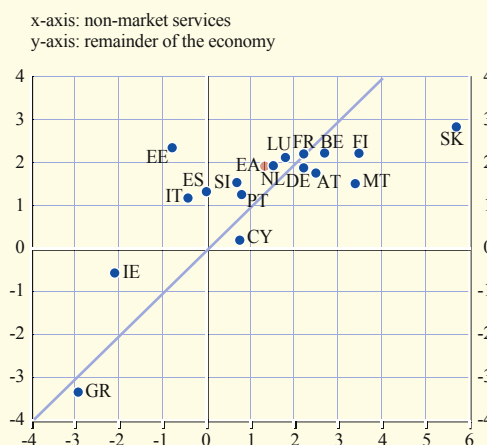
Sources: Eurostat and ECB calculations.
Notes: 1) Employment in the remainder of the economy is defined as total employment minus employment in non-market services.
2) Data for Malta only cover the period to the first quarter of 2013.
3) The solid blue line characterises equal growth in non-market services and the remainder of the economy.

compensation per employee.² For most countries under market stress, average downward wage adjustments in the period since 2008 have been sharper in non-market services than in the remainder of the economy, while in non-stressed countries, the adjustment has been less disparate (see Chart C).³ In a number of cases, the relatively sharper downward adjustment in wages in non-market services has taken various forms, including cuts in fringe benefits, cuts in overtime pay and the abolition of thirteenth and fourteenth month salaries.

To assess the degree of wage adjustment in non-market services, the job profiles of employees and the incidence of employment adjustment across groups of employees need to be taken into account. Since the start of the crisis the employment structure in non-market services has shifted further in the direction of high-skilled workers. Positions for low-skilled and medium-skilled employees have declined, while high-skilled employees have been recruited throughout the entire crisis period (see Chart D). This development affirms the more secular tendency of a relative decline in demand for

Chart C Wage adjustment in euro area countries

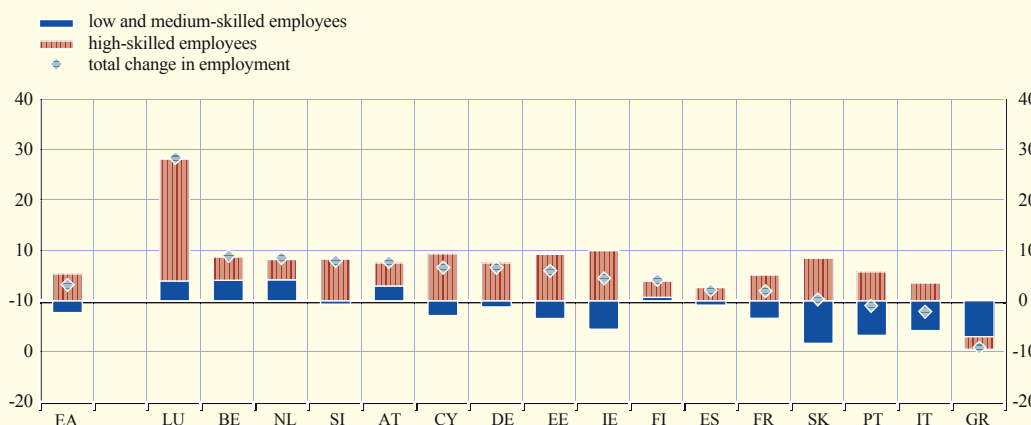
(annual average percentage changes from Q2 2008 to Q2 2013; seasonally adjusted data)



Sources: Eurostat and ECB calculations.
Notes: 1) Wages in the remainder of the economy are defined as total wages minus wages in non-market services.
2) Wages are represented by compensation per employee.
3) Data for Malta only cover the period to the first quarter of 2013.
4) The solid blue line characterises equal growth in non-market services and the remainder of the economy.

Chart D Employment in non-market services and contributions by skill level (Q4 2007-Q4 2012)

(percentage changes; percentage points)



Sources: EU Labour Force Survey data, Eurostat and ECB calculations.
Notes: For 2007, employment in non-market services comprises sectors L to N of the NACE Revision 1 breakdown. In order to account for the fact that data are not seasonally adjusted, the crisis period is defined as the fourth quarter of 2007 to the fourth quarter of 2012. Malta is not represented on account of data unavailability before 2008.

2 Total compensation in non-market services in the euro area grew by 8.7% between the second quarter of 2008 and the second quarter of 2013, of which 1.7% was due to growth in the number of employees.
3 The same conclusions hold when the analysis is conducted based on wages per hour.

low and medium-skilled workers. The reasons for this are likely to include increased requirements with regard to knowledge-intensive workplaces and possibly also the privatisation or outsourcing of activities that are typically associated with lower-skilled jobs. An exception to this picture is Greece, where the downward adjustment of employment in non-market services has also affected the high-skilled categories. Conversely, non-market services in Belgium, the Netherlands and Austria have registered a more balanced increase in high, low and medium-skilled employees. The changing skill composition of employment in non-market services may have had an upward impact on average wage developments owing to the higher compensation of high-skilled employees. In other words, the shifts in the skill composition of employment could, to some extent, have masked the underlying adjustment of wages in non-market services over recent years.

Concluding remarks

In summary, euro area employment in non-market services has been significantly affected by the crisis, but the adjustment has been much smaller and, on balance, started later than in the remainder of the economy. In contrast, in the case of compensation per employee, the adjustment in non-market services relative to the remainder of the economy has, on balance, been stronger, particularly in countries under market stress.