Guest editorial

Adjustments in EU labor markets and the Euro area during the Great Recession: a foreword

The European labor markets have been under pressure since the start of the Great Recession. Wage flexibility, labor supply and demand shifts, and institutional reforms – or a lack of reforms – have been crucial in shaping the necessary adjustments. To revisit how to better understand the ensuing challenges and how they mattered for economic policies, the National Bank of Slovakia, the Institute for the Study of Labor (IZA), and the Central European Labor Studies Institute organized a joint conference in Bratislava in 2014 under the title "European Labor Markets and the Euro area during the Great Recession: adjustment, transmission, interactions." Further developments in the EU, including the growing economic hardship and disenchantment of some sub-populations at prevailing policy approaches, resulted in deepening polarization and radicalization across the EU, anti-Europeanism, and events undermining the fabric of Europe of which Brexit is just the tip of an iceberg. Whereas the European single market and free movement of labor could have been vital instruments for economic adjustments, many perceived them as the cause of their troubles.

These challenges encouraged us to solicit contributions on these topics in an effort to solidify evidence about the role of labor markets in absorbing asymmetric economic shocks in a monetary union and the implications of various aspects of labor adjustments for economic policy and economic modeling.

The opening block of two papers sets the stage and sheds light on the changing characteristics and structural dissimilarities across the EU labor markets during the Great Recession. Syed and Syed Zwick show that the characteristics of EU labor markets changed profoundly during the Great Recession. They study a wide range of harmonized labor market indicators using an agglomerative hierarchical clustering method to show how the degree of convergence and integration of EU labor markets evolved during the Great Recession. The study finds that the Great Recession resulted in the re-classification of countries across the four types that emerged in the pre-crisis period: core, followers, outliers, and marginalized. In particular, the characteristics of labor markets changed and the heterogeneity of labor market profiles across EU labor markets increased during the recession years. Although there is some indication of homogenization of labor markets within the Euro area during the Great Recession, a deeper scrutiny reveals that, in fact, the Great Recession led to a polarization of the characteristics of labor markets in the Euro area.

Structural differences across the EU labor markets are studied by Antosiewicz and Lewandowski, who, in a comparative framework, identify the factors behind cyclical fluctuations and differences in adjustments to economic shocks in Greece, Italy, Portugal, and Spain (GIPS). Taking the German economy as the yardstick and performing counterfactual simulations based on a DSGE framework, they find that the GIPS countries would have fared better if their economies responded to shocks more similarly to the German economy.

The next paper looks at the intensive margin of adjustment of the EU labor markets during the Great Recession. Using a large microeconomic data set, Balleer, Gehrke, and Merkl study whether working time accounts (WTAs), which in theory allow firms to redistribute hours worked over time, in fact affected how German firms responded to the changing demand. They find that there was no significant difference in hiring and separation responses to changing revenues between firms with and without WTAs.

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Moreover, contrary to expectations, firms with WTAs were more likely to use short-time work. These findings call in question the notion that WTAs were an important enabler of adjustment during the Great Recession in Germany.

The three ensuing papers tackle various aspects of adjustment at the extensive margin. Nagore García and van Soest use administrative data from the Spanish Social Security Administration to analyze the stability of job matches during the economic boom in 2005 and during the recession in 2009. Based on a competing risk model distinguishing job-to-job, job-to-unemployment, and other labor market transitions, they find that job-to-job transitions were pro-cyclical, while transitions to unemployment were counter-cyclical. The decline in job-to-job transitions during the recession signals an increased risk of a decline in efficiency of labor market matching and may reduce productivity growth. Among the groups with reduced job-to-job mobility during the recession period were males, immigrants, and the young, low educated, and those in manual occupations.

Applying duration analysis on panel data from the UK Quarterly Labour Force Survey, Papoutsaki evaluates the hazard of job separation – separately for various immigrant groups and natives – in the UK before and during the Great Recession. She finds that natives as well as immigrants suffered a greater hazard of exit to unemployment during the Great Recession, than prior to it. However, even after controlling for differences in characteristics and in spite of them being concentrated in some of the most vulnerable jobs, immigrants from the new EU member states exhibited the lowest risk of separation from employment. On the other hand, the adverse effects of the Great Recession on job separation were the largest for precisely this immigrant group. Second-generation immigrants performed relatively worse than the natives before and during the Great Recession alike, whereas the other immigrant groups did not differ from the natives significantly.

Using the EU LFS and the EU SILC as the key sources of data, Kahanec and Guzi study whether and how immigrants acted as a vehicle of adjustment during the Great Recession. They estimate the link between a wage-based measure of labor shortages and immigrants' allocation across sectors, occupations, and countries, *vis-à-vis* the natives. Immigrants have generally responded to the changing labor shortages at least as much and in many cases more flexibly than natives. Among the most flexibly responding groups, relative to their native counterparts, were low-skilled immigrants from the new member states or those with the medium number of years since migration, as well as high-skilled immigrants with relatively few (one to five) or many (11+) years since migration. Whereas the relative responsiveness of immigrants from Europe outside the EU or with 11 or more years since migration declined during the crisis years, other groups of immigrants, particularly those from the new member states, became more responsive during the Great Recession.

Finally, Krause, Rinne, and Zimmermann provide a critical account of the state and prospects of the single European market, as a primary framework of adjustment across EU labor markets. Based on the 2014 IZA Expert Opinion Survey, they argue that a truly single market has not yet been fully achieved, in particular with respect to free movement of workers. Based on the surveyed expert evaluations, they conclude that the frictionless recognition of qualifications, the harmonization of social security systems, and language competence are the most important factors to enhance labor mobility within the EU and its capacity to adjust to economic shocks.

The principal narrative emanating from this special issue is that the Great Recession affected the EU labor markets differently, and these also responded in a non-uniform way. Adjustment at the intensive and extensive margins helped to absorb the shocks, with a particular role played by immigrants, who provided a flexible labor force in many cases responding to changing labor conditions more flexibly than the traditional core workforce, but also by females. Deepened integration and free movement of workers across EU labor markets are thus prerequisites for more efficient economic adjustments under turbulent economic conditions.

It is clear that these complex issues must be further studied to better understand the various margins of labor market adjustments and their interactions during the business cycle. The papers collected in this volume provide some important new results enriching the academic debate and offering several policy implications for governance of EU labor markets and the European single market in a more fruitful way.

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