

DRAFT

42nd Congress of the European Regional Science Association
Dortmund, Germany 27th – 31st August 2002

Metropolitan and Peripheral ‘Entrepôts’ For Transitional Labour Markets

Lars Olof Persson
Nordregio
Box 1658
SE-111 86 STOCKHOLM
+46 8 463 5434
larsolof.persson@nordregio.se

Abstract

Differences in national welfare systems are reflected in rates of labour market participation for different segments of labour across the EU member states. The Nordic countries have since long stressed ‘full employment’ as a key labour market objective. There, the public sector has for instance actively used to replace non-paid care with formal jobs. Germany and Austria on the other hand, both of which have less developed childcare systems, in practice treat males as *the* primary household wage earners. Moreover, several Southern member states consider the ‘extended family’ to have responsibility for those family members in need, which obviously limits the chances of certain segments of the population from entering or indeed re-entering the regular labour market.

However, notwithstanding such differences in emphasis, the notion of ‘full employment’ eventually found its way onto the agenda of the European Union. The member states are moreover unanimous in their belief that this goal would require significant levels of investment in the areas of employment and social policy. The notion of the activation of all segments of labour is accentuated: e.g. the goal requires at least 50 per cent of people aged over 55 years in the EU to be employed in 2010. A new sub-goal was also set for the employment rate of women, at 10 percentage points below the male/female average. Common standards are also to be established which will enable EU wide comparisons of access to childcare and to care of the elderly.

The differences in employment frequencies between EU member states remain large, but on the whole they now seem to be converging. On the other hand, regional differences within member states are reported to be on the increase. As such, the *transitional* characteristics of the labour market are becoming more transparent: Each transition or career - such as from education to work, from care to work, or from unemployment to work, etc - can be temporary and repetitious. Transitions can now of course occur at almost any time of one’s ‘working life’. There are theories explaining the nature and scope of such ‘transitional’ behaviour exhibited by the current labour force, stressing, among other things, the individual choice of life-style, life chances or career options in different places. The other side of the coin of course

is that rapid economic restructuring increases the risk for non-voluntary changes in employment status.

The regions within member states thus perform as more or less efficient 'entrepôts' for transitional labour markets, depending primarily on diversity and the vitality of its industrial structure and on the demographic structure of the labour force. In general, labour markets in metropolitan regions are expected to permit higher rates of transition, reflecting more individual freedom of choice, than do small and less diverse LLMs. However, performance is inevitably moderated by the welfare system prevalent in each country. In all probability then it is the countries that have an 'individual' rather than a 'household' focus on labour market participation that will be better prepared for high rates of transition.

The purpose of this draft paper is thus to

- Display some characteristics of the emerging transitional labour market, using longitudinal employment data from Sweden
- Explore differential spatial patterns of the labour market during the 1990s in Sweden

In the final paper we will:

- Outline a methodology to evaluate policies influencing the performance of labour market in terms of activation of labour to help achieve the common European goal of full employment, and to help facilitate transition in all types of regions.

Employment Policy in the European Union

Although unemployment is falling, the issue of labour shortages is now emerging as an increasingly stubborn obstacle to growth across the EU¹. Indeed, economies as diverse as those of Ireland, the Netherlands, Sweden and Italy have all suffered from this problem. Moreover, a number of recent employer surveys have pointed to the difficulty of recruiting staff with the requisite skills as being *the* major problem hindering expansion.

The concurrence of relatively high levels of unemployment and labour shortages essentially reflects the highly differentiated nature of the labour market and the lack of coherence between the growth of demand for labour and the skills on offer among those looking for work. Recruitment difficulties tend to be reported in particular sectors even in periods of recession. As recovery gathers pace and as unemployment falls - or, more accurately, as the excess supply of labour diminishes - it is only to be expected that skill bottlenecks will become more serious, the more so, naturally, in regions where unemployment is relatively low, but also in other areas where the skills of the unemployed do not match the demands of employers. If economic growth at present rates is sustained over the longer term, the problem of this 'skills imbalance' is expected to be compounded by the projected slowdown in labour force growth, (in some regions we may actually even see a decline), over the next 10-15 years.

¹ See, 'Unity, solidarity, diversity for Europe, its people and its territory - Second report on economic and social cohesion'. Adopted by the European Commission on 31 January 2001.

While employment frequency was 60 percent on average for the Union in 2000, the objective was set at 70 percent for 2010. At the Stockholm summit full agreement was reached on the overall goals required, which it was understood would require significant levels of commitment by the Union and by the Member States to the goal of full employment, as well as to the notion that a dynamic EU must consist of active welfare states. The EU heads of state and government were also unanimous in their belief that the path to such a goal requires investment in the areas of employment and social policy.

Several decisions were reached in these areas at the Stockholm summit:

- The employment rate for older persons in the workforce has to be increased and a new goal was established for employment. The new goal requires at least 50 per cent of those people aged over 55 years in the EU to be employed in 2010. The current figure is 38 per cent.
- A new employment sub-goal was set that by 2005, should see 67 per cent of people of working age in the EU being employed. For women, the 2005 goal is 57 per cent. One of the most significant implications of such major policy goals is the need, by 2002, to establish the common standards that will enable comparisons of access to childcare to be made across EU countries. Similar standards are also to be set up for the care of the elderly.

Disparities in unemployment remain wide throughout the Union. In 1999, Greece, Spain, France, Italy and Finland had unemployment rates of more than 10%, which was at least twice the rate of Luxembourg, the Netherlands and Austria. Regional disparities are however much more pronounced: the 10% of the population in the worst-affected regions - mostly regions where development was lagging, but some of which were undergoing restructuring - had an unemployment rate in 1999 of 23%, nearly 8 times the average for those in the least-affected regions (3%).

Moreover, the latest EU Cohesion report (op cit) highlights the increasing gaps between regions within European countries, while the gap narrows between country averages when it comes to unemployment. This means that Union averages as well as country averages are of limited interest in analysing the prospects for full employment. EU countries differ considerably in terms of their internal labour market structures. Larger countries in particular display wide variations in the size of their Local Labour Markets (LLMs). Some countries, e.g. Germany display a wide variation in industrial structure and income levels. Other countries such as Portugal and Greece show wide variations along the rural – urban scale. Countries with small populations and large territories, such as Scotland, Finland and Sweden, also display a wide variation in LLM size.

Focus on the Performance of LLMs

It is generally accepted across the EU, that the economic performance of regions, nations and indeed of the entire European Union is dependent on the efficient performance of each individual LLM. For instance, in the case of Sweden, a recent Government Bill clearly states that, “well functioning local labour markets across the entire country should be the prime objective for regional policy, aiming at increased economic growth in all regions.” However, due to wide variations in structural terms,

it is probably not feasible to set a common standard objective for the performance of all local labour markets in any one country.

It is also commonly expressed, that in order to optimise the performance of the diverse types of LLMs, labour market policy has to be flexible, as well as being adjusted to, and implemented at, the lowest possible regional level.

The rates of labour mobility, vertical and horizontal/geographical, as well as the flexibility of wage policies also vary considerably between Member States. National labour market policies have different rationales in different countries, and their implementation is, to a varying extent, decentralised to the regional and local levels. There are no uniform results currently available from evaluations of national or common European employment programme initiatives, though over the next few years there will be an abundance of *ex-post* evaluation reports available in connection with the EU's five year Employment Strategy, which ends in 2002. As such then what we have is the emergence of an increasingly important research field in comparative labour market analysis across Europe.

In order to be applicable at a functional common framework labour market level, economic development, including policies on education and communication, as well as on social policy, will all have to be better co-ordinated at the national, regional and local levels. This calls for an improved and qualified information system that targets both the performance of individual LLMs and aggregated systems of labour markets.

Differing Patterns of Labour Mobility

There are several categories of labour mobility, among others these include moving:

- a) from one job to another (between employers or intra-firm/organisation); from one industry to another; from one level of skill to another
- b) from unemployment or non-employed to employment or vice versa; from studies to employment or vice versa
- c) migration between LLMs

There are also a number of possible combinations of mobility, such as (ac) and (bc). Most mobility in the labour market is however a consequence of the fact that people change their place of work without changing their geographical location. Only a minor portion of total mobility is connected to migratory movements between different LLMs. All kinds of labour mobility are however, dependent on the business cycle and on the transformation of the economy, as well as on other demographic and institutional factors. On average, annual mobility concerns between 15 and 20 percent of the total labour force in Sweden.

In theory, most labour mobility is assumed to be associated with differences in the supply and demand of labour at both the local and the regional levels – differences that create various forms of unemployment and vacancy chains. Through rational decisions, labour is supposed to move from low-paid to well-paid jobs, from unemployment to employment, from declining industrial sectors to expanding ones and, thus, also from stagnating or declining regions to expanding and dynamic ones

with a surplus of jobs. Also, inter-industry mobility is expected to be more frequent among younger people, who have not yet embedded themselves with extensive sector-specific knowledge over long professional careers.

Income differences have however decreased as a ‘pull’ factor for in-migrants, while the availability of, and access to, amenities and certain environmental factors have instead increased in this regard. In particular, highly educated people are much more sensitive to environmental factors such as the spatial concentration of high-skilled jobs and career possibilities. As such, in the ‘knowledge society’ factors such as amenities, the existence of a good environment and accessibility are also important locational factors with respect to highly educated people (Quigley, 1989; Kontuly, 1998; Harris & Becker, 2001).

The *Fordist* economy required labour with “standardised competences”, that is, labour which could be directly placed into simple, repetitive tasks. Thus the Fordist era was essentially also a period that saw the de-skilling of the work force (see e.g. Rifkin, 1996).

If the social structure of industrial society was organised in a pyramidal fashion, the structure of post-industrial society is a far more mosaic-like pattern without definite centres (Stehr, 1994). According to endogenous growth theory skilled labour and new forms of technology are interdependent – the upgrading of human capital is often embedded in new investments. Physical capital, labour and technology are complementary inputs to production. (Romer, 1990; Lau, 1996). As noted by Romer, technological change – in a broad sense - is considered as a labour augmenting process. (Romer, 1990; see also Button & Pentecost, 1999) Moreover, this changed pattern towards increased labour heterogeneity also has implications for labour mobility both within and between differing LLMs.

Policy contexts

Production conditions in the regions differ widely within any country and even more so between regions in different countries. What we here refer to as a regional production environment includes, for example, the size of the LLM, its supply of human capital, the dynamics of its trade and industry, various aspects of accessibility and communications, etc. Other less tangible factors, such as the quality of life, the climate for industry, the spirit of entrepreneurship, culture, etc., may also be included among regional production conditions. Measures to improve the performance of such tangible and less tangible factors are included in most regional policy programmes within the EU. In addition, national policies moderate the effects in terms of LLM performance

EU Structural Funds

The European Union's Structural Funds consist of the European Regional Development Fund, the European Social Fund, the European Agricultural Guidance and Guarantee Fund and the Financial Instrument for Fisheries Guidance. Together, these funds are intended to help increase economic and social cohesion between Member States, and constitute an important instrument for reducing regional

imbalances and differences in economic development. The EU gives a high priority to regional and structural policies and has allocated funds in this regard amounting to approximately one third of the total EU budget.

The Structural Funds are implemented by means of 5-year Programmes. Each Programme has a hierarchy of objectives, priorities and measures to be implemented. All programmes have a focus on demand side measures complemented by supply side measures, under the headline 'human resource development'.

National Labour market policy - Sweden

While EU regional policy programmes are restricted to specific regions in Sweden, the national labour market policy is uniformly implemented across the country. The focus is on the activation of the unemployed. The goal of the government's labour market policy is to achieve full employment - 80 percent regular employment in the population aged 20-64 years of age, in 2004.

Labour market policy has three principal tasks:

- To channel work to the unemployed and labour to the employers
- To take steps to combat labour market bottlenecks
- To take initiatives to help those who have difficulty obtaining work in the regular labour market.

The basis for this task is the *activation and skills* enhancement principle. This means that an unemployed person who cannot find work should first and foremost be offered training and, then, a workplace traineeship or a temporary job. Only when these alternatives have been exhausted should various forms of cash assistance be made available.

The youth guarantee scheme entitles municipalities to sign agreements offering a full-time activation programme for unemployed people aged 20-24 who have been registered with the Employment Service for a long period, but have not managed to find work or a regular educational opening. The youth guarantee is intended to improve a young adult's chances of finding work or beginning studies and to help them to achieve economic self-sufficiency at once or in the near future. The central government pays the municipality per day to cover the costs of each programme participant.

The activity guarantee programme was introduced in 2000 for unemployed individuals who are, or risk becoming, long-term job seekers registered with the Employment Service. The activity guarantee is designed to considerably improve the opportunities for unemployed people to find jobs in the regular labour market. Participants receive intensive guidance. The job seeker participates in the activity guarantee programme until he or she is placed in work for a period of more than six months, begins a regular course of studies, or chooses to leave the programme.

The *Temporary public work* scheme fulfilled a similar function for those job seekers over the age of 55, but it has since expired (2001).

Programmes designed to *influence the labour supply* are aimed at creating a better match between the available pool of labour and the existing demand for labour. Over the past few years, these programmes have grown in importance. This is largely because accelerating changes in the labour market have underscored the need for individual training, skills and adaptability. The programmes can target both individuals and companies.

Employment training is training provided for labour market policy reasons. The primary aim of this scheme is to counteract unemployment by influencing the labour supply. The idea is to offer job seekers training in occupations in which there is already a shortage of labour, in order to foster economic growth. In the event of an economic downturn, job seekers can take advantage of their period of unemployment to train themselves for occupations in which the greatest increase in demand is expected once the economy recovers.

Grants for in-house training at companies are a form of financial subsidy to employees who train their own personnel. This subsidy may be available in connection with newly acquired staff, to adapt employee skills to changing technology or work systems, or as an alternative to a policy of compulsory redundancy.

National policy standards on activation goals with regard to unemployed are generally seen to have contributed to the convergence of performance between LLMs. However, the next *question* we will discuss in this context is - given the fact that Swedish labour market policy design and implementation is now becoming more decentralized - can we therefore expect to see increasing differences in LLM performance, for example with regard to the activation of the unemployed. Or is this rather counteracted by the positive effects achieved by better local adjustment and the greater flexibility of labour market policy with regard to local conditions? A final question here is whether efforts within the national labour market policy could be better co-ordinated with EU regional development programmes in order to achieve a better matching process for all segments of the labour force.

Social insurance - Sweden

There are three main bodies managing the Swedish social insurance system: the municipalities, the Social Insurance Office (an autonomous state-financed administration with a large number of local offices) and the unemployment benefit funds (run by the labour unions).

The Act of social services (Socialtjänstlagen 1980:620) was adopted by Parliament in 1980. Its purpose is – on the basis of democracy and solidarity – to (1) promote peoples' economic and social security, (2) equality in living conditions and (3) the individual's capacity to actively participate in society. Social services are a municipal responsibility and the law regulates these activities.

A person who is destitute and who cannot support himself is entitled to assistance (e.g. provisions, clothing, a daily paper, telephone, housing, medical attendance, membership in a trade-union) ensuring a reasonable level of living. This person can

be required to participate in e.g. competence raising activities (for instance adult education) in order to improve his capacity to support himself in the future.

The Adult Education Initiative (Kunskapslyftet) is a five-year programme of investment and development in adult education initiated by the Swedish government in 1997, putting special money into the activities already run by (mainly) the municipalities. Its aim is to raise educational levels and to reduce unemployment. Above all, the Adult Education Initiative is aimed at adults who are unemployed or who lack full three-year upper secondary qualifications. Improved skills and increased self-confidence will help these persons to strengthen their position in the labour market. As access to qualified labour increases, the opportunities for economic growth are accordingly improved. Various types of education and training organizations are involved. In order to provide as wide a variety of courses as possible, municipalities, county authorities, national schools for adults, adult educational organizations, folk high schools and training companies are co-operating. Part of the education can be spent in work placements. The intention is that education under the initiative should correspond to the needs, wishes and capacity of the individual.

Study support

The Swedish study support system is considered to be an important democratic instrument for the implementation of the country's educational targets. The role of study support is to remove financial, geographical and social barriers to people wishing to pursue further education. No one should be forced to give up his or her ambition to study and gain knowledge because of economic factors.

The student applies for study support for studies at college, university, adult education or similar. Central Board for Student Aid (CSN) processes the application, pay out the money, and on completion of the education the loan part of the study support money is paid back to CSN in installments. These installments are not allowed to reach more than a certain part of your income. The installments can actually continue until the individual reaches 50 years of age, after which any remaining debts are written off.ⁱ

Childcare and parental leave

The ambition to improve women's chances for work has been central to Swedish policy making for a large number of years. The most important measure in this connection is probably the extensive and generously subsidised *child care facilities*, utilised by some 80 % of all parents (and mainly financed by the local authorities).

One of the parents is given an 18 months leave with 80 % of the salary (financed by the state) which makes it possible to have the child at home during the first period.

The Transitional Labour Market

The starting point for the empirical analysis is the hypothesis that an efficient labour market - i.e. with the optimal economic use of human, social and cultural capital – is both a primary engine for economic growth and a basis for individual careers in the

widest sense. The assumption is that although the labour market in a political sense is increasingly international, its spatial characteristics are increasingly complex though they remain locally anchored (Nygren & Persson 2001)². As such we can see that there are forces working in several crosscutting directions here.

On the demand side, dealing with the care of the aged and other local service industries requires the adequate local supply of a committed labour force, at the same time as successive new generations of ICT and global "hi tech" industrial networks themselves diffuse the physical concept of a work-place and require only the most specialized labour with up-to-date training. There are conflicting and complementary theories explaining the location of workplaces in the new economy – from traditional agglomeration and more recent cluster theories, to theories of 'indifference'. The latter meaning that new economic activity – i.e. corporations - are increasingly independent of any place-specific characteristics and that regional growth is to a large degree a matter of coincidence (Curran & Blackburn 1994)³. Accordingly, different strategies come to be stressed in territorial industrial and innovation policy.

On the supply side, the transitional⁴ characteristics of the labour market should now be seen more as the exception that the rule. Each transition or career - such as those from education to job, from care to job, from unemployment to job, etc - can be temporary and repetitious. Transitions can happen during the week, the month or year, and inevitably several times over the individual lifecycle. There are a number of theories explaining this increasingly transitional labour force behaviour stressing the individual choice of life-style, life chances or careers perceived in different places. There are also theories stressing the importance of social capital, and whether it should be considered as a local or a global asset. Supply side oriented labour market policy is - slowly - adapting to the differing "tastes" of individuals and life-style groups. This transition can thus be viewed as a supplementary dimension to what is usually described as labour mobility, i.e. qualification or de-qualification careers, inter-industry mobility and inter-regional or international migration.

² Nygren, O. & Persson, L.O., (2001), *Det enkelriktade Sverige. Tjänstesektorn och den framtida regionala befolkningsutvecklingen*. TCO. Stockholm

³ Curran, J. & Blackburn, R. (1994) *Small firms and local economic networks - The death of the local economy?* London. Paul Chapman Publishing

⁴ van der Laan, L., 2001, *Knowledge economies and transitional labour markets: new regional growth engines*. Unpublished paper. Rotterdam School of Economics, Erasmus university

Figure The transitional labour market.

A Career Approach

In this paper, labour market performance is defined as a *dynamic* concept: the ability of the LLM both,

- (i) to adapt to, and facilitate, structural change in the local economy by activating all segments of labour, and
- (ii) to increase the input of, as well as returns to, human capital investments.

The segmented structure of the labour markets according to formal qualification will be inherent in the analysis. By means of this *career approach* we are able to describe to what extent, and where, labour in different pools or status groups and at different levels of education is *activated or deactivated*. Activation rate is measured as change in status to employment from year t to year $t+1$. Correspondingly, deactivation is changes in status from employment year t to year $t+1$.

Given that we have an empirical approach to describing and analysing the impact of knowledge and human capital input on a regional economy, we need an *operational definition of the knowledge* embodied in labour. Thus in the empirical analysis based on official register data we are left with a definition based on the level of formal education of each individual.

The following *statuses* (year t and year t+1) are defined and dealt with in this analysis:

- Employed (wage labour or entrepreneur)
- Pension
- Studies
- Unemployed
- Sick leave
- Parental leave
- Social benefit
- No public support
- Emigrated/Immigrated
- Dead
- Other

Transition rates – a Sample of Findings

Activation to employment occurs dominantly from statuses Studies and Unemployed. In a recession year (1994) recruitment from unemployment is more important, while the opposite is registered in an upswing year (1998). Figure 1. However, we should remember that annual recruitment corresponds to less than 10 percent of the stock of labour each year (Table 2). This number is quite stable comparing metropolitan regions (Stockholm 9.7 %) and peripheral regions (Objective 6 Sweden 9.5 %)

Deactivation rates are at similar levels, however somewhat lower in the upswing year of 1998-99 (Table 1). Difference in deactivation rates are however significantly larger between metropolitan (7.6 %) and peripheral regions (9.5 %).

Figure 1 Status in year t for recruitment in year t+1 1994 and 1998.

Table 1. Deactivation. Transition rates from employment year t to four status groups year t+1. Selected regions in Sweden.

Status year t+1, %					
job	stud	UE	pension	sick	Sum

Sthlm	92,4	1,7	1,4	3,5	1,0	100
Rest o SW	92,5	1,6	2,0	2,9	1,0	100
Obj 6	90,5	1,7	3,4	3,1	1,4	100
Obj 5b	91,9	1,5	2,4	3,1	1,1	100
Obj 2	92,3	1,4	2,6	2,6	1,1	100
Sweden	92,3	1,6	2,0	3,1	1,0	100

Table 2. Activation. Transition rates to employment year t+1 from four status groups year t. Selected regions in Sweden.

	Status year t, %					Sum
	job	stud	UE	pension	sick	
Sthlm	90,3	4,5	2,1	2,8	0,4	100
Rest o SW	91,3	4,1	2,6	1,7	0,3	100
Obj 6	90,5	3,8	3,7	1,6	0,3	100
Obj 5b	91,2	3,7	3,1	1,6	0,3	100
Obj 2	92,0	3,5	2,9	1,3	0,3	100
Sweden	91,1	4,1	2,6	1,9	0,3	100

Looking at these differences in terms of the four statuses which are of large interest in the political debate on the increasing labour shortage, namely to/from studies, unemployment, sick leave and retirement, we find two significant differences in labour market performance between metropolitan and peripheral LLMs in Sweden. As an illustration, we display results for transition rates between 1998 and 1999 (Figure 2a and 2b). Firstly, net recruitment from unemployment is quite unimportant in metro Stockholm (0.7 %) as compared to Objective 6 Sweden (2.3 %). The difference is mainly explained by higher rates of gross activation in Objectiver 6 (3.7 %). Secondly, net retirement rate is the single most important flow of active labour in Objective 6 (close to 2 percent). This is mainly explained by low *reactivation* rates of pensionists. Flows to and from Studies and Sick leave are more or less the same in metro and peripheral regions.

Figure 2a. Transition (activation, deactivation and net) rates in Stockholm LLM 1998-99. Percent of entire labour market.

Figure 2b. Transitional rates in Objective 6 Sweden LLMs 1998-99. Percent of entire labour market.

Transitional LLMs over time

The total number of people with post secondary education getting employed almost doubled between 1990 and 1998 (Figure 3). Largest increases refer to unemployed and recipients of social benefits. The number of people reactivated from sick leave decreased to ca 25 percent of the number in 1990.

Figure 3. Number of recruitments year $t+1$ to employment from a selection of status groups year t .

The total number of people with secondary education leaving employment decreased by 30 percent between 1993 and 1998. (Figure 4).

Figure 4. Number of exits from employment year t to selected status $t+1$ 1990-98

There is an increasing gap between rates of deactivation and activation to/from sick leave (Table 3). During the early 1990s recession as much as 13-15 percent of the employed left or reentered the labour market due to sickness each year. Entries generally exceed exits. However restarting from a much lower level in 1993, exits because of sickness has continued until the end of the decade, while re-habilitation of sick people has continued decreasing.

Figure 5. Transitional processes: Sick leave. Proportion of recruitment year $t+1$ from sick leave year t , and of exits year $t + 1$ and sick leave year t . Secondary education.

Activation rates of unemployed seem to reveal the segmentation of the labour market in Sweden during the 1990s. Starting from a low but homogenous rate for all three segments in 1990, we eventually find three distinct levels of activation after 1994. Figure 6.

Figure 6. Transitional processes: Unemployment. Proportion of recruitment year $t+1$ from Unemployment year t , and of exits year $t + 1$ and Unemployment year t . Three educational levels.

ⁱ For further information: Centrala studiestödsnämnden (The Swedish National Board of Student Aid, website: www.csn.se)